SHANGHAI GENCH EDUCATION GROUP LIMITED

上海建橋教育集團有限公司

2019 ANNUAL REPORT

Stock code:1525

(Incorporated in the Cayman Islands with limited liability)

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Zhou Xingzeng (周星增)
Mr. Zheng Xiangzhan (鄭祥展)
Mr. Shi Yinjie (施銀節)

Non-executive Director

Mr. Zhao Donghui (趙東輝)

Independent Non-executive Directors

Mr. Chen Baizhu (陳百助)
Mr. Hu Rongen (胡戎恩)
Ms. Liu Tao (劉濤)

AUDIT COMMITTEE

Ms. Liu Tao (劉濤) *(Chairman)*
Mr. Hu Rongen (胡戎恩)
Mr. Chen Baizhu (陳百助)

REMUNERATION COMMITTEE

Mr. Hu Rongen (胡戎恩) *(Chairman)*
Mr. Zheng Xiangzhan (鄭祥展)
Ms. Liu Tao (劉濤)

NOMINATION COMMITTEE

Mr. Zhou Xingzeng (周星增) *(Chairman)*
Mr. Hu Rongen (胡戎恩)
Mr. Chen Baizhu (陳百助)

JOINT COMPANY SECRETARIES

Mr. Zhou Qiaoqi (周喬琪)
Mr. Wong Yu Kit (黃儒傑)

AUTHORISED REPRESENTATIVES

Mr. Zheng Xiangzhan (鄭祥展)
Mr. Wong Yu Kit (黃儒傑)

COMPLIANCE ADVISOR

TC Capital International Limited

REGISTERED OFFICE

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

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

No. 1111, Huchenghuan Road
Pudong New Area, Shanghai, PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

LEGAL ADVISOR AS TO HONG KONG LAW

Luk & Partners
In Association with Morgan, Lewis & Bockius

AUDITORS

Ernst & Young

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR

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

PRINCIPAL BANKS

Agricultural Bank of China (Shanghai Pudong Branch)
Huaxia Bank (Lingang Branch)
Pingan Bank (Shanghai Daning Branch)
China Construction Bank (Jinqiao Branch)
China Minsheng Bank (Luwan Branch)

COMPANY WEBSITE

http://www.genchedugroup.com

STOCK CODE

1525

MILESTONES

Year	Events
2000	• The predecessor of our University, namely, Private Shanghai Jian Qiao Vocational College* (民辦上海建橋職業技術學院), and Jian Qiao Group were established.
2005	• Shanghai Jian Qiao Vocational College* (上海建橋職業技術學院) transformed into our University, a higher education institute which is entitled to provide undergraduate education in addition to higher vocational education, and changed its name to Shanghai Jian Qiao University (上海建橋學院).
2015	• Our University moved from its previous campus in Kangqiao County to a new campus in Lingang New City area in Pudong New Area, Shanghai.
2020	• Our Group was listed on the Main Board of the Stock Exchange on 16 January 2020 with stock code: 1525.

(Mr. Zhou Xingzeng, Chairman of the Board, attended the Group's listing ceremony at the Stock Exchange)

FINANCIAL HIGHLIGHTS

FOUR-YEAR FINANCIAL SUMMARY

Results of operation	For the year ended 31 December			
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	291,650	356,967	424,587	**501,442**
Gross profit	124,903	163,361	222,215	**279,913**
Profit before tax	14,174	47,508	110,173	**126,285**
Profit for the year	12,885	46,043	108,575	**125,420**
Adjusted net profit[(1)]	12,885	46,043	116,670	**150,814**

Assets and liabilities	As at 31 December			
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Current assets	756,999	835,809	470,323	**348,858**
Current liabilities	1,436,719	1,326,599	720,346	**943,147**
Net current liabilities	679,720	490,790	250,023	**594,289**
Total non-current assets	2,349,760	2,289,581	2,324,304	**2,490,866**
Total equity	645,474	691,517	889,892	**1,014,975**

Financial ratio	As at/for the year ended 31 December			
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Gross profit margin	42.8%	45.8%	52.3%	**55.8%**
Net profit margin	4.4%	12.9%	25.6%	**25.0%**
Return on assets	0.4%	1.5%	3.9%	**4.4%**
Return on equity	2.0%	6.7%	12.2%	**12.4%**
Current ratio	0.5	0.6	0.7	**0.4**
Interest coverage ratio	1.3	1.9	2.9	**3.6**
Net debt to equity ratio	1.4	1.9	0.8	**0.8**
Gearing ratio[(2)]	1.8	2.0	1.3	**1.1**
Total debt to assets ratio	0.4	0.4	0.4	**0.4**

Notes:

(1) The adjusted net profit, which is unaudited in nature, is presented because our management believes such non-IFRS measure provides useful information to investors in understanding and evaluating our results of operations in the same manner as it helps our management and in comparing financial results across accounting periods and to those of our peer companies. For the details of reconciliation to the most directly comparable financial measure calculated and presented in accordance with IFRS, which is profit and total comprehensive income for the year, please refer to the paragraph headed "Financial Review" under the section headed "Management discussion and analysis" in this annual report.

(2) Gearing ratio equals total debt as at the end of the year divided by total equity as at the end of the year. Total debt includes all interest-bearing bank loans and other borrowings.

CHAIRMAN'S STATEMENT

Dear shareholders,

On behalf of the board of directors (the "Board"), I am pleased to present the first annual results of Shanghai Gench Education Group Limited ("Gench Education" or the "Company", together with its subsidiaries, the "Group") for the year ended 31 December 2019 since the successful listing of its shares on the Main Board of the Stock Exchange on 16 January 2020.

During the Reporting Period, the Group recorded revenue of approximately RMB501.4 million, representing an increase of 18.1% from approximately RMB424.6 million in the same period of the previous year. After deducting the one-time listing expenses of approximately RMB25.4 million, the Group recorded a net profit for the year of approximately RMB150.8 million from on-going businesses, representing a significant increase of 29.3% as compared with the same period of the previous year.

GROUP OVERVIEW

We operate the largest private university in Shanghai, Shanghai Jian Qiao University, which is also a leading private university in the Yangtze River Delta, as measured by total full-time student enrollment in the 2018/2019 school year, according to the Frost & Sullivan Report.

Shanghai Jian Qiao University provides high-quality education to our students with a focus on applied sciences. Its comprehensive curriculums, which encompass a broad range of practical major offerings, are designed to equip our students with practical skills and enable them to meet the demands of the rapidly evolving job market. As at 30 September 2019, Shanghai Jian Qiao University offered 54 majors and concentrations in its formal undergraduate program in a wide range of areas and an additional 13 majors in its junior college program. Through the close cooperation with enterprise partners, Shanghai Jian Qiao University has established school-industry collaboration programs to help our students acquire readily applicable skills, improve employment competitiveness and find desirable employment.

We believe the established position as one of the largest private universities in Shanghai and the entire Yangtze River Delta positions us well to benefit from the expected growing demand for private higher education. In particular, our strategic location in Shanghai, one of the direct-controlled municipalities in China and most populous cities in the world, provides us with significant growth opportunities. Meanwhile, the establishment of the Lingang New Area of China (Shanghai) Pilot Free Trade Zone provides new opportunities to Shanghai Jian Qiao University, which is located in the core of the Lingang New Area. As the preeminent commercial and financial center in China, Shanghai provides graduates from Shanghai Jian Qiao University with numerous job opportunities at good salary levels, attracting students from across China to come and study in the hope of potentially being able to find employment in Shanghai.

In terms of endogenous development and quality improvement, Shanghai Jian Qiao University followed the working principles of "with quality as core and teaching as center, putting students first and with teachers as subjects". Leveraging on its professional courses closely based on market demands and the adaptability of courses and majors and through various opportunities such as cooperation with international universities, industry-teaching integration and professional school-industry collaboration, we cultivate students with adaptability to the international employment environment and employment competitiveness. Our students are popular among employers for their "employment upon graduation, quick adaptability to positions and sustainable development". Graduating students from Shanghai Jian Qiao University have achieved extremely high initial employment rates, which were approximately 99.3%, 99.8%, 99.0%, and 99.0% as at 25 August 2016, 2017, 2018 and 2019, respectively. With a high employers' satisfaction, 75.6% students graduated in 2018 stayed in Shanghai. The outstanding quality and employment capability of our students are also the competitiveness and sustainability of the Group in talent cultivation.

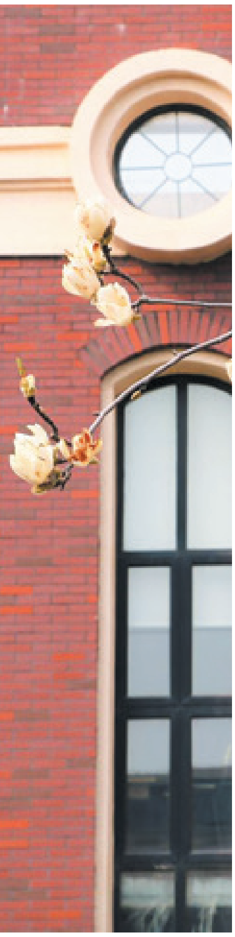
BUSINESS REVIEW

We have been keeping the faith of "Thanksgiving, Return, Loving, Responsibility" in building bridges for students to achieve success, for teachers to fulfil their career goals, and for society to satisfy its need for educated talent for a long time. Our perseverance and efforts have been recognized and supported in the market. According to the Frost & Sullivan Report, the number of full-time students enrolled in Shanghai Jian Qiao University increased at a CAGR of 7.6% from the 2015/2016 school year to the 2018/2019 school year, making Shanghai Jian Qiao University the fastest growing university in terms of full-time student enrollment among the top five largest private higher education institutions in the Yangtze River Delta from 2015 to 2018. As at 31 December 2019, the number of full-time students enrolled in Shanghai Jian Qiao University was 19,857. Meanwhile, according to a report on www.cuaa.net, Shanghai Jian Qiao University ranked the first among private universities in tier-1 cities.

During the Reporting Period, we continuously deepened the development of courses, sought more diversified school-industry collaboration and offered students premium market-oriented courses. Among the number of students enrolled in Shanghai Jian Qiao University, students enrolled in the college of business accounted for the highest proportion of approximately 30%. Engineering management, accounting and other courses were very popular in the market. With the rapid development of the information technology industry across the PRC in recent years, our college of information has also been continuously expanding. The number of students enrolled in the college of gemology was over 1,000, making it the biggest college of gemology across the PRC. Besides, the initial employment rates of graduates from the college in 2018 and 2019 reached 100%. We also introduced Go major, making it the only undergraduate major on Go in the whole country and offering professional talents and Go training for the media in reporting professional Go competitions. Following the development trends of the Lingang New Area, we will continue to deeply explore with the local enterprises the respective advantages and resources of the industry and universities, and carry out in-depth cooperation on the joint training of high-skilled talents, cooperation in production, education and research, and employment promotion. In June 2019, we were the only private university in benchmark schools for IT application in education in Shanghai. Our premium data connection and multi-dimensional application services were recognized by experts and widely appraised by teachers and students. The construction of an intelligent campus is under progress. Recently, we also reached a strategic cooperation agreement with Shanghai Pudong Branch of China Construction Bank to establish a long-term strategic partnership with China Construction Bank. To further support our strategic goals, after the Listing, China Construction Bank has provided comprehensive credit facilities of RMB5.0 billion for our mergers and acquisitions and daily operations. This will provide strong support for our future domestic and international merger and acquisition plan.

PROSPECTS

The beginning of 2020 is unforgettable to China and even the whole world. Due to the novel coronavirus pneumonia outbreak, the public health and safety and the social and economic situation were affected to different extent. While actively taking various measures in fighting against the epidemic during the process, we are relieved to see that our graduates bravely fighting at the frontline of the battle against the epidemic. They remained true to the original aspirations of "Genchers" and contributed their knowledge and strength to the society. In face of the epidemic, they are "heroes in harm's way" and the alma mater is proud of them. We believe that with the joint efforts of the whole society, we will tide over the crisis caused by the epidemic soon.



Looking ahead, we will make great endeavors to consolidate our leading position in the private education market in Shanghai and the whole Yangtze River Delta. We will enhance our international standards and further improve our reputation and image and attract premium students. In addition, we are seeking opportunities to establish, acquire or invest new or existing schools or campuses in east China to boost the capacity and expand the school network and market penetration. We also plan to enhance the profitability through optimizing tuition fees and increasing students under enrollment of the Group. Meanwhile, we believe there will be increasing demand in the gem and jewelry market for university-educated professionals and plan to continue to develop our college of gemology. We plan to leverage our existing strengths, including advanced facilities and equipment, experienced teaching staff including industry experts as adjunct professors, and deep cooperative relationships with enterprise partners, to build our college of gemology into the best college of gemology in China in the next two years. Leveraging on the above strategies, we believe that we can continue to expand our business operations and school network and increase our market share. We will seize the historic opportunities in the construction of the Lingang New Area of China (Shanghai) Pilot Free Trade Zone, speed up in the adjustment of course and specialty layouts and further optimize talent cultivation plans. We will keep a foothold in Lingang, integrate into Lingang, vigorously advance the integrated development of "industries, education and cities" and strive to build Shanghai Jian Qiao University into a distinctive and multidisciplinary university based on applied sciences and achieve new breakthroughs in the process of building a leading private university in China.

ACKNOWLEDGEMENT

With the trust and support of shareholders and investors, Gench Education will undertake missions, remain true to its original aspirations and forge ahead. We will continue to perform our commitments to students, parents, teachers, shareholders and the society under the new development stage. On behalf of the Board and management of Gench Education, I wish to thank shareholders, investors and all sectors in the society for their continuous concern and support and thank our staff for their contributions to the performance of our commitments. We will continue to work hard, live up to expectations and cultivate more outstanding talents to the society.

Mr. Zhou Xingzeng
Chairman and Executive Director

30 March 2020

MANAGEMENT DISCUSSION & ANALYSIS

BUSINESS OVERVIEW

We operate the leading private university in Shanghai, which is also a leading private university in the entire Yangtze River Delta, as measured by the total number of full-time students enrolled. Our Shanghai Jian Qiao University (上海建橋學院 "our University") was:

- the largest private university in Shanghai in terms of full-time student enrollment in the 2018/19 school year,
- the fourth largest university in the Yangtze River Delta in terms of full-time student enrollment in the 2018/19 school year, and
- the fastest growing university in terms of full-time student enrollment among the top five largest private universities in the Yangtze River Delta from 2015 to 2018.

THE UNIVERSITY

Our University provides high-quality education to our students with a focus on applied sciences. Our comprehensive curriculums, which encompass a broad range of practical major offerings, are designed to equip our students with practical skills and enable them to meet the demands of the rapidly evolving job market. We develop our courses and majors based on extensive market research we conduct to determine demand in the job market. As at 30 September 2019, our University offered 54 majors and concentrations in its formal undergraduate program in a wide range of areas, and an additional 13 majors and concentrations in its junior college program. We collaborate closely with enterprise partners and have established school-industry collaboration programs, including two MOE industrial and education integrated innovation bases, to help our students acquire readily applicable skills and find desirable employment.

The following table sets forth tuition fee information for our full-time programs for the school years indicated:

	Tuition Fee(1)				
	2015/2016 school year	2016/2017 school year	2017/2018 school year	2018/2019 school year	2019/2020 school year
			RMB		
Undergraduate program(2)	15,000–27,000	15,000–30,000	15,000–30,000	23,000–30,000(3)	23,000–30,000
Junior college program	12,000	12,000–18,000	15,000–18,000(3)	15,000–18,000	15,000–18,000
Junior college/undergraduate program	15,000	15,000	15,000–27,000(4)	23,000–27,000(4)	23,000–27,000(4)

Notes:

(1) Tuition fees shown above are applicable to full-time students enrolled in the relevant school years only, excluding tuition fees charged for part-time students in our continuing education program.

(2) The tuition fee range of the undergraduate program includes (i) the undergraduate program; and (ii) the undergraduate program under the international program. It excludes tuition fee rate for the international design college, which was RMB80,000 per school year, the tuition fee rate for the bilingual-lectured digital media technology program, which was RMB58,000 per school year, and the tuition fee rate for the international program with Vaughn College of Aeronautics and Technology, which was RMB45,000 per school year for each school year in the three years ended 31 December 2016, 2017 and 2018, and the six months ended 30 June 2019.

(3) Tuition fee rates for our undergraduate program and junior college program were raised in the 2015/2016 school year, which only applied to newly admitted students from the 2015/2016 school year onwards. Such a tuition fee rate raise was reflected in increases of the low end of the tuition rate range for our junior college program in the 2017/2018 school year, and for our undergraduate program in the 2018/2019 school year at which point students enrolled in our University prior to the 2015/2016 school year had all graduated.

(4) In the 2017/2018, 2018/2019 and 2019/2020 school years, the tuition rate for our product design (jewelry design) major was RMB27,000 per school year. All other majors under our junior college/undergraduate program had a tuition fee rate of RMB23,000 per school year.

Enrollment and Utilization

The table and chart below set forth the number of students and utilization rate of the group for the school years from 2015/2016 to 2019/2020:

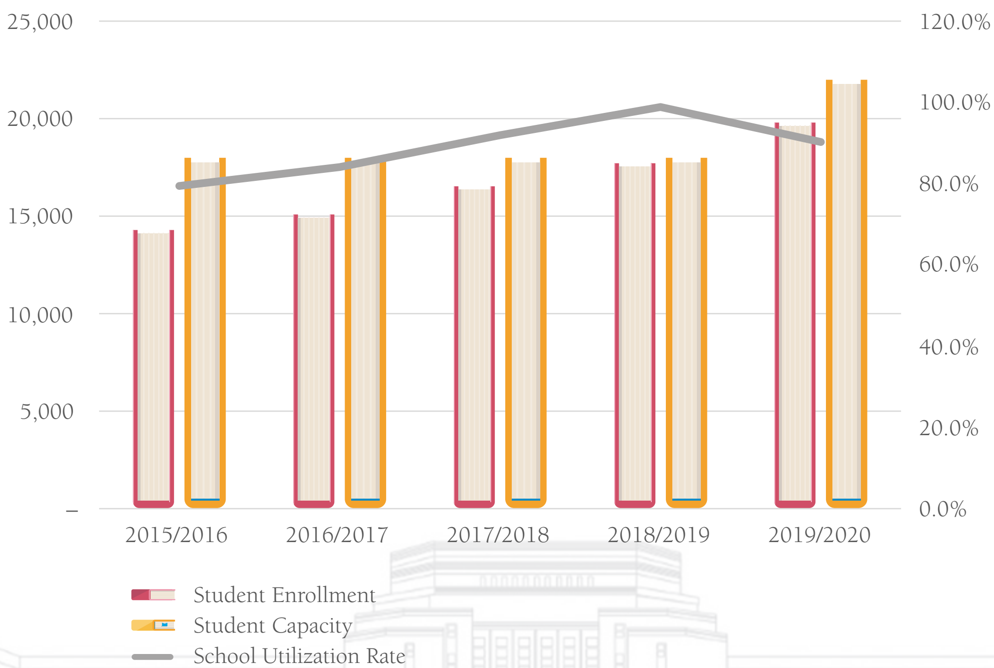
School Year	Student Enrollment[1]	School Capacity[2]	School Utilization Rate[3] (%)
2015/2016	14,299	18,008	79.4
2016/2017	15,146	18,008	84.1
2017/2018	16,562	18,008	92.0
2018/2019	17,808	18,008	98.9
2019/2020	19,857	22,008	90.2

Notes:

1) The student enrollment information was based on the internal records of our University.

2) We generally require all full-time students of our University to live on campus. The school capacity is presented as the number of beds available in student dormitories at our University for the relevant school years.

3) The school utilization rate equals to the total student enrollment for a school year divided general by the school capacity for the same school year multiplied by 100.



OUTLOOK AND BUSINESS STRATEGIES

FUTURE OUTLOOK

We believe that the Group's stable position as the largest private higher education group in Shanghai puts us in a favourable position to benefit from the increasingly growing demand of private higher education. The University is located in Lingang New City area, Pudong New Area, with obvious regional advantages. In August 2019, the State Council announced the establishment of Lingang New Area in China (Shanghai) Pilot Free Trade Zone. Since then, the Management Committee of the Lingang New Area has issued 16 policies to promote industrial development, as well as a total of 40 supporting measures for the development of four key industries: integrated circuits, artificial intelligence, biomedicine, and aerospace, and a series of talent policies such as Talents Development Measures of Lingang New Area in China (Shanghai) Pilot Free Trade Zone (中國(上海)自由貿易試驗區臨港新片區支持人才發展若干措施).

As an important part of the "Integration for Yangtze River Delta" action plan, Lingang New City area will help consolidate the Group's leading advantage in the Yangtze River Delta region. Following the development trends of the Lingang New Area, we will continue to deeply explore with the local enterprises the respective advantages and resources of the industry and universities, and carry out in-depth cooperation on the joint training of high-skilled talents, cooperation in production, education and research, and employment promotion.

With the supporting of industrial policies and location advantages, the Group will continue to focus on providing market-oriented courses for students, introducing outstanding talents, optimizing campus environment and school conditions, and enhancing social influence. Looking ahead, we will utilize the following four strategies to promote business development and build the University into a first-class private university with distinctive characteristics and international influence in China.

Enhance our profitability by optimizing our pricing and increasing student enrollment at our University

The level of tuition and boarding fees we charged is a significant factor affecting profitability. The tuition for approximately one quarter of the majors and concentrations offered by our University increased from RMB23,000 to RMB30,000 per student per school year, starting in the 2019/2020 school year. Such increase corresponded to our efforts to upgrade these subjects by offering a more comprehensive curriculum and international teaching methods. Going forward, we plan to review tuition rates on an ongoing basis and adjust them as appropriate.

In addition, we charge students who are living in the two dormitory buildings of phase two of our construction plan RMB5,800 per student per school year, which is approximately 60% higher than our previous boarding fee rate. For the dormitory building of the phase one of the construction plan, we increased the level of accommodation fees from RMB3,600 to RMB4,800 for new students entering the University in 2020.

We believe continuing to increase student enrollment is also important to our success. We intend to continue to increase our investments in new construction projects to build academic, administrative, and boarding facilities that can meet the needs of our expansion in the years to come. Phase two of our campus construction plan was put to use at the end of August 2019. This construction project includes a multi-function building with over 10,000 sq.m. of gross floor area specifically designed for our college of gemology, dormitory buildings with approximately an aggregate of 4,000 beds, which will increase our school capacity, and an ancillary dormitory building for boarding related services, such as laundry rooms, as well as an underground garage.

(New Dormitory Building Area)

Expand our school network and increase our market penetration

We intend to pursue suitable opportunities to acquire or invest in additional schools in China to expand our school network and increase our market share. We intend to prioritize private higher institutions, the school sponsors of which have elected them to be or intend to elect them to be for-profit schools, in particular universities offering bachelor's degree programs that are focused on applied sciences. We anticipate that suitable target schools will have student enrollment of at least 5,000 and revenue of at least RMB100 million. In terms of geographic locations, we intend to prioritize suitable target schools in east China, particularly in the Yangtze River Delta, which we believe will enhance our profile and create synergies in this region. According to the Frost & Sullivan Report, there were approximately 50 to 80 private higher education institutions in the Yangtze River Delta region meeting the aforementioned standards as at the end of 2018.

We are currently studying and negotiating projects, and the Group will make disclosures on mergers and acquisitions in due course.

Further expand our educational service offerings to capture growth opportunities

We believe the quality of our education services is the foundation of our business. We intend to continue expanding and diversifying our course offerings in response to industry trends and market demand, including offering new majors based on market developments. We plan to further solidify our competitive advantages in providing well-rounded education with an applied science focus. We established two new majors for our undergraduate program, (i) pre-school education and (ii) nursing in the 2019/2020 school year. We believe the establishment of these two majors are responsive to market needs, particularly with the "two-child policy" in effect, the Shanghai local employment market has seen increasing demand for quality pre-school teachers. Nursing professionals and elderly-care givers are also in high demand, due to the aging local population in Shanghai.

We also plan to establish two new majors for our undergraduate program (i) health services and management and (ii) art and technology in the 2020/2021 school year. We believe that these professions will further expand our specialty categories and meet the increasing needs of the health service and cultural and creative industries. In addition, we also have plans to submit an application for our own postgraduate courses in 2020 to further enhance the school's educational level.

We also plan to expand our continuing education college. We believe that as the demand for continuing education among the employed population continues to increase, the number of our part-time student enrollment will also continue to maintain a growth trend. As at 30 September 2019, we have school facilities and entered into arrangements for the use of facilities of six Independent Third Party training or tutoring service providers in Shanghai to provide certain continuing education courses at their premises. We plan to establish about four similar off-campus education centers in various districts in Shanghai to provide more location options and save travel time for potential non-full-time students.

Strengthen international standard and improve international influence

As Shanghai is one of the most international cities in China, we will make full utilization of its favourable location to provide students with more international projects to increase their experience, challenges to be faced, and broaden their worldviews and make them more mature. This will also help strengthen the University's reputation and enhance its overall quality and appeals. The launch of sino-foreign cooperation projects also helps us optimize professional positioning.

In order to accelerate the progress of expansion in overseas, the Group will also consider merger and acquisition of some target schools. The addition of overseas networks can increase the overseas study destination selections for students, and also help us further attract overseas students to study at the University.

LATEST REGULATORY DEVELOPMENT

On 20 April 2018, the MOE issued the Implementing Regulations for the Law for Promoting Private Education of the PRC (the Draft Revision) (the Consultation Version) (《中華人民共和國民辦教育促進法實施條例(修訂草案)(徵求意見稿)》) (the "MOE Draft for Comments") to solicit public views. On 10 August 2018, the Ministry of Justice of the PRC announced the Implementing Regulations for the Law for Promoting Private Education of the PRC (Revised Draft) (Draft for Review) (《中華人民共和國民辦教育促進法實施條例(修訂草案)(送審稿)》) (the "MOJ Draft for Review") for consultation on the basis of the aforesaid MOE Draft for Comments issued by the MOE. For more details, please refer to the section headed "Business — Potential Implications of the 2016 Decision and Related Implementing Rules and Regulations — Potential implications of the MOJ Draft for Review if it becomes effective" in the Prospectus. As at the date of this annual report, the MOJ Draft for Review has yet to be promulgated or enacted in the PRC, the Company will continue to monitor developments of the MOJ Draft for Review and related laws and regulations.

Pursuant to the Decision on Amending the Law for Promoting Private Education of the PRC (《關於修改〈中華人民共和國民辦教育促進法〉的決定》) (the "2016 Decision") which took effect on 1 September 2017, school sponsor(s) of a private school may choose for the school to be a for-profit private school or a non-profit private school, with the exception that schools providing nine-year compulsory education must be non-profit. On 26 December 2017, the People's Government of Shanghai promulgated the Implementation Opinions of Shanghai Municipal People's Government on Promoting the Healthy Development of Private Education (《上海市人民政府關於促進民辦教育健康發展的實施意見》) and the Administration Measures of Shanghai Municipality on Classification of Licensing and Registration of Private Schools (《上海市民辦學校分類許可登記管理辦法》), pursuant to which further requirements are implemented in light of the 2016 Decision, which include but are not limited to, the requirement that school sponsors of private schools (other than schools providing compulsory education) established and registered in Shanghai prior to 7 November 2016 shall submit in writing their decisions to convert into for-profit or non-profit schools by 31 December 2018 and complete the conversion to a non-profit school by 31 December 2019 and to a for-profit school by 31 December 2021 for higher education institutions. Under the existing regulatory environment and based on the interpretation of the 2016 Decision and related implementing rules and the existing ownership structure of our University, in December 2018, the School Sponsors of our University have submitted their decision to the Shanghai Municipal Education Commission to register as a for-profit private school. Pursuant to the 2016 Decision, school sponsor(s) of a private school may freely at its own discretion choose for the school to be a for-profit private school or a non-profit private school, with the exception that schools providing nine-year compulsory education must be non-profit. Our PRC Legal Advisors are thus of the view that our University would be able to be registered as a for-profit private school.

In addition, on 15 March 2019, the Foreign Investment Law was formally passed by the 13th National People's Congress of the PRC and has been taken effect on 1 January 2020.

The Foreign Investment Law stipulates three forms of foreign investment. However, the Foreign Investment Law does not explicitly stipulate the contractual arrangements as a form of foreign investment. As advised by our PRC Legal Advisors, since contractual arrangements are not specified as foreign investment under the Foreign Investment Law, and if the future laws, administrative regulations or provisions prescribed by the State Council do not incorporate contractual arrangements as a form of foreign investment and the operation of higher education is still in the Negative List, our Contractual Arrangements as a whole and each of the agreements comprising the Contractual Arrangements will not be affected and will continue to be legal, valid and binding on the parties. Notwithstanding the above, the Foreign Investment Law stipulates that foreign investment includes "*foreign investors invest in China through any other methods under laws, administrative regulations, or provisions prescribed by the State Council*". Therefore, there are possibilities that future laws, administrative regulations or provisions of the State Council may stipulate contractual arrangements as a way of foreign investment, and then whether our Contractual Arrangements will be recognized as foreign investment, whether our Contractual Arrangements will be deemed to be in violation of the foreign investment access requirements and how our Contractual Arrangements will be handled are uncertain.

As at the date of this annual report, the Group's operations have not been affected by the above law, decision, implementing regulations and rules and administration measures. Based on the current conditions and Company's preliminary assessment, the Board is of the view that above law, decision, implementing regulations and rules and administration measures do not have an immediate material adverse impact on the Group's business operations, business plans and financial conditions.

The Company will continue to monitor developments of above law, decision, implementing regulations and rules, administration measures and related laws and regulations, and will make further announcements in respect thereof in accordance with the Listing Rules as and when appropriate.

FINANCIAL REVIEW

Revenue

Revenue represents the value of services rendered during the Reporting Period. The Group derives revenue from tuition fees, boarding fees and other education related services its University collect from students.

Revenue increased by RMB76.8 million, or 18.1%, from RMB424.6 million for the year ended 31 December 2018 to RMB501.4 million for the year ended 31 December 2019. This increase was primarily due to: (i) revenue from tuition fees increasing by RMB64.0 million, or 17.5%, from RMB365.6 million for the year ended 31 December 2018 to RMB429.6 million for the year ended 31 December 2019; and (ii) revenue from boarding fees increasing by RMB12.5 million, or 23.4%, from RMB53.5 million for the year ended 31 December 2018 to RMB66.0 million for the year ended 31 December 2019. The tuition fees increased mainly because: (i) the increase in the total number of full-time students enrolled in the Group's University for the 2019/2020 school year, and (ii) the increase of tuition fee rates in 2019/2020 school year, which were applicable to newly admitted students. The boarding fees increased as a result of the expansion of the student enrollment. In addition, the Group charged students who are living in the new dormitory buildings RMB5,800 per student per school year, which is approximately 60% higher than previous boarding fee rate.

Cost of Sales

Cost of sales primarily consisted of salary costs, depreciation and amortization, student-related expenses, cooperative education expenses, teaching material expenses and maintenance expenses, along with training expenses, research and development costs, travel expenses, office expenses, and others.

Cost of sales increased by RMB19.1 million, or 9.5%, from RMB202.4 million for the year ended 31 December 2018 to RMB221.5 million for the year ended 31 December 2019. This increase was primarily due to: (i) staff costs increased by RMB12.2 million, or 13.2%, from RMB92.3 million for the year ended 31 December 2018 to RMB104.4 million for the year ended 31 December 2019, primarily as a result of the combined effect of increased salaries and benefits payable to the Group's teachers and increased headcount of the Group's teachers. (ii) depreciation and amortisation increased by RMB4.4 million, or 7.1%, from RMB61.9 million for the year ended 31 December 2018 to RMB66.4 million for the year ended 31 December 2019, mainly as a result of the increase in buildings and boarding equipment, which was put into use after the completion of phase two of the construction of Shanghai Jian Qiao University campus in 2019.

Gross Profit and Gross Profit Margin

Gross profit represents our revenue less cost of sales. Gross profit margin represents the Group's gross profit as a percentage of the revenue.

Gross profit increased by RMB57.7 million, or 26.0% from RMB222.2 million for the year ended 31 December 2018 to RMB279.9 million for the year ended 31 December 2019, which was in line with the growth of the Group's business. Gross profit margin increased from 52.3% for the year ended 31 December 2018 to 55.8% for the year ended 31 December 2019. This increase was primarily due to increasing average tuition fees, boarding fees and various efforts of cost control.

Other Income and Gains

Other income and gains primarily consist of government grants, rental income, bank interest income, gain on disposal of items of property, plant and equipment, and others.

Other income and gains decreased significantly from RMB24.4 million for the year ended 31 December 2018 to RMB9.2 million for the year ended 31 December 2019. This decrease was primarily due to that the governmental grants decreased from RMB15.1 million for the year ended 31 December 2018 to RMB2.5 million for the year ended 31 December 2019. Such government grants mainly were in relation to incentivizing the development of the local economy, primarily coming in the form of refunds from the local government of Shanghai Pudong New Area on income tax and value-added tax we paid which was in relation to our disposal of land and buildings on our previous campus.

Selling and Distribution Expenses

Selling and distribution expenses primarily consist of expenses incurred for relevant advertising of the University, including the cost of promotional brochures, transportation expenses, telecommunication expenses and business entertainment expenses, etc.

Selling and distribution expenses increased by RMB0.6 million, or approximately 17.4%, from RMB3.0 million for the year ended 31 December 2018 to RMB3.6 million for the year ended 31 December 2019, which was in line with the growth of the Group's business.

Administrative Expenses

Administrative expenses consisted of salary expenses for administrative staff, logistic expenses, depreciation of vehicle and equipment for administrative purposes, professional service expenses which mainly consisted of listing expenses, travel expenses, entertainment expenses, office expenses, and others.

The listing expenses of RMB25.4 million recognised for the year ended 31 December 2019, which increased by RMB17.3 million compared to the amount for the year ended 31 December 2018. Eliminated the effect of listing-related expenses, which is a non-recurring item, administrative expenses increased by RMB17.5 million, or 26.1%, from RMB67.0 million for the year ended 31 December 2018 to RMB84.5 million for the year ended 31 December 2019, which was mainly due to: (i) the increased staff costs, as a result of the combined effect of increased headcount of the Group's administrative staff and the increased salaries and benefits payable to them, and (ii) the increase in professional service expenses, office expenses and other miscellaneous expenses, which was in line with the growth of the Group's business.

Finance Costs

Finance costs primarily consist of the interest expenses for the bank loans. Finance costs decreased by RMB8.5 million, or 14.9%, from RMB57.2 million for the year ended 31 December 2018 to RMB48.7 million for the year ended 31 December 2019, which was mainly due to: (i) certain bank loan was borrowed for the phase two of the construction of the school premises, and RMB7.6 million corresponding interest was capitalised for the year ended 31 December 2019, which increased by RMB6.6 million compared with the capitalised interest for the year ended 31 December 2018; and (ii) compared with the average interest-bearing bank and other borrowings in 2018, the average interest-bearing bank and other borrowings in 2019 decreased RMB118.2 million, or 9.5%, from RMB1,247.1 million in 2018 to RMB1,128.9 million in 2019, which resulted in the decrease of interest expenses accordingly.

Profit Before Tax

For the year ended 31 December 2019, the Group recorded a profit before tax of approximately RMB126.3 million, representing an increase of approximately 14.6% year-on-year from approximately RMB110.2 million for the same period of last year.

Income Tax Expense

For the year ended 31 December 2019, the Group recorded approximately RMB0.9 million in taxation, representing a decrease of approximately 43.8% year-on-year from approximately RMB1.6 million for the same period of last year. This decrease was mainly a result of a decrease in our taxable income, specifically income from our non-formal higher education program.

Profit for the Year

As a result of the combined effects of the above income, costs and expenses, the Group recorded a profit of RMB125.4 million for the year ended 31 December 2019, representing an increase of 15.5% as compared with RMB108.6 million for the year ended 31 December 2018.

Adjusted Net Profit

To supplement our consolidated statements of profit or loss and consolidated statements of comprehensive income which are presented in accordance with IFRS, we also use adjusted net profit as an additional financial measure. We present this financial measure because it is used by our management to evaluate our operating performance. We also believe that such non-IFRS measure provides useful information to investors in understanding and evaluating our results of operations in the same manner as it helps our management and in comparing financial results across accounting periods and to those of our peer companies.

Adjusted net profit eliminates the effect of listing-related expenses, which is a non-recurring item. The term of adjusted net profit is not defined under IFRS. The use of adjusted net profit has material limitations as an analytical tool, as adjusted net profit does not include all items that impact our net profit for the year. We compensate for these limitations by reconciling this financial measure to the nearest IFRS performance measure, which should be considered when evaluating our performance.

Adjusted net profit is determined by adjusting profit for the year from continuing operations of approximately RMB125.4 million (2018: approximately RMB108.6 million) for the effect of listing expenses of approximately RMB25.4 million (2018: approximately RMB8.1 million). The Group's adjusted net profit increased significantly by approximately 29.3% from approximately RMB116.7 million for the year ended 31 December 2018 to approximately RMB150.8 million for the year ended 31 December 2019.

Current Assets and Current Liabilities

As at 31 December 2019, we had net current liabilities of RMB594.3 million compared to net current liabilities of RMB250.0 million as at 31 December 2018. Our net current liabilities as at 31 December 2019 increased by 137.7% from as at 31 December 2018, primarily due to that:

(i) Contract liabilities increased to RMB307.2 million as at 31 December 2019 from RMB260.1 million as at 31 December 2018, which were mainly due to the increase in tuition fees and boarding fees for the 2018/2019 school year as a result of the increase in the number of students enrolled in the University.

(ii) Current portion of bank and other borrowings increased to RMB275.0 million as at 31 December 2019 from RMB175.4 million as at 31 December 2018, which were mainly used to supplement working capital and finance capital expenditures.

(iii) Income tax payable increased to RMB147.6 million as at 31 December 2019 from RMB4.1 million as at 31 December 2018, mainly due to the fact that the Group shall pay RMB147.2 million within 5 years (which is permitted to be deferred up to 2020) for income tax payable on disposal of old school buildings and transfer of land to an Independent Third Party in August 2015 in accordance with the relevant tax rules.

Liquidity and Capital Resources

Our primary uses of cash were to fund our working capital requirements, our purchase of property, plant and equipment and to repay bank and other borrowings and related interest expenses. During the Reporting Period, we funded our operations principally with cash generated from our operations and bank and other borrowings. In the future, we believe that our liquidity requirements will be satisfied with a combination of cash flows generated from our operating activities, bank and other borrowings and the net proceeds from the initial public offering of the Company and other funds raised from the capital markets from time to time.

Property, Plant and Equipment

As at 31 December 2019, the Group's property, plant and equipment amounted to approximately RMB1,820.4 million, representing an increase of approximately 10.2% year-on-year from approximately RMB1,651.5 million recorded as at 31 December 2018. Such an increase was due to the phase two of the construction of the school premises.

Cash and Cash Equivalents

As at 31 December 2019, the Group's cash and cash equivalents was approximately RMB334.9 million, representing a decrease of approximately 24.2% year-on-year from approximately RMB442.1 million for the same period of last year. The decrease was mainly attributable to repayment of bank loans and payment for construction of phase two of our campus.

Bank and Other Borrowings

Our bank and other borrowings primarily consisted of short-term working capital loans and long-term project loans for the construction of the school premises.

We primarily borrowed loans from banks and financial institutions to supplement our working capital and finance our capital expenditure. Our bank and other borrowings amounted to RMB1,131.3 million as at 31 December 2019 were all denominated in Renminbi. As at 31 December 2019, our bank and other borrowings bore effective interest rates ranging from 4.35% to 5.94% per annum. Analysis of the maturity profile of the interest-bearing bank and other borrowings of the Group as at 31 December 2019 is set out in the note 23 to the consolidated financial statements.

Capital Expenditures

Capital expenditures during the Reporting Period primarily related to the phase two of the construction of the school premises, maintaining and upgrading existing school premises and purchasing additional educational facilities and equipment for the University. For the year ended 31 December 2019, the Group's capital expenditures were RMB351.2 million.

Contractual Commitments

Our capital commitments primarily were related to the acquisition of property, plant and equipment. The following table sets forth our capital commitments as at the dates indicated:

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Contracted, but not provided for: Property, plant, and equipment	800	144,912

Contingent Liabilities

As at 31 December 2019, we did not have any significant contingent liabilities, guarantees or any material litigation or claims of material importance, pending or threatened (as at 31 December 2018: nil).

Key Financial Ratios

	As at/for the year ended 31 December	
	2019	2018
Gross profit margin(1)	55.8%	52.3%
Net profit margin(2)	25.0%	25.6%
Return on assets(3)	4.4%	3.9%
Return on equity(4)	12.4%	12.2%
Current ratio(5)	0.4	0.7
Interest coverage ratio(6)	3.6	2.9
Net debt to equity ratio(7)	0.8	0.8
Gearing ratio(8)	1.1	1.3
Total debt to assets ratio(9)	0.4	0.4

Notes:

(1) Gross profit margin equals our gross profit divided by revenue for the year.

(2) Net profit margin equals our profit and total comprehensive income after tax divided by revenue for the year.

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

(4) Return on equity equals net profit/(annualized net profit) for the year divided by total equity amounts as at the end of the year.

(5) Current ratio equals our current assets divided by current liabilities as at the end of the year.

(6) Interest coverage ratio equals profit before interest and tax of one year divided by finance cost of the same year.

(7) Net debt to equity ratio equals total interest-bearing bank loans and other borrowings net of cash and cash equivalents at the end of the year divided by total equity at the end of the year.

(8) Gearing ratio equals total debt as at the end of the year divided by total equity as at the end of the year. Total debt includes all interest-bearing bank loans and other borrowings.

(9) Total debt to assets ratio equals total interest-bearing bank and other borrowings at the end of the year divided by total assets at the end of the year.

Gearing Ratio

Compared with the gearing ratio as at 31 December 2018, the gearing ratio as at 31 December 2019 decreased from 1.3 to 1.1, which was mainly due to an increase of our equity in relation to our increasing business performance.

FOREIGN EXCHANGE RISK MANAGEMENT

The functional currency of the Company is RMB. The majority of the Group's revenue and expenditures are denominated in RMB. During the year ended 31 December 2019, the Group did not experience any significant difficulties in or impacts on its operations or liquidity due to fluctuations in currency exchange rates. The Directors believe that the Group has sufficient foreign exchange to meet its own foreign exchange requirements and will adopt practical and effective measures to prevent exposure to exchange rate risk. The Group did not enter into any financial instrument for hedging purpose.

SIGNIFICANT INVESTMENTS, ACQUISITIONS AND DISPOSALS, FUTURE PLAN FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

There were no significant investments held as at 31 December 2019, nor other material acquisitions and disposals of subsidiaries and associated companies. Save as disclosed in this annual report, as at 31 December 2019, the Group did not have any immediate plans for material investments and capital assets.

PLEDGE OF ASSETS

As at 31 December 2019, the Group's bank borrowings of RMB766.3 million were secured by the Group's rights over tuition fees and boarding fees.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2019, the Group had 1,173 full-time employees (as at 31 December 2018: 988 employees). The remuneration policy and package of the Group's employees are periodically reviewed in accordance with industry practice and result performance of the Group. The Group provides external and internal training programs to its employees. The Group participates in various employee social security plans for its employees that are administered by local governments, including housing, pension, medical insurance, occupational injury insurance, maternity insurance and unemployment insurance. The total remuneration cost incurred by the Group for the year ended 31 December 2019 was RMB167.8 million (for the year ended 31 December 2018: RMB137.8 million).

DIRECTORS AND SENIOR MANAGEMENT

BOARD OF DIRECTORS

Executive Directors

Mr. Zhou Xingzeng (周星增), aged 57, the founder of our Group, the chairman of the Board and a Controlling Shareholder, was appointed as a Director on 8 May 2018 and re-designated as an executive Director of our Company on 20 December 2018. Mr. Zhou has also been a director of Jian Qiao Group since November 2000, a director of Jian Qiao Investment since August 1999, and a director of our University since its establishment, respectively. He is responsible for overall management and strategic development of our Group. Mr. Zhou is the father of Mr. Zhou Qiaoqi, a joint company secretary and the chief investment officer of our Company.

Mr. Zhou has more than 28 years of experience in education. The following table shows the key work experience of Mr. Zhou:

Period	Company	Position	Roles and responsibilities
September 1983 to December 1988	Guizhou Institute of Technology* (貴州工學院), currently known as Guizhou University (貴州大學)	teacher	teaching
January 1989 to December 1992	Wenzhou University (溫州大學), in Zhejiang Province, the PRC	head of the finance and accounting teaching and research office	organizing teaching activities and day-to-day management of the teaching and research section
January 1993 to June 1999	Tengen Group Co., Ltd 11th branch* (天正集團有限公司十一分公司)	general manager	overall management, major decision making and strategic planning
August 1999 to present	Jian Qiao Investment	successively served as chairman and director	overall management and strategic planning of Jian Qiao Investment
June 2000 to present	our University	chairman and director	overall management and strategic planning of our University
November 2000 to present	Jian Qiao Group	chairman and director	overall management and strategic planning of Jian Qiao Group
December 2018 to present	our Company	chairman and executive Director	overall management and strategic development of our Group

Save as disclosed above, Mr. Zhou did not hold directorship in other listed companies during the last three years.

The following table shows the major offices of Mr. Zhou:

Period	Organization	Experience
February 2003 to present	Shanghai Municipal People's Congress (上海市人民代表大會)	deputy
December 2004 to present	Shanghai Children's Health Foundation* (上海市兒童健康基金會)	vice chairman
April 2007 to April 2017	Shanghai Committee of The China Democratic League (中國民主同盟上海市委員會)	vice-chairman
January 2009 to present	The China Association for Non- Government Education (中國民辦教育協會)	vice president
April 2012 to present	Shanghai Association for Non-Government Education (上海市民辦教育協會)	vice president

Mr. Zhou has received various awards and recognitions. The following table sets forth some of the awards and recognitions he has received:

Year	Award/Accreditation	Awarding Organization
March 2004	Shanghai Top Ten Influential Young Individuals to the Economy* (上海市十大青年經濟人物)	Shanghai Young Entrepreneur Association* (上海市青年企業家協會), Youth Newspaper* (青年報社), Wen Wei Po (文匯報) and four other organizations jointly
January 2006	Star Philanthropist in Shanghai* (上海市慈善之星)	Shanghai Charitable Foundation United Way Fund (上海市慈善基金會)
June 2006	Outstanding Friend of Party Building* (優秀黨建之友)	CPC Shanghai Social Work Committee* (中共上海市社會工作委員會)
September 2006	Advanced Individual in Building a Moderately Prosperous Society in All Respects in China* (全國全面建設小康社會先進個人)	All-China Federation of Industry and Commerce (中華全國工商業聯合會)

Year	Award/Accreditation	Awarding Organization
January 2009	Special Award for Earthquake Relief Donation* (抗震救災捐贈特別獎)	Shanghai Municipal Bureau of Civil Affairs (上海市民政局)
November 2009	Distinguished builder of Socialism with Chinese Characteristics* (優秀中國特色社會主義事業建設者)	The United Front Work Department of CPC Central Committee (中國共產黨中央委員會統一戰線工作部), Ministry of Industry and Information Technology of the PRC (中國工業和信息化部) and other three organizations
May 2011	Advanced Individual* (先進個人)	China Democratic League Central Committee (中國民主同盟中央委員會)
June 2012	Lifetime Honorary Award* (終身榮譽獎)	Shanghai Wenzhou Youth Federation* (上海溫州青年聯合會)
June 2013	Advanced Individual in Conscription Work* (徵兵工作先進個人)	Shanghai Municipal People's Government (上海市人民政府) and Chinese People's Liberation Army Shanghai Garrison* (中國人民解放軍上海警備區) jointly
January 2016	Star of Caring for Children's Health Charity* (關愛兒童健康公益之星)	Shanghai Children's Health Foundation (上海市兒童健康基金會)

Mr. Zhou graduated as an undergraduate in industrial finance and accounting (工業財會) from Jiangxi Finance and Economics College* (江西財經學院), currently known as Jiangxi University of Finance and Economics (江西財經大學), in Jiangxi Province, the PRC in July 1983.

Mr. Zheng Xiangzhan (鄭祥展), aged 62, a Controlling Shareholder, joined our Group in August 1999 and was appointed as an executive Director and the chief executive officer of our Company on 20 December 2018. Mr. Zheng has also been a director of Jian Qiao Group since November 2000 and a director of our University since its establishment, respectively. He is responsible for the overall operation of our Group.

Mr. Zheng has more than 19 years of experience in education. The following table shows the key work experience of Mr. Zheng:

Period	Company	Position	Roles and responsibilities
August 1999 to present	Jian Qiao Investment	successively served as general manager, director, chairman and supervisor	supervision of financial management and senior management execution
June 2000 to present	our University	concurrently/successively served as vice chairman, director, deputy principal and financial controller	operational and financial management
November 2000 to present	Jian Qiao Group	vice chairman, director and president	overall management, major decision making and strategic planning
December 2018 to present	our Company	executive Director and chief executive officer	overall operation of our Group

The following table shows the major offices of Mr. Zheng:

Period	Organization	Experience
March 2003 to July 2009	Shanghai Nanhui District Municipal People's Congress* (上海市南匯區人民代表大會), currently known as Shanghai Pudong New Area Municipal People's Congress* (上海市浦東新區人民代表大會)	deputy
July 2009 to January 2017	Shanghai Pudong New Area Municipal People's Congress* (上海市浦東新區人民代表大會)	deputy

Save as disclosed above, Mr. Zheng did not hold directorship in other listed companies during the last three years.

Mr. Zheng was accredited as Advanced Individual in the Shanghai United Front* (上海市統一戰線先進個人) by the United Front Work Department of the CPC of Shanghai* (中共上海市委統戰部) and Shanghai Human Resources Bureau* (上海市人事局) in August 2006.

Mr. Zheng obtained a master's degree in management at Shanxi University (山西大學) in Shanxi Province, the PRC in July 2005.

Mr. Shi Yinjie (施銀節), aged 61, a Controlling Shareholder, joined our Group in August 1999 and was appointed as an executive Director of our Company on 20 December 2018. Mr. Shi has also been a director of Jian Qiao Group since November 2000 and our University since its establishment, respectively. He is responsible for the administrative management of our Group.

Mr. Shi has more than 19 years of experience in education. The following table shows the key work experience of Mr. Shi:

Period	Company	Position	Roles and responsibilities
January 1991 to December 1999	Dianguang Explosion Protection Technology Co., Ltd (電光防爆科技股份有限公司), a company whose shares are listed on the Shenzhen Stock Exchange (stock code: 002730)	general manager	day-to-day management
August 1999 to September 2008	Jian Qiao Investment	concurrently/successively served as deputy general manager and director	day-to-day management of the board
June 2000 to present	our University	director	day-to-day management of the board of our University
November 2000 to present	Jian Qiao Group	vice chairman and director	strategic planning, overall management supervision and corporate governance implementation
December 2018 to present	our Company	executive Director	administrative management of our Group

Save as disclosed above, Mr. Shi did not hold directorship in other listed companies during the last three years.

Mr. Shi completed the senior management MBA core courses (高級經理MBA核心課程) in Fudan University (復旦大學) in Shanghai, the PRC, in August 2003.

Non-executive Director

Mr. Zhao Donghui (趙東輝), aged 53, joined our Group as a shareholder of Jian Qiao Group in March 2018 and was appointed as a non-executive Director of our Company on 20 December 2018. He is responsible for providing opinion and judgment to our Board.

The following table shows the key work experience of Mr. Zhao:

Period	Company	Position	Roles and responsibilities
October 2003 to present	Zhejiang Fangzheng Industrial Co. Limited* (浙江方陣實業有限公司), a company primarily engaged in building material sales	chairman	overall management, major decision making and strategic planning
January 2010 to present	Changjiu Industry Group Co. Limited* (長九實業集團有限公司), a company primarily engaged in real estate development and commercial hotels	chairman	overall management, major decision making and strategic planning
December 2018 to present	our Company	non-executive Director	providing opinion and judgment to our Board

Save as disclosed above, Mr. Zhao did not hold directorship in other listed companies during the last three years.

Mr. Zhao obtained the qualification as a senior economist granted by Zhejiang Province Human Resources Bureau* (浙江省人事廳), currently known as Zhejiang Province Human Resources and Social Security Department (浙江省人力資源和社會保障廳), in December 2005. He graduated as an undergraduate in civil engineering from Southwest University of Science and Technology (西南科技大學) in Sichuan Province, the PRC in January 2006.

Independent non-executive Directors

Mr. Chen Baizhu (陳百助), aged 56, was appointed as an independent non-executive Director of our Company on 20 December 2018.

The following table shows the key work experience and major offices of Mr. Chen:

Period	Company/Organization	Position/Experience
1994 to present	University of Southern California in California, the US	professor
May 2008 to November 2014	Aegon-Industrial Fund Management Co., Ltd. (興業基金管理有限公司), a company primarily engaged in investment and financial services	independent director
December 2018 to present	our Company	independent non-executive Director

Save as disclosed above, Mr. Chen did not hold directorship in other listed companies during the last three years.

Mr. Chen was awarded the 2002–2003 Golden Apple Teaching Award by Marshall School of Business of University of Southern California.

Mr. Chen graduated from Fudan University (復旦大學) in Shanghai, the PRC with a bachelor's degree in science in July 1985 and graduated from University of Rochester in the State of New York, the US with the doctor of philosophy degree in May 1992.

Mr. Hu Rongen (胡戎恩), aged 50, was appointed as an independent non-executive Director of our Company on 20 December 2018.

The following table shows the key work experience of Mr. Hu:

Period	Company	Position
July 2001 to September 2007	Shanghai University of Political Science and Law (上海政法學院)	deputy director of marketing department
October 2007 to September 2008	Doctor service group in western district* (西部博士服務團) Prefectural Administrative Office in Tongren District* (銅仁地區行政公署)	specialist assistant (專員助理)
October 2009 to May 2015	Shanghai University of Political Science and Law (上海政法學院)	director of training department
June 2015 to present	Shanghai University of Political Science and Law (上海政法學院)	dean of the faculty of financial law
December 2018 to present	our Company	independent non-executive Director

Save as disclosed above, Mr. Hu did not hold directorship in other listed companies during the last three years.

Mr. Hu was accredited as one of Top 10 Outstanding Youths* (十大傑出青年) in Shanghai Judicial Administration System* (上海司法行政系統) by Political Department of Shanghai Bureau of Justice* (上海司法局政治部) in April 2009.

Mr. Hu graduated from National Court Cadre Amateur Law University* (全國法院幹部業餘法律大學), currently known as National Judges College (國家法官學院), in Beijing, the PRC in September 1988. He also graduated as an undergraduate in law in July 1996 and with a master's degree in law in July 2000, and a doctoral degree in law in July 2006 from Peking University (北京大學) in Beijing, the PRC.

Ms. Liu Tao (劉濤), aged 55, was appointed as an independent non-executive Director of our Company on 20 December 2018.

The following table shows the key work experience of Ms. Liu:

Period	Company	Position
August 2001 to present	Shanghai Jiao Tong University (上海交通大學)	associate professor of Antai College of Economics & Management
September 2015 to present	Glorious Property Holdings Ltd. (恒盛地產控股有限公司), a company whose shares are listed on the Stock Exchange (stock code: 00845)	independent non-executive director
May 2016 to present	Shanghai SafBon Water Service (Holding) Inc. (上海巴安水務股份有限公司), a company whose shares are listed on the Shenzhen Stock Exchange (stock code: 300262)	independent director
June 2017 to July 2019	Shanghai No. 1 Pharmacy Co., Ltd. (上海第一醫藥股份有限公司), a company whose shares are listed on the Shanghai Stock Exchange (stock code: 600833)	independent director
August 2017 to December 2019	Zhe Jiang Songyuan Automotive Safety Systems. Co., Ltd. (浙江松原汽車安全系統股份有限公司), a company primarily engaged in developing and manufacturing automobile safety belts	independent non-executive director
February 2018 to present	Changjiang Investment Industrial Co., Ltd.* (長江投資實業股份有限公司), a company whose shares are listed on the Shanghai Stock Exchange (stock code: 600119)	independent director
May 2018 to present	Shanghai Jielong Industry Group Co., Ltd. (上海界龍實業集團股份有限公司), a company whose shares are listed on the Shanghai Stock Exchange (stock code: 600836)	independent director
December 2018 to present	our Company	independent non-executive Director

Save as disclosed above, Ms. Liu did not hold directorship in other listed companies during the last three years.

Ms. Liu has received several recognitions and awards related to teaching. From 2006 to 2018, Ms. Liu was awarded the Teaching Excellence Award of Antai College of Economics & Management* (安泰經管學院教學優秀獎), the Most Welcomed MBA Teacher of Antai College of Economics & Management* (安泰經管學院年度最受MBA學生歡迎教師獎) and Nomination Award of Teaching and Education Award of Shanghai Jiao Tong University* (上海交通大學教書育人獎提名獎).

Ms. Liu graduated from Shaanxi Institute of Finance* (陝西財經學院), currently known as School of Economics and Finance of Xi'an Jiaotong University (西安交通大學經濟與金融學院), in Shaanxi Province, the PRC with a bachelor's degree in economics (經濟學) in July 1986, and a master's degree in economics in July 1989.

SENIOR MANAGEMENT

Dr. Zhu Ruiting (朱瑞庭), aged 53, joined our Group in January 2003 and was appointed as a professor of our University in January 2007 and the principal of our University in November 2017. He is responsible for the overall operation of our University.

Dr. Zhu has more than 20 years of experience in teaching and academic research. The following table shows the key work experience and major offices of Dr. Zhu:

Period	Company/Organization	Position/Experience
November 1991 to October 1995	Wenzhou University (溫州大學), in Zhejiang Province, the PRC	lecturer
January 2003 to present	our University	concurrently/successively served as professor, dean of commerce department, head of research department, vice principal and principal
March 2016 to present	Expert Committee for China Association of Trade in Services* (中國服務貿易協會專家委員會)	vice chairman
July 2017 to present	Jiangxi University of Finance and Economics (江西財經大學), in Jiangxi Province, the PRC	part-time tutor

Period	Company/Organization	Position/Experience
December 2017 to present	The Chinese People's Political Consultative Conference (CPPCC) Shanghai Committee (中國人民政治協商會議上海市委員會)	member
April 2018 to present	Eighth council of the China Economics Association* (中國商業經濟學會第八屆理事會)	standing director
September 2018 to present	China Humanities and Social Sciences Journal Evaluation Expert Committee of China Social Science Evaluation Institute* (中國社會科學評價研究院中國人文社會科學期刊評價專家委員會)	member

Dr. Zhu did not hold any directorship in any listed companies during the last three years.

Dr. Zhu has received several awards and recognitions in recognition of his achievement in education. The following table sets forth some of the awards and recognition he has received:

Year	Award/Accreditation	Awarding Organization
September 2004	Shanghai Cultivate Talent Award* (上海市育才獎)	Shanghai Municipal Education Commission (上海市教育委員會), Shanghai Education Development Foundation (上海市教育發展基金會) and Shanghai Teacher's Union (中國教育工會上海市委員會) jointly
November 2008	Baosteel Excellent Teacher Award* (寶鋼優秀教師獎)	Baosteel Education Foundation (寶鋼教育基金會)
September 2009	Shanghai Cultivate Talent Award* (上海市育才獎)	Shanghai Municipal Education Commission (上海市教育委員會) and Shanghai Education Development Foundation (上海市教育發展基金會) jointly

Dr. Zhu graduated as an undergraduate in economic management in July 1986 from Hangzhou University, currently known as Zhejiang University (浙江大學) in Zhejiang Province, the PRC, and obtained a master's degree in economics from Shanghai Academy of Social Science (上海社會科學院) in Shanghai, the PRC in July 1989. He also graduated from University of Marburg in Marburg Town, Germany with a doctoral degree in economics in June 2001.

Ms. Wan Zhifang (萬志芳), aged 43, joined our Group in August 1999 and was appointed as the deputy chief executive officer and chief financial officer of our Company on 20 December 2018. Ms. Wan has also been the vice president of Jian Qiao Group since September 2017, the financial controller of Jian Qiao Group and Jian Qiao Investment since August 2005, respectively. She is responsible for financial strategic planning and financial management of our Group.

Ms. Wan has more than 20 years of experience in financial management. The following table shows the key work experience of Ms. Wan:

Period	Company	Position
August 1999 to present	Jian Qiao Investment	successively served as financial manager and financial controller
November 2000 to present	Jian Qiao Group	successively served as financial manager, financial controller and vice president
December 2018 to present	our Company	deputy chief executive officer and chief financial officer

Ms. Wan did not hold any directorship in any listed companies during the last three years.

Ms. Wan obtained the qualification as a Certified Financial Manager by International Managers Association (國際經理人協會) in March 2006, and the qualification as a senior accountant by National Personnel Exchange Center* (全國人才流動中心) in January 2012 and passed the fund qualification examination by Asset Management Association of China (中國證券投資基金業協會) in September 2017. Ms. Wan obtained a master's degree in accounting from Fudan University (復旦大學) in Shanghai, the PRC in June 2010 and obtained a master's degree in EMBA from Shanghai Jiao Tong University (上海交通大學) in Shanghai, the PRC in June 2017.

Mr. Wang Bangyong (王邦永), aged 38, joined our Group in August 2005 and was appointed as the deputy chief executive officer of our Company on 20 December 2018 and proposed institution representative of California Gench College in November 2018. Mr. Wang has also been the assistant to the chairman of our University since November 2011 and the secretary of the board of our University since March 2011, and assistant to chairman of Jian Qiao Group since June 2011, respectively. He is responsible for administrative and public relations management of our Group.

Mr. Wang has more than 14 years of experience in education. The following table shows the key working experience and major offices of Mr. Wang:

Period	Company/Organization	Position/Experience
August 2005 to present	our University	successively/concurrently served as secretary of the board and assistant to the chairman
June 2011 to present	Jian Qiao Group	assistant to chairman
January 2017 to present	Shanghai Pudong New Area Municipal People's Congress* (上海市浦東新區人民代表大會)	deputy
December 2018 to present	our Company	deputy chief executive officer of the Company and proposed institution representative of California Gench College

Mr. Wang did not hold any directorship in any listed companies during the last three years.

Mr. Wang was awarded the Shanghai May Fourth Youth Medal* (上海市青年五四獎章) by Communist Youth League Shanghai Committee* (共青團上海市委員會) and Shanghai Municipal Human Resources and Social Security Bureau (上海市人力資源和社會保障局) jointly, in April 2017.

Mr. Wang graduated from Fudan University (復旦大學) in Shanghai, the PRC with a bachelor's degree in law in July 2005, obtained a master's degree in public management from Fudan University (復旦大學) in June 2011, and has been studying at East China Normal University (華東師範大學) in Shanghai, the PRC for a doctoral degree in education leadership and management since July 2016.

Mr. Zhou Qiaoqi (周喬琪), aged 32, joined our Group in September 2017 and was appointed as the joint company secretary and chief investment officer of our Company, and the proposed president of California Gench College on 20 December 2018, respectively. Mr. Zhou Qiaoqi has also been the assistant to the chairman of Jian Qiao Group since September 2017. He is responsible for overall corporate governance, investment and overseas operations management of our Group. Mr. Zhou Qiaoqi is the son of Mr. Zhou Xingzeng, the chairman and executive Director of our Company.

The following table shows the key work experience and major offices of Mr. Zhou Qiaoqi:

Period	Company/Organization	Position/Experience
October 2012 to July 2013	Shanghai Tiantian Fund Distribution Co., Ltd (上海天天基金銷售有限公司), a fund sales company	fund researcher
August 2013 to March 2015	Allied Fortune Management Ltd (聯裕管理有限公司), an asset management company	vice president
April 2017 to present	Beta Gamma Sigma	lifetime member
September 2017 to present	Jian Qiao Group	assistant to the chairman
January 2018 to present	Shanghai Youth Entrepreneurs Association* (上海市青年企業家協會)	member
December 2018 to present	our Company	joint company secretary and chief investment officer of our Company, and proposed president of California Gench College

Mr. Zhou Qiaoqi did not hold any directorship in any listed companies during the last three years.

Mr. Zhou Qiaoqi passed the fund qualification examination by Asset Management Association of China (中國證券投資基金業協會) in September 2017 and has become a Chartered Financial Analyst Charter-holder since April 2019. Mr. Zhou Qiaoqi graduated from Fudan University (復旦大學) in Shanghai, the PRC with bachelor of science in information and computing science degree in July 2010 and University of Southern California in Los Angeles, California, the US with a master of science in mathematical finance degree in May 2012 and master of business administration degree in August 2017.

JOINT COMPANY SECRETARIES

Mr. Zhou Qiaoqi (周喬琪), aged 32, was appointed as one of the joint company secretaries of our Company on 20 December 2018. For details of Mr. Zhou Qiaoqi, please see the paragraph headed "— Senior Management" in this section.

Mr. Wong Yu Kit (黃儒傑) was appointed as the other joint company secretary of our Company on 20 December 2018 to assist Mr. Zhou Qiaoqi in discharging his duties as a company secretary including compliance matters relating to the Listing Rules and other Hong Kong regulatory requirements for a period of three years commencing from the Listing Date.

Mr. Wong is a vice president of SWCS Corporate Services Group (Hong Kong) Limited and has over ten years of experience in the corporate service field. Mr. Wong is an associate member of the Hong Kong Institute of Chartered Secretaries and The Chartered Governance Institute (formerly known as The Institute of Chartered Secretaries and Administrators). He also obtained a bachelor's degree in the Business Administration and Management from the University of Huddersfield and a master's degree in corporate governance from the Open University of Hong Kong. He is currently the company secretary or joint company secretary of several companies listed on the Stock Exchange.

REPORT OF THE DIRECTORS

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

PRINCIPAL ACTIVITIES

The Group operates the leading private university in Shanghai, which is also a leading private university in the entire Yangtze River Delta. Analysis of the principal activities of the Group during the year ended 31 December 2019 is set out in the note 1 to the consolidated financial statements.

SUBSIDIARIES

Details of the principal subsidiaries of the Company are set out in note 1 to the consolidated financial statements.

RESULTS

The results of the Group for the year ended 31 December 2019 are set out in the consolidated statement of profit or loss and the consolidated statement of comprehensive income on pages 79 and 80 of this annual report.

FINAL DIVIDEND

The Board did not recommend the payment of a final dividend for the year ended 31 December 2019. There is no arrangement that a Shareholder has waived or agreed to waive any dividend.

BUSINESS REVIEW AND FUTURE OUTLOOK

A review of business and future outlook of the Group during the year ended 31 December 2019 is set out in the section headed "Management Discussion and Analysis" of this annual report.

Significant Legal Proceedings

During the year ended 31 December 2019, the Company was not engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatening against the Company.

Compliance With Laws And Regulations

During the year ended 31 December 2019 and up to the date of this annual report, the Group has complied with the relevant laws and regulations that have a significant impact on the Company.

PRINCIPAL RISKS AND UNCERTAINTIES AND RISK MANAGEMENT

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

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

Interest Rate Risk

The Group's exposure to changes in market interest rates relates primarily to its interest-bearing bank and other borrowings and finance lease payables. We do not use derivative financial instruments to hedge interest rate risk. We manage our interest cost using variable rate bank borrowings and other borrowings.

If the interest rate of bank and other borrowings had increased/decreased by 1% and all other variables held constant, our profit before tax, through the impact on floating rate borrowings, would have decreased/increased by approximately RMB504,000 for the year ended 31 December 2019.

Credit Risk

The Group only trades with recognized and creditworthy third parties. It is the Group's policy that all customers who wish to receive credit are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

Liquidity Risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing bank and other borrowings. Cash flows are closely monitored on an ongoing basis.

Risk Management

To properly manage these risks and uncertainties, the Group has established the following risk management structures and measures. The details are set out in the paragraph headed "Risk Management and Internal Control" of the corporate governance report.

FINANCIAL SUMMARY

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

USE OF NET PROCEEDS FROM LISTING

On the Listing Date, 100,000,000 new Shares with nominal value of HK$0.01 each of the Company were issued at a price of HK$6.05 per Share in connection with the Company's initial public offering. On 11 February 2020, the Company further issued 15,000,000 ordinary Shares of HK$0.01 each at a subscription price of HK$6.05 per share pursuant to the full exercise of over-allotment option.

Net proceeds from the initial public offering of the Company (including the full exercise of the over-allotment option) amounted to approximately HK$666.0 million, after deducting underwriting fee and relevant expenses. Such amount were used and are proposed to be used as and when appropriate based on the Group's business needs according to the intentions previously disclosed in the Prospectus.

As at the date of this annual report, the utilisation of the net proceeds is as follows:

Unit: Hong Kong dollar million

Items	Percentage	Available	Utilised	Unutilised
Acquisitions or investments to expand our school network	34.8%	231.7	—	231.7
Finance construction projects on our campus and purchase of furniture and equipment	35.0%	233.1	67.7	165.5
Repay our short-term loans and the current portion of our long-term loans as they become due	20.2%	134.6	2.8	131.8
Supplement our working capital and for general corporate purposes	10.0%	66.6	7.8	58.8
Total	100.0%	666.0	78.2	587.8

The unutilised proceeds of approximately HK$587.8 million are expected to be used in the next 3 to 5 years.

MAJOR CUSTOMERS AND SUPPLIERS

The Group's customers primarily consist of its students. We did not have any single customer who accounted for more than 5% of our revenue for the year ended 31 December 2019. The aggregate percentage of revenue attributable to the five largest customers is less than 30% of our revenue for the year ended 31 December 2019.

The Group's suppliers primarily consist of construction service providers, enterprise partners who provide training to its students, technology service providers, and teaching equipment suppliers. For the year ended 31 December 2019, purchases from our five largest suppliers amounted to RMB176.9 million, accounting for 53.43% of its total purchases for the corresponding period. For the same period, purchases from our largest supplier amounted to RMB138.7 million, accounting for 41.9% of our total purchases for the relevant periods. The Group's largest supplier in 2019 is construction service provider. The amount of purchases from the Group's five largest suppliers and from the Group's largest supplier went up due to the construction services the Group procured for the construction of school building, dormitory and auxiliary building.

None of the Directors, their respective close associates, or any Shareholder who, to the knowledge of the Directors, owns more than 5% of our issued capital, had any interest in any of the Group's five largest customers or suppliers for the year ended 31 December 2019.

RELATIONSHIP WITH EMPLOYEES, SUPPLIERS AND CUSTOMERS

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

PROPERTY, PLANT AND EQUIPMENT

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

The Group's properties were valued at RMB5,213.0 million as at 31 October 2019 in the Prospectus. Had the Group's properties been included in these financial statements at such valuation amount throughout the year ended 31 December 2019, an additional depreciation charge of RMB16.0 million would have been recognised in the consolidated statement of profit or loss for the year ended 31 December 2019.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year ended 31 December 2019 are set out in note 25 to the consolidated financial statements.

RESERVES AND DISTRIBUTABLE RESERVES

Details of movements in the reserves of the Group and the Company during the year ended 31 December 2019 are set out in the consolidated statement of changes in equity on page 83, of which, the reserves available for distribution to Shareholders as at 31 December 2019 are set out in note 26 to the consolidated financial statements.

BANK LOANS AND OTHER BORROWINGS

The bank loans and other borrowings of the Group primarily consisted of short-term working capital loans and long-term project loans for the construction of the school premises. Details of the bank loans and other borrowings of the Group as at 31 December 2019 are re set out in note 23 to the consolidated financial statements.

DIRECTORS

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

Executive Directors
Mr. Zhou Xingzeng *(Chairman)*
Mr. Zheng Xiangzhan
Mr. Shi Yinjie

Non-executive Director
Mr. Zhao Donghui

Independent Non-executive Directors
Mr. Chen Baizhu
Mr. Hu Rongen
Ms. Liu Tao

In accordance with article 84(1) of the Articles of Association, one-third of the Directors shall retire from office by rotation at each annual general meeting and shall then be eligible for re-election. Accordingly, Mr. Zhou, Mr. Zheng Xiangzhan and Mr. Shi Yinjie shall retire by rotation, and being eligible, have offered themselves for re-election at the forthcoming annual general meeting to be held in due course (the "AGM"). No Director proposed for re-election at the forthcoming AGM has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

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

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

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

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received an annual confirmation of independence pursuant to rule 3.13 of the Listing Rules from each of the independent non-executive Directors and the Company considers such Directors to be independent throughout the year ended 31 December 2019 and remain so as at the date of this annual report.

DIRECTORS' SERVICE CONTRACTS AND LETTERS OF APPOINTMENT

Each of the executive Directors has entered into a service contract with the Company for an initial fixed term of three years commencing from the Listing Date and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other, which notice shall not expire until the end of the fixed term.

Each of the non-executive Director and independent non-executive Directors has entered into a letter of appointment with the Company for an initial fixed term of one year commencing from the Listing Date and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other, which notice shall not expire until the end of the fixed term.

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

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

Save as disclosed in the paragraph headed "Non-exempt Continuing Connected Transaction" and otherwise disclosed in this annual report, no Director or its connected entity (within the meaning of section 486 of the Companies Ordinance) had a material interest, either directly or indirectly, in any transaction, arrangement or contract of significance to the business of the Group to which the Company, or any of its subsidiaries or fellow subsidiaries was a party during the year ended 31 December 2019 and up to the date of this annual report.

Apart from the contract relating to the reorganization of the Group in relation to the Listing and save as disclosed in the paragraph headed "Non-exempt Continuing Connected Transaction" and otherwise disclosed in this annual report, none of the Controlling Shareholder or any of its connected entity (within the meaning of section 486 of the Companies Ordinance) had a material interest, either directly or indirectly, in any transaction, arrangement or contract of significance to the business of the Group to which the Company, or any of its subsidiaries or fellow subsidiaries was a party during the year ended 31 December 2019 and up to the date of this annual report.

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

MANAGEMENT CONTRACTS

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

EMPLOYEE AND REMUNERATION POLICY

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

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

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

RETIREMENT AND EMPLOYEE BENEFITS SCHEME

Details of the retirement and employee benefits scheme of the Company are set out in note 7 to the consolidated financial statements.

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

As the Company's Shares had not been listed on the Stock Exchange as at 31 December 2019, Divisions 7 and 8 of Part XV of the SFO and Section 352 of the SFO did not apply to the Directors, and chief executives of the Company during the year ended 31 December 2019.

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

I. Interest in Shares or underlying Shares of the Company

Name	Capacity/Nature of interest	Number of Shares	Long/short Position	Approximately Percentage of Shareholding in the Company
Mr. Zhou	Interest in a controlled corporation (1)	105,450,000	Long position	25.41%
Mr. Zheng Xiangzhan	Interest in a controlled corporation (2)	30,600,000	Long position	7.37%
Mr. Zhao Donghui	Interest in a controlled corporation (3)	30,000,000	Long position	7.23%
Mr. Shi Yinjie	Interest in a controlled corporation (4)	17,100,000	Long position	4.12%

Notes:

(1) Mr. Zhou is the sole shareholder and the sole director of She De Limited and Gan En Limited and he is therefore deemed to be interested in the Shares held by She De Limited and Gan En Limited.

(2) Mr. Zheng Xiangzhan is the sole shareholder and the sole director of Ze Ren Limited and he is therefore deemed to be interested in the Shares held by Ze Ren Limited.

(3) Mr. Zhao Donghui is the sole shareholder and the sole director of Ai Xin Limited and he is therefore deemed to be interested in the Shares held by Ai Xin Limited.

(4) Mr. Shi Yinjie is the sole shareholder and the sole director of Tuan Jie Limited and he is therefore deemed to be interested in the Shares held by Tuan Jie Limited.

II. Interest in shares of associated corporation of the Company

Name	Name of associated corporation	Capacity/Nature of interest	Amount of registered share capital (RMB)	Approximate percentage of shareholding
Mr. Zhou	Jian Qiao Group	Beneficial owner	61,510,000	35.15%
Mr. Zheng Xiangzhan	Jian Qiao Group	Beneficial owner	17,850,000	10.20%
Mr. Zhao Donghui	Jian Qiao Group	Beneficial owner	17,500,000	10.00%
Mr. Shi Yinjie	Jian Qiao Group	Beneficial owner	9,970,000	5.70%

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

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

As the Company's Shares had not been listed on the Stock Exchange on 31 December 2019, during the year ended 31 December 2019, Divisions 2 and 3 of Part XV of the SFO and Section 336 of the SFO did not apply to the Company.

As at the date of this annual report, to the best knowledge of the Directors, the following persons (other than being a Director or chief executive of the Company) had interests or short positions in the Shares or underlying Shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Name	Capacity/Nature of interest	Number of Shares	Long/short Position	Approximately Percentage of Shareholding in the Company
She De Limited	Beneficial owner	66,000,000	Long position	15.90%
Gan En Limited	Beneficial owner	39,450,000	Long position	9.51%
Ze Ren Limited	Beneficial owner	30,600,000	Long position	7.37%
Ai Xin Limited	Beneficial owner	30,000,000	Long position	7.23%
Xiamen ITG Education Group Co., Ltd.	Beneficial owner	25,880,000	Long Position	6.24%

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

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

SHARE OPTION SCHEME

The following is a summary of principal terms of the Share Option Scheme conditionally approved by a resolution of the then shareholders of our Company passed on 19 December 2019 and adopted by a resolution of the Board on 19 December 2019 (the "Adoption Date"). The terms of the Share Option Scheme are in compliance with the provisions of Chapter 17 of the Listing Rules.

1. Purpose

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

2. Who may join

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

3. Maximum number of Shares

The maximum number of Shares which may be issued upon exercise of all options to be granted under the Scheme and any other schemes of our Group shall not in aggregate exceed 10% of the Shares in issue as at the Listing Date (such 10% limit representing 40,000,000 Shares) excluding Shares which may fall to be issued upon the exercise of the Over-allotment Option granted by our Company.

The total number of Shares available for issue under the Share Option Scheme was 40,000,000 Shares, representing approximately 9.6% of the issued Shares as at the date of this annual report.

4. **Maximum entitlement of each participant**

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

5. **Offer and grant of Options**

Subject to the terms of the Share Option Scheme, the Board shall be entitled at any time within 10 years from the Adoption Date to offer the grant of an Option to any Eligible Person as the Board may in its absolute discretion select to subscribe at the subscription price for such number of Shares as the Board may (subject to the terms of the Share Option Scheme) determine (provided the same shall be a board lot for dealing in the Shares on the Stock Exchange or an integral multiple thereof).

6. **Granting Options to connected persons**

Subject to the terms in the Share Option Scheme, only insofar as and for so long as the Listing Rules require, where any offer of an Option is proposed to be made to a director, chief executive or a substantial shareholder (as defined in the Listing Rules) of our Company or any of their respective associates, such offer must first be approved by the independent non-executive Directors of our Company (excluding the independent non-executive Director who or whose associates is the grantee of an Option).

7. **Minimum holding period, vesting and performance target**

Subject to the provisions of the Listing Rules, the Board may impose any conditions, restrictions or limitations when offering the grant of an Option, including qualifying and/or continuing eligibility criteria, conditions, restrictions or limitations relating to the achievement of performance, operating or financial targets by our Company and/or the grantee, the satisfactory performance or maintenance by the grantee of certain conditions or obligations or the time or period before the right to exercise the Option in respect of any of the Shares shall vest provided that such terms or conditions shall not be inconsistent with any other terms or conditions of the Share Option Scheme. Subject to such terms and conditions as the Board may determine as aforesaid (including such terms and conditions in relation to their vesting, exercise or otherwise) there is no minimum period for which an Option must be held before it can be exercised and no performance target which need to be achieved by the grantee before the Option can be exercised.

8. **Amount payable for Options and offer period**

An offer of the grant of an Option shall remain open for acceptance by the Eligible Person concerned for a period of 28 days from the offer date. Participants of the Share Option Scheme are required to pay the Company HK$1.00 upon acceptance of the grant on or before 28 days after the offer date.

9. Subscription price

The subscription price shall be such price as the Board may determine at the time of grant of the relevant Option but the subscription price shall not be less than whichever is the highest of:

(a) the nominal value of a Share;

(b) the closing price of a Share as stated in the Stock Exchange's daily quotations sheet on the offer date; and

(c) the average closing price of a Share as stated in the Stock Exchange's daily quotations sheets for the 5 business days (as defined in the Listing Rules) immediately preceding the offer date.

10. Life of Share Option Scheme

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

During the year ended 31 December 2019, no option under the Share Option Scheme has been granted, exercised, lapsed or cancelled.

EQUITY-LINKED AGREEMENTS

Save as disclosed in the section headed "Share Option Scheme" of this annual report and in the Prospectus, during the year ended 31 December 2019 and up to the date of this annual report, neither the Company nor any of its subsidiaries had entered into (i) any agreement that will or may result in the Company issuing Shares; or (ii) any agreement requiring the Company to enter into any agreement specified in (i).

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Save for the Company's initial public offering (including the full exercise of the over-allotment option) as described in the Company's Prospectus from which the Company received net proceeds of approximately HK$666.0 million, after deducting underwriting fee and relevant expenses, there is no other issue of Shares by the Company, and neither the Company nor any of its subsidiaries had purchased, sold or redeemed any other listed securities of the Company during the period from the Listing Date to the date of this annual report.

PRE-EMPTIVE RIGHTS

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

PERMITTED INDEMNITY PROVISION

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

NON-COMPETITION UNDERTAKING

The Group currently engages in the provision of private formal higher education. Other than their interest in the Group, the Controlling Shareholders and their associates also hold direct or indirect interests in companies outside of the Group, which engage in other businesses not related to higher education.

The Controlling Shareholders have entered into the Deed of Non-competition on 19 December 2019 in favour of the Company, pursuant to which our Controlling Shareholders have jointly and severally and irrevocably undertaken with the Company (for itself and for the benefit of its subsidiaries) that it or he would not, and would procure that its or his associates (except any members of the Group) would not, during the restricted period, directly or indirectly, either on its or his own account or in conjunction with or on behalf of any person, firm or company, among other things, carry on, participate or be interested or engaged in or hold (in each case whether as a shareholder, partner, agent, employee or otherwise) any business which is or may be in competition with the business of any member of the Group from time to time.

Compliance with the Deed of Non-Competition

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

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

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

DIRECTORS' INTEREST IN COMPETING BUSINESS

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

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

As the Company's Shares had not been listed on the Stock Exchange as at 31 December 2019, during the year ended 31 December 2019, the provisions relating to disclosure of connected transactions under Chapter 14A of the Listing Rules were not applicable to the Company.

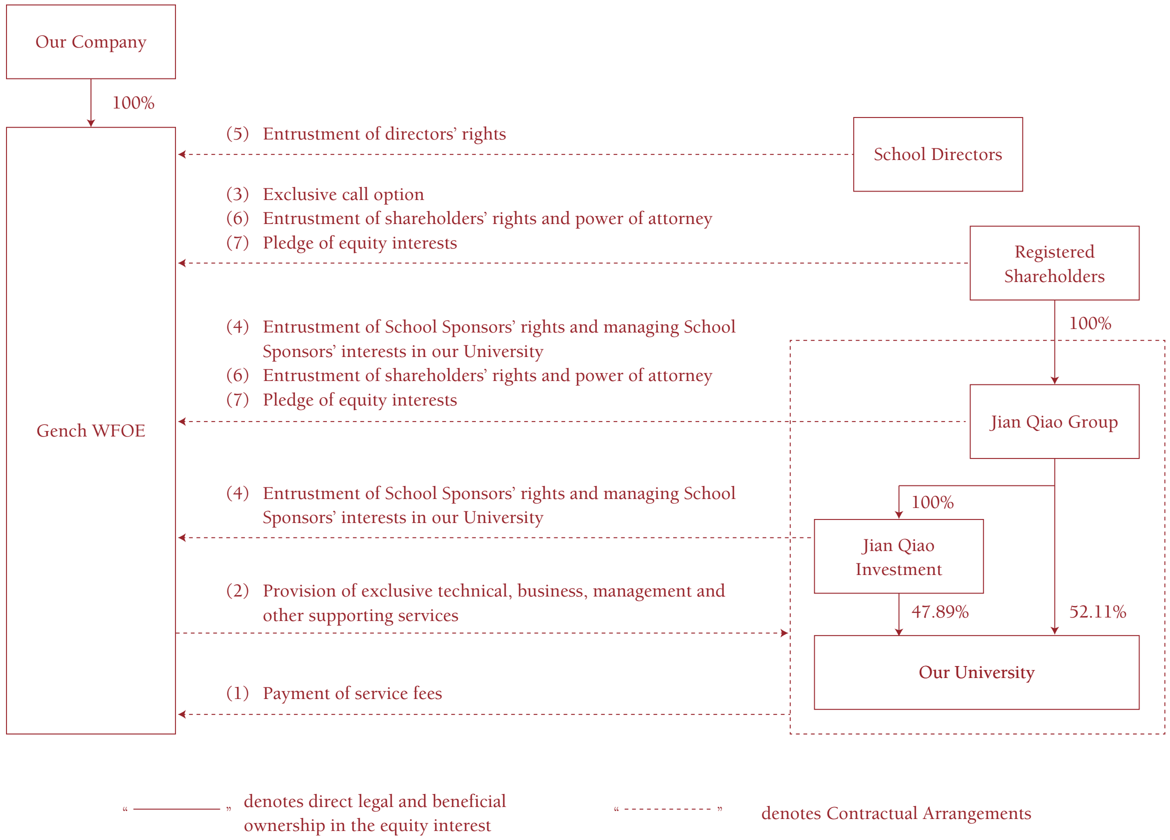
As at the date of this annual report, the Group has entered into the following continuing connected transactions pursuant to Chapter 14A of the Listing Rule:

Contractual Arrangements

A. Overview

The PRC laws and regulations currently restrict the operation of formal higher education to sino-foreign ownership, in addition to imposing a qualification requirement on the foreign owners. As a result, the Group, through our wholly-owned subsidiary, Gench WFOE, the PRC Affiliated Entities and the Registered Shareholders have entered into the Contractual Arrangements such that we can conduct our business operations indirectly in the PRC through the PRC Affiliated Entities while complying with applicable PRC law and regulations. The Contractual Arrangements, as a whole, are designed to provide the Group with effective control over the financial and operational policies of the PRC Affiliated Entities, to the extent permitted by PRC law and regulations, the right to acquire the equity interest and/or school sponsor's interest in the PRC Affiliated Entities after the Listing through Gench WFOE. As we operate our education business indirectly through the PRC Affiliated Entities and we do not hold any direct equity interest or school sponsor's interest in the PRC Affiliated Entities, the Contractual Arrangements were entered into on 11 December 2018 pursuant to which all material business activities of the PRC Affiliated Entities are instructed and supervised by the Group through Gench WFOE, and all economic benefits arising from such business of the PRC Affiliated Entities are transferred to the Group.

The following simplified diagram illustrates the flow of economic benefits from the University and/or the School Sponsors to the Group stipulated under the Contractual Arrangements:



Notes:

(1) Payment of service fees.

(2) Provision of exclusive technical and management consultancy services.

(3) Exclusive call option to acquire all or part of our school sponsors' interest in our University and equity interest in our School Sponsors.

(4) Entrustment of school sponsors' rights in our University by our School Sponsors.

(5) Entrustment of directors' rights in our University by certain directors of our University including directors' powers of attorney.

(6) Entrustment of shareholders' right of the Registered Shareholders and Jian Qiao Group including shareholders' powers of attorney.

(7) Pledge of equity interest by the Registered Shareholders of their equity interest in Jian Qiao Group and by Jian Qiao Group of its equity interest in Jian Qiao Investment, respectively.

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

B. *Summary of the Material Terms of the Contractual Arrangements*

The Contractual Arrangements consist of a series of agreements, including the Business Cooperation Agreement, the Exclusive Technical Service and Management Consultancy Agreement, the Exclusive Call Option Agreement, the Equity Pledge Agreements, the School Sponsors' and Directors' Rights Entrustment Agreement, the Shareholders' Rights Entrustment Agreement, the School Sponsors' Powers of Attorney, the Directors' Powers of Attorney, the Shareholders' Powers of Attorney and the Spouse Undertakings, each of which is an integral part of the Contractual Arrangements. For summary of material terms of these agreements, please refer to the section headed "Contractual Arrangements" in the Prospectus.

C. *Business activities of the PRC Affiliated Entities*

The business activities of the PRC Affiliated Entities of the Group, namely the School Sponsors and the University, are primarily to offer higher educational services to the Group's students.

D. *Significance and Financial Contributions of the PRC Affiliated Entities*

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

	Significances and financial contribution to the Group					
	Revenue for the year ended 31 December		Net profit for the year ended 31 December		Total assets as at 31 December	
	2019	2018	2019	2018	2019	2018
PRC Affiliated Entities	501,442	424,587	149,413	110,119	2,838,332	2,794,627

E. Regulatory Framework

We currently conduct our private higher education business through our PRC Affiliated Entities in the PRC as PRC laws and regulations generally restrict foreign ownership in the private education industry in the PRC. PRC laws and regulations currently restrict the operation of higher education institutions to sino-foreign cooperation ownership, in addition to imposing qualification requirements on the foreign owners. We do not hold any equity interest or school sponsor's interest in our PRC Affiliated Entities. The Contractual Arrangements, through which we obtain control over and derive the economic benefits from our PRC Affiliated Entities, have been narrowly tailored to achieve our business purpose and minimize the potential conflict with relevant PRC laws and regulations. We had entered into the Contractual Arrangements for the existing PRC Affiliated Entities and expect to enter into contractual arrangements for the schools to be newly established or invested in, the terms and conditions of which shall be the same as the existing Contractual Arrangements in all material aspects.

1. Higher Education

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

In relation to the interpretation of sino-foreign cooperation, pursuant to the Sino-Foreign Regulation, if we were to apply for our University to be reorganized as a Sino-foreign joint venture private school for PRC students at a higher education institution (a "Sino-Foreign Joint Venture Private School"), the foreign investor in the Sino-Foreign Joint Venture Private School must be a foreign educational institution with relevant qualification and that provides high quality education (the "Qualification Requirement"). Our PRC Legal Advisors have advised, and as confirmed in the interview with the relevant competent education authority as mentioned below, that there are no implementation measures or specific guidance promulgated on the Qualification Requirement in accordance with the existing PRC laws, regulations or governmental documents but only general principles requiring school sponsor which applies for establishing a sino-foreign joint venture school shall have relevant qualification and be able to provide high quality education services.

Furthermore, pursuant to the Implementation Opinions of the MOE on Encouraging and Guiding the Entry of Private Capital in the Fields of Education and Promoting the Healthy Development of Private Education (《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 such Sino-Foreign Joint Venture Private School is subject to approval of education authorities at the provincial or national level.

Our PRC Legal Advisors have advised that there are no implementing measures or specific guidance on the Qualification Requirement in accordance with the existing PRC laws and regulations and therefore it is currently uncertain as to what specific criteria must be met by a foreign investor (such as length of experience and form and extent of ownership in the foreign jurisdiction) in order to demonstrate to the relevant educational authority that it meets the Qualification Requirement. On 3 June 2018, with the assistance of our PRC Legal Advisors, we consulted Shanghai Municipal Education Commission (上海市教育委員會), being the competent authority as advised by our PRC Legal Advisors to confirm the matters relating to the Sino-Foreign Joint Venture Private Schools relevant to us. We were advised by the relevant official of the department of foreign cooperation and exchange (國際交流處) at the Shanghai Municipal Education Commission that:

(i) the Foreign Ownership Restriction and Qualification Requirement apply to Sino-Foreign Joint Venture Private Schools in Shanghai;

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

(iii) no Sino-Foreign Joint Venture Private School will be approved in Shanghai at current stage, regardless of the percentage of the foreign portion of the total investment amount and no Sino-Foreign Joint Venture Private School has been approved in Shanghai for a long time;

(iv) it becomes more stringent and difficult in approving the establishment of Sino-Foreign Joint Venture Private Schools in Shanghai; and

(v) the execution of the Contractual Arrangements does not require approval from the education authorities.

Given that as at the Latest Practicable Date, as advised by our PRC Legal Advisors, we do not meet the Qualification Requirement as we have no experience in operating a school outside of the PRC, and as there are no implementing measures or specific guidance on the Qualification Requirement, it is therefore not practicable for us to seek to apply to reorganize our University and the schools to be newly established or invested by us as a Sino-Foreign Joint Venture Private School. The Shanghai Municipal Education Commission has confirmed that it will not approve such application due to lack of implementation rules or guidance.

Notwithstanding the above, we are committed to working towards meeting the Qualification Requirement. We have adopted a specific plan and will continue to expend genuine efforts and financial resources to do so. We have undertaken to make periodic inquiries of relevant educational authorities following the Listing to understand any regulatory developments, including whether there will be any change in policy for approving Sino-Foreign Joint Venture Private Schools in Shanghai, and assess whether we are qualified to meet the Qualification Requirement, with a view to unwinding the Contractual Arrangements wholly or partially as and when practicable and permissible under the prevailing PRC laws and regulations. See "Background of the Contractual Arrangements — Circumstances in which We Will Unwind the Contractual Arrangements" and "Background of the Contractual Arrangements — Plan to Comply with the Qualification Requirement" in the Prospectus for details.

As at the date of the Prospectus, we have not encountered any interference or encumbrance from any governing bodies in our plan to adopt the Contractual Arrangements and the financial results of our PRC Affiliated Entities, which engage in higher education service, are consolidated to those of our Group. Our PRC Legal Advisors have opined that each of our PRC Affiliated Entities has been legally established and except for those disclosed under "— Legality of the Contractual Arrangements — PRC Legal Opinions" and "Risk Factors — Risks relating to our Contractual Arrangements" of the Prospectus, the Contractual Arrangements in relation to the operation of higher education are valid, legal and binding and do not contravene PRC laws and regulations. According to our PRC Legal Advisors, under PRC laws and regulations, the failure to meet the Qualification Requirement and the adoption of the Contractual Arrangements to operate our higher education business do not render our higher education business as illegal operations in the PRC. As disclosed above, we have obtained confirmation from the Shanghai Municipal Education Commission during our consultations with it that the Contractual Arrangements do not require approval from the Shanghai Municipal Education Commission. However, no positive regulatory assurance has been obtained from relevant PRC regulatory authorities with respect to the use of the Contractual Arrangements in the education industry.

2. *Plan to Comply with the Qualification Requirement*

We have adopted a specific plan and begun to take the following concrete steps which we reasonably believe are meaningful endeavors to demonstrate compliance with the Qualification Requirement. According to the consultation with the Shanghai Municipal Education Commission, there are no implementing measures or specific guidance on the Qualification Requirement and therefore it will not accept an application to convert our University or the schools to be newly established or invested by us into Sino-Foreign Joint Venture Private Schools at this stage. However, the Shanghai Municipal Education Commission confirmed that it is possible that approval may be granted to an investor that is an education institution that legally awards diploma certificates in a foreign country, which gradually accumulates education experience and reputation overseas to be stipulated in the implementing measures or guidance, to qualify for approval as a foreign investor of a Sino-Foreign Joint Venture Private School. Our PRC Legal Advisors are of the view that based on the above, although it is not possible for the Shanghai Municipal Education Commission to approve our application to establish Sino-Foreign Joint Venture Private Schools due to the lack of implementation measures or guidance at the current stage, the following steps taken by us to demonstrate compliance with the Qualification Requirements are reasonable and appropriate.

As at the Latest Practicable Date, we had taken the following concrete steps to implement our plan. We have engaged an agent who has experience in postsecondary education to assist us in establishing Gench US, and filing applications with the BPPE regarding our establishment of the California Gench College, a higher education institution, in California, U.S. On 13 August 2018, Gench US was established in the State of California by the agent, and it became our subsidiary on 30 October 2018 to operate and manage the California Gench College. In connection with our establishment of California Gench College, we filed an application with the BPPE on 21 November 2018, and we received a response letter dated 1 October 2019 from the BPPE to request for further information. Based on the further information requested by BPPE and our understanding from our agent, assuming there is no major issue, the approval process with the BPPE is expected to complete in 2020. Our Directors currently do not foresee any major issue in this regard based on our communication with our agent. Gench US will be responsible for the daily operation and management of California Gench College. As at the Latest Practicable Date, we are in the process of designing the educational programs to be offered by California Gench College. We have also nominated Mr. Zhou Qiaoqi, our joint company secretary and proposed president of California Gench College, and Mr. Wang Bangyong, our deputy chief executive officer of our Company and proposed institution representative of California Gench College, to oversee the administration of Gench US and California Gench College. Mr. Zhou Qiaoqi, who graduated and spent over five years in University of Southern California, is familiar with and is currently assisting in matters relating to international cooperation and investment of our Group. Mr. Wang Bangyong has more than 14 years of experience in education industry and served as the assistant to the chairman of our University and Jian Qiao Group, being responsible for the administrative and public relations management of our Group. He obtained a master's degree in public management from Fudan University and has been studying at East China Normal University in Shanghai, the PRC with a doctoral degree in education leadership and management. For more details of Mr. Zhou Qiaoqi and Mr. Wang Bangyong, see "Directors and Senior Management — Senior Management" in the Prospectus. We have expended approximately US$44,725 in connection with our plan as at the Latest Practicable Date. For details of the regulatory environment in California for the operation of a private postsecondary school, see "Regulatory Overview — Regulations on Private Postsecondary Education in the State of California" in the Prospectus.

In the opinion of our PRC Legal Advisors, based on the consultation with Shanghai Municipal Education Commission, if the specific guidance and implementing rules regards to the Qualification Requirement are promulgated and assuming the new school to be operated by Gench US, i.e. California Gench College or another foreign educational institution established by us gains a level of foreign experience sufficient to demonstrate compliance with the Qualification Requirement in the future (provided that the then PRC laws and regulations do not impose new requirements, restrictions, or prohibitions in relation to the establishment of the Sino-Foreign Joint Venture Private Schools), we may be able to get the approval to establish a Sino-Foreign Joint Venture Private Schools by Gench US, i.e. the California Gench College or such other educational institution subject to the approval from the competent education authorities.

Furthermore, we have undertaken to the Stock Exchange that we will:

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

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

3. *Foreign Investment Law*

On 15 March 2019, the Foreign Investment Law was formally passed by the 13th National People's Congress and took effect on 1 January 2020. The Foreign Investment Law replaced the Law on Sino-Foreign Equity Joint Ventures, the Law on Sino-Foreign Contractual Joint Ventures and the Law on Foreign-Capital Enterprises to become the legal foundation for foreign investment in the PRC.

Conducting operations through contractual arrangements has been adopted by many PRC-based companies, including us, to obtain and maintain necessary licenses and permits in the industries that are currently subject to foreign investment restrictions or prohibitions in China. The Foreign Investment Law does not explicitly stipulate the contractual arrangements as a form of foreign investment. As advised by our PRC Legal Advisors, since contractual arrangements are not specified as foreign investment under the Foreign Investment Law, and if the future laws, regulations and rules do not incorporate contractual arrangements as a form of foreign investment, our Contractual Arrangements as a whole and each of the agreements comprising the Contractual Arrangements will not be affected and will continue to be legal, valid and binding on the parties.

For the details of risks relating to the Foreign Investment Law, please see "Risk Factors — Risks relating to our Contractual Arrangements — Substantial uncertainties exist with respect to the interpretation and implementation of the Foreign Investment Law and how it may impact the viability of our current corporate structure, corporate governance and business operations" in the Prospectus.

If the operation of higher education institutions is no longer in the Negative List and our Group can legally operate the education business under PRC Laws, Gench WFOE will exercise the Equity Call Option under the Exclusive Call Option Agreement to acquire the school sponsor's interest of our University and/or the equity interest in our School Sponsors and unwind the Contractual Arrangements subject to re-approval by the relevant authorities.

If the operation of higher education is in the Negative List, the Contractual Arrangements may be viewed as restricted foreign investment. Although contractual arrangements are not specified as foreign investment under the Foreign Investment Law, the Contractual Arrangements may be regarded as invalid and illegal if the future laws, administrative regulations or provisions prescribed by the State Council define contractual arrangements as a form of foreign investment and the operation of higher education is still in the Negative List. As a result, our Group would not be able to operate our PRC Affiliated Entities through the Contractual Arrangements and we would lose our rights to receive the economic benefits of our PRC Affiliated Entities. As a result, the financial results of our PRC Affiliated Entities would no longer be consolidated into our Group's financial results and we would have to derecognize their assets and liabilities according to the relevant accounting standards. An investment loss would be recognized as a result of such derecognition.

Nevertheless, considering that a number of existing conglomerates are operating under contractual arrangements and some of which have obtained listing status abroad and contractual arrangements are not specified as foreign investment under the Foreign Investment Law, our Directors are of the view that it is unlikely that the relevant regulations will take retrospective effect to require the relevant enterprises to remove the contractual arrangements.

COMPLIANCE WITH THE CONTRACTUAL ARRANGEMENTS

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:

(a) 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;

(b) our Board will review the overall performance of and compliance with the Contractual Arrangements at least once a year;

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

(d) our Company and our Directors undertake to provide periodic updates in our annual and interim reports regarding the qualification requirement and our status of compliance with the Foreign Investment Law as stipulated under the section headed "Contractual Arrangements — Background of the Contractual Arrangements" and the latest development of Foreign Investment Law as disclosed under the section headed "Contractual Arrangements — Development in the 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

(e) 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 Gench WFOE and our PRC Affiliated Entities to deal with specific issues or matters arising from the Contractual Arrangements.

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

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

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

(c) we have appointed three independent non-executive Directors, comprising over one-third 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

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

F. Material changes

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

G. Unwinding of the Contractual Arrangements

As at the date of this annual report, there has not been any unwinding of any Contractual Arrangements, nor has there been any failure to unwind any Contractual Arrangements when the restrictions that led to the adoption of the Contractual Arrangements are removed. For more details, please refer to the section headed "Contractual Arrangements — Termination of the Contractual Arrangements" of the Prospectus. In the event that the PRC regulatory environment changes and all of the Qualification Requirement, the Foreign Ownership Restriction and the Foreign Control Restriction are removed (and assuming there are no other changes in the relevant PRC laws and regulations), Gench WFOE will exercise the Equity Call Option in full to hold all of the interest in our PRC Affiliated Entities and unwind the Contractual Arrangements accordingly as permitted by the applicable PRC laws and regulations at the relevant time.

Confirmation of independent non-executive Directors

The independent non-executive Directors reviewed the Contractual Arrangements (collectively, the "Continuing Connected Transactions") on an annual basis and confirmed that, during the Reporting Period:

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

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

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

(iv) the transactions carried out during the year ended 31 December 2019 have been entered into in accordance with the relevant provisions of the Contractual Arrangements, have been operated so that the profit generated by our PRC Affiliated Entities has been substantially retained by our Group; and

(v) no dividends or other distributions have been made by our PRC Affiliated Entities to the holders of its School Sponsor's interest which are not otherwise subsequently assigned or transferred to our Group.

Confirmation of auditor of the Company

The Company's auditor has carried out procedures on the transactions on the continuing connected transactions entered into by the Group for the year ended 31 December 2019, and has provided a letter to the Directors with a copy to the Stock Exchange, confirming that in respect of the continuing connected transactions disclosed in this annual report:

a. nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions have not been approved by the Board;

b. for transactions involving the provision of goods or services by the Group, nothing has come to their attention that causes them to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Group;

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

d. with respect to the transactions carried out pursuant to the Contractual Arrangement, nothing has come to their attention that causes them to believe that dividends or other distributions have been made by the PRC Affiliated entities to the holders of the school sponsor's interest/equity interest which are not otherwise subsequently assigned or transferred to the Group.

RELATED PARTY TRANSACTIONS

Details of the related party transactions entered into by the Group during the year ended 31 December 2019 are set out in note 29 to the consolidated financial statements. The transactions as set out therein ceased prior to the Listing and therefore do not fall under "Connected Transactions" or "Continuing Connected Transactions" in accordance with Chapter 14A of the Listing Rules, except for directors' emoluments, which form part of the "Directors' and chief executive's remuneration" described in note 8 to the consolidated financial statements were continuing connected transactions exempt from the connected transaction requirements under Rule 14A.76(1) or 14A.95 of the Listing Rules.

The Company's Shares were listed on 16 January 2020. The Company confirmed that it has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules since the Listing Date.

ENVIRONMENTAL PROTECTION AND SOCIAL RESPONSIBILITIES

As a responsible and leading higher educational service supplier, the Group is committed to protecting the environment and fulfilling social responsibility in order to achieve our goals in sustainable development. We adopt a comprehensive approach in environmental management and climate change mitigation by carrying out green and low-carbon operation in our University, minimizing the negative impact of the Group's business operating activities on the environment and strictly complying with the applicable environmental laws and regulations.

We understand that our employees are our valuable assets. The Group is dedicated to providing a fair, equal, healthy and safe working environment to our employees. We offer competitive remuneration and benefits to our employees and provide them various promoting opportunities, strong academic and research atmosphere, and the international training programs, etc.

The Group cares about our students and is committed to providing various effective communication channels to our students and establishing a healthy and safe campus. We strive to maintain a good relationship with our suppliers and other relevant stakeholders to establish a sustainable supply chain in excellent quality. We are dedicated to contributing to society and livelihood by fully engaging in charity activities and community services together with our employees and our students for community care and development.

As far as the Board and the management are aware, the Group has complied in all material aspects with the relevant laws and regulations that have a significant impact on the business and operation of the Group. During the year ended 31 December 2019, there was no material breach of or non-compliance with applicable laws and regulations by the Group.

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

DONATIONS

During the Reporting Period, the charitable and other donations made by the Group amounted to RMB170,000.

EVENTS AFTER THE REPORTING PERIOD

The events occurred after the Reporting Period are disclosed in note 34 to the consolidated financial statements.

AUDIT COMMITTEE

The Audit Committee has reviewed the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters. The Audit Committee, together with the Board and external auditor, has reviewed the Group's audited consolidated financial statements for the year ended 31 December 2019.

CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the section headed "Corporate Governance Report" of this annual report.

SUFFICIENCY OF PUBLIC FLOAT

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

AUDITOR

Ernst & Young was appointed as the Company's auditor for the year ended 31 December 2019. The accompanying financial statements prepared in accordance with IFRSs have been audited by Ernst & Young. Ernst & Young shall retire at the AGM and, being eligible, will offer itself for re-appointment. A resolution for the re-appointment of Ernst & Young as the Company's auditor will be proposed at the AGM.

TAX RELIEF AND EXEMPTION

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

RECOMMENDATION TO CONSULT PROFESSIONAL TAX ADVICE

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

On behalf of the Board
Shanghai Gench Education Group Limited
Zhou Xingzeng
Chairman

Shanghai, China, 30 March 2020

CORPORATE GOVERNANCE REPORT

As the Company's Shares had not been listed on the Stock Exchange as at 31 December 2019, the CG Code as set out in Appendix 14 to the Listing Rules did not apply to the Company during the year ended 31 December 2019, but has been applied to the Company since the Listing Date.

CORPORATE GOVERNANCE PRACTICES

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

THE BOARD

Responsibilities, accountabilities and contributions of the Board and senior management

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

All Directors have carried out duties in good faith and in compliance with applicable laws and regulations, and have acted in the interests of the Company and the Shareholders at all times. The Company has arranged appropriate liability insurance in respect of legal action against the Directors. The insurance coverage will be reviewed on an annual basis.

Directors' and Senior Management's Liability Insurance and Indemnity

The Company has arranged appropriate liability insurance to indemnify the Directors and senior management of the Company for their liabilities arising out of corporate activities. The insurance coverage will be reviewed on an annual basis.

Board Composition

As at the date of this annual report, the Board comprises three executive Directors, one non-executive Director and three independent non-executive Directors. The biographies of the Directors are set out under the section headed "Directors and Senior Management" in this annual report.

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

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

The Company has received an annual confirmation of independence pursuant to rule 3.13 of the Listing Rules from each of the independent non-executive Directors and the Company considers such Directors to be independent throughout the year ended 31 December 2019 and remain so as at the date of this annual report.

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

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

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

Induction and Continuous Professional Development

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

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

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

Name of Director	Nature of continuous professional development programmes
Mr. Zhou Xingzeng	A/B
Mr. Zheng Xiangzhan	A/B
Mr. Shi Yinjie	A/B
Mr. Zhao Donghui	A/B
Mr. Chen Baizhu	A/B
Mr. Hu Rongen	A/B
Ms. Liu Tao	A/B

Notes:

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

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

Chairman and Chief Executive

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

Mr. Zhou Xingzeng is the chairman and is responsible for overall management and strategic development of the Group, while Mr. Zheng Xiangzhan is the chief executive officer and is responsible for overall operation of the Group. As a result, the roles of the chairman and chief executive are separate and performed by two different individuals.

Board Diversity Policy

The Company believes that the diversity of Board members will be immensely beneficial for the enhancement of the Company's performance. Therefore, the Company has adopted a Board diversity policy (the "Board Diversity Policy") which sets out the objective and approach to achieve and maintain diversity on the Board in order to enhance the effectiveness of the Board. The Board Diversity Policy provides that the Company should endeavor to ensure that the Board members have the appropriate balance of skills, experience and diversity of perspectives that are required to support the execution of the Group's business strategy. Pursuant to the Board Diversity Policy, selection of candidates for Directors will be based in a range of diversity perspectives, including but not limited to professional experience, gender, age, culture, independence, educational background, knowledge, expertise and length of service. The Nomination Committee will: (1) report annually, in the corporate governance report contained in our annual report, on the Board's composition under diversified perspectives, and monitor the implementation of our Board Diversity Policy; and (2) review our Board Diversity Policy, as appropriate, to ensure effectiveness of the policy and discuss any revisions that may be required, and recommend any such revisions to the Board for consideration and approval.

Dividend Policy

The dividend policy of the Company (the "Dividend Policy") is in place to ensure that the Board maintains an appropriate procedure on declaring and recommending the dividend payment of the Group. Accordingly, the Dividend Policy aims to allow Shareholders to participate in the Company's profits whilst preserving the Company's liquidity to capture future growth opportunities. The declaration and recommendation of dividends is subject to the decision of the Board after considering the Company's ability to pay dividends. The Board has complete discretion on whether to recommend and/or pay a dividend, subject to Shareholders' approval, where applicable. Even if the Board decides to recommend and pay dividends, the form, frequency and amount will depend upon the operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions, the Laws and the Articles, and other factors of and affecting the Group. The Board shall review and reassess the Dividend Policy and its effectiveness in its sole and absolute discretion on a regular basis or as required.

Appointment and Re-election of Directors

Each of the executive Directors has entered into a service contract with the Company for an initial fixed term of three years commencing from the Listing Date and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other, which notice shall not expire until the end of the fixed term.

Each of the non-executive Director and independent non-executive Directors has entered into an appointment letter with the Company for an initial fixed term of one year commencing from the Listing Date and will continue thereafter until terminated by not less than three months' notice in writing by served by either party on the other, which notice shall not expire until the end of the fixed term.

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

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

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

Board Meetings

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

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

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

During the year ended 31 December 2019 and up to the date of this annual report, two Board meetings and no general meeting were held and the attendance of each Director at the Board meetings is set out in the table below:

Director	Attended/ Eligible to attend the Board meeting(s)
Mr. Zhou Xingzeng	2/2
Mr. Zheng Xiangzhan	2/2
Mr. Shi Yinjie	2/2
Mr. Zhao Donghui	2/2
Mr. Chen Baizhu	2/2
Mr. Hu Rongen	2/2
Ms. Liu Tao	2/2

Delegation by the Board

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

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

Securities Transactions By Directors

As the Company's Shares had not been listed on the Stock Exchange as at 31 December 2019, related rules under the Listing Rules concerning the Securities Dealing Code that Directors shall observe did not apply to the Company for the year ended 31 December 2019.

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Securities Dealing Code") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding Directors' securities transactions since its Listing on 16 January 2020. Having made specific enquiries of all the Directors, each of the Directors has confirmed that he/she has complied with the Securities Dealing Code during the period from the Listing Date to the date of this annual report.

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

BOARD COMMITTEES

Audit Committee

The Company established an audit committee with written terms of reference in compliance with the CG Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules. The primary duties of the Audit Committee are to review and supervise our financial reporting process and internal control system of the Group, oversee the audit process, risk management process and external audit functions. The Audit Committee consists of three members, namely, Ms. Liu Tao, Mr. Hu Rongen and Mr. Chen Baizhu. The chairman of the Audit Committee is Ms. Liu Tao.

As the Company's Shares were listed on the Main Board of the Stock Exchange on 16 January 2020 and the Audit Committee was set up on 19 December 2019, no meeting was held by the Audit Committee during the year ended 31 December 2019.

Since the Listing and up to the date of this annual report, the Audit Committee has mainly performed the following duties:

- reviewed the Group's the audited annual results for the year ended 31 December 2019, and was of the opinion that the preparation of the relevant financial statements complied with the applicable accounting standards and requirements and that adequate disclosure has been made;
- reviewed the accounting principles and practices adopted by the Group, and recommended the appointment of the external auditors; and
- assisted the Board in meeting its responsibilities for maintaining an effective system of internal control and risk management.

Since the Listing and up to the date of this annual report, one meeting has been held by the Audit Committee. The attendance record of each member of the Audit Committee at the meeting of the Audit Committee is set out below:

Name of Director	Attendance/ Number of Audit Committee meeting held during a Director's tenure
Ms. Liu Tao	1/1
Mr. Hu Rongen	1/1
Mr. Chen Baizhu	1/1

Nomination Committee

The Company established a nomination committee with written terms of reference in compliance with the CG Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules. The primary duties of the Nomination Committee are to make recommendations to the Board on the appointment of members of the Board. The Nomination Committee consists of three members, namely, Mr. Zhou Xingzeng, Mr. Hu Rongen and Mr. Chen Baizhu. The chairman of the Nomination Committee is Mr. Zhou Xingzeng.

As the Company's Shares were listed on the Main Board of the Stock Exchange on 16 January 2020 and the Nomination Committee was set up on 19 December 2019, no meeting was held by the Nomination Committee during the year ended 31 December 2019.

Since the Listing and up to the date of this annual report, the Nomination Committee has mainly performed the following duties:

- reviewed the annual confirmations of independence submitted by the independent non-executive Directors and assessed their independence;
- reviewed the structure, size and composition of the Board during the Reporting Period and whether the composition of the Board complied with the requirements of the Board Diversity Policy; and
- reviewed the background of the retiring Directors and determined whether the retiring Directors continues to meet the criteria to be re-elected in the forthcoming AGM, and made commendations to the Board on the re-election of retiring Directors.

Since the Listing and up to the date of this annual report, one meeting has been held by the Nomination Committee. The attendance record of each member of the Nomination Committee at the meeting of the Nomination Committee is set out below:

Name of Director	Attendance/ Number of Nomination Committee meeting held during a Director's tenure
Mr. Zhou Xingzeng	1/1
Mr. Hu Rongen	1/1
Mr. Chen Baizhu	1/1

The Nomination Committee will identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships by considering factors including perspective, skills and experience that the individual can bring to the Board, and the contribution to diversity of the Board. And the Nomination Committee will make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the chairman and the chief executive, taking into account the Company's corporate strategy and the mix of skills, knowledge, experience and diversity needed in the future, together with the Board, as appropriate.

Remuneration Committee

The Company established a remuneration committee with written terms of reference in compliance with the CG Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules. The primary duties of the Remuneration Committee are to make recommendations to the Board on the Company's policy and structure concerning the remuneration of the Directors and senior management and on the establishment of a formal and transparent procedure for developing remuneration policy, to review and approve performance based remuneration by reference to corporate goals and objectives, to determine the terms of the specific remuneration package of each executive Director and senior management and to ensure none of the Directors determine their own remuneration. The Remuneration Committee consists of three members, namely Mr. Hu Rongen, Mr. Zheng Xiangzhan and Ms. Liu Tao. The chairman of the Remuneration Committee is Mr. Hu Rongen.

As the Company's Shares were listed on the Main Board of the Stock Exchange on 16 January 2020 and the Remuneration Committee was set up on 19 December 2019, no meeting was held by the Remuneration Committee during the year ended 31 December 2019.

Since the Listing and up to the date of this annual report, the Remuneration Committee has mainly performed the following duties:

- reviewed the Group's remuneration policy and reviewed the remuneration package of the executive Directors and senior management for the Reporting Period; and
- recommended to the Board the following change to the remuneration package of Mr. Shi Yinjie, an executive Director, with effect from 1 April 2020, after taking into account the market rates, his workload, performance, responsibility, job complexity and the Group's performance: an increase in the salary of Mr. Shi Yinjie under his service contract to RMB600,000 per year. Such recommendation has been adopted by the Board.

Since the Listing and up to the date of this annual report, one meeting has been held by the Remuneration Committee. The attendance record of each member of the Remuneration Committee at the meeting of the Remuneration Committee is set out below:

Name of Director	Attendance/ Number of Remuneration Committee meeting held during a Director's tenure
Mr. Hu Rongen	1/1
Mr. Zheng Xiangzhan	1/1
Ms. Liu Tao	1/1

Remuneration of Directors and Senior Management

Details of the remuneration of each of the Directors and the five highest paid employees for the year ended 31 December 2019 are set out in notes 8 and 9 to the consolidated financial statements.

Details of the remuneration by band of the members of the senior management (other than the Directors) of the Company for the year ended 31 December 2019 are set out below:

Remuneration band	Number of individual
Nil to HK$0.6 million	3
HK$0.6 million to HK$1 million	1

Corporate Governance Function

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

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

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

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

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

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

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

DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING IN RESPECT OF FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements for the year ended 31 December 2019 which give a true and fair view of the affairs of the Company and the Group and of the Group's results and cash flows.

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

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

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

RISK MANAGEMENT AND INTERNAL CONTROL

The Board acknowledges that it is the responsibility of the Board for maintaining an adequate risk management and internal control systems and reviewing the effectiveness of such systems on an ongoing basis.

The risk management and internal control systems of the Group are featured with a defined management structure with limits of authority and well-rounded policies and procedures, and are designed to facilitate effective and efficient operations, to ensure reliability of financial reporting and compliance with applicable laws and regulations, to identify and manage potential risks, and to safeguard assets of the Group. The Group's risk management and internal control systems are designed to provide reasonable, though not absolute, assurance against material misstatement or loss and to manage rather than eliminate the risk of failure to achieve business objectives.

The Board is responsible and has the general power to manage the operations of the University, and is in charge of managing the overall risks of the University. It is responsible for considering, reviewing and approving any significant business decision involving material risk exposures, such as our decision to expand the Group's school network into new geographic areas, to raise its tuition, and to enter into cooperative business relationships with third parties to launch new education programs. Also, the Group has made arrangements with banks to ensure that we are able to obtain credits to support our business operation and expansion.

The Company has designated Mr. Zheng Xiangzhan who is responsible for monitoring our on-going compliance with the relevant PRC laws and regulations that govern the business operations and overseeing the implementation of any necessary measures. In addition, the Group plans to provide the Directors, senior management (including the principal and vice principals of the University) and employees involved with continuing training programs and/or updates regarding the relevant PRC laws and regulations on a regular basis with a view to proactively identify any concerns and issues relating to potential noncompliance.

The Company has established an internal audit department to carry out its internal audit functions by assisting the Board to implement the Group's risk management framework. The work of the internal audit department will be reviewed by the Audit Committee and the Board annually. Since the Listing, the Audit Committee, with reference to and based on the internal audit report issued by the independent auditor, conducted a review on the effectiveness of the Group's risk management and internal control systems, including financial, operational and compliance controls and risk management functions, adequacy of resources, qualifications and experience of staff of the Company's accounting, internal control and financial reporting functions, and training programmes and budget. The Board has considered and discussed the internal audit report issued by the independent auditor, the work conducted by the independent auditor, the Audit Committee's view on the Group's risk management and internal control systems and their effectiveness. The Board and the Audit Committee are satisfied with the effectiveness and adequacy of the risk management and internal control of the Group.

In addition, the procedures on disclosure of inside information were in place to ensure that all relevant facts and circumstances that may have material effect on the share price of the Company are promptly assessed and that any material information which comes to the knowledge of any one or more officers of the Group is promptly identified, assessed and, if appropriate, escalated for the attention of the Board to determine whether a disclosure is required.

AUDITOR'S REMUNERATION

The remuneration for the audit and non-audit services provided by the auditor to the Group during the year ended 31 December 2019 was approximately as follows:

Type of Services	Amount (RMB)
Audit services	
— annual audit and related services	1,800,000
— audit services relating to IPO	3,300,000
Non-audit services	
— internal control services	84,000
Total	5,184,000

JOINT COMPANY SECRETARIES

Mr. Zhou Qiaoqi (周喬琪), aged 32, was appointed as one of the joint company secretaries of the Company on 20 December 2018. For details of Mr. Zhou Qiaoqi, please see in the section headed "Director and Senior Management" of this annual report.

In order to ensure compliance with the Listing Rules, the Company has also engaged Mr. Wong Yu Kit, a vice president of SWCS Corporate Services Group (Hong Kong) Limited (an external service provider), as the other joint company secretary to assist Mr. Zhou Qiaoqi to discharge his duties. Mr. Wong Yu Kit's primary corporate contact person at the Company is Mr. Zhou Qiaoqi, the joint company secretary and chief investment officer of the Company.

Considering the Shares were only listed on the Main Board of the Stock Exchange from 16 January 2020, Mr. Zhou Qiaoqi will comply with the requirement under rule 3.29 of the Listing Rules for the year ending 31 December 2020. For the year ended 31 December 2019, Mr. Wong has undertaken not less than 15 hours of relevant professional training respectively in compliance with rule 3.29 of the Listing Rules.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

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

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

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

SHAREHOLDERS' RIGHTS

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

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

Convening of extraordinary general meeting and putting forward proposals

Shareholders may put forward proposals for consideration at a general meeting of the Company according to the Articles of Association. Any one or more members holding as at date of deposit of the requisition not less than one-tenth of the paid-up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or joint company secretaries of the Company, to require an extraordinary general meeting of the Company to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition.

If within 21 days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

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

Enquiries to the Board

Shareholders who intend to put forward their enquiries about the Company to the Board could send their enquiries to Mr. Zhou Qiaoqi, the joint company secretary of the Company at No. 1111, Huchenghuan Road, Pudong New Area, Shanghai, PRC.

CHANGE IN CONSTITUTIONAL DOCUMENTS

The Company has adopted the amended and restated Memorandum and Articles of association of the Company on 19 December 2019, with the Memorandum of Association and the Articles of Association taking effect from 19 December 2019 and the Listing Date, respectively. There was no change in the memorandum and articles of association of the Company during the period from the Listing Date to the date of this annual report.

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Shanghai Gench Education Group Limited
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Shanghai Gench Education Group Limited (the "Company") and its subsidiaries (the "Group") set out on pages 79 to 142, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statements 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 (the "IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the Hong Kong Institute of Certificate 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 opinion on the accompanying consolidated financial statements.

KEY AUDIT MATTER — *continued*

Key audit matter	How our audit addressed the key audit matter
Income tax	
As set out in note 10 to the financial statements, according to the Implementation Rules for the Law for Promoting Private Education (the "Implementation Rules"), private schools for which the school sponsors do not require reasonable return are eligible to enjoy preferential tax treatments as public schools. The preferential tax treatment policies applicable to private schools requiring reasonable returns are to be separately formulated by the relevant authorities under the State Council. No corporate income tax was provided on the income from the provision of formal educational services of the Group's university in the People's Republic of China. In accordance with the historical tax returns filed to the relevant tax authorities and the tax compliance confirmations obtained therefrom, the Group's university did not pay corporate income tax for the income from formal educational services and has enjoyed the preferential tax treatment since its establishment. As a result, no income tax expense was recognised for the income from the provision of formal educational services during the year. There were significant judgements involved in management's analysis and assessment, such as the assessment on the possible outcome of the tax provision based on historical experiences and interpretation of the relevant tax laws and regulations in respect of the preferential tax treatment enjoyed by the Group's university. Relevant disclosures are included in notes 3 and 10 to the consolidated financial statements.	The audit procedures included the following: (i) Discussed with management to evaluate their interpretation of the tax laws and their assessment of the tax obligations of the university operated by the Group for the current year; (ii) Evaluated management's assessment on the application of preferential tax or applicable tax rate to the Group's university; (iii) Examined the historical tax filing returns filed to the relevant tax authorities; (iv) 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 tax applicable to the Group's university; (v) Assessed any new policies, regulations or rules that have been introduced by the authorities, which might have an impact on the tax position taken by the Group up to the date of this report; and (vi) Involved our internal tax specialist to assist us in assessing the uncertainties arising from the preferential tax treatment enjoyed by the Group's university.

KEY AUDIT MATTER — *continued*

Key audit matter	How our audit addressed the key audit matter
Revenue recognition — Tuition and boarding fees Revenue mainly comprised the tuition and boarding fees from students, amounting to RMB496 million for the year ended 31 December 2019, and these fees are generally received in advance prior to the beginning of each academic year. Tuition and boarding fees are recognised proportionately over the terms of the beneficial period for the students, where applicable. The portion of tuition and boarding fees received from students but not earned is recorded as contract liabilities. Due to the large volume of transactions processed and significant amount of tuition and boarding fees and the risk of overstatement of revenue, we considered it as a key audit matter. Relevant disclosures are included in notes 2.4, 5 and 21 to the consolidated financial statements.	Our audit procedures in relation to revenue recognition of tuition and boarding fees included the following: (i) Understood, evaluated and tested the Group's key controls over the admission of students and collection of tuition and boarding fees; (ii) Checked the relevant official student records and the reconciliation of the total number of newly enrolled students during the year to the official student records registered with the relevant education authorities of the People's Republic of China; (iii) On a sample basis, checked the relevant supporting documentation including the student payment records, official student records registered with the relevant PRC education authorities, and the payment remittance receipts of tuition and boarding fees; and (iv) Performed recalculation of the amount of contract liabilities and the tuition and boarding fees recognised during the year in accordance with the terms of the beneficial period for the students, where applicable.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the Financial Review on pages 14 to 19, which we obtained prior to the date of this auditor's report, and the other sections of the Annual Report not including the consolidated financial statements and the auditor's report thereon ("the Other Sections"), which are expected to be made available after that date.

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.

When we read the Other Sections of the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the Group's Audit Committee.

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

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

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

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

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

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

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

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

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS — *continued*

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Siu Fung Terence Ho.

Ernst & Young
Certified Public Accountants
Hong Kong
30 March 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

YEAR ENDED 31 DECEMBER 2019

	Notes	2019 RMB'000	2018 RMB'000
REVENUE	5	501,442	424,587
Cost of sales		(221,529)	(202,372)
GROSS PROFIT		279,913	222,215
Other income and gains	5	9,191	24,428
Selling and distribution expenses		(3,570)	(3,040)
Administrative expenses		(109,894)	(75,086)
Impairment losses on financial assets		(464)	(180)
Other expenses		(170)	(957)
Finance costs	6	(48,721)	(57,207)
PROFIT BEFORE TAX	7	126,285	110,173
Income tax expense	10	(865)	(1,598)
PROFIT FOR THE YEAR		125,420	108,575
Attributable to:			
Owners of the parent		125,420	108,575
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	12		
Basic and diluted		RMB0.42	RMB0.36

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

YEAR ENDED 31 DECEMBER 2019

	2019 RMB'000	2018 RMB'000
PROFIT FOR THE YEAR	**125,420**	108,575
OTHER COMPREHENSIVE INCOME		
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	(337)	—
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods	**(337)**	—
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX	**(337)**	—
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**125,083**	108,575
Attributable to:		
Owners of the parent	**125,083**	108,575

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 DECEMBER 2019

	Notes	2019 RMB'000	2018 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	1,820,421	1,651,527
Right-of-use assets	14(a)	658,320	—
Prepaid land lease payments	14(b)	—	658,320
Other intangible assets	15	1,853	1,862
Long-term prepayments	18	9,926	12,528
Deferred tax assets	16	346	67
Total non-current assets		2,490,866	2,324,304
CURRENT ASSETS			
Accounts receivable	17	4,984	3,921
Prepayments and other receivables	18	9,007	24,324
Cash and cash equivalents	19	334,867	442,078
Total current assets		348,858	470,323
CURRENT LIABILITIES			
Other payables and accruals	20	196,282	279,921
Due to a related company	29	—	821
Interest-bearing bank and other borrowings	23	275,000	175,400
Contract liabilities	21	307,208	260,108
Tax payable	22	147,592	4,096
Deferred income	24	17,065	—
Total current liabilities		943,147	720,346
NET CURRENT LIABILITIES		(594,289)	(250,023)
TOTAL ASSETS LESS CURRENT LIABILITIES		1,896,577	2,074,281

	Notes	2019 RMB'000	2018 RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	23	856,280	951,280
Deferred income	24	25,322	85,913
Tax payable	22	—	147,196
Total non-current liabilities		881,602	1,184,389
NET ASSETS		1,014,975	889,892
EQUITY			
Equity attributable to owners of the parent			
Share capital	25	—	—
Reserves	26	1,014,975	889,892
TOTAL EQUITY		1,014,975	889,892

Zhou Xingzeng
Director

Zheng Xiangzhan
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the parent					
			Statutory	Exchange		
		Capital	Surplus	fluctuation	Retained	
	Issued capital	reserves*	reserves*	reserve	profits*	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	Note 25	Note 26(a)	Note 26(b)			
As at 1 January 2018	—	94,987	58,569	—	537,961	691,517
Issue of shares	—**	—	—	—	—	—
Capital contribution from the then equity holders of subsidiaries	—	89,800	—	—	—	89,800
Profit and total comprehensive income for the year	—	—	—	—	108,575	108,575
Appropriations to statutory surplus reserves	—	—	26,334	—	(26,334)	—
As at 31 December 2018	—	184,787	84,903	—	620,202	889,892
Profit for the year	—	—	—	—	125,420	125,420
Exchange differences on translation of foreign operations	—	—	—	(337)	—	(337)
Total comprehensive income for the year	—	—	—	(337)	125,420	125,083
Appropriations to statutory surplus reserves	—	—	39,040	—	(39,040)	—
As at 31 December 2019	—	184,787	123,943	(337)	706,582	1,014,975

* These reserve accounts comprise the consolidated reserves of RMB1,014,975,000 (2018: RMB889,892,000) in the consolidated statement of financial position as at 31 December 2019.

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

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED 31 DECEMBER 2019

	Notes	2019 RMB'000	2018 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		126,285	110,173
Adjustments for:			
Finance costs	6	48,721	58,197
Bank interest income	5	(859)	(1,353)
Gain on disposal of items of property, plant and equipment	5	—	(256)
Government grants released		(53,411)	(57,624)
Impairment of accounts receivable	7, 17	464	180
Depreciation	7, 13	51,249	47,004
Amortisation of other intangible assets	7, 15	549	474
Depreciation of right-of-use assets/recognition of prepaid land lease payments	7, 14	15,134	15,134
		188,132	171,929
Receipt of government grants		34,121	54,625
Decrease in prepayments and other receivables		(154)	21,459
Decrease in amounts due from related companies		—	2,000
Increase in accounts receivable		(1,527)	(474)
Increase/(decrease) in other payables and accruals		15,482	(6,669)
Increase in contract liabilities		47,100	39,887
Cash generated from operations		283,154	282,757
Interest received	5	859	1,353
Tax paid		(4,844)	(76,522)
Net cash flows from operating activities		279,169	207,588
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(350,629)	(337,284)
Receipt of government grants for property, plant and equipment		17,070	39,370
Purchase of other intangible assets	15	(540)	(560)
Repayment from an ultimate shareholder	29	—	241,969
Proceeds from disposal of items of property, plant and equipment		—	4,559
Net cash flows used in investing activities		(334,099)	(51,946)

	Notes	2019 RMB'000	2018 RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital contribution from the equity holders of subsidiaries		—	89,800
New interest-bearing bank and other borrowings		214,600	310,000
Repayment of interest-bearing bank and other borrowings		(210,000)	(553,033)
Repayment to related companies	29	(821)	(21,717)
Advances from related companies	29	—	2,937
Repayment to ultimate shareholders	29	—	(23,148)
Repayment from ultimate shareholders	29	—	24,480
Repayment from related companies	29	—	447,971
Decrease in restricted cash		—	30,000
Interest paid		(56,060)	(60,455)
Net cash flows (used in)/from financing activities		(52,281)	246,835
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(107,211)	402,477
Cash and cash equivalents at beginning of year		442,078	39,601
CASH AND CASH EQUIVALENTS AT END OF YEAR	19	334,867	442,078
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	19	334,867	442,078
CASH AND CASH EQUIVALENTS AS STATED IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION AND STATEMENT OF CASH FLOWS	19	334,867	442,078

1. CORPORATE INFORMATION

The Company was incorporated in Cayman Islands on 8 May 2018 as an exempted company with limited liability under the laws of the Cayman Islands. The registered office address of the Company is Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

The Company is an investment holding company. During the year, the Company and its subsidiaries (collectively referred to as the "Group") principally provided higher education services (collectively the "Listing Business") in the People's Republic of China (the "PRC").

The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 16 January 2020 (the "Listing Date").

In the opinion of the directors of the Company, the ultimate controlling shareholders of the Company and its subsidiaries (together, the "Group") are Mr. Zhou Xingzeng, Mr. Zheng Xiangzhan and Mr. Shi Yinjie (collectively, the "Controlling Shareholders").

Information about subsidiaries

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

Name	Notes	Place and date of incorporation/ establishment and place of operations	Nominal value of registered share capital	Percentage of equity attributable to the Company	Principal activities
Directly held:					
Shanghai Gench Education Holdings Limited		British Virgin Islands ("BVI") 15 May 2018	US$1	100%	Investment holding
Indirectly held:					
Gench Education Group (Hong Kong) Limited ("Gench HK")		Hong Kong 1 June 2018	HK$1	100%	Investment holding
Gench Education Group US, Inc ("Gench US")		the United States 13 August 2018	No par value	100%	Degree-granting higher education institution
Wangting Education Technology (Shanghai) Limited 望亭教育科技(上海)有限公司 ("Gench WFOE")*	(2)	PRC/Mainland China 31 October 2018	RMB10,000,000	100%	Investment holding
Shanghai Jianqiao (Group) Co., Ltd. 上海建橋(集團)有限公司 ("Jian Qiao Group")	(1), (2)	PRC/Mainland China 7 November 2000	RMB175,000,000	100%	Investment holding
Shanghai Jian Qiao Investment Development Co., Ltd. 上海建橋投資發展有限公司 ("Jian Qiao Investment")	(1), (2)	PRC/Mainland China 3 August 1999	RMB37,500,000	100%	Investment holding
Shanghai Jian Qiao University 上海建橋學院 ("Jian Qiao University")	(1), (2)	PRC/Mainland China 28 June 2000	RMB50,000,000	100%	Provision of common undergraduate education services

* The entity is registered as a wholly-foreign-owned enterprise under PRC law.

(1) These entities are owned through contractual arrangements.

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

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") promulgated by the International Accounting Standards Board ("IASB") and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

The Group recorded net current liabilities of RMB594,289,000 as at 31 December 2019. The directors of the Company have given careful consideration to the future liquidity and performance of the Group and its available sources of finance in assessing whether the Group will have sufficient financial resources to continue as going concern.

As at 31 December 2019, the Group had bank facilities of RMB178,400,000 which have not been utilised. On the Listing Date, 100,000,000 new shares with nominal value of HK$0.01 each of the Company were issued at a price of HK$6.05 per share in connection with the Company's initial public offering on the Stock Exchange. On 11 February 2020, the Company further issued 15,000,000 ordinary shares of HK$0.01 each at a subscription price of HK$6.05 per share pursuant to the exercise of over-allotment options. The net proceeds received by the Company from the global offering were approximately HK$666.0 million (equivalent to approximately RMB589.8 million), after deducting underwriting commissions and all related expenses.

The directors believe that the Group has sufficient cash flows from the operations and current available banking facilities to meet its liabilities as and when they fall due. Therefore, the financial statements are prepared on a going concern basis.

2.1 BASIS OF PREPARATION — *continued*

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") 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.

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

Except for IFRS 16, all new and revised IFRSs effective for the accounting period commencing from 1 January 2019, together with the relevant transitional provisions, had been adopted/early adopted by the Group to the earliest period presented.

The nature and the impact of IFRS16 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 continue to classify leases as either operating or finance leases using similar principles as in IAS 17.

IFRS 16 did not have any significant 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.

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 property, vehicles and other equipment. 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).

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES — *continued*

As a lessee — Leases previously classified as operating leases — *continued*

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 and included in interest-bearing bank and other borrowings. 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.

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
- Using hindsight in determining the lease term where the contract contains options to extend/terminate the lease

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	
Right-of-use assets	673,454
Prepaid land lease payments	(658,320)
Prepayments and other receivables	(15,134)
Total assets	—

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

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]
IFRS 17	*Insurance Contracts*[2]
Amendments to IAS 1 and IAS 8	*Definition of Material*[1]
Amendments to IAS 1	*Classification of Liabilities as Current or Non-current*[3]

1 Effective for annual periods beginning on or after 1 January 2020
2 Effective for annual periods beginning on or after 1 January 2021
3 Effective for annual periods beginning on or after 1 January 2022
4 No mandatory effective date yet determined but available for adoption

The Group is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application. So far, the Group considers that these new and revised IFRSs may result in changes in accounting policies but the amendments are not expected to have any significant impact on the Group's financial statements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fair value measurement

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — *continued*

Fair value measurement — *continued*

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 financial assets and deferred tax 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 the statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — *continued*

Related parties

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

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

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

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

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group; and the sponsoring employers of the post-employment benefit plan;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

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

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

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with IFRS 5. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — *continued*

Property, plant and equipment and depreciation — *continued*

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

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

Buildings	2%
Plant and machinery	10% to 25%
Furniture and fixtures	9.5% to 19.0%
Motor vehicles	9.5%

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

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

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

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 is stated at cost less any impairment loss and is amortised on the straight-line basis over its estimated useful life of 5 years.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — *continued*

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.

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	50 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — *continued*

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

Group as a lessee — continued

(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 machinery and equipment (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 office equipment and laptop computers 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

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 revenue in the statement of 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.

Leases (applicable before 1 January 2019)

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — *continued*

Investments and other financial assets

Initial recognition and measurement

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

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of accounts receivable 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. Accounts receivable 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.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — *continued*

Derecognition of financial assets

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

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

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

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

Impairment of financial assets

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

General approach

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

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — *continued*

Impairment of financial assets — *continued*

General approach — continued

The Group considers a financial asset in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for accounts receivable 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 accounts receivable 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 loans and borrowings and 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 trade and other payables, an amount due to the ultimate holding company, derivative financial instruments and interest-bearing bank and other borrowings.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — *continued*

Financial liabilities — *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 the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

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

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — *continued*

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 the statement of 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 reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

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

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

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, 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 utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — *continued*

Income tax — *continued*

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

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

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

Government grants

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

When the grant relates to an asset, the fair value is deducted from the carrying amount of the asset and released to profit or loss by way of a reduced depreciation charge.

When the grant relates to neither an expense item nor an asset, it is released to the statement to the profit or loss upon receipt.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — *continued*

Revenue recognition — *continued*

Revenue from contracts with customers — continued

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.

(a) Tuition and boarding fees

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

Income from other services provided by the Group is recognised when the relevant service is provided.

(b) Other income

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

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

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*

Employee retirement 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. The subsidiaries and schools operating in Mainland China are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

Borrowing costs

Borrowing costs 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. The capitalisation rate of 4.66% has been applied to the expenditure on the qualifying assets during the year ended 31 December 2019 (2018: 4.66%).

Dividends

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — *continued*

Foreign currencies

These financial statements are presented in RMB. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

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

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

The Company incorporated in the Cayman Islands uses the Hong Kong dollar as its functional currency. As the Group mainly operates in Mainland China, RMB is used as the presentation currency of the Company. As at the end of the reporting period, the assets and liabilities of the Company and certain overseas subsidiaries, which use currencies other than RMB as their functional currencies, are translated into the presentation currency of the Company at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into RMB at the weighted average exchange rates for the year.

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES — *continued*

Judgements

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

Contractual arrangements

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

The Group exercises control these subsidiaries and enjoys all economic benefits of certain subsidiaries through a series of contractual arrangements.

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

Income tax

Significant judgement is required in interpreting the relevant tax rules and regulations so as to determine whether the Group is subject to corporate income tax in respect of income from provision of formal educational services. 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 the tax expense in the period that such determination is made.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of 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 disclosed below:

Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets (including the right-of-use assets) at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other 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*

Provision for expected credit losses on accounts receivable

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

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

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of a customers' actual default in the future. The information about the ECLs on the Group's accounts receivable is disclosed in note 17 to the financial statements.

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

In determining the useful lives and residual values of items of property, plant and equipment, the Group has to consider various factors, such as technical or commercial obsolescence arising from changes or improvements in the production and provision of services, or from a change in the market demand for the product or service output of the asset, expected usage of the asset, expected physical wear and tear, care and maintenance of the asset, and legal or similar limits on the use of the asset. The estimation of the useful life of the asset is based on the experience of the Group with similar assets that are used in a similar way. Additional depreciation is made if the estimated useful lives and/or residual values of items of property, plant and equipment are different from previous estimation. Useful lives and residual values are reviewed at the end of the reporting period 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 principally provides 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 of the Company, who are the chief operating decision-makers, for the purpose of the resource allocation and assessment of performance, does not contain discrete operating segment financial information and directors reviewed the financial results of the Group as a whole. Therefore, no further information about the operating segment is presented.

4. OPERATING SEGMENT INFORMATION — *continued*

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 expenditure were located/incurred in the PRC. Accordingly, no further geographical information is presented.

Information about major customers

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

5. REVENUE, OTHER INCOME AND GAINS

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

	2019 RMB'000	2018 RMB'000
Revenue from contracts with customers		
Tuition fees	429,583	365,647
Boarding fees	66,002	53,495
Others	5,857	5,445
Total revenue from contracts with customers	501,442	424,587

(i) **Disaggregated revenue information**

	2019 RMB'000	2018 RMB'000
Recognised over time		
Tuition fees	429,583	365,647
Boarding fees	66,002	53,495
Total revenue from contracts with customers	495,585	419,142
Recognised at a point in time		
Education related services	5,857	5,445

5. REVENUE, OTHER INCOME AND GAINS — *continued*

(ii) Performance obligation-Education services

The performance obligation is satisfied over time as services are rendered and tuition and boarding fees and education related services are generally paid in advance prior to the beginning of each academic year.

	2019 RMB'000	2018 RMB'000
Other income and gains		
Gain on disposal of items of property, plant and equipment	—	256
Bank interest income	859	1,353
Operating lease income from operators of supermarkets, snap shops, etc. in the school campus	5,855	7,726
Government grants (note 24)	2,477	15,071
Others	—	22
	9,191	24,428

6. FINANCE COSTS

An analysis of finance costs is as follows:

	2019 RMB'000	2018 RMB'000
Interest on bank loans	56,328	59,218
Less: Interest charged to an ultimate shareholder	—	(3,312)
Interest on a finance lease	—	2,291
Total interest expense on financial liabilities not at fair value through profit or loss	56,328	58,197
Less: Interest capitalised	(7,607)	(990)
	48,721	57,207

7. PROFIT BEFORE TAX

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

	Notes	2019 RMB'000	2018 RMB'000
Employee benefit expense (including directors' and chief executive's remuneration (note 8)):			
Wages, salaries and other allowances		148,105	123,185
Pension scheme contributions and social welfare		19,709	14,589
		167,814	137,774
Depreciation of property, plant and equipment	13	51,249	47,004
Depreciation of right-of-use assets (2018: amortisation of land lease payments)	14	15,134	15,134
Amortisation of other intangible assets	15	549	474
Listing expense		25,394	8,095
Auditors' remuneration		2,130	820
Impairment of accounts receivable	17	464	180

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

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

	2019 RMB'000	2018 RMB'000
Fees	—	—
Other emoluments:		
Salaries, allowances and benefits in kind	2,200	2,050
Performance-related bonuses	280	200
Pension scheme contributions and social welfare	132	124
Total	2,612	2,374

(a) Independent non-executive directors

Ms. Liu Tao, Mr. Chen Baizhu and Mr. Hu Rongen were appointed as independent non-executive directors of the Company on 20 December 2018. There was no emolument payable to the independent non-executive directors during the year (2018: Nil).

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION — *continued*

(b) Executive directors and non-executive directors

Year ended 31 December 2019

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance-related bonuses RMB'000	Pension scheme contributions and social welfare RMB'000	Total remuneration RMB'000
Executive directors:					
— Mr. Zhou Xingzeng	—	900	150	132	1,182
— Mr. Zheng Xiangzhan	—	800	130	—	930
— Mr. Shi Yinjie	—	500	—	—	500
	—	2,200	280	132	2,612
Non-executive director:					
— Mr. Zhao Donghui	—	—	—	—	—
	—	2,200	280	132	2,612

Year ended 31 December 2018

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance-related bonuses RMB'000	Pension scheme contributions and social welfare RMB'000	Total remuneration RMB'000
Executive directors:					
— Mr. Zhou Xingzeng	—	850	100	124	1,074
— Mr. Zheng Xiangzhan	—	750	100	—	850
— Mr. Shi Yinjie	—	450	—	—	450
	—	2,050	200	124	2,374
Non-executive director:					
— Mr. Zhao Donghui	—	—	—	—	—
	—	2,050	200	124	2,374

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION — *continued*

(b) Executive directors and non-executive directors — *continued*

The Company appointed Mr. Zhou Xingzeng as an executive director, the chief executive officer and the chairman of the Company in May 2018.

The Company appointed Mr. Zheng Xiangzhan and Mr. Shi Yinjie as executive directors of the Company on 20 December 2018.

The Company appointed Mr. Zhao Donghui as a non-executive director of the Company on 20 December 2018.

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

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees for the year ended 31 December 2019 included two directors (2018: two directors), details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining three (2018: three) highest paid employees who are neither a director nor chief executive of the Company, are as follows:

	2019 RMB'000	2018 RMB'000
Salaries, allowances and benefits in kind	2,073	2,027
Performance-related bonuses	250	150
Pension scheme contributions and social welfare	112	103
Total	2,435	2,280

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

	Numbers of employees	
	2019	2018
Nil to HK$500,000	—	—
HK$500,001 to HK$1,000,000	2	2
HK$1,000,001 to HK$1,500,000	1	1
Total	3	3

10. INCOME TAX

The Company is 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 in the Cayman Islands.

The Company's directly held subsidiary is incorporated in the BVI as an exempted company with limited liability under the Companies Law of the BVI and accordingly is not subject to income tax from business carried in the BVI.

The Group was not liable for income tax in Hong Kong and the United States as the Group had no assessable profits derived from or earned in Hong Kong and the United States during the year.

According to the Implementation Rules for the Law for Promoting Private Education (the "Implementation Rules"), private schools for which the school sponsors do not require reasonable returns are eligible to enjoy the same preferential tax treatment as public schools. The preferential tax treatment policies applicable to private schools requiring reasonable returns are to be separately formulated by the financing authority, taxation authority and other authorities under the State Council. During the year and up to the date of approval of this report, no separate policies, regulations or rules have been promulgated by such authorities in this regard. In accordance with the historical tax returns filed to the relevant tax authorities and the compliance confirmation obtained therefrom, the Group's university did not pay corporate income tax for the provision of formal educational services and has enjoyed the preferential tax treatment since its 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 the university of the Group subject to corporate income tax at a rate of 25%.

All of the Group's non-school subsidiaries operating in Mainland China are subject to the PRC corporate income tax of 25% during the year.

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

The major components of income tax expense of the Group are as follows:

	2019 RMB'000	2018 RMB'000
Current — Mainland China:	1,144	1,575
Deferred (note 16)	(279)	23
Total tax charge for the year	865	1,598

10. INCOME TAX — *continued*

A reconciliation of tax expense applicable to profit before tax at the statutory rate for the jurisdictions in which the Company and its subsidiaries are domiciled to the income tax expense at the effective tax rates, and a reconciliation of the statutory tax rates to the effective tax rates, during the year are as follows:

	2019 RMB'000	2018 RMB'000
Profit before tax	126,285	110,173
At the statutory income tax rate	37,569	27,543
Expenses not deductible for tax	79	380
Profits arising from school not subject to tax	(38,084)	(25,488)
Tax losses utilised from previous years	(3)	(1,223)
Tax losses not recognised	1,304	386
Tax charge at the Group's effective rate	865	1,598

11. DIVIDENDS

The directors do not recommend the payment of any dividend in respect of the year (2018: Nil).

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

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 300,000,000 (2018: 299,996,521) in issue during the year, as adjusted for the assumption that 299,990,000 new shares issued pursuant to the Capitalisation Issue (as defined in note 34) had been issued on 1 January 2018, which is made to be consistent with the basis of presentation of the financial statements for the year ended 31 December 2018.

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2019 and 2018.

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 parent, used in the basic and diluted earnings per share calculations	125,420	108,575
Shares		
Issue of shares on 8 May 2018	10,000	6,521
Effect of Capitalisation Issue on 16 January 2020 (note 34)	299,990,000	299,990,000
Weighted average number of ordinary shares used in the basic and diluted earnings per share calculation	300,000,000	299,996,521

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings and facilities RMB'000	Motor vehicles RMB'000	Furniture and fixtures RMB'000	Devices and equipment RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2019						
At 31 December 2018 and 1 January 2019:						
Cost	1,632,351	13,430	29,232	57,811	79,844	1,812,668
Accumulated depreciation	(108,073)	(8,738)	(14,302)	(30,028)	—	(161,141)
Net carrying amount	1,524,278	4,692	14,930	27,783	79,844	1,651,527
At 1 January 2019, net of accumulated depreciation	1,524,278	4,692	14,930	27,783	79,844	1,651,527
Additions	—	—	1,633	5,802	212,708	220,143
Transfers	188,893	—	4,725	635	(194,253)	—
Depreciation provided during the year	(33,417)	(1,030)	(4,538)	(12,264)	—	(51,249)
At 31 December 2019, net of accumulated depreciation	1,679,754	3,662	16,750	21,956	98,299	1,820,421
At 31 December 2019:						
Cost	1,821,244	13,430	35,590	64,248	98,299	2,032,811
Accumulated depreciation	(141,490)	(9,768)	(18,840)	(42,292)	—	(212,390)
Net carrying amount	1,679,754	3,662	16,750	21,956	98,299	1,820,421

As at 31 December 2019, the original cost of the Group's property, plant and equipment of RMB194,440,000 (2018: RMB153,134,000) was net off by the government grants received (note 24).

Included in the property, plant and equipment were buildings with a carrying value of RMB189,268,000 (2018: RMB5,495,000), for which the property certificate has not been obtained as at 31 December 2019.

13. PROPERTY, PLANT AND EQUIPMENT — *continued*

	Buildings and facilities RMB'000	Motor vehicles RMB'000	Furniture and fixtures RMB'000	Devices and equipment RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2018						
At 31 December 2017 and 1 January 2018:						
Cost	1,632,498	18,647	27,665	52,293	353	1,731,456
Accumulated depreciation	(75,651)	(11,952)	(10,188)	(20,950)	—	(118,741)
Net carrying amount	1,556,847	6,695	17,477	31,343	353	1,612,715
At 1 January 2018, net of accumulated depreciation	1,556,847	6,695	17,477	31,343	353	1,612,715
Additions	—	—	1,567	5,518	79,491	86,576
Write off	(147)	—	—	—	—	(147)
Disposals	—	(613)	—	—	—	(613)
Depreciation provided during the year	(32,422)	(1,390)	(4,114)	(9,078)	—	(47,004)
At 31 December 2018, net of accumulated depreciation	1,524,278	4,692	14,930	27,783	79,844	1,651,527
At 31 December 2018:						
Cost	1,632,351	13,430	29,232	57,811	79,844	1,812,668
Accumulated depreciation	(108,073)	(8,738)	(14,302)	(30,028)	—	(161,141)
Net carrying amount	1,524,278	4,692	14,930	27,783	79,844	1,651,527

14. LEASES

The Group as a lessee

(a) 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
As at 1 January 2019	673,454
Additions	—
Depreciation charge	(15,134)
As at 31 December 2019	658,320

(b) Prepaid land lease payments (before 1 January 2019)

	RMB'000
Carrying amount at 1 January 2018	688,588
Amortisation during the year	(15,134)
Carrying amount at 31 December 2018	673,454
Current portion included in prepayments and other receivables	(15,134)
Non-current portion	658,320

The Group as a lessor

The Group leases of its school campus in China under operating lease arrangements. The terms of the leases generally 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 RMB5,855,000 (2018: RMB7,726,000), details of which are included in note 5 to the financial statements.

At 31 December 2019, the undiscounted lease payments receivable by the Group in the future periods under non-cancellable operating leases with its tenants are as follows:

	2019 RMB'000	2018 RMB'000
Within one year	4,957	5,504
In the second to fifth years, inclusive	12,735	17,623
After five years	3,250	8,333
	20,942	31,460

15. OTHER INTANGIBLE ASSETS

	2019 RMB'000	2018 RMB'000
Software		
Cost at 1 January, net of accumulated amortisation	1,862	1,776
Additions	540	560
Amortisation provided during the year	(549)	(474)
Carrying amount at the end of the year	1,853	1,862
At 31 December:		
Cost	3,523	2,983
Accumulated amortisation	(1,670)	(1,121)
Net carrying amount	1,853	1,862

16. DEFERRED TAX

The movements in deferred tax assets during the year are as follows:

Deferred tax assets

	Amortisation RMB'000	Impairment of financial assets RMB'000	Total RMB'000
At 31 December 2017 and at 1 January 2018	—	90	90
Deferred tax credited to profit or loss during the year (note 10)	—	(23)	(23)
At 31 December 2018 and 1 January 2019	—	67	67
Deferred tax charged to profit or loss during the year (note 10)	176	103	279
At 31 December 2019	176	170	346

16. DEFERRED TAX — *continued*

The Group has accumulated tax losses arising in Mainland China of approximately RMB23,249,000 (2018: RMB21,100,000) which are available for offsetting against future taxable profits in one to five years.

Deferred tax assets have not been recognised in respect of the losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the taxable losses can be utilised.

Deferred tax assets that have not been recognised in respect of the following items:

	2019 RMB'000	2018 RMB'000
Tax losses	23,249	21,100

Pursuant to the PRC Enterprise 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 of the Company, the Group's fund will be retained in Mainland China for the expansion of the Group's operation, so it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amounts of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB856,062,000 as at 31 December 2019.

17. ACCOUNTS RECEIVABLE

	2019 RMB'000	2018 RMB'000
Tuition and boarding fees receivable	5,664	4,187
Impairment	(680)	(266)
	4,984	3,921

The Group's students are required to pay tuition fees and boarding fees in advance for the upcoming school year, which normally commences in August. The outstanding receivables represent amounts related to students who have applied for student loans. There is no fixed term for delayed payments. The Group does not hold any collateral or other credit enhancements over its accounts receivable balances. Accounts receivable are non-interest-bearing.

An ageing analysis of the accounts receivable as at the end of the reporting period, based on the transaction date and net of loss allowance, is as follows:

	2019 RMB'000	2018 RMB'000
Accounts receivable:		
Within 1 year	2,205	2,325
1 to 2 years	1,953	893
2 to 3 years	647	605
Over 3 years	179	98
	4,984	3,921

The movements in the loss allowance for impairment of accounts receivable are as follows:

	2019 RMB'000	2018 RMB'000
At beginning of year	266	124
Impairment losses, net (note 7)	464	180
Amount written off as uncollectible	(50)	(38)
At end of year	680	266

The increase (2018: increase) in the loss allowance was due to the following significant changes in the gross carrying amount:

(i) Increase in the loss allowance of RMB347,000 (2018: RMB104,000) as a result of a net increase (2018: increase) in the gross carrying amount after the settlement of accounts receivable and origination of new accounts receivable; and

(ii) Increase in the loss allowance of RMB117,000 (2018: RMB76,000) as a result of an increase (2018: increase) in accounts receivable which were past due.

17. ACCOUNTS RECEIVABLE — *continued*

The outstanding receivables represent amounts related to students who have applied for the delayed payment of tuition fees and boarding fees. There is no fixed term for delayed payments. In view of the aforementioned and the fact that the Group's accounts receivable related to a large number of individual students, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its accounts receivable balances.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns. 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.

Set out below is the information about the credit risk exposure on the Group's accounts receivable using a provision matrix:

Tuition fees receivable

31 December 2019

Collective assessment	<12 months	13–24 months	25–36 months	>36 months	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Expected credit loss rate	0.84%	9.01%	24.07%	69.83%	14.06%
Gross carrying amount	1,556	2,035	730	422	4,743
Expected credit loss	13	183	176	295	667

31 December 2018

Collective assessment	<12 months	13–24 months	25–36 months	>36 months	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Expected credit loss rate	2.16%	2.80%	3.41%	68.87%	6.79%
Gross carrying amount	2,261	802	560	251	3,874
Expected credit loss	49	22	19	173	263

17. ACCOUNTS RECEIVABLE — *continued*

Boarding fees receivable

31 December 2019

Collective assessment	<12 months RMB'000	13–24 months RMB'000	25–36 months RMB'000	>36 months RMB'000	Total RMB'000
Expected credit loss rate	0.15%	1.00%	2.42%	14.81%	1.41%
Gross carrying amount	663	102	95	61	921
Expected credit loss	1	1	2	9	13

31 December 2018

Collective assessment	<12 months RMB'000	13–24 months RMB'000	25–36 months RMB'000	>36 months RMB'000	Total RMB'000
Expected credit loss rate	0.79%	0.95%	1.13%	1.13%	0.96%
Gross carrying amount	114	114	65	20	313
Expected credit loss	1	1	1	—	3

18. PREPAYMENTS AND OTHER RECEIVABLES

	2019 RMB'000	2018 RMB'000
Current portion:		
Prepayments to suppliers	4,791	4,015
Prepaid land lease payments to be amortised within one year (note 14)	—	15,134
Receivables from staff	3,791	3,971
Other receivables and deposits	425	1,204
	9,007	24,324
Non-current portion:		
Prepayment for property, plant and equipment	9,926	12,528
	9,926	12,528

Other receivables are unsecured, non-interest-bearing and have no fixed terms of repayment. There was no loss allowance made for impairment of other receivables during the year.

As at 31 December 2019, the internal credit rating of other receivables from third parties and others was regarded as the grade of performing. The Group has assessed that the credit risk of these receivables has not increased significantly since initial recognition and measured the impairment based on 12-month expected credit losses, and has assessed that the expected credit losses were immaterial.

19. CASH AND CASH EQUIVALENTS

	2019 RMB'000	2018 RMB'000
Cash and bank balances	334,867	442,078

At 31 December 2019, the cash and bank balances of the Group denominated RMB in amounted RMB334,867,000. The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and cash equivalents approximated to their fair values.

As at 31 December 2019, the internal credit rating of cash and cash equivalents was regarded as the grade of performing. The Group has assessed that the credit risk of the restricted cash and cash and cash equivalents has not increased significantly since initial recognition and measured the impairment based on 12-month expected credit losses, and has assessed that the expected credit losses were immaterial.

20. OTHER PAYABLES AND ACCRUALS

	Note	2019 RMB'000	2018 RMB'000
Payables for purchase of property, plant and equipment		3,633	1,455
Payables for construction projects		112,824	214,390
Other tax payable (other than income tax and land appreciate tax)		1,011	1,773
Miscellaneous advances received from students	(i)	30,641	29,599
Accrued bonuses and other employee benefits		27,890	27,388
Accrued interest expenses		1,518	1,250
Other payables		18,765	4,066
		196,282	279,921

(i) The advances represented expenses relating to textbooks, military training, medical examination, insurance, etc. collected from students which will be paid on behalf of students.

The above balances are unsecured, non-interest-bearing and repayable on demand.

21. CONTRACT LIABILITIES

The Group recognised the following revenue-related contract liabilities, which represented the unsatisfied performance obligation as at 31 December 2019, and will be expected to be recognised as revenue within one year:

	2019 RMB'000	2018 RMB'000
Tuition fees	257,661	221,170
Boarding fees	49,547	38,938
Total contract liabilities	307,208	260,108

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 program. The students are entitled to the refund of payments in relation to the proportionate services not yet rendered.

Significant changes in contract liabilities during the year are as follows:

	2019 RMB'000	2018 RMB'000
At the beginning of the year	260,108	220,221
Revenue recognised that was included in the contract liabilities at the beginning of the year	(260,108)	(220,221)
Increase due to cash received, excluding amounts recognised as revenue during the year	307,208	260,108
At the end of the year	307,208	260,108

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

22. TAX PAYABLE

	2019 RMB'000	2018 RMB'000
Income tax payables	147,592	151,292
Portion classified as non-current liabilities	—	(147,196)
Current portion	147,592	4,096

In August 2015, the Group had disposed of its old campus buildings and land to an independent third party for a total consideration of RMB1,960,779,000, among which the consideration of acquisition into the land reserve ("土地收購儲備") amounted to RMB1,022,539,000 and the consideration of acquisition of assets amounted to RMB938,240,000. As at 31 December 2019, included in the income tax payables was an amount of RMB147,196,000, which was calculated based on the consideration received from the acquisition into the land reserve, after deducting the carrying amount of the assets disposed of and moving expenses, at the tax rate of 25%. The above income tax payables have been deferred for settlement up to five years from the date of disposal according to the relevant tax regulation. As at 31 December 2019, the relevant income tax was classified to the current liability as it will be settled in 2020.

23. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2019			2018		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loans — secured	4.35	2020	100,000	4.79–5.66	2019	55,000
Current portion of long term bank loans — secured	4.66–5.94	2020	175,000	4.66–5.46	2019	120,400
			275,000			175,400
Non-current						
Bank loans — secured	4.66–5.94	2021–2026	856,280	4.66–5.46	2020–2026	951,280
			856,280			951,280
			1,131,280			1,126,680

	2019 RMB'000	2018 RMB'000
Analysed into:		
Repayable within one year	275,000	175,400
Repayable in the second year	167,000	153,500
Repayable within two to five years	523,000	440,500
Repayable in more than five years	166,280	357,280
	856,280	951,280
	1,131,280	1,126,680

The Group's bank and other borrowings are all denominated in RMB.

The Group's bank borrowings of up to RMB1,031,280,000 as at 31 December 2019 (2018: RMB1,126,680,000) were borrowings with floating interest rates.

As at 31 December 2019, the Group's bank borrowings of RMB766,280,000 (2018: RMB826,680,000) were secured by the Group's rights over tuition fees and boarding fees.

23. INTEREST-BEARING BANK AND OTHER BORROWINGS — *continued*

Certain of the Group's bank borrowings are guaranteed by the following related parties:

	2019 RMB'000	2018 RMB'000
	(Amount of bank borrowings guaranteed)	
Name of related parties (as defined in note 29)		
Jointly, Jian Qiao Assets Management, Mr. Zhou Xingzeng and Ms. Huang Xiaomei	551,680	626,680
Jointly, Jian Qiao Assets Management and Mr. Zhou Xingzeng	214,600	200,000
Jointly, Mr. Zhou Xingzeng and Ms. Huang Xiaomei	185,000	275,000
Mr. Zhou Xingzeng	—	25,000
	951,280	1,126,680

24. DEFERRED INCOME

	Notes	2019 RMB'000	2018 RMB'000
At beginning of year		85,913	67,216
Received during the year		51,191	93,995
Deducting the carrying amount of the assets (note 13)	(1)	(41,306)	(17,674)
Deducting the related expense	(2)	(50,934)	(42,553)
Recognised in other income (note 5)	(3)	(2,477)	(15,071)
At end of year		42,387	85,913
Current		17,065	—
Non-current		25,322	85,913
		42,387	85,913

(1) The grants are related to the improvement of teaching facilities on certain special projects. Upon completion of the related projects, the grants related to an asset would be deducted from the carrying amount of the assets.

(2) The grants are mainly related to the subsidies received from the government for the purpose of subsidising students and government promoted programs. Upon completion of the related activities, the grants would be released to profit or loss and deducted from the related expenditure to which they relate. Government grants received for which expenditure has not yet been undertaken are included in deferred income.

(3) The grants mainly represent the tax refund from the local government recognised in other income and gains upon receipt. There are no unfulfilled conditions or contingencies relating to these grants.

25. SHARE CAPITAL

	2019	2018
Number of ordinary shares		
Authorised:		
Ordinary shares of HK$0.01 each	38,000,000	38,000,000
Issued and fully paid:		
Ordinary shares of HK$0.01 each	10,000	10,000

	2019 RMB'000	2018 RMB'000
Authorised:		
Ordinary shares of HK$0.01 each	4,462	308
Issued and fully paid:		
Ordinary shares of HK$0.01 each	—	—

The Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 8 May 2018 with authorised share capital of an amount divided in 38,000,000 shares of HK$0.01 par value each. At the time of incorporation, the issued share capital of the Company was HK$0.01, with one share of HK$0.01 and held by Sharon Pierson, an independent third party. On the same date, the said one share was transferred to Gan En Limited for a consideration at par value.

On the same date, the Company issued and allotted 1,315 shares to Gan En Limited, 2,200 shares to She De Limited, 1,020 shares to Ze Ren Limited, 1,000 shares to Ai Xin Limited, 570 shares to Tuan Jie Limited, 500 shares to Shen Si Limited, 500 shares to Zi Qiang Limited, 500 shares to Kai Tuo Limited, 506 shares to Du Zhi Limited, 350 shares to Qie Wen Limited, 247 shares to Jin Si Limited, 350 shares to Tuo Xin Limited, 350 shares to Ming Bian Limited, 245 shares to Hou Tu Limited, 173 shares to Qiu Shi Limited and 174 shares to Bo Xue Limited, for a consideration at par value.

Pursuant to a written resolution of the shareholders of the Company passed on 19 December 2019, the authorised share capital of the Company was subdivided from HK$380,000 divided into 38,000,000 shares of HK$0.01 each to HK$5,000,000 divided into 500,000,000 shares of HK$0.01 each by the creation of 462,000,000 shares of HK$0.01 each.

26. 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 of the financial statements.

(a) Capital reserve

The capital reserve of the Group represents the capital contribution from the then equity holders of the Group's subsidiaries, after elimination of investments in subsidiaries. The additions during the year ended 31 December 2018 represent the injection of additional paid-up capital by the then equity holders of the Group's subsidiaries.

(b) 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) the general reserve of the limited liability companies and (ii) the development fund of schools.

(i) In accordance with the Company Law of the PRC, certain subsidiaries of the Group which are domestic enterprises are required to allocate 10% of their profit after tax, as determined in accordance with the relevant PRC accounting standards, to their respective statutory surplus reserves until the reserves reach 50% of their respective registered capital. Subject to certain restrictions set out in the Company Law of the PRC, part of the statutory surplus reserves 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 for reasonable returns, it is required to appropriate the development fund of 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.

27. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Changes in liabilities arising from financing activities

	Interest-bearing bank and other borrowings RMB'000	Due to ultimate shareholders RMB'000	Due to related companies RMB'000	Interest payable RMB'000
At 1 January 2018	1,367,422	23,148	19,601	2,487
Cash flows used in financing activities	(243,033)	(23,148)	(18,780)	(59,282)
Interest expense	2,291	—	—	57,055
Interest capitalised	—	—	—	990
At 31 December 2018	1,126,680	—	821	1,250
Cash flows from/(used in) financing activities	4,600	—	(821)	(56,060)
Interest expense	—	—	—	48,721
Interest capitalised	—	—	—	7,607
At 31 December 2019	1,131,280	—	—	1,518

28. COMMITMENTS

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

	2019 RMB'000	2018 RMB'000
Contracted, but not provided for:		
Property, plant and equipment	800	144,912

29. RELATED PARTY TRANSACTIONS

(1) Name and relationship

The directors of the Group are of the opinion that the following parties/companies are related parties that had transactions or balances with the Group during the year:

Name of related party	Relationship with the Group
Mr. Zhou Xingzeng	Chairman and one of the ultimate shareholders
Mr. Zheng Xiangzhan	One of the ultimate shareholders
Mr. Chen Shengcai	One of the ultimate shareholders
Mr. Chen Shengfang	One of the ultimate shareholders
Mr. Bao Jianmin	One of the ultimate shareholders
Mr. Wang Chengguang	One of the ultimate shareholders
Mr. Wang Hualin	One of the ultimate shareholders
Mr. Chen Zhiyong	One of the ultimate shareholders
Ms. Huang Xiaomei	Spouse of Mr. Zhou Xingzeng
Mr. Zhou Xinghua	Brother of Mr. Zhou Xingzeng
上海建之橋企業發展有限公司 ("Jian Zhi Qiao Development")	A company controlled by the ultimate shareholders
上海建之橋企業管理有限公司 ("Jian Zhi Qiao Management")	A company controlled by the ultimate shareholders
上海建橋教育服務有限公司 ("Jian Qiao Education & Service")	A subsidiary of Jian Zhi Qiao Management
建橋集團資產管理有限公司 ("Jian Qiao Assets Management")	A subsidiary of Jian Zhi Qiao Management
上海建橋教育培訓有限公司 ("Jian Qiao Education & Training")	A subsidiary of Jian Zhi Qiao Management
上海正一置業有限公司 ("Shanghai Zhengyi")	A company controlled by Mr. Zhou Xinghua
上海傲輝光源電器有限公司 ("Shanghai Aohui")	A company controlled by Mr. Zhou Xinghua

29. RELATED PARTY TRANSACTIONS — *continued*

(2) Transactions with related parties

	2019 RMB'000	2018 RMB'000
Repayment from ultimate shareholders		
Mr. Zhou Xingzeng	—	241,969
Mr. Wang Hualin	—	10,498
Mr. Wang Chengguang	—	1,500
Mr. Chen Zhiyong	—	2,200
Mr. Zheng Xiangzhan	—	10,282
	—	266,449
Repayment from related companies		
Jian Zhi Qiao Development	—	407,288
Jian Zhi Qiao Management	—	8,871
Jian Qiao Education & Service	—	28,812
Shanghai Zhengyi	—	3,000
	—	447,971
Repayment to ultimate shareholders		
Mr. Chen Shengcai	—	2,488
Mr. Chen Shengfang	—	12,310
Mr. Bao Jianmin	—	8,350
	—	23,148
Advances from related companies		
Jian Qiao Education & Service	—	634
Jian Zhi Qiao Development	—	1,462
Jian Zhi Qiao Management	—	841
	—	2,937
Repayment to related companies		
Jian Qiao Education & Service	—	634
Jian Zhi Qiao Development	821	641
Jian Zhi Qiao Management	—	841
Shanghai Aohui	—	19,601
	821	21,717
Interest income from an ultimate shareholder (ii)		
Mr. Zhou Xingzeng	—	3,312
Rental income from related companies (i)		
Jian Qiao Education & Training	—	1,000

29. RELATED PARTY TRANSACTIONS — *continued*

(2) Transactions with related parties — *continued*

(i) The transaction was carried out in accordance with the terms and conditions mutually agreed by the parties involved.

(ii) During the year ended 31 December 2018, the Group made advances to Mr. Zhou Xingzeng, which are unsecured and bear interest at interest rates ranging from 4.35% to 16% per annum with a term of 2 months to 1 year.

(3) Other transactions with related parties

Certain of the Group's bank borrowings are guaranteed by the following related parties:

	2019 RMB'000	2018 RMB'000
	(Amount of bank borrowings guaranteed)	
Name of related parties		
Jointly, Jian Qiao Assets Management, Mr. Zhou Xingzeng and Ms. Huang Xiaomei	551,680	626,680
Jointly, Jian Qiao Assets Management and Mr. Zhou Xingzeng	214,600	200,000
Jointly, Mr. Zhou Xingzeng and Ms. Huang Xiaomei	185,000	275,000
Mr. Zhou Xingzeng	—	25,000
	951,280	1,126,680

All the above guarantees provided by the related parties on the Group's bank borrowings have been released or replaced subsequently.

(4) Outstanding balances with related parties

	2019 RMB'000	2018 RMB'000
Due to a related company:		
Non-trade related		
Jian Zhi Qiao Development	—	821

29. RELATED PARTY TRANSACTIONS — *continued*

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

	2019 RMB'000	2018 RMB'000
Short-term employee benefits	1,844	1,763
Pension scheme contributions	142	140
	1,986	1,903

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

30. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of each of reporting period are as follows:

31 December 2019

Financial assets

	Financial assets at amortised cost RMB'000	Total RMB'000
Accounts receivable	4,984	4,984
Financial assets included in prepayments and other receivables (note 18)	4,216	4,216
Cash and cash equivalents	334,867	334,867
	344,067	344,067

Financial liabilities

	Financial liabilities at amortised cost RMB'000	Total RMB'000
Financial liabilities included in other payables and accruals (note 20)	167,381	167,381
Interest-bearing bank and other borrowings	1,131,280	1,131,280
	1,298,661	1,298,661

30. FINANCIAL INSTRUMENTS BY CATEGORY — *continued*

31 December 2018

Financial assets

	Financial assets at amortised cost RMB'000	Total RMB'000
Accounts receivable	3,921	3,921
Financial assets included in prepayments and other receivables (note 18)	5,175	5,175
Cash and cash equivalents	442,078	442,078
	451,174	451,174

Financial liabilities

	Financial liabilities at amortised cost RMB'000	Total RMB'000
Financial liabilities included in other payables and accruals (note 20)	250,760	250,760
Due to a related company	821	821
Interest-bearing bank and other borrowings	1,126,680	1,126,680
	1,378,261	1,378,261

31. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

	Carrying amounts		Fair values	
	2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000
Financial liabilities				
Interest-bearing bank and other borrowings (note 23)	1,131,280	1,126,680	1,165,662	1,068,897

Management has assessed that the fair values of accounts receivables, financial assets included in prepayments and other receivables, cash and cash equivalents, financial liabilities included in other payables and accruals and an amount due to a related company approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group's corporate finance team headed by the chief finance officer is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The corporate finance team reports directly to the chief financial officer and the board of directors. At the end of the reporting period, the corporate finance team analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer. The valuation process and results are discussed with the board of directors twice a year for annual financial reporting.

31. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS — *continued*

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Liabilities measured at fair value:

	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
As at 31 December 2019				
Interest-bearing bank and and other borrowings	—	1,131,280	—	1,131,280
As at 31 December 2018				
Interest-bearing bank and and other borrowings	—	1,126,680	—	1,126,680

The fair value of the interest-bearing bank and other borrowings have been calculated by discounting the expected future cash flows using rates currently available with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for interest-bearing bank and other borrowings as at 31 December 2019 was assessed to be insignificant.

The Group's principal financial instruments mainly include financial assets included in prepayments and other receivables, accounts receivable, cash and cash equivalents and financial liabilities included in other payables and accruals, which arise directly from its operations. The Group has other financial assets and liabilities such as amounts with related companies and interest-bearing bank and other borrowings. The main purpose of these financial instruments is to raise finance for the Group's operations.

The Group did not have any financial assets measured at fair value as at 31 December 2019 and 2018.

During the year ended 31 December 2019, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

(a) Interest rate risk

The Group's exposure to risk for changes in market interest rates relates primarily to the Group's interest-bearing bank and other borrowings set out in note 23. The Group does not use derivative financial instruments to hedge interest rate risk. The Group manages its interest cost using variable rate bank borrowings and other borrowings.

If the interest rate of bank and other borrowings had increased/decreased by 1% with all other variables held constant, the profit before tax of the Group, through the impact on floating rate borrowings, would have decreased/increased by approximately RMB504,000 for the year ended 31 December 2019.

(b) Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December 2019. The amounts presented are gross carrying amounts for financial assets.

	12-month ECLs	Lifetime ECLs			
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	Total RMB'000
As at 31 December 2019					
Accounts receivable*	—	—	—	5,664	5,664
Financial assets included in prepayments and other receivables**	4,216	—	—	—	4,216
Cash and cash equivalents	334,867	—	—	—	334,867
	339,083	—	—	5,664	344,747

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES — *continued*

(b) Credit risk — *continued*

	12-month ECLs	Lifetime ECLs			
	Stage 1	Stage 2	Stage 3	Simplified approach	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 31 December 2018					
Accounts receivable*	—	—	—	4,187	4,187
Financial assets included in prepayments and other receivables**	5,175	—	—	—	5,175
Cash and cash equivalents	442,078	—	—	—	442,078
	447,253	—	—	4,187	451,440

* For accounts receivable to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 17 to the financial statements.

** The credit quality of the financial assets included in prepayments 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".

Further quantitative data in respect of the Group's exposure to credit risk arising from accounts receivables are disclosed in note 17 to the financial statements.

Since the Group trades only with recognised and creditworthy customers, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty, by geographical region and by industry sector. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's accounts receivable are widely dispersed in different sectors and industries.

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES — *continued*

(c) Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing bank and other borrowings. Cash flows are closely monitored on an ongoing basis.

The maturity profile of the Group's financial liabilities as at the end of reporting period, based on contractual undiscounted payments, is as follows:

	On demand RMB'000	Less than 3 months RMB'000	3 to 12 months RMB'000	Over 1 year RMB'000	Total RMB'000
31 December 2019					
Financial liabilities included in other payables and accruals (note 20)	167,381	—	—	—	167,381
Interest-bearing bank and other borrowings	—	31,128	297,138	965,457	1,293,723
	167,381	31,128	297,138	965,457	1,461,104

	On demand RMB'000	Less than 3 months RMB'000	3 to 12 months RMB'000	Over 1 year RMB'000	Total RMB'000
31 December 2018					
Financial liabilities included in other payables and accruals (note 20)	250,760	—	—	—	250,760
Due to a related company	821	—	—	—	821
Interest-bearing bank and other borrowings	—	24,469	190,753	1,052,333	1,267,555
	251,581	24,469	190,753	1,052,333	1,519,136

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES — *continued*

(d) 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 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, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2019 and 2018.

The Group monitors capital using a gearing ratio, which is total debt divided by total equity. Total debt includes interest-bearing bank and other borrowings. Total equity represents equity attributable to owners of the parent. The gearing ratios as at the end of the reporting periods were as follows:

	2019 RMB'000	2018 RMB'000
Interest-bearing bank and other borrowings	**1,131,280**	1,126,680
Total debt	**1,131,280**	1,126,680
Total equity	**1,014,975**	889,892
Gearing ratio	**111.5%**	126.6%

33. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	31 December 2019 RMB'000	31 December 2018 RMB'000
NON-CURRENT ASSETS		
Investments in subsidiaries	—*	—*
Total non-current assets	—	—
CURRENT ASSETS		
Prepayments	1,392	—
Total current assets	1,392	—
CURRENT LIABILITIES		
Other payables	6,372	1,544
Due to fellow subsidiaries	20,894	—
Total current liabilities	27,266	1,544
NET CURRENT LIABILITIES	(25,874)	(1,544)
TOTAL ASSETS LESS CURRENT LIABILITIES	(25,874)	(1,544)
NET ASSETS	(25,874)	(1,544)
EQUITY		
Equity attributable to owners of the parent		
Share capital	—*	—*
Reserves	(25,874)	(1,544)
TOTAL EQUITY	(25,874)	(1,544)

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

Note:

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

	Accumulated losses RMB'000	Total RMB'000
Balance at 1 January 2018	—	—
Total comprehensive income for the year	(1,544)	(1,544)
At 31 December 2018 and 1 January 2019	(1,544)	(1,544)
Total comprehensive income for the year	(24,330)	(24,330)
At 31 December 2019	(25,874)	(25,874)

34. EVENTS AFTER THE REPORTING PERIOD

(a) Pursuant to a written resolution of the shareholders of the Company passed on 19 December 2019, a total of 299,990,000 shares of HK$0.01 each were allotted and issued at par value to the shareholders whose names were on the register of members of the Company immediately prior to the global offering and such shares to be allotted and issued by way of capitalisation of HK$2,999,900 (the "Capitalisation Issue") standing to the credit of the Company's share premium account as a result of the global offering.

On the Listing Date, 100,000,000 new shares were issued at a price of HK$6.05 per share in connection with the Company's initial public offering on the Stock Exchange.

On 11 February 2020, the Company further issued 15,000,000 ordinary shares of HK$0.01 each at a subscription price of HK$6.05 per share pursuant to the exercise of over-allotment option.

The net proceeds from the global offering, after deducting the underwriting commission and related listing expenses payable by the Company in the global offering, was estimated to be approximately HK$666.0 million (equivalent to approximately RMB589.8 million).

(b) Guarantees amounting to RMB951,280,000 at 31 December 2019 provided by the related parties on the Group's certain bank borrowings, as disclosed in note 29, have been released or replaced in January 2020.

(c) In early 2020, the outbreak of the novel coronavirus ("COVID-19") has certain impacted on the education business of the Group, mainly due to domestic travel restrictions and various precaution measurements undertaken by respective local authorities which inter alia, include closure of school and delays in classroom commencement during the outbreak period. The Group has put in place certain alternative action plans for the students during the school closure period, which include implementation of on-line modules and website distance learning activities.

In view of the implementation of the above mentioned action plans, the management has assessed and preliminarily concluded that at this stage, 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 annual report. The Group will keep continuous attention on the situation of the COVID-19 and all react actively to its impacts on the operation and financial position of the Group, and in the event that there are any significant financial impacts, the Company will release further announcement as and when appropriate, and reflect it in the Group's 2020 interim and annual financial statements.

35. COMPARATIVE AMOUNTS

As further explained in note 2.2 to the financial statements, the Group adopted IFRS 16 on 1 January 2019 using the modified retrospective approach. Under this approach, the comparative amounts in the financial statements were not restated and continued to be reported under the requirements of the previous standard, IAS 17, and related interpretations.

36. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 30 March 2020.

"affiliate(s)"	with respect to any specific person, any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person
"Articles of Association" or "Articles"	the articles of association of the Company as amended, supplemented or otherwise modified from time to time
"associate(s)"	has the meaning ascribed thereto in the Listing Rules
"Audit Committee"	the audit committee of the Company
"Board"	the board of Directors of the Company
"Business Cooperation Agreement"	the business cooperation agreement entered into by and among Gench WFOE and the PRC Affiliated Entities dated 11 December 2018
"CG Code"	the Corporate Governance Code as set out in Appendix 14 to the Listing Rule
"China" or "PRC"	the People's Republic of China excluding for the purpose of this annual report, Hong Kong, the Macau Special Administrative Region and Taiwan
"Companies Ordinance"	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
"Company" or "our Company"	Shanghai Gench Education Group Limited
"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"Contractual Arrangements"	collectively, the Business Cooperation Agreement, the Exclusive Technical Service and Management Consultancy Agreement, the Exclusive Call Option Agreement, the Equity Pledge Agreements, the Shareholders' Rights Entrustment Agreement, the School Sponsors' and Directors' Rights Entrustment Agreement, the School Sponsors' Powers of Attorney, the Directors' Powers of Attorney, the Shareholders' Powers of Attorney and the Spouse Undertakings
"Controlling Shareholder(s)"	has the meaning ascribed to it under the Listing Rules and unless the context requires otherwise, refers to Mr. Zhou, Mr. Zheng Xiangzhan, Mr. Shi Yinjie, She De Limited, Gan En Limited, Ze Ren Limited and Tuan Jie Limited
"Deed of Indemnity"	a deed of indemnity dated 19 December 2019 entered into by our Controlling Shareholders in favor of the Company (for itself and as trustee for its subsidiaries) in respect of, among other things, certain indemnities
"Deed of Non-competition"	a deed of non-competition dated 19 December 2019 entered into by our Controlling Shareholders in favor of the Company (for itself and its subsidiaries) regarding the non-competition undertaking
"Director(s)"	the director(s) of the Company

DEFINITION

"Directors' Powers of Attorney"	the school directors' powers of attorney executed by certain directors of the University dated 11 December 2018
"Equity Pledge Agreements"	the equity pledge agreement entered into by and among the Registered Shareholders, Jian Qiao Group and Gench WFOE dated 11 December 2018 and the equity pledge agreement entered into by and among the Registered Shareholders, Jian Qiao Group and Jian Qiao Investment dated 11 December 2018
"Exclusive Call Option Agreement"	the exclusive call option agreement entered into by and among Gench WFOE, the PRC Affiliated Entities and the Registered Shareholders dated 11 December 2018
"Exclusive Technical Service and Management Consultancy Agreement"	the exclusive technical service and management consultancy agreement entered into by and among Gench WFOE and the PRC Affiliated Entities dated 11 December 2018
"Foreign Investment Law"	the Foreign Investment Law of the PRC (中華人民共和國外商投資法), as enacted by the 13th National People's Congress on 15 March 2019, which came into effect on 1 January 2020
"Gench BVI"	Shanghai Gench Education Holdings Limited (上海建橋教育控股有限公司), a limited liability company established under the laws of BVI on 15 May 2018 and a wholly-owned subsidiary of the Company
"Gench HK"	Gench Education Group (Hong Kong) Limited (建橋教育集團(香港)有限公司), a limited liability company incorporated in Hong Kong on 1 June 2018 and a wholly-owned subsidiary of the Company
"Gench US"	Gench Education Group US, Inc, a company incorporated in the State of California the United States on 13 August 2018 and a wholly-owned subsidiary of the Company
"Gench WFOE"	Wangting Education Technology (Shanghai) Limited (望亭教育科技(上海)有限公司), a limited liability company established under the laws of the PRC on 31 October 2018, which is wholly owned by Gench HK
"Group", "our Group", "we" or "us"	the Company, its subsidiaries and PRC Affiliated Entities from time to time, or, where the context so requires in respect of the period before the Company became the holding company of our present subsidiaries, the entities which carried on the business of the present Group at the relevant time
"HK$", "Hong Kong dollar(s)"	Hong Kong dollars respectively, the lawful currency of Hong Kong
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the PRC
"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 the Company, its subsidiaries or any of their respective associates

"Jian Qiao Group"	Shanghai Jian Qiao (Group) Limited* (上海建橋(集團)有限公司), a limited liability company established under the laws of the PRC on 7 November 2000, which is owned by the Registered Shareholders. It is one of the school sponsors of the University and an affiliated entity of the Company
"Jian Qiao Investment"	Shanghai Jian Qiao Investment and Development Limited* (上海建橋投資發展有限公司), a limited liability company established under the laws of the PRC on 3 August 1999, which is wholly owned by Jian Qiao Group. It is one of the school sponsors of the University and an affiliated entity of the Company
"Listing"	the listing of our Shares on the Main Board of the Stock Exchange
"Listing Date"	16 January 2020, since which our Shares have been listed on the Main Board of the Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange, as amended from time to time
"Main Board"	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with the GEM of the Stock Exchange
"Memorandum of Association" or "Memorandum"	the memorandum of association of the Company adopted on 19 December 2019, as amended from time to time
"MOE"	the Ministry of Education of the PRC
"Mr. Zhou"	Mr. Zhou Xingzeng, the chairman, an executive Director and a Controlling Shareholder of the Company
"Negative List"	Special Administrative Measures for Access of Foreign Investment (Negative List) (2019) (《外商投資准入特別管理措施(負面清單)》(2019年版)) which was promulgated by the NDRC and the MOFCOM on 30 June 2019 and became effective on 30 July 2019
"Nomination Committee"	the nomination committee of the Company
"PRC Affiliated Entities"	namely, the University and the School Sponsors, each an affiliated entity of the Company
"PRC Legal Advisors"	Commerce & Finance Law Offices, our legal advisors as to the laws of the PRC
"Prospectus"	the prospectus of the Company dated 31 December 2019
"Registered Shareholders"	shareholders of Jian Qiao Group, namely, Mr. Zhou Xingzeng, Mr. Zheng Xiangzhan, Mr. Zhao Donghui, Mr. Shi Yinjie, Mr. Jin Yinkuan, Mr. Chen Shengfang, Mr. Chen Zhiyong, Mr. Zhou Tianming, Mr. Bao Jianmin, Mr. Wang Hualin, Mr. Wang Chengguang, Mr. Chen Minghai, Mr. Chen Shengcai, Mr. Wang Xuangui, and Mr. Zheng Juxing
"Remuneration Committee"	the remuneration committee of the Company
"Reporting Period"	the year ended 31 December 2019

"School Sponsors"	the school sponsors of the University, namely, Jian Qiao Group and Jian Qiao Investment
"School Sponsors' and Directors' Rights Entrustment Agreement"	the school sponsors' and directors' rights entrustment agreement entered into by and among the School Sponsors, the University, certain directors of the University and Gench WFOE dated 11 December 2018
"School Sponsors' Powers of Attorney"	collectively, the school sponsors' powers of attorney executed by the School Sponsors in favor of Gench WFOE dated 11 December 2018
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended and supplemented from time to time
"Sino-Foreign Regulation"	the Regulation on Sino-Foreign Cooperation in Operating Schools (中華人民共和國中外合作辦學條例), promulgated by the State Council in 2003 and amended on 18 July 2013
"Share(s)"	ordinary share(s) of HK$0.01 each in the share capital of the Company
"Share Option Scheme"	the share option scheme conditionally adopted by the Company on 19 December 2019
"Shareholder(s)"	holder(s) of the Share(s)
"Shareholders' Rights Entrustment Agreement"	the shareholders' rights entrustment agreement entered into by and among the Registered Shareholders, the School Sponsors and Gench WFOE dated 11 December 2018
"Spouse Undertakings"	collectively, the undertakings executed by the spouse of relevant Registered Shareholders dated 11 December 2018
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Substantial Shareholders"	has the meaning ascribed to it under the Listing Rules
"Subsidiary(ies)"	has the meaning ascribed to it under the Listing Rules. For the avoidance of doubt, the subsidiaries of the Company include the School Sponsors and the University
"University", "our University" or "Shanghai Jian Qiao University"	Shanghai Jian Qiao University (上海建橋學院), a private institution of formal higher education established under the laws of the PRC on 28 June 2000, of which the school sponsors' interest is owned as to 52.11% by Jian Qiao Group and as to 47.89% by Jian Qiao Investment. It is an affiliated entity of the Company
"US$" or "USD"	United States dollars, the lawful currency for the time being of the United States
"Yangtze River Delta"	comprises Jiangsu, Zhejiang, Anhui and Shanghai in the PRC
"%"	percent

If there is any inconsistency between the Chinese names of entities or enterprises established in the PRC and their English translations, the Chinese names shall prevail. The English translation of company or entity names in Chinese or another language which are marked with "*" and the Chinese translation of company or entity names in English which are marked with "*" is for identification purpose only.