21世紀教育

21ST CENTURY EDUCATION

CHINA 21ST CENTURY EDUCATION GROUP LIMITED

中國21世紀教育集團有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1598

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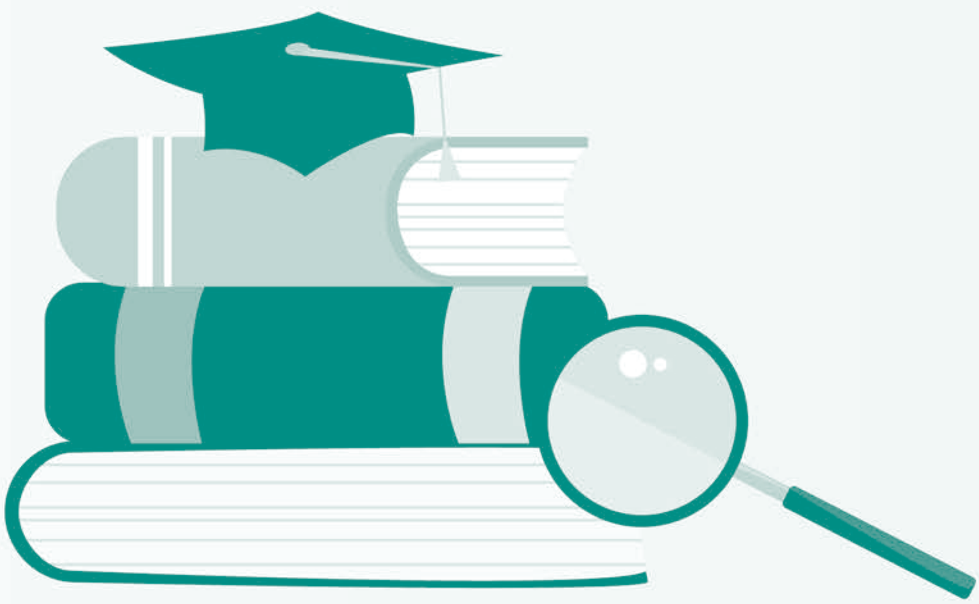


I. Corporate Information

1. BOARD OF DIRECTORS

1.1 Executive directors

Mr. Li Yunong (李雨濃)
Ms. Liu Hongwei (劉宏煒)
Mr. Ren Caiyin (任彩銀)
Mr. Liu Zhanjie (劉占杰)
Ms. Yang Li (楊莉)

1.2 Independent non-executive directors

Mr. Guo Litian (郭立田)
Mr. Yao Zhijun (姚志軍)
Mr. Wan Joseph Jason (尹宸賢)

2. AUDIT COMMITTEE

Mr. Yao Zhijun (姚志軍) (chairman)
Mr. Guo Litian (郭立田)
Mr. Wan Joseph Jason (尹宸賢)

3. REMUNERATION COMMITTEE

Mr. Wan Joseph Jason (尹宸賢) (chairman)
Mr. Guo Litian (郭立田)
Mr. Liu Zhanjie (劉占杰)

4. NOMINATION COMMITTEE

Mr. Li Yunong (李雨濃) (chairman)
Mr. Yao Zhijun (姚志軍)
Mr. Wan Joseph Jason (尹宸賢)

5. AUTHORISED REPRESENTATIVES

Mr. Liu Zhanjie (劉占杰)
Mr. Zheng Tieqiu (鄭鐵球)

6. COMPANY SECRETARIES

Mr. Zheng Tieqiu (鄭鐵球)
Ms. Wong Sau Ping (黃秀萍)

7. LEGAL ADVISOR

Luk & Partners In Association with Morgan, Lewis & Bockius

8. AUDITOR

Ernst & Young
Certified Public Accountants

9. COMPLIANCE ADVISOR

Messis Capital Limited

10. REGISTERED OFFICE

Cricket Square
Hutchins Drive
PO Box 2681
Grand Cayman KY1-1111
Cayman Islands

11. HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

8th Floor,
Zhongdian Information Building
No. 356 Zhongshan West Road
Qiaoxi District
Shijiazhuang City
Hebei Province, the PRC

12. PRINCIPAL PLACE OF BUSINESS IN HONG KONG

31/F, Tower Two
Times Square
1 Matheson Street
Causeway Bay, Hong Kong

13. CAYMAN ISLANDS SHARE REGISTRAR AND TRANSFER OFFICE

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

14. HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

15. PRINCIPAL BANKERS

Bank of Zhangjiakou, Shijiazhuang Branch
China Merchants Bank, Shijiazhuang Branch

16. COMPANY WEBSITE

www.21centuryedu.com

17. STOCK CODE

1598

II. Chairman's Statement

Distinguished Shareholders and investors,

On behalf of the Board of China 21st Century Education Group Limited, I am pleased to present to you the 2019 annual report for the year ended 31 December 2019.

BUSINESS SUMMARY

In line with the orientation of education policies and the development trends of the industry, the Group has established its position of two principal businesses, namely "vocational education + quality-oriented education" based on its existing advantageous businesses. Vocational education focuses on development of majors and industry-education integration at an in-depth level, while quality-oriented education extends the layout of the New Gaokao (or college entrance examination) business, with a view to driving the business development of the Company through both "organic development and mergers and acquisitions", thereby realizing sustainable performance growth.

In September 2019 and November 2019, the Company acquired 51% and 70% equity interests in Zhejiang Peijian and Hangzhou Yimai respectively, thus establishing a quality-oriented education section in the Yangtze River Delta region. By doing so, we have formally established our presence there and joined the course of New Gaokao business. Our presence in the Yangtze River Delta region and the New Gaokao business course has optimized the business structure of the Company's quality-oriented education. With nationwide implementation of the New Gaokao reform and the Foundation Enhancement Program (強基計劃), China stresses more on cultivating and improving comprehensive qualities of students on top of good academic performance, which provides extra opportunities for the New Gaokao business.

Upon completion of the acquisition, the Group has increased its school number to 21, including 1 private college (Shijiazhuang Institute of Technology), 6 Saintach Tutorial Schools (comprising 11 Saintach Tutorial Centers), 2 Peijian Tutorial Schools, 4 Shinedao Tutorial Schools and 8 Saintach Kindergartens, and has been entrusted to manage the west campus of Sifang College of Shijiazhuang Tiedao University.

OPERATING HIGHLIGHTS

For the year ended 31 December 2019, 15,041 full-time students were enrolled under the vocational education segment, which represented an increase of 7.8% from 13,955 students for the corresponding period in 2018. Among them, 12,525 were junior college students and 2,516 were secondary college students, representing an increase of 7.9% and 7.0% for the corresponding period in 2018, respectively. In addition, a total of 15,456 part-time students were enrolled in our schools (including distance online education and adult education), representing an increase of 3.8% from 14,886 students for the corresponding period in 2018.

Also in 2019, the Group built on New Engineering Education to engage in in-depth cooperation with Huawei Technologies Co., Ltd.* (華為技術有限公司), to jointly establish a premium base for cultivating ICT talents and foster a smart campus ecosystem. The Group also worked with Haier Group to empower talent training for the smart home industry by revolving around such models as modern apprenticeship system, joint development of majors and dual-supervisor training. As of the present, our colleges had successively formed stable partnerships with 40 top-500 enterprises (including 13 Fortune Global 500 companies and 27 top-500 enterprises in China), with various forms of collaborative industry-academia-research relations maintained with more than 260 renowned enterprises. Meanwhile, Shijiazhuang Institute of Technology has received an approval of its preschool education major and will work closely with the Group's Saintach preschool education on industry-education integration in the future.

Our vocational education segment also provided the west campus of Sifang College with entrusted operation service and accommodation service for 3,017 students.

As of 31 December 2019, the quality-oriented education segment provided services for 20,931 students, including 1,731 students under preschool education and 19,200 students under tutorial centers for cultural education. In particular, our tutorial centers for cultural education delivered approximately 470,000 tutoring hours to approximately 7,620 students, with a 65.1% student renewal rate among those who continued to choose to study after completing their first curriculum, which was higher than the corresponding period in 2018. There were 620 partner schools under the New Gaokao business of Peijian Education, providing 11,580 students with competition tutoring services on five subjects; among them, 1,159 students won the provincial first prizes at the five-subject competition.

In addition, the quality-oriented education segment obtained notable results in its output. Leveraging on a total of 1,046 cooperative members of the Beijing-Tianjin-Hebei Preschool Education Alliance (京津冀學前教育聯盟) and working with Xin Tian Di Xian, we were able to promote and distribute our products online and offline simultaneously based on the 1.5 million customer traffic of Xin Tian Di Xian, to provide paid services for content support and consultation to more than 50 cooperative members, and offer service guidance and training services for nearly 300 kindergartens and over 1,100 teachers. Our offline family education trained more than 300 people, with nearly 12,000 books sold and revenue growth doubled.

The Company's education technology products mainly focus on two aspects, namely upgrading basic applications and developing online live broadcast platforms. The former encompasses Gaojiaoyun (高教雲) platform (Sousou Smart School (嗖嗖智校)) and Youjiaoyun (幼教雲) platform (Enlightening Homeland (知蒙家園)), which satisfy smart internal management for universities and kindergartens, realize connectivity among schools, teachers and users, data integration and intelligent analysis, and enable in-depth layout of Education + Internet. Such basic applications also include an integrated platform for comprehensive management and services in industry-education integration (Tianze Talent (天擇人才)), a platform for university students and enterprises and targeting positions in such industries as production, manufacturing and the internet where there is a severe shortage of high-skilled talents by providing coordinated planning, employment and entrepreneurship education for graduates. Our online live broadcast platform represents Live Classroom (直擊課堂), with functions transplanted to the Parents Cloud Search platform (爸媽搜雲平台). Live Classroom employs the live broadcast teaching model that combines live broadcast, recording and real-time feedback, to provide online teaching scenarios for one-on-one, small-class and large-class teaching. The platform has integrated the content of preschool education, cultural education and New Gaokao business of the Company, materializing its content + technology layout that turns part of offline teaching to "online-merge-offline" teaching. At the same time, the Company is actively investing in the research and development of proprietary APP products, with an embedded design for existing technology products which intends to break the boundaries among customer resources, content products and business segments, thereby realizing deeper connection between the upstream and downstream of our diversified businesses.

DIVIDEND DISTRIBUTION

As recommended by the Board and upon approval of Shareholders at the forthcoming annual general meeting of the Company, the Company will distribute a dividend of HK2.22 cents per Share for the year 2019 as a reward for investors who have supported us all along.

FUTURE STRATEGIES

The structural upgrade of human resources brought about by the transformation and upgrade of industrial structure will remain a focus of the national supply-side reform of vocational education for a long period of time. By combining 1+x certification and credit bank system, we will continue to work intensively on development of majors and production-education integration, to cultivate high calibre and skilled talents, increase the employment rate of higher education and boost brand awareness.

With the Foundation Enhancement Program launched and the New Gaokao reform executed on a comprehensive scale, universities and colleges are given greater rights of independent selection, with subject training and integrated testing to bring more development opportunities to the institutions. Leveraging 20 years of experience in enrollment, standardized operation, faculty training and research and teaching management in the education industry market, we will intensively engage in the New Gaokao business in Beijing-Tianjin-Hebei and Yangtze River Delta regions, and pursue in-depth empowerment and coordinated development with Peijian Education and Shinedao Education.

Given Education + Internet as an irreversible trend, we will increase our input in education technology and digital upgrade, work to transform ourselves towards the online-merge-offline (OMO) model. We will export our quality education content and technology products to Beijing-Tianjin-Hebei and Yangtze River Delta regions to cover a wider customer base.

Furthermore, we will be more active in paying attention to the merger and acquisition opportunities of universities and colleges in developed regions and the opportunity of upgrading Shijiazhuang Institute of Technology to a university and establishing our presence in overseas education business as appropriate.

ACKNOWLEDGEMENT

This has been the second annual report of the Group since its listing, as we attain such organic business growth that outpaced the market average. On behalf of the Board, I would like to thank members of staff for their diligence and contribution in the past year. We would also like to convey our sincere gratitude to investors for their continuous attention and support to the Group.

Looking ahead, we will utilize our self-innovated education system and standardized management to closely align with the Group's development strategies, capture development opportunities in the education industry across Yangtze River Delta regions to promote resource sharing and provide localized education under global values, offer more friendly and convenient education services, push for balanced social progress and give everyone equal opportunities through education.

Li Yunong
Chairman of the Board

31 March 2020

III. Financial and Operating Highlights

1. RESULTS

	For the year ended 31 December				
	2019 (RMB'000)	2018 (RMB'000)	2017 (RMB'000)	2016 (RMB'000)	2015 (RMB'000)
Revenue	**234,242**	201,995	169,741	146,508	147,194
Cost of sales	**(112,934)**	(99,691)	(93,362)	(78,971)	(87,353)
Gross profit	**121,308**	102,304	76,379	67,537	59,941
Gross profit margin	**51.8%**	50.6%	45.0%	46.1%	40.7%
Profit before tax	**84,664**	70,196	45,423	40,461	28,210
Profit for the year	**82,753**	69,420	45,038	40,018	26,736
Basic earnings per Share (RMB cents)	**6.78**	6.48	5.36	–	–

2. SUMMARY OPERATING INFORMATION

Operating information	2019 to 2020	2018 to 2019	Changes	Percentage of changes
Total number of students	**32,228**	30,567	1,661	**5.4%**
Among which: Full-time[1]	**16,772**	15,681	1,091	**7.0%**
Continuing education[1]	**15,456**	14,886	570	**3.8%**
Student capacity[2]	**114.4%**	107.8%	6.6%	**6.1%**
Student retention rate[3]	**97.2%**	96.9%	0.3%	**0.3%**
Total number of teachers[4]	**765**	650	115	**17.7%**

Notes:

[1] Full-time includes junior college students and secondary school students in the Shijiazhuang Institute of Technology and students in kindergartens; continuing education refers to part-time students in the Shijiazhuang Institute of Technology.

[2] Capacity of full-time students. The student capacity as of 31 December 2019 exceeded 100% for the reason that Shijiazhuang Institute of Technology implemented a "2+1" school system, where students at the third grade will work at enterprises as interns and will not result in a shortage in student apartments, and thus recorded a student capacity of over 100%.

[3] Retention rate of full-time students.

[4] The number represents full-time teachers.

3. ASSETS AND LIABILITIES

	As at 31 December				
	2019 (RMB'000)	2018 (RMB'000)	2017 (RMB'000)	2016 (RMB'000)	2015 (RMB'000)
Assets and liabilities					
Non-current assets	**433,330**	203,829	183,707	191,901	42,812
Current assets	**639,532**	552,154	133,704	69,643	304,109
Current liabilities	**327,527**	170,194	158,318	140,549	180,601
Net current assets/(liabilities)	**312,005**	381,960	(24,614)	(70,906)	123,508
Total assets less current liabilities	**745,335**	585,789	159,093	120,995	166,320
Total equity	**672,594**	584,905	157,591	111,927	145,409
Non-current liabilities	**72,741**	884	1,502	9,068	20,911
Total equity and non-current liabilities	**745,335**	585,789	159,093	120,995	166,320
Property, plant and equipment	**140,719**	125,541	122,256	128,929	27,249
Cash and bank balances	**258,613**	259,491	39,864	5,320	13,612
Interest-bearing bank and other borrowings	**143,082**	13,000	35,106	34,322	57,800
Deferred revenue	**–**	–	57,530	48,218	43,403
Contract liabilities	**93,296**	71,637	–	–	–

	As at 31 December				
Financial ratios	**2019**	2018	2017	2016	2015
Current ratio	**195.3%**	324.4%	84.5%	49.6%	168.4%
Gearing ratio①	**21.3%**	2.2%	22.3%	24.3%	39.7%

Note:

① Total interest-bearing bank loans divided by total equity.

4. CASH FLOWS FROM OPERATIONS

	For the year ended 31 December				
	2019 (RMB'000)	2018 (RMB'000)	2017 (RMB'000)	2016 (RMB'000)	2015 (RMB'000)
Net cash from operating activities	**119,112**	123,876	66,477	76,276	24,078

IV. Management Discussion and Analysis

1. BUSINESS REVIEW

1.1 Overview

Focusing on the operation and content incubation of the education industry, and adhering to the corporate mission of "promoting the development of the education industry with contents and technologies", the Company has addressed itself to improving the efficiency and customer experience of education operation by virtue of technologies empowerment, and currently has diversified sources of revenue covering full-time vocational education and continuing education, K12 tutorial programs, preschool education and online education.

Considering improving students' abilities as our priority, we are committed to unremittingly providing clients with customized services and solutions based on individual demands. Leveraging on our self-innovated education system and standardized management, we dedicate to offering more friendly and convenient education services to students.

Benefiting from our standardized management and efficient operation, the Group has achieved significant growth in operating indicators such as student numbers and student employment rates, and key financial indicators such as income and profit.

1.2 Cooperation and Acquisitions during the Reporting Period

1.2.1 Acquisitions and investments

On 28 February 2019, the Group entered into a strategic investment agreement with Beijing Ying Yu New Media Interaction Technology Co., Ltd.* (北京英育新媒互動科技有限公司) ("Ying Yu New Media") to invest RMB2,000,000 in Ying Yu New Media to acquire 2% of its equity interest. Ying Yu New Media, established in June 2016, is a company mainly engaged in the development and consultancy of technology and corporate management services, and focusing on the integration, research and consultancy of investment and financing resources in the education industry.

On 5 September 2019, Zerui Education entered into an equity transfer agreement with, among others, Zhejiang Peijian Technology Co., Ltd.* (浙江培尖科技有限公司) ("Zhejiang Peijian") and the five individual shareholders of Zhejiang Peijian in the PRC ("Peijian Individual Shareholders"), pursuant to which Zerui Education agreed to acquire and Peijian Individual Shareholders agreed to sell a total of 51% equity interests in Zhejiang Peijian at the total consideration of approximately RMB23.5 million. As of the date of this annual report, Zhejiang Peijian had completed the procedures for change in business registration, and its operating results have been consolidated into the Group's financial statements since 22 November 2019.

On 6 September 2019, Shijiazhuang Saintach entered into an equity transfer agreement with Ningbo Xuenuo Enterprise Management Co., Ltd.* (寧波學諾企業管理有限責任公司) ("Ningbo Xuenuo"), pursuant to which Shijiazhuang Saintach agreed to acquire and Ningbo Xuenuo agreed to sell 19% of equity interests in Hangzhou Yimai Enterprise Management Consultancy Co., Ltd.* (杭州一脈企業管理諮詢有限責任公司) ("Hangzhou Yimai") held by Ningbo Xuenuo at the total consideration of RMB3.8 million. On the same day, Shijiazhuang Saintach also entered into an equity transfer agreement with Hebei Zhiqirui Education Technology Co., Ltd.* (河北智齊鋭教育科技有限公司) ("Hebei Zhiqirui"), pursuant to which Shijiazhuang Saintach agreed to acquire and Hebei Zhiqirui agreed to sell 51% of equity interests held by Hebei Zhiqirui in Hangzhou Yimai at the total consideration of RMB10.2 million. Upon completion of the transactions, Hangzhou Yimai became a subsidiary of the Company and held as to 70% by Shijiazhuang Saintach and as to 30% by Ningbo Xuenuo, respectively. As of the date of this annual report, Hangzhou Yimai had completed the procedures for change in business registration, and its operating results have been consolidated into the Group's financial statements since 25 September 2019.

Zhejiang Province was one of the pioneer provinces for the New Gaokao (or college entrance examination) Revolution in 2014. This has enriched Zhejiang Peijian and Hangzhou Yimai with extensive experience in New Gaokao. Entering into the above equity transfer agreements will improve the development of the Group's businesses in relation to New Gaokao under the culture and education business sector, optimize the Group's regional layout and allow the Group to utilize the resources of Zhejiang Peijian and Hangzhou Yimai, including the established brands, good reputation, cooperation channels and a "light-asset" business model that is easy to expand and replicate, which will coordinate with the existing resources of the Group.

1.2.2 Cooperation projects

On 1 April 2019, Shijiazhuang Institute of Technology under vocational education segment entered into a strategic cooperation agreement with the Dundalk Institute of Technology in Ireland, Great Britain to carry out teaching activities and student exchanges, develop cooperation channels suitable for each other, promote the exchange of academic programs and teaching information, and explore the 3+X cooperation model for the majors of early childhood education, construction engineering and costing, computer technology and engineering measurement.

On 31 July 2019, the Company entered into a strategic cooperation agreement with Zhonghai Ruanyin Investment Management Co., Ltd. ("Zhonghai Ruanyin") regarding a merger and acquisition fund (the "Fund") for the education industry, with the purpose of jointly establishing the model of "Industry plus Financing (產融結合)". Pursuant to the strategic cooperation agreement, the Company and Zhonghai Ruanyin will jointly set up the Fund with a total size of RMB3.0 billion and the Company will leverage its resources with respect to education and continuously engage in the investment and merger and acquisition revolving around the Company's strategic layout of development. Through the Fund, the Company will extend and integrate its industry chain, and make it a leading education platform in the PRC.

On 5 December 2019, the Company formally entered into a cooperation framework agreement with Huawei Technologies Co., Ltd.* (華為技術有限公司) ("Huawei Company"). Both parties will strengthen their industry-academia research and exploration in new engineering, jointly promote professional development such as the Internet of Things, big data and artificial intelligence, focus on the future development trends of the industry to promote cooperation on talent training and education, and closely cater to the talent demand of businesses within Huawei Company's ICT industry chain.

1.3 Our Schools

1.3.1 Overview

As of 31 December 2019, the Company owned 21 schools, including 1 private college under vocational education segment (Shijiazhuang Institute of Technology), 6 Saintach Tutorial Schools under quality-oriented education segment (consisting of 11 Saintach Tutorial Centers), 2 Peijian Tutorial Schools, 4 Shinedao Tutorial Schools and 8 Saintach Kindergartens, and was entrusted with the operation of the west campus of Sifang College of Shijiazhuang Tiedao University.

Schools of the Company	31 December 2019	31 December 2018
Vocational education – College	**1**	1
Quality-oriented education – Tutorial school	**12**	6
Quality-oriented education – Kindergarten	**8**	8
Total	**21**	15

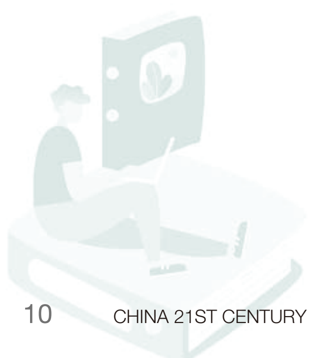
1.3.2 Student enrollment

As at 31 December 2019, we had 32,228 students enrolled in our schools, including 16,772 full-time students and 15,456 part-time students. The specific details are as follows:

Breakdown of student enrollment	2019-2020 school year	2018-2019 school year	Changes	Percentage of changes
Full-time students				
Vocational education – Shijiazhuang Institute of Technology				
Including: Junior college	**12,525**	11,604	921	7.9%
Secondary college	**2,516**	2,351	165	7.0%
Subtotal (full-time college students)	**15,041**	13,955	1,086	7.8%
Quality-oriented education – Saintach Kindergartens	**1,731**	1,726	5	0.3%
Subtotal (full-time students)	**16,772**	15,681	1,091	7.0%
Part-time students				
Vocational education – Shijiazhuang Institute of Technology				
Vocational education – Continuing education programs①	**15,456**	14,886	570	3.8%
Subtotal (part-time students)	**15,456**	14,886	570	3.8%
Total	**32,228**	30,567	1,661	5.4%

Note:

① The increase in the number of students in the continuing education programs for the year ended 31 December 2019 compared to that for the year ended 31 December 2018 was mainly due to the increase of student enrollment in adult education exams at Shijiazhuang Institute of Technology.



For the year ended 31 December 2019, our tutorial schools under quality-oriented education segment delivered approximately 469,298 Tutoring Hours to approximately 7,620 students, with a 65.1% student renewal rate for those who still chose to study after completing the first curriculum. Details are as follows:

	For the year ended 31 December			
	2019	2018	Changes	Percentage of changes
Number of Tutoring Hours delivered	**469,298**	363,080	106,218	29.3%
Saintach Tutorial Schools[①]	**346,391**	363,080	(16,689)	(4.6%)
Shinedao Tutorial Schools	**122,907**	–	122,907	–
Number of students tutored	**7,620**	4,984	2,636	52.9%
Saintach Tutorial Schools	**5,182**	4,984	198	4.0%
Shinedao Tutorial Schools	**2,438**	–	2,438	–
Renewal rate	**65.1%**	61.4%	3.7%	6.0%
Saintach Tutorial Schools	**61.1%**	61.4%	(0.3%)	(0.5%)
Shinedao Tutorial Schools	**74.0%**	–	74.0%	–

Note:

① The decrease in the number of Tutoring Hours of Saintach Tutorial Schools delivered for the year ended 31 December 2019 compared to that for the year ended 31 December 2018 was mainly due to the decrease of Tutoring Hours for one-to-one classes.

For the year ended 31 December 2019, there were 620 partner schools under the New Gaokao business of Peijian Tutorial Schools, providing 11,580 students with competition tutoring services on five subjects; among them, 1,159 students won the provincial first prizes at the five-subject competition.

1.3.3 *Charge and average tuition revenue*

As disclosed in the Prospectus, we charge our students fees comprising tuition (including tutoring fees) and, at our Shijiazhuang Institute of Technology under vocational education segment, boarding fees. Without taking into consideration the newly added relevant charges from Peijian Tutorial Schools and Shinedao Tutorial Schools, our other fee range approximates to that for the year ended 31 December 2018.

	For the year ended 31 December			
Average revenue[1]	**2019 RMB**	2018 RMB	Changes RMB	Percentage of changes
Vocational education[2]	**6,418**	5,873	545	9.3%
Including: Junior college	**6,742**	6,210	532	8.6%
Secondary college	**4,813**	4,224	589	13.9%
Quality-oriented education				
Saintach Kindergartens	**16,574**	16,530	44	0.3%

Notes:

① The average revenue earned from each full-time student is calculated based on the revenue generated from tuition fees for a whole fiscal year and the average number of students enrolled as of the beginning and end of the same year.

② The increase in average revenue from vocational education was mainly attributable to more students enrolled in such majors that charged higher fees.

The range of tutoring fee for tutorial schools under quality-oriented education segment is as follows:

School and type of course	2019-2020 school year
Saintach Tutorial Schools	RMB140 to RMB268 per session
Shinedao Tutorial Schools	RMB40 to RMB340 per hour
Extracurricular tutoring of Peijian Tutorial Schools	RMB24 to RMB840 per session
New Gaokao business of Peijian Tutorial Schools	RMB4,000 to RMB14,000 per semester

1.3.4 Employment rate

Shijiazhuang Institute of Technology works to build a modern vocational education system, which adopts the "TOP" talent training model (TOP means "Technique-Occupation-Personality"), to continuously cultivate and deliver application-oriented talents for society. For the year ended 31 December 2019, we partnered with over 40 of the top 500 enterprises, established 14 order-based classes and organized 6 on-site training programs, which significantly enriched our teaching practice. The employment rate of graduates for the year ended 31 December 2019 was approximately 95.3%:

	For the year ended 31 December			
Employment rate①	**2019**	2018	Changes	Percentage of changes
Shijiazhuang Institute of Technology	**95.3%**	94.4%	0.9%	1.0%

Note:

① The employment rate refers to the proportion of employed students to the total number of junior college graduates for the year.

1.3.5 Our teachers

Teachers	**31 December 2019**	31 December 2018	Changes	Percentage of changes
Full-time Teachers				
Vocational education	**367**	324	43	13.3%
Quality-oriented education – Saintach Tutorial Schools	**165**	163	2	1.2%
Quality-oriented education – Shinedao Tutorial Schools	**63**	–	63	–
Quality-oriented education – Peijian Tutorial Schools	**18**	–	18	–
Quality-oriented education – Saintach Kindergartens①	**152**	163	(11)	(6.8%)
Subtotal (full-time teachers)	**765**	650	115	17.7%
Part-time Teachers				
Vocational education②	**117**	123	(6)	(4.9%)
Quality-oriented education – Saintach Tutorial Schools③	**228**	298	(70)	(23.5%)
Quality-oriented education – Shinedao Tutorial Schools	**60**	–	60	–
Quality-oriented education – Peijian Tutorial Schools④	**242**	–	242	–
Subtotal (part-time teachers)	**647**	421	226	53.7%
Total	**1,412**	1,071	341	31.8%

Notes:

① The number of full-time teachers of Saintach Kindergartens decreased mainly because the number of reserve teachers for Saintach Kindergartens decreased as compared with that for the year ended 31 December 2018.

②③ The decrease in the number of part-time teachers was mainly due to our efforts to gradually increase the number of full-time teachers, standardize, consolidate and optimize the composition of part-time teachers and increase the number of classes given by outstanding part-time teachers.

④ Given the cyclical nature of the New Gaokao business of Peijian Tutorial Schools, we mainly hire part-time teachers for long-term cooperation.

The quality of education we provide is strongly tied to the quality of our teachers. We prioritize the recruitment of outstanding teachers and strive to maintain the stability of our teachers. The percentage of our teachers with a bachelor's degree or above increased from 81.1% as at 31 December 2018 to 94.7% as at 31 December 2019.

1.4 Our Content and Output

1.4.1 Management output

We have acquired the capability of management output for the two major segments of vocational education and quality-oriented education.

For the year ended 31 December 2019, our vocational education segment provided the west campus of Sifang College with entrusted operation service and accommodation service for 3,017 students.

For the year ended 31 December 2019, the "Beijing-Tianjin-Hebei Preschool Education Alliance (京津冀學前教育聯盟)" under our quality-oriented education segment had 1,046 cooperative members, provided paid services for content support and consultation to more than 50 cooperative members, and provided service guidance and training services for nearly 300 kindergartens and over 1,100 teachers.

1.4.2 Content output

We continuously improve our research and development capabilities to meet the needs of different customers, and are committed to promoting the comprehensive and coordinated development of children in various aspects from parents to teachers and from society to school. For the year ended 31 December 2019, our quality-oriented education segment led the development of aesthetic education, kindergarten teacher college and parent education programs; and we started the external promotion of the aesthetic education program jointly developed with Hebei Youth Calligraphers Association (河北青少年書畫家協會) through the practices in internal kindergartens, with nearly 12,000 books sold in the whole year. Our offline family education and training program targeting parents trained more than 300 customers through product output by way of partnership, with our product system still in continuous development and improvement. Our family education cloud platform targeting schools and education institutions is built on technologies such as big data, cloud computing and mobile internet. It provides parent training for schools, education institutions and authorities, offers guidance on family education, and addresses home-school conflicts to bolster the competitiveness of regional education, with the product system still in iteration. Our kindergarten teacher college provides kindergarten teachers with professional, multi-dimensional and practical methods for preschool education, teaching, children's healthcare and homeschool education from multiple perspectives to effectively solve the practical problems encountered by kindergarten teachers during work.

1.5 Our Technological Empowerment

Focusing on the strategic layout of "content + technology", the Group further accelerated the expansion of its traditional offline education business into the digital field. Science and technology empower us to establish our content layout in two major segments of vocational education and quality-oriented education, and consolidate and incorporate technology into the content, including technical services and technical consultation. For the year ended 31 December 2019, we successively developed five technology products, with the functions including live streaming, education evaluation, cloud-based classroom, etc., which basically met most of the needs of the target group.

Middle and high-end family education platform–"Parents Cloud-based Classroom (爸媽搜雲課堂)": Parents Cloud-based Classroom is tailor-made for its current 1.50 million users by Xin Tian Di Xian, aiming at providing visual and audio courses relating to quality-oriented education, subject education and parenting classes for 3 to 12 years-old children and their parents. Parents Cloud-based Classroom comprises three functional modules such as children's university, parents' school and parent-children reading and sharing, including a large number of selected courses and fairy tales for children and various family education lessons for parents, which is beneficial for parents and children to enjoy the fun of learning together.

Gaojiaoyun (高教雲) management platform under vocational education segment – "Sousou Smart School (嗖嗖智校)": It is a SaaS-type cloud platform for college teachers and students, which is based on the complete business process of colleges. It aims to build a core platform for smart campus to provide a series of services such as enrollment management, student registration, financial management, online payment, teaching and related administrative affairs, internship and practical training, and precise employment. For schools, the platform can deliver full life-cycle management of students from enrollment to employment. For students, it can provide value-added services in close relation to school study, life and consumption. At the same time, through data accumulation in terms of teaching, student, finance and operation management at schools, combined with cloud computing, big data, artificial intelligence and other advanced technologies, the platform can build knowledge spectrums and behavior models of students to enable schools to serve as the cockpit for big data and deliver personalized study.

Youjiaoyun (幼教雲) management platform under quality-oriented education segment – "Enlightening Homeland (知蒙家園)": "Enlightening Homeland" is a cloud platform dedicated to improving the information management of kindergartens, focuses on the affairs management, home-school education, employee management and financial management in kindergartens, and enables efficient and convenient communication among kindergartens, kindergarten teachers and parents. The platform, connected to the micro-application terminal on WeChat, allows users to keep abreast of the real-time situation in kindergartens. It provides professional management, standardized services, high-quality content and convenient operation for kindergartens, and has drawn the attention from and been used by many well-known kindergartens after its launch.

Online live broadcast tool – "Live Classroom (直擊課堂)": Live Classroom is an online education live broadcast tool for teachers and small and medium-sized K12 education institutions. It offers core functions at one stop such as course release, online audio live broadcast, student management and paid reading, and can help individuals or organizations to build their exclusive online schools. Live Classroom is a live broadcast tool focused on knowledge dissemination, and any user can use this tool to meet the needs for live broadcast. Free from user terminals, the tool enables live broadcast via browsers, and applies to various scenarios such as one-to – one, one-to-many and double-teacher classrooms.

Intelligent education evaluation platform – "Grand Educational Evaluation (博教智評)": It is a simple and easy-to-use platform that combines questionnaire, exam and evaluation, focusing on providing free questionnaire creation, publication, management, collection and data analysis services for the education industry, allowing most enterprises or individuals to access faster and more convenient data collection and evaluation services.

1.6 Our Licenses and Honors

For the year ended 31 December 2019, the Company completed the 2018 annual examination and verification of the licenses, permits, approvals and certificates necessary to conduct our operations in all material aspects from the relevant government authorities in the PRC as scheduled, which have remained in full effect. Shijiazhuang High-tech Industrial Development Zone Tianshan Saintach Kindergarten (石家莊高新技術產業開發區新天際天山幼兒園), Shijiazhuang High-tech Industrial Development Zone Saintach Tutorial School (石家莊高新區新天際培訓學校), Shijiazhuang Qiaoxi District Bilingual Culture Tutorial School (石家莊市橋西區雙語文化培訓學校) and Shijiazhuang Qiaoxi District Zhicheng Tutorial School (石家莊市橋西區智城培訓學校) were awarded 2018 Annual Inspection Excellent School (Kindergarten) by the Examination and Approval Bureau of Shijiazhuang Hi-tech Industrial Developmental Zone (石家莊高新區行政審批局) and Shijiazhuang Qiaoxi District Education Bureau (石家莊橋西區教育局), respectively.

On 16 January 2019, the Group won the award of "2018 Golden Hong Kong Listed Companies – Most Valuable Company with Small to Medium Market Value (2018 金港股最具價值中小市值股公司)" at the annual award ceremony for 2018 "Golden Hong Kong Listed Companies (金港股)" held in Shenzhen by virtue of the steady growth in performance and continuous improvement in comprehensive strength in recent years and strong development potential in future.

On 9 March 2019, the Group's Saintach Kindergarten under quality-oriented education segment was awarded the title of 2018 "Advanced Unit (先進單位)" by Shijiazhuang Private Education Association. It was the third consecutive year that Saintach Kindergarten had won this honorary title.

On 21 June 2019, the 2019 annual award results of "China Financial Market Grand Prize (中國融資大獎)" were revealed in Hong Kong, where the Group won the award of "Listed Company with the Greatest Potential (最具潛力上市公司)" by virtue of its growth.

On 24 June 2019, the cultural education training of the Group's Saintach Tutorial Schools under quality-oriented education segment won the second prize in the "Great Corporate Trainings in Hebei (河北好企訓)" activity by virtue of their excellent teaching quality and high social satisfaction.

On 22 November 2019, the Group won the award of "Most Influential Education Brand (最具影響力教育品牌)" at the Second Investor Day and the Award Ceremony of China Education "Golden Knowledge Award" (第二屆投資人節暨中國教育「金知獎」) by virtue of its years of high-quality education services and social satisfaction.

2. MARKET REVIEW AND NEW REGULATIONS

2.1 Further Policy Support for Vocational education

With the real economy experiences slower growth, the importance of vocational education has risen to the national strategic level. On 24 January 2019, the State Council issued the Notice on Issuing the National Plan for Implementing Vocational Education Reform (《關於印發國家職業教育改革實施方案的通知》), offering further policy support for vocational education. On 10 April 2019, the Ministry of Education and three other ministries jointly issued the notice on the Pilot Plan for Implementing the "Academic Certificates plus Vocational Skills Level Certification" System in Educational Institutions (《關於在院校實施「學歷證書+若干職業技能等級證書」制度試點方案》), thereby launching the pilot system of "Academic Certificates plus Vocational Skills Level Certification" (the "1+X Certification"). On 6 May 2019, five ministries including the Ministry of Education jointly issued the notice on the Special Implementation Plan for Expanding Enrollment in Vocational High Schools (《高職擴招專項工作實施方案》) to implement the relevant requirements set out in the 2019 Government Work Report in relation to expanding enrollment in vocational high schools by one million students; the notice also points out that "higher vocational education shall serve as a strategic initiative to alleviate the current employment pressure and address the shortage of high-skilled talents". On 10 October 2019, the National Development and Reform Commission, the Ministry of Education and other departments jointly issued the National Pilot Plan for Implementing Industry-Education Integration (《國家產教融合建設試點實施方案》), with pilot work to develop approximately 50 Chinese cities featuring industry-education integration within five years. On 5 December 2019, the Ministry of Education issued the Revised Draft of Vocational Education Law of the People's Republic of China (Draft for Soliciting Views) (《中華人民共和國職業教育法修訂草案(徵求意見稿)》), which sets out that our state will enable separate development for vocational education and general education in different stages after compulsory education. The draft also explicitly sets out that vocational education shall adheres to industry-education integration, school-enterprise cooperation, work-study integration, as well as knowledge and action in accord, to cultivate the craftsmanship spirit. Our state encourages the development of multi-level vocational education, and promotes diversified education operations where businesses play a central role and various social subjects are supported to extensively engage in vocational education. On 5 December 2019, the Group formally signed a cooperation framework agreement with Huawei Company, under which the Group would tap into the national initiative of "New Engineering Education" as an opportunity, focus on the future development trends of the industry to promote cooperation on talent training and education, and closely cater to the talent demand of businesses within Huawei Company's ICT industry chain.

2.2 Fully Developing Quality-oriented Education and Cultivating Top-tier Talents for Basic Disciplines More Quickly

On 8 July 2019, the State Council issued the Opinions on Deepening the Reform of Education and Teaching and Comprehensively Improving the Quality of Compulsory Education (《關於深化教育教學改革全面提高義務教育品質的意見》), which maintained the balanced development of "Five-Pronged Education (五育)", full development of quality-oriented education, and a high school admission model based on the performance of junior secondary school graduation examination with the evaluation of overall quality taken into account.

On 20 August 2019, the Ministry of Education issued the Notice on Constructing Cultivation Bases for Top-tier Students in Basic Disciplines from 2019 to 2021 (《關於2019–2021年基礎學科拔尖學生培養基地建設工作的通知》). On 14 January 2020, the Ministry of Education issued the Opinions on Implementing the Pilot Admission Reform for Basic Subjects in Some Universities (《關於在部分高校開展基礎學科招生改革試點工作的意見》) (the "Foundation Enhancement Program (強基計劃)"). Designed to actively explore the models for cultivating top-tier innovative talents in basic disciplines, the Foundation Enhancement Program (強基計劃) selects and cultivates students with outstanding comprehensive qualities or performance in basic disciplines. It highlights the supporting and leading function of basic disciplines and further clarifies the key position of academic grades, enabling universities to refocus on the results of college entrance exam during admissions and further enhancing the justness and fairness of entrance exams. In 2019, the Company vigorously developed its cultural education business under quality-oriented education, by successively acquiring Zhejiang Peijian and Hangzhou Yimai and actively engaging in operations relating to New Gaokao.

2.3 A Booming Period for the Online Education Industry amidst the Current "COVID-19" Outbreak

According to iiMedia Research, the online education market is expected to be worth RMB453.8 billion in 2020. With the growing maturity of technologies such as big data, artificial intelligence and live broadcast, "Internet+ Education" will embrace further development. Affected by the outbreak of "COVID-19" epidemic during the Chinese New Year in 2020 and in response to the requirement of "class suspension with continuing education (停課不停教、停課不停學)", online education will witness faster industrialization and popularization. Leveraging on its strategic layout of "Content+Technology", the Company has developed a number of information-based education products. In view of the current epidemic outbreak, the Company will accelerate the commercial output and promotion of its proprietary information-based education products, particularly online education tools. In addition, except for the Company's kindergartens, all physical schools of the Company have commenced online teaching, leaving the Company's business operations largely unaffected. The Company will increase the recording and research and development progress of its online courses to ensure the learning efficiency and effectiveness of its students.

2.4 A Light-asset Operation Model for Management Output of Kindergarten Business

On 15 November 2018, Xinhua News Agency was authorized to issue Certain Opinions of the CPC Central Committee and the State Council on Deepening the Reform and Regulating the Development of Preschool Education (《中共中央、國務院關於學前教育深化改革規範發展的若干意見》) (the "Opinions"), pointing out a clear direction for further improving the Chinese public service system on preschool education. Internally, the Group, focusing on its corporate mission of "Driving the Development of Education through Content and Technology" as well, has optimized the development strategy of its preschool education business, and realized management output in the light-asset operation model and through content development and technology empowerment as the core, instead of physical expansion of kindergartens. Furthermore, on 12 June 2019, the Group changed the use of proceeds allocated for kindergarten acquisition, the details of which are set out in the section headed "Use of Net Proceeds from the Initial Public Offering" below. According to Shijiazhuang's local policy for benefiting the general public, three kindergartens of the Group launched a public inclusivity system with appropriately lower nursery fees from October to December 2019, coupled with rental waiver or deduction by the government which was expected to reduce the revenue from kindergarten business under quality-oriented education segment, whereas gross margin and profit for the year were largely unaffected. As the revenue and profit of our kindergarten business under quality-oriented education segment accounted for a relatively small share of the Group's overall results, the public inclusivity system of the Group's kindergartens had a relatively small impact on the Group's overall results.

3. FUTURE PROSPECTS

Centering on the overall national objective for education modernization, we, as a large private education service provider, will exert great efforts to develop vocational education and quality-oriented education, and sustain a diversified industrial layout.

We will attach greater importance to content development, specialty construction and the improvement of teaching quality and operational efficiency, continue to provide customers with quality education services and good customer experience, and take advantage of various technologies to empower customers to learn more efficiently and effectively. Meanwhile, we will apply our information-based education products to more schools, kindergartens and institutions, gradually achieve commercial output and accumulate larger bases of customers and students.

We will actively build and promote our quality-oriented education business for children and young customer groups between 0 and 18 years old, helping to cultivate a wider range of abilities such as logical thinking, hands-on skills and creativity for young children and cultivate the learning abilities targeting at the revolution of new college entrance examination for mature teenagers. We will proactively consolidate and integrate the abilities relating to research and training of faculty, upgrade of product research and development and improvement of operational efficiency of Saintach Education, Shinedao Education and Peijian Education.

We will create a more convenient and efficient learning environment for students by leveraging our high-quality faculty and course products as well as internet tools and technologies. We will continue to maintain a light-asset operation model, achieve output management by centering on content development and technology empowerment, and accelerate the development of our online education business.

We will develop the vocational education business for adolescents aged above 15 and adult customers. Through deepening faculty research and training, designing academic subjects, specialty construction and specialty development as well as standardized and well-regulated teaching management and implementing the application-oriented and high-skilled talents cultivation mode of "Vocational Skills + Working Certificates + Graduation Certificates" (「專業技能+崗位證書+畢業證書」), we strive to maintain a high employment rate. We will invest in and acquire some high-quality vocational colleges and training institutions as appropriate, and ramp up industry-education integration and school-enterprise cooperation for vocational education, to cultivate talents who are equipped with such technologies and skills as urgently required in our state's development.

Meanwhile, we will be more active to keep abreast of and establish our presence in overseas education business as appropriate.

4. FINANCIAL REVIEW

4.1 Revenue

We derive revenue primarily from tuition (including tutoring fees) of schools from our students, boarding fees and service income for provision of college operation services to the west campus of Sifang College.

Revenue increased by approximately 16.0% from approximately RMB202.0 million for the year ended 31 December 2018 to approximately RMB234.2 million for the year ended 31 December 2019, mainly due to the increase of student enrollment and average tuition fee.

4.2 Cost of Sales

Cost of sales primarily consisted of staff costs, rental fees, depreciation and amortization and utilities.

Cost of sales increased by approximately 13.3% from approximately RMB99.7 million for the year ended 31 December 2018 to approximately RMB112.9 million for the year ended 31 December 2019, mainly due to (1) the increase in staff costs; (2) the increase in costs resulting from the acquisition of Zhejiang Peijian and Hangzhou Yimai; and (3) the increase in the costs of teaching as a result of the increase in the number of students.

4.3 Gross Profit and Gross Profit Margin

The amount of gross profit increased by approximately RMB19.0 million from RMB102.3 million for the year ended 31 December 2018 to RMB121.3 million for the year ended 31 December 2019; and the gross profit margin increased from approximately 50.6% for the year ended 31 December 2018 to approximately 51.8% for the year ended 31 December 2019, which was mainly due to the increase of student enrollment.

4.4 Other Income and Gains

Other income and gains consisted of (1) interest income from banks; (2) government grants; and (3) site use fees charged to certain secondary vocational schools and companies for their external use of the premises and facilities of Shijiazhuang Institute of Technology for organizing teaching activities and training sessions.

Other income and gains increased by approximately 147.5% from approximately RMB10.6 million for the year ended 31 December 2018 to approximately RMB26.2 million for the year ended 31 December 2019, mainly due to (1) the increase in interest income from fixed term deposits with banks; and (2) the receipt of government grants.

4.5 Selling and Distribution Expenses

Selling and distribution expenses primarily consisted of salaries and other benefits for recruitment and advertising staff, advertising expenses and student recruitment expenses.

Selling and distribution expenses increased by approximately 55.8% from approximately RMB7.6 million for the year ended 31 December 2018 to approximately RMB11.9 million for the year ended 31 December 2019, mainly due to (1) the increase of wage for student recruitment personnel; and (2) the increase of recruitment promotion expenses.

4.6 Administrative Expenses

Administrative expenses consisted of salaries and other benefits for general administrative staff, office-related expenses, assurance and advisory expenses.

Administrative expenses increased by approximately 30.0% from approximately RMB31.5 million for the year ended 31 December 2018 to approximately RMB41.0 million for the year ended 31 December 2019, mainly due to (i) wage increase arising from the increase of management personnel; and (2) the increase of auditing and consultation service fees.

4.7 Other Expenses

Other expenses mainly consisted of (1) exchange loss; and (2) expenses relating to loss on disposal of various fixed assets.

Other expenses amounted to approximately RMB0.9 million for the year ended 31 December 2019, which stayed at roughly the same level as that for the year ended 31 December 2018.

4.8 Finance Costs

Finance costs mainly represented interest on loans borrowed from financial institutions and guarantee fees paid to third parties for the loans borrowed.

Finance costs increased by approximately 208.2% from approximately RMB2.7 million for the year ended 31 December 2018 to approximately RMB8.2 million for the year ended 31 December 2019, mainly due to the increase of finance costs arising from the increase of bank borrowings.

4.9 Taxation

Income tax expenses increased by approximately RMB1.1 million from RMB0.8 million for the year ended 31 December 2018 to RMB1.9 million for the year ended 31 December 2019, mainly due to the income tax expenses arising from the listing award that amounted to RMB5.0 million received from the local government.

4.10 Profit for the Year

Due to the above factors, the Company's profit for the year grew from approximately RMB69.4 million for the year ended 31 December 2018 to approximately RMB82.8 million for the year ended 31 December 2019.

4.11 Net Liquidity and Capital and Funds and Borrowing Sources

As at 31 December 2019, net current assets of the Company were approximately RMB312.0 million, which mainly consisted of prepayments, other receivables and other assets, term deposits, pledged deposits and cash and bank balances.

As at 31 December 2019, current assets increased from approximately RMB552.2 million as at 31 December 2018 to approximately RMB639.5 million. The increase in current assets was mainly due to (1) the additional financial assets at fair value through profit or loss; and (2) the additional prepayments for renovation projects.

As at 31 December 2019, current liabilities increased from approximately RMB170.2 million as at 31 December 2018 to approximately RMB327.5 million. The increase in current liabilities was mainly due to (1) the increase of borrowings from financial institutions; and (2) the increase of tuition and boarding fees received in advance from students.

As at 31 December 2019, the current ratio of the Company (current assets divided by current liabilities) was 195.3%, as compared with 324.4% as at 31 December 2018. The decrease in current ratio was mainly due to the increase of borrowings from financial institutions.

4.12 Gearing Ratio

As at 31 December 2019, gearing ratio (calculated by total interest-bearing bank and other borrowings divided by total equity) was approximately 21.3%, representing an increase of 19.1 percentage points from approximately 2.2% as at 31 December 2018, mainly due to the increase in interest-bearing bank and other borrowings.

4.13 Major Investment

Except as disclosed in this annual report, the Company has no other plans for major investment and capital assets.

4.14 Major Acquisitions and Disposals

For the year ended 31 December 2019, the Group did not conduct any major acquisition or disposal of any subsidiary or associated company.

4.15 Contingent Liabilities

As at 31 December 2019, the Company did not have any material contingent liabilities, guarantees or any material litigation or claims, pending or threatened against any member of the Company (31 December 2018: Nil).

4.16 Foreign Exchange Risk

Most gains and expenses of the Company were denominated in Renminbi. As at 31 December 2019, certain bank balances were denominated in Hong Kong dollars or US dollars. The Company currently does not have any foreign exchange hedging policy. The management will continue to monitor the foreign currency exchange risk of the Company and consider taking prudent measures in due course.

4.17 Pledge of Asset

For the year ended 31 December 2019, the Group pledged bank deposits of RMB178.5 million for obtaining a bank facility (2018: RMB105.0 million), of which RMB105.0 million was unutilized as at 31 December 2019 (2018: RMB105.0 million).

4.18 Events after the Reporting Period

1. ***Outbreak of the Novel Coronavirus (COVID-19)***

   Subsequent to the end of the reporting period, there was an outbreak of the novel coronavirus (COVID-19) across China. The Group provided and completed its education services for the 2019/2020 fall semester by early January 2020. The Group's spring semester has been delayed due to school closure during the outbreak period. The Group implemented certain alternative actions for students during the closure period, including implementing online teaching activities.

   In view of the alternative actions described above, the management had assessed and preliminarily concluded that there was no significant impact on the financial position of the Group subsequent to the year ended 31 December 2019 and up to the date of this annual report. Having said that, the management would remain alert to the development of the pandemic and take additional measures as appropriate. The Group will release further announcements as and when appropriate in the event that there is any significant financial impact from COVID-19 on the Group's financial results and will reflect such impact in the Group's interim and annual financial statements.

2. ***Proposal for dividend***

   As at the date of this annual report, the Board has resolved to propose a final dividend of HK2.22 cents per Share for the year ended 31 December 2019.

V. Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Li Yunong (李雨濃) (formerly known as Li Desong (李德頌)), aged 55, is one of the Controlling Shareholders and founders of the Group. Mr. Li was appointed as the chairman of the Board and an executive Director on 19 January 2017 and has served as a director of Shijiazhuang Institute of Technology since May 2003, mainly responsible for the overall formulation of business strategies and development guidance of the Group. Mr. Li has more than 21 years of experience in the education industry.

Mr. Li served as a teacher in Hebei Institute of Physical Education* (河北體育學院) from July 1985 to October 1990 and he was engaged as a scriptwriter in Shijiazhuang Institute of Art* (石家莊藝術研究所, currently known as the Institute of Culture and Arts of Shijiazhuang City* (石家莊市文化藝術研究所)) from November 1990 to October 1994. Mr. Li has been serving as the art director in the Hebei Youth Television Culture and Art Center* (河北青年電視藝術中心) from November 1994. Since January 2004, Mr. Li has been acting as the chairman of the board of directors of Lionful Investment Holding.

Mr. Li graduated from Hebei University (河北大學) in Baoding City, Hebei Province, the PRC, with a bachelor's degree in economics in July 1985 and Tsinghua University (清華大學) in Beijing, the PRC, with a master's degree in business administration for senior management in January 2006.

Mr. Li is the father of Mr. Li Yasheng (an assistant to the president of the Company).

Ms. Liu Hongwei (劉宏煒), aged 37, was appointed as an executive Director on 19 January 2017 and appointed as the chief executive officer of the Company on 7 January 2019, mainly responsible for the overall operation and development of the Group and the overall operation and daily management of tutorial schools of the Group. Ms. Liu has more than nine years of experience in the education industry and more than 15 years of experience in corporate management.

From June 2004 to May 2010, Ms. Liu held various positions in different branch offices of Hebei 1+2 Real Estate Brokerage Co., Ltd.* (河北壹加貳房地產經紀有限公司), including the manager of marketing department and the manager of operation management department and the general manager. Ms. Liu joined the Group in May 2010 and has successively served in Shijiazhuang Saintach as the manager of operation management department, the assistant to the general manager, the deputy general manager and the general manager since then. From August 2013 to August 2017, Ms. Liu served as the assistant to the president and the vice president of Hebei Lionful Education Investment Co., Ltd.* (河北廿一世紀教育投資有限公司) ("Lionful Education"), successively. From 19 January 2017 to 7 January 2019, she served as the executive president of the Company. Since 2014, she has been the vice chairman of Shijiazhuang Association for Non-government Education.

Ms. Liu graduated from Hebei University (河北大學) in Baoding City, Hebei Province, the PRC, majoring in law in July 2003, and obtained a master's degree in business administration in January 2015.

Mr. Ren Caiyin (任彩銀), aged 43, was appointed as an executive vice president and an executive Director on 19 January 2017, and was the president of higher education business division of the Company, mainly responsible for the overall operation and daily management of the higher education section of the Group. Mr. Ren has more than 15 years of experience in the education industry.

Mr. Ren joined the Group in October 2004 as a teacher of Shijiazhuang Institute of Technology and has served in several positions successively, including the head of the teaching and research section, the dean of economics and management college, the assistant to the dean, the executive vice dean and the executive dean since then. Mr. Ren also has been a director and the executive vice president of Lionful Education from June 2016 to August 2017. He has served as a director of Hebei Saintach since September 2016.

Mr. Ren graduated from Northeast Forestry University (東北林業大學) in Harbin City, Heilongjiang Province, the PRC, with a bachelor's degree in forestry in July 2001 and a master's degree in ecology in June 2004. He is a doctoral candidate in management at Hebei University of Technology (河北工業大學). He obtained the qualification as a teacher in higher education granted by the Education Department of Hebei Province (河北省教育廳) in December 2007 and obtained the title of associate professor granted by the Title Reform Leading Group Office of Hebei Province* (河北省職稱改革領導小組辦公室) (the "Hebei Title Reform Office") in December 2016.

Mr. Liu Zhanjie (劉占杰), aged 47, was appointed as a Director on 20 September 2016, re-designated as an executive Director on 19 January 2017, and appointed as the vice chairman of the Board on 7 January 2019, mainly responsible for promoting the implementation of major matters according to the Group's business strategy. Mr. Liu has more than 16 years of experience in the education industry.

Mr. Liu served as a deputy head of labor and personnel department and director of staff's training center of Hebei Province No. 4 Construction Engineering Co., Ltd.* (河北省第四建築工程公司) from July 1994 to May 2003, and as the manager of integrated department of Lionful Investment Holding from June 2003 to October 2004. Mr. Liu joined the Group in November 2004 as the executive vice dean of Shijiazhuang Institute of Technology and ceased to be the executive vice dean in October 2007. From October 2007 to August 2017, Mr. Liu has successively served as the deputy general manager and the president of Lionful Education. Mr. Liu has been a director of Shijiazhuang Institute of Technology since November 2011, the chairman of the board of directors of Hebei Saintach since August 2015 and Shijiazhuang Saintach since July 2016. He served as the executive president of the Company from 30 August 2017 to 7 January 2019 and a director of China's Non-government Education Association since 2 December 2018. He served as the deputy president of Hebei Province Association for Private Education since March 2019.

Mr. Liu graduated from Hebei University (河北大學) in Baoding City, Hebei Province, the PRC, with a bachelor's degree of arts in Chinese literature (漢語言文學) in July 1994 and Hebei University of Technology (河北工業大學) in Tianjin, the PRC, with a master's degree in business administration in December 2004. He obtained the certificate of qualification of senior human resources management professional awarded by the Vocational Skills Appraisal Guidance Center of Hebei Province* (河北省職業技能鑒定指導中心) in August 2003 and was accredited as a senior economist by the Hebei Title Reform Office in December 2003. He also obtained a certificate of career instructor awarded by the Occupational Skill Testing Authority of the Ministry of Human Resources and Social Security of the PRC (中國勞動和社會保障部職業技能鑒定中心) in December 2006.

Ms. Yang Li (楊莉), aged 48, was appointed as an executive Director on 15 February 2017, mainly responsible for the research on marketing strategies of the Group. Ms. Yang has more than 15 years of experience in the education industry and more than 15 years of experience in accounting and financing.

Ms. Yang served as the deputy director of the financial department of Shijiazhuang Jingang Internal-combustion Engine Parts Group Co., Ltd.* (石家莊金剛內燃機零部件集團有限公司) from July 1993 to January 2001. Ms. Yang joined the Group in January 2001 as an accountant in Lionful Education. She ceased to be an accountant in January 2004, and served as the financial manager from January 2004 to January 2005 and successively as the investment manager and the strategic planning manager in the strategy development department from January 2005 to August 2017. Ms. Yang served as a director in Shijiazhuang Saintach from June 2013 to April 2015 and as a director in Hebei Saintach from July 2013 to December 2015. Ms. Yang served as a director in Lionful Education from July 2013 to October 2016.

Ms. Yang graduated from Shaanxi Institute of Mechanical Engineering* (陝西機械學院, currently known as Xi'an University of Technology* (西安理工大學)) in Xi'an City, Shaanxi Province, the PRC, with a bachelor's degree of engineering in July 1993, and Renmin University of China (中國人民大學) in Beijing, the PRC, with a master's degree in economics in June 2009. She obtained the practicing qualification certificate of registered tax agent in September 2002 and the qualification certificate of senior accountant in November 2015, both granted by the Hebei Title Reform Office. She was granted the certified public accountant certificate by The Chinese Institute of Certified Public Accountants (中國註冊會計師協會) in December 2002.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Guo Litian (郭立田), aged 68, was appointed as an independent non-executive Director on 19 January 2017 and is responsible for providing independent opinion and judgment to the Board.

Prior to joining the Group, Mr. Guo successively served in Hebei University of Economics and Business (河北經貿大學) as the dean of accounting college, the secretary of party committee and the dean of economics and management college, and the director of disciplinary construction and degree management office from June 1998 to May 2008. After May 2008, Mr. Guo served as a supervisor to postgraduate students in Hebei University of Economics and Business until he retired in March 2016.

Mr. Guo graduated from Hebei College of Finance and Trade* (河北財貿學院) (currently known as Hebei University of Economics and Business (河北經貿大學) in Shijiazhuang City, Hebei Province, the PRC, with a bachelor's degree in economics in July 1982. He obtained the title of professor (specialized in business administration) by the Hebei Title Reform Office in August 1997 and was awarded as a Brilliant Accounting Worker in Hebei Province (河北省優秀會計工作者) by the Finance Department of Hebei Province* (河北省財政廳) in August 2005.

Mr. Yao Zhijun (姚志軍), aged 49, was appointed as an independent non-executive Director on 19 January 2017 and is responsible for providing independent opinion and judgment to the Board.

Prior to joining the Group, he served as the head and the legal representative of Hebei Huayide Certified Public Accountants* (河北華益德會計師事務所有限公司) from January 2004 to November 2005, the head of Beijing China Enterprise Appraisals Juncheng Certified Public Accountants* (北京中企華君誠會計師事務所) Hebei Branch from December 2005 to November 2008, and the head of Zhongxinghua Fuhua Certified Public Accountants* (中興華富華會計師事務所) Hebei Branch from December 2008 to January 2012. Since February 2012, he has been serving as the general manager of Ruihua Certified Public Accountants (Special General Partnership)* (瑞華會計師事務所(特殊普通合夥)) Hebei Branch.

Mr. Yao graduated from Hebei College of Finance and Economics* (河北財經學院) (currently known as Hebei University of Economics and Business (河北經貿大學)) in Shijiazhuang City, Hebei Province, the PRC, with a bachelor's degree in economics in June 1994. He was accredited as a certified public accountant by the Hebei Institute of Certified Public Accountants (河北省註冊會計師協會) in June 1999 and as a senior accountant granted by the Hebei Title Reform Office in November 2005. He obtained the qualification of certified public valuer approved by China Appraisal Society (中國資產評估協會) in April 2000. In July 2005, Mr. Yao was awarded as a Brilliant Certified Accountant in Hebei Province and in March 2015, he was awarded as a senior fellow member by the Chinese Institute of Certified Public Accountants (中國註冊會計師協會).

Mr. Wan Joseph Jason (尹宸賢), aged 47, was appointed as an independent non-executive Director on 6 March 2019 and is responsible for providing independent opinion and judgment to the Board. Mr. Wan has over 21 years of experience in investment banking, corporate finance and regulatory areas.

Prior to joining the Group, he worked with various reputable international financial institutions and the Listing Division of the Hong Kong Exchanges and Clearing Limited. Mr. Wan is currently the deputy general manager and the head of Investment Banking Department of Dongxing Securities (Hong Kong) Financial Holdings Limited (東興證券(香港)金融控股有限公司) which is an affiliated member of China Orient Asset Management Corporation (中國東方資產管理公司), and a responsible officer licensed under the Securities and Futures Ordinance to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities. From 25 May 2018, he has been serving as an independent non-executive director of Forgame Holdings Limited (雲游控股有限公司) (stock code: 484).

Mr. Wan graduated from the University of Southern California in May 1994 with a double bachelor's degree in economics and finance.

SENIOR MANAGEMENT

Ms. Wang Lijing (王利靜), aged 39, was appointed as the president of quality-oriented education section on 7 June 2016 and appointed as the executive vice president of the Company on 19 January 2017, primarily responsible for the overall operation and daily management of quality-oriented education section. Ms. Wang has over 16 years of experience in the education industry and corporate management.

Ms. Wang joined the Group in July 2003, and worked as an editor of education publicity department and human resources manager of human resource department from July 2003 to March 2005 and as the secretary of Youth League Committee of Shijiazhuang Institute of Technology from March 2005 to May 2010. From May 2010 to July 2011, Ms. Wang served as the principal of Shijiazhuang City Qiaoxi District Blue Crystal Saintach Kindergarten* (石家莊市橋西區新天際藍水晶幼兒園) ("Blue Crystal Kindergarten"). Since July 2011, Ms. Wang has successively served as the assistant to general manager, deputy general manager and general manager of Hebei Saintach, and a director of Hebei Saintach since 22 December 2015. Since July 2013, Ms. Wang has been serving as a member of the second session of the Preschool Education Committee of The Chinese Association for Non-government Education (中國民辦教育協會學前教育專業委員會) for a term of five years. Since July 2018, Ms. Wang has served as the vice chairman of the third session of the Preschool Education Committee of The Chinese Association for Non-government Education (中國民辦教育協會學前教育專業委員會) for a term of five years. Since October 2018, Ms. Wang has served as the chairman of the Practical Teaching Committee of the Preschool Education and Occupational Education Group of Hebei Province (河北省學前教育職教集團).

Ms. Wang graduated from Hebei University (河北大學) in Baoding City, Hebei Province, the PRC, with a bachelor's degree of art in Chinese literature (漢語言文學) in June 2003. She is currently enrolled in the master's degree program for business administration in Yunnan Normal University (雲南師範大學). She obtained the qualification as a teacher of higher education granted by the Education Department of Hebei Province (河北省教育廳) in December 2005. In May 2018, Ms. Wang obtained the preschool education certificate from American Montessori Society (AMS).

Mr. Wang Yongsheng (王永生), aged 50, was appointed as the vice president and chief financial officer of the Company on 23 November 2015, primarily responsible for the financial management and fund planning of the Group. Mr. Wang has over 26 years of experience in accounting and finance.

From August 1993 to July 2005, Mr. Wang served as an accountant of Shijiazhuang Chemical Fiber Co., Ltd.* (石家莊化工化纖有限公司). From July 2005 to November 2007, Mr. Wang worked as the chief financial officer of Shijiazhuang Yongtong Chemical Co., Ltd.* (石家莊永通化工有限公司) and as the investment and budget manager of Lionful Investment Holding from November 2007 to March 2009. Mr. Wang joined the Group in April 2009 and served as an assistant to president of Shijiazhuang Institute of Technology from April 2009 to April 2011. Subsequently, he served as the assistant to general manager of Shijiazhuang Saintach from April 2011 to April 2014. From April 2014 to August 2017, Mr. Wang successively served as the deputy chief financial officer, chief financial officer and vice president of Lionful Education.

Mr. Wang graduated from Zhengzhou Textile Institute of Technology* (鄭州紡織工學院) (currently known as Zhongyuan University of Technology (中原工學院)) in Zhengzhou City, Henan Province, the PRC, with a junior college graduation certificate in industrial accounting in July 1993 and graduated from Zhengzhou University (鄭州大學) in Zhengzhou, Henan Province, the PRC, with a bachelor's degree in accounting in June 2012. He obtained the accountant certificate granted by the Ministry of Finance in May 1997.

Ms. Liu Tianhang (劉天航), aged 41, was appointed as a vice president of the Company on 1 November 2019, primarily responsible for the investment, merger and acquisition system of the Group. Ms. Liu has over 15 years of experience in investment, merger and acquisition as well as market value management.

From 2013 to 2018, Ms. Liu was the managing director of ZZ Capital Management Company Limited (中植資本管理有限公司) and the executive director and general manager for cultural media industry. Ms. Liu joined the Group in 2019 and has served as its vice president since then.

In 2002, Ms. Liu graduated from Northeast Normal University (東北師範大學) with a bachelor's degree of science in geography. She obtained a master's degree in law from Southwest University of Political Science and Law (西南政法大學) in 2005, and earned her professional qualification in law in March 2004.

Mr. Xu Min (許敏), aged 41, was appointed as a vice president of the Company on 17 December 2018, primarily responsible for the layout of education technology, content development and brand management of the Group. Mr. Xu has over 15 years of experience in corporate management and IT consultation services.

Mr. Xu served as a project manager and deputy branch manager of Qingdao Haixin Computer Co., Ltd. (青島海信計算機有限公司) from September 2000 to December 2002. From January 2003 to January 2011, he was a product manager of IT business division, key account manager and sales director of Founder Group (北大方正集團). From February 2011 to December 2014, he was a manager and executive assistant of IBM (China) Co., Ltd. (IBM（中國）有限公司) for North China. From January 2015 to December 2018, he served as the chief executive officer of Xin Tian Di Xian.

Mr. Xu graduated from Xidian University (西安電子科技大學) in 2009 with a master's degree in business administration. He is currently enrolled in the EMBA program of Peking University.

Mr. Wei Lei (魏雷), aged 39, was appointed as a vice president of the Company on 12 February 2020, primarily responsible for the overall operation as well as management of human resources and administrative affairs of the Group. Mr. Wei has over 11 years of experience in corporate management and human resources management.

From 2005 to 2010, Mr. Wei successively served as the deputy chief and chief of the corporate management and human resources section of Shijiazhuang Zhengyuan Chemical Co., Ltd.* (石家莊正元化工有限公司). From July 2010 to November 2012, he successively served as the assistant general manager and general manager of human resources department of Lionful Investment Holding Co., Ltd. From December 2012 to April 2014, he served as an assistant to the president of Beijing Yi Jia Er United Real Estate Holdings Co., Ltd.* (北京壹加貳聯合不動產控股有限公司). From May 2014 to December 2016, he served as the general manager of the human resources and administration department of Lionful Investment Holding Co., Ltd. From January 2017 to September 2018, he served as the vice president of Hebei Anlian Real Estate Development Co., Ltd.* (河北安聯房地產開發有限公司) Ningbo Branch. Mr. Wei joined the Group in October 2018, and served as the dean assistant of Shijiazhuang Institute of Technology and an assistant to the president of the Company from October 2018 to January 2020.

Mr. Wei graduated from Hebei University of Technology (河北工業大學) with a bachelor's degree in business administration in 2005. He graduated from Hebei University (河北大學) in 2015 with a master's degree in business administration. In 2011, he obtained the title of senior human resources management professional.

Mr. Zheng Tieqiu (鄭鐵球), aged 36, was appointed as an assistant to the president of the Company on 17 October 2018, and was appointed as a joint company secretary of the Company on 28 January 2019, primarily responsible for the capital operations, corporate governance and brand management of the Group. Mr. Zheng has over 9 years of experience in the corporate governance, capital operations and corporate management of listed companies.

From July 2010 to July 2012, Mr. Zheng served as an investor relations manager and securities affairs representative in Telling Telecommunication Holding Co., Ltd. (天音通信控股股份有限公司) (a company listed on Shenzhen Stock Exchange, stock code: 000829). From August 2012 to March 2017, he served as the capital operations manager of the board office and listing office of China Huarong Asset Management Co., Ltd. (stock code: 2799). From March 2018 to September 2018, he served as the secretary of the board and assistant vice president of GCL System Integration Technology Co., Ltd. (協鑫集成科技股份有限公司) (a company listed on Shenzhen Stock Exchange, stock code: 002506).

Mr. Zheng graduated from Changchun University of Science and Technology (長春理工大學) with a bachelor's degree in computer science and technology in 2007. He obtained a master's degree in industrial economics from Renmin University of China in 2010.

Mr. Li Yasheng (李亞晟), aged 24, was appointed as an assistant to the president of the Company on 12 February 2020, primarily responsible for the project investment and introduction of quality assets of the Group. Mr. Li joined the Group in 2017, and served as the investment director of the strategic investment department from 2017 to 2019. Mr. Li graduated from New York University Leonard N. Stern School of Business with a bachelor's degree in finance and market management in 2017. Mr. Li is the son of Mr. Li Yunong (a Controlling Shareholder and an executive Director).

Mr. Mao Lei (毛磊), aged 63, professor and supervisor of postgraduates, joined the Group on 7 January 2019 and was appointed as the principal of Shijiazhuang Institute of Technology, primarily responsible for the teaching management of Shijiazhuang Institute of Technology. Mr. Mao has over 31 years of experience in the education industry.

From September 1992 to March 1996, Mr. Mao successively served as the deputy director and director of the teaching and research section of Hebei Institute of Mechanical and Electrical Engineering (河北機電學院), secretary to the party branch of the teaching and research section, and member of the general party branch of the department. From June 1998 to December 2012, Mr. Mao successively served as the deputy director of the academic affairs office and deputy director of the department of materials, dean of the school of material science and engineering, deputy director of the academic committee and director of the academic affairs office of Hebei University of Science and Technology (河北科技大學). Mr. Mao served as the vice principal of Hebei GEO University (河北地質大學) from December 2012 to December 2017. Since September 2001, Mr. Mao has served as a director of Chinese Heat Treatment Society (全國熱處理學會) and the chairman of Hebei Heat Treatment Society (河北省熱處理學會).

Mr. Mao graduated from Hebei Institute of Mechanical and Electrical Engineering (河北機電學院) in Shijiazhuang City, Hebei Province, the PRC in March 1982 with a bachelor's degree in engineering. He graduated from Northeastern Institute of Technology (東北工學院) (currently known as Northeastern University (東北大學)) in Shenyang City, Liaoning Province, the PRC in January 1989 with a master's degree in engineering.

Save as disclosed above, for the year ended 31 December 2019, there is no change in information of Directors and the chief executive of the Company.

VI. Directors' Report

The Board is pleased to present the consolidated financial statements of the Group for the year ended 31 December 2019 (the "Reporting Period").

COMPANY PROFILE AND INITIAL PUBLIC OFFERING

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 20 September 2016. The principal place of business of the Company in Hong Kong is located at 31/F, Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong.

The Shares were listed on the Main Board of the Stock Exchange on 29 May 2018 (the "Listing").

PRINCIPAL ACTIVITIES

The Company is a large well-established private education service provider based in the Beijing-Tianjin-Hebei region. Committed to our core philosophy of "Assisting you in your whole life", we unremittingly provide clients with customized services and solutions based on individual demand, including the preschool students in our kindergartens, the primary school, middle school and high school students in our tutorial centers who are accessing our online education products, as well as and the junior college, technical secondary school and continuing education students enrolled in our colleges.

The activities and particulars of the Company's subsidiaries are set out in note 1 to the consolidated financial statements. An analysis of the Group's revenue and net results for the year by principal activities is set out in the section headed "Management Discussion and Analysis" in this annual report.

RESULTS

The 2019 annual results and the financial position of the Group and the Company as at 31 December 2019 are set out on pages 122 to 207 of the consolidated financial statements in this annual report.

FINANCIAL SUMMARY

The results of the Group for the past five financial years are set out in the section headed "Financial and Operating Highlights" on page 6 of this annual report. The summary does not form part of the consolidated financial statements.

BUSINESS REVIEW

Please refer to the section headed "Management Discussion and Analysis" on pages 8 to 23 in this annual report for details of the 2019 business conditions and the 2020 outlook of the Company and the Group.

In 2019, the Company and the Group strictly complied with the relevant laws, regulations and environmental policies in China, with a corresponding mechanism for compliance operation in place.

MAJOR RISKS AND UNCERTAINTIES

We are exposed to the risks relating to our business and industry and regulatory changes, including but not limited to the following:

- our business operations and prospects;
- future developments, trends and conditions in the industry and markets in which we operate;
- our strategies, plans, objectives and goals and our ability to implement such strategies, plans, objectives and goals;
- our ability to maintain or increase student enrollment;
- our ability to maintain or raise tuition;
- our ability to maintain or increase our school utilization;
- general economic conditions;
- our capital expenditure programs and future capital requirements;
- changes to regulatory and operating conditions in the industry and markets in which we operate;
- our ability to control costs;
- our dividend policy;
- the extent, nature and potential of the future development of our business;
- capital market developments;
- the actions and developments of our competitors; and
- natural disasters, epidemics and other conditions in China.

For details of the risk factors, please refer to the "Risk Factors" in the Prospectus and the section headed "Market Review and New Regulations" in the "Management Discussion and Analysis" of this report. Investors are advised to make their own judgments or consult their investment advisors before making any investment in the Shares.

ENVIRONMENTAL POLICIES AND PERFORMANCE

As an education enterprise, the Company does not cause any material impact on the environment during its daily operations. Despite this, the Company remains highly attentive to environmental protection, advocates the concept of low-carbon operation, and strives to integrate the concept of environmental protection into the cultivation and education of the new generation. During the Reporting Period, the Company did not have any non-compliance relating to environmental protection. The details are set out in the Environmental, Social and Governance ("ESG") report on pages 76 to 116 of this annual report.

KEY RELATIONSHIP WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Group understands the importance of the support from employees, suppliers and customers to the achievement of its goals. Therefore, the Group maintains good relations with its employees, suppliers and customers.

PROPERTY, SCHOOL PREMISES AND EQUIPMENT

Changes in the property, school premises and equipment of the Company and the Group in 2019 are set out in note 13 to the consolidated financial statements.

SHARE CAPITAL

As at the end of the Reporting Period, the authorized share capital of the Company was HK$30,000,000 divided into 3,000,000,000 Shares of HK$0.01 each. As at the end of the Reporting Period, the Company had 1,220,541,000 issued and paid-up Shares, including 12,672,000 Shares which were repurchased and had not been cancelled. Details of the changes in the share capital of the Company during the Reporting Period are set out in note 28 to the consolidated financial statements in this annual report.

TAXATION

The information on the taxation of the Company and the Group in 2019 is set out in note 10 to the consolidated financial statements.

EVENTS SUBSEQUENT TO THE REPORTING PERIOD

Details of the events of the Group subsequent to the Reporting Period are set out in note 39 to the consolidated financial statements.

DISTRIBUTABLE RESERVE

Details of the changes in the reserve of the Company and the Group in 2019 are set out in note 38 to the consolidated financial statements and the consolidated statement of changes in equity on pages 125 to 126. The reserve distributable to the Shareholders amounted to approximately RMB295 million as at 31 December 2019.

DIVIDENDS

The Board recommends a final dividend of HK2.22 cents per ordinary Share for the year ended 31 December 2019. Subject to approval by the Shareholders at the annual general meeting (the "AGM") to be held on 30 June 2020, the final dividend will be paid on or before 31 July 2020 to the Shareholders whose names appear on the register of members of the Company on 24 July 2020.

ANNUAL GENERAL MEETING

The Company will hold the AGM on Tuesday, 30 June 2020. A notice convening the AGM will be published and dispatched to the Shareholders in due course.

CLOSURE OF REGISTER OF MEMBERS

In order to determine the entitlement of Shareholders to attend and vote at the AGM, the register of members of the Company will be closed from Wednesday, 24 June 2020 to Tuesday, 30 June 2020, both days inclusive, during which no transfer of Shares will be registered. The record date for determining the eligibility to attend and vote at the AGM is Tuesday, 30 June 2020. In order to qualify to attend and vote at the AGM, all transfer of Shares with stamp duty duly paid accompanied by the relevant share certificates must be lodged by the Shareholders with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration no later than 4:30 p.m. on Tuesday, 23 June 2020.

In order to determine the eligibility of Shareholders to receive the proposed final dividend, the register of members of the Company will be closed from Friday, 17 July 2020 to Friday, 24 July 2020, both days inclusive, during which no transfer of Shares will be registered. The record date for the entitlement to the proposed final dividend is Friday, 24 July 2020. In order to qualify for the proposed final dividend, all transfer of Shares together with the relevant share certificates must be delivered to the Company's Hong Kong branch share registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration no later than 4:30 p.m. on Thursday, 16 July 2020.

USE OF PROCEEDS FROM THE INITIAL PUBLIC OFFERING OF THE COMPANY

On 29 May 2018, the Company issued 360,000,000 Shares at a price of HK$1.13 per Share pursuant to the initial public offering of Shares, with the total proceeds amounting to approximately HK$408.9 million and the Shares listed on the Main Board of the Stock Exchange. On 17 June 2018, the Company issued 36,000,000 Shares at a price of HK$1.13 per Share pursuant to a partial exercise of over-allotment options relating to the Listing, with the total proceeds of approximately HK$40.7 million. The net proceeds from the Listing (net of underwriting fees and relevant expenses) amounted to approximately HK$433 million. The amount will be applied in the following manners as set out in the section headed "Future Plans and Use of Proceeds" in the Prospectus and the announcement of the Company dated 12 June 2019 in relation to the change in use of proceeds (the "Announcement"):

Set out below is the use of proceeds from the initial public offering as of 31 December 2019:

	Intended use of net proceeds set out in the Prospectus (HK$ million)	Revised use of net proceeds as at the date of the annual report (HK$ million)	Actual use of net proceeds up to 31 December 2019 (HK$ million)	Remaining balance up to 31 December 2019 (HK$ million)	Expected time of full utilization of the remaining balance
Acquire and rebrand third-party kindergartens to expand our Saintach Kindergartens network in the Integrated Area by the end of 2020	173.2	–	–	–	–
Invest in, acquire and rebrand the domestic and overseas vocational education and quality-oriented education training schools and junior and undergraduate colleges	–	173.2	20.4	152.8	31 December 2020
Expand our Saintach Tutorial Center network in the Integrated Area through acquisition of third-party tutorial schools primarily engaged in providing small-group tutoring services by the end of 2020	86.6	86.6	–	86.6	31 December 2020
Maintain, renovate and upgrade the facilities, equipment and infrastructure of our schools and tutorial centers and improve student accommodation, campus environment and teaching conditions at Shijiazhuang Institute of Technology	86.6	86.6	19.8	66.8	31 December 2020
Establish our presence overseas and obtain experience in operating schools abroad	43.3	43.3	–	43.3	30 June 2020
Fund our working capital and general corporate purposes	43.3	43.3	20.0	23.3	30 June 2020
Total	433.0	433.0	60.2	372.8	

MAJOR CUSTOMERS AND SUPPLIERS

Our customers primarily consist of (i) students and their parents, (ii) Lionful Education (on behalf of whom we provide school operation services); and (iii) third-party educational institutions with whom we have cooperated and our franchised kindergartens. The transaction volume of the Group with its top five customers accounted for 11.8% of the Group's operating revenue in 2019. Our largest customer during the Reporting Period was Lionful Education, a related party of the Group, which accounted for 7.6% of our total revenue for the year ended 31 December 2019. Lionful Education is held as to 88.96% by Mr. Li Yunong, a Director and Controlling Shareholder, and 11.04% by Ms. Luo Xinlan, a Controlling Shareholder, respectively.

Our suppliers primarily comprise food, utilities and property service providers. For the year ended 31 December 2019, the purchases from our five largest suppliers as recorded in the cost of sales account constituted 9.9% of our cost of sales. The transaction amount with the single largest supplier of the Group accounted for approximately 3.0% of the material cost included in the cost of sales for the year.

Save as disclosed above, to the knowledge of the Directors, none of the Directors, their associates or our Shareholders (who, to the knowledge of the Directors, own more than 5.0% of the Company's share capital) had any interest in the top five suppliers of the Group in 2019.

BANK AND OTHER BORROWINGS

Details of the bank and other borrowings of the Group and the Company as at 31 December 2019 are set out in note 26 to the consolidated financial statements.

DONATIONS

In 2019, the Group did not make any donation.

DIRECTORS AND SENIOR MANAGEMENT

(1) The Board is responsible for, and has the general power to, the management and operations of our business.

The Board currently consists of 8 Directors, including 5 executive Directors and 3 independent non-executive Directors. The following table sets out the information of the members of the Board:

Name	Positions	Responsibilities
Li Yunong	Chairman of the Board and executive Director	Overall formulation, guidance of business strategy and development of the Group
Liu Hongwei	Chief Executive Officer and executive Director	Overall operation and daily management of the Group
Ren Caiyin	Executive vice president, executive Director and president of the vocational education section	Overall operation and daily management of the vocational education of the Group
Liu Zhanjie	Vice chairman of the Board and executive Director	Promoting the implementation of major events of the Group in line with its business strategy
Yang Li	Executive Director	Research on marketing strategies of the Group
Guo Litian	Independent non-executive Director	Providing independent opinion and judgment to the Board
Yao Zhijun	Independent non-executive Director	Providing independent opinion and judgment to the Board
Wan Joseph Jason	Independent non-executive Director	Providing independent opinion and judgment to the Board

According to Article 84(1) of the articles of association of the Company (the "Articles of Association"), one third of the Directors for the time being shall retire from office by rotation at each annual general meeting, provided that every Director shall be subject to retirement at an annual general meeting at least once every three years, pursuant to which, Mr. Ren Caiyin, Ms. Yang Li and Mr. Guo Litian shall retire by rotation at the AGM and, being eligible, have offered themselves for re-election as Directors thereat.

Details of the Directors who offer themselves for re-election at the AGM will be set out in the circular to the Shareholders dated 28 April 2020.

2. The following table sets out the information of the senior management members of the Company:

Name	Positions	Responsibilities
Wang Lijing	Executive vice president and president of the quality-oriented education segment	Overall operation and daily management of quality-oriented education of the Group
Wang Yongsheng	Vice president and chief financial officer	Financial management and fund planning of the Group
Liu Tianhang	Vice president	The investment merger and acquisition system of the Group
Xu Min	Vice president	Education technology layout, content development and brand management of the Group
Wei Lei	Vice president	Overall operation, human resources and administrative affairs management of the Group
Zheng Tieqiu	Assistant to president and joint company secretary	Capital operations, corporate governance and brand management of the Group
Li Yasheng	Assistant to president	Project investments and introduction of quality assets of the Group
Mao Lei	Principal of Shijiazhuang Institute of Technology	Teaching management of Shijiazhuang Institute of Technology

CHANGES IN DIRECTORS AND SENIOR MANAGEMENT

On 1 November 2019, the Company appointed Ms. Liu Tianhang as its vice president.

On 12 February 2020, the Company re-designated Mr. Wei Lei as its vice president.

On 12 February 2020, the Company re-designated Mr. Li Yasheng as an assistant to its president.

Save as disclosed above, the Company did not appoint or dismiss any Director or senior management member during the Reporting Period. As at the date of this annual report, there was no change in the information regarding the Directors and chief executive which required disclosure pursuant to Rule 13.51(2) of the Listing Rules.

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" on pages 24 to 29 in this report.

CONFIRMATION OF INDEPENDENT NON-EXECUTIVE DIRECTORS ON INDEPENDENCE

The Company has received the confirmation of each independent non-executive Director on his/her independence in accordance with Rule 3.13 of the Listing Rules, and the Company considers that all independent non-executive Directors were independent during the year ended 31 December 2019 and up to the date of this annual report.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service contract with the Company for a term of three years commencing on the Listing Date, which may be renewable for three years and subject to termination in accordance with the provisions of the service contract.

Mr. Guo Litian and Mr. Yao Zhijun have each entered into a letter of appointment with the Company for a term of one year commencing on the Listing Date and will be renewable for one year thereafter until terminated by not less than three months' notice in writing served by either party on the other. Mr. Wan Joseph Jason has entered into a letter of appointment with the Company for a fixed term of one year, commencing from 6 March 2019 and will be renewable for one year thereafter until terminated by not less than three months' notice in writing served by either party on the other.

None of the Directors has entered into any service contract or letter of appointment with the Group which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

A remuneration committee of the Company (the "Remuneration Committee") has been set up to review the Group's emolument policy and structure for all remuneration of the Directors and senior management of the Company, having regard to the Group's operating results, individual performance of the Directors and senior management of the Company and comparable market practices. Details of the emoluments of the Directors and five highest paid individuals during the Reporting Period are set out in note 8 and note 9 to the consolidated financial statements in this annual report.

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed in 2019.

DIRECTORS AND CONTROLLING SHAREHOLDERS' SIGNIFICANT INTERESTS IN CONTRACTS, TRANSACTIONS OR ARRANGEMENTS

Save as disclosed in note 34 "Related Party Transactions" to the consolidated financial statements and the section headed "Connected Transactions" in this annual report, no Directors or entities related to the Directors still have or used to have any significant interest directly or indirectly in any contract, transaction or arrangement of the Company or any of its subsidiaries that remained in effect during the year ended 31 December 2019 or as at the end of 31 December 2019 and was significant to the business of the Group.

Save as disclosed in note 34 "Related Party Transactions" to the consolidated financial statements and the section headed "Connected Transactions" in this annual report, at no time during the year ended 31 December 2019 did the Company or any of its subsidiaries enter into any contract of significance with the Controlling Shareholders or any of their subsidiaries, nor was any contract of significance entered into for the services provided by the Controlling Shareholders or their subsidiaries to the Company or any of its subsidiaries.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

In 2019, none of the Directors or their associates had any competing interests in any business which competed or was likely to compete with that of the Company, either directly or indirectly.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as 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 respective spouses or children under the age of 18 was granted any right to subscribe for the share capital or debt securities of the Company or any other body corporate or exercised any such right.

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

As at 31 December 2019, the Directors and chief executive of the Company had the following interests and short positions in the Shares, underlying shares or debentures of the Company or its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or which were required to be recorded in the register kept by the Company pursuant to Section 352 of the SFO; or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code"):

Director	Nature of interest	Number of Shares[2]	Long position/ short position	Approximate percentage of shareholding[3]
Mr. Li Yunong[1]	Interest in a controlled corporation	754,590,000 (L)	Long position	61.82%
Mr. Liu Zhanjie[4]	Beneficial owner	1,140,000 (L)	Long position	0.09%
Ms. Yang Li[4]	Beneficial owner	570,000 (L)	Long position	0.05%
Ms. Liu Hongwei[4]	Beneficial owner	555,000 (L)	Long position	0.05%
Mr. Ren Caiyin[4]	Beneficial owner	555,000 (L)	Long position	0.05%

Notes:

(1) As at 31 December 2019, Mr. Li Yunong was the sole shareholder of Sainange Holdings Company Limited ("Sainange Holdings") and he was therefore deemed to be interested in the Shares held by Sainange Holdings by virtue of the SFO, being 754,590,000 Shares. On 16 January 2020, the Company was informed by Mr. Li Yunong that he had transferred his 100% shareholding in Sainange Holdings to Leonus Holdings Limited for family wealth and succession planning purposes. For details, please refer to the announcement of the Company dated 21 January 2020.

(2) The letter (L) denotes a long position in such securities.

(3) As at 31 December 2019, the number of the issued shares of the Company was 1,220,541,000 Shares.

(4) The Director is interested in the underlying Shares by virtue of the Options (as defined below) granted to him/her under the Share Option Scheme (as defined below). For further details, please refer to the section headed "Share Option Scheme" in this annual report.

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

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

So far as the Directors of the Company are aware, as at 31 December 2019, the following persons (other than the Directors and chief executive of the Company) had interests or short positions in the Shares or underlying Shares which were required to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO or to be recorded in the register required to be kept pursuant to Section 336 of the SFO:

Name	Nature of interest	Number of Shares[4]	Approximate percentage of shareholding[5]
Ms. Cao Yang[1]	Spouse interest	754,590,000 (L)	61.82%
Sainange Holdings	Beneficial owner	754,590,000 (L)	61.82%
Ms. Luo Xinlan[2][3]	Interest in a controlled corporation	92,736,000 (L)	7.60%
Mr. Cao Jide[3]	Spouse interest	92,736,000 (L)	7.60%
Sainray Limited	Beneficial owner	92,736,000 (L)	7.60%

Notes:

(1) Ms. Cao Yang is the spouse of Mr. Li Yunong and she is therefore deemed to be interested in the Shares in which Mr. Li Yunong is interested by virtue of the SFO. As at 31 December 2019, Mr. Li Yunong was the sole shareholder of Sainange Holdings, and therefore was deemed to be interested in the Shares held by Sainange Holdings by virtue of the SFO, being 754,590,000 Shares.

(2) Ms. Luo Xinlan is the sole shareholder of Sainray Limited and she is therefore deemed to be interested in the Shares held by Sainray Limited by virtue of the SFO, being 92,736,000 Shares.

(3) Mr. Cao Jide is the spouse of Ms. Luo Xinlan and he is therefore deemed to be interested in the Shares in which Ms. Luo Xinlan is interested by virtue of the SFO.

(4) The letter (L) denotes a long position in such securities.

(5) As at 31 December 2019, the number of the issued shares of the Company was 1,220,541,000 Shares, including 12,672,000 Shares which were repurchased and had not been canceled by the Company.

Save as disclosed above, as at 31 December 2019, the Directors are not aware of any other person (other than the Directors and chief executive of the Company) had any interests or short positions in the Shares or underlying Shares which were required to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO; or to be recorded in the register required to be kept pursuant to Section 336 of the SFO.

SHARE OPTION SCHEME

The Company was approved to adopt a share option scheme on 4 May 2018.

(1) Purpose

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

(2) Who may join

The Board may, at its absolute discretion, offer share options ("Options") to the following persons for subscribing for such number of Shares in accordance with the terms set out in the Share Option Scheme:

a. Any executive director, manager or other employee holding administrative, managerial, regulatory or similar positions in any member of the Group ("Executives"), any employee candidate, full-time or part-time employee, or any person who is temporarily transferred to any member of the Group for full-time or part-time work ("Employees");

b. Directors or nominated directors (including independent non-executive directors) of any member of the Group;

c. Direct or indirect shareholders of any member of the Group;

d. Suppliers who supply goods or services to any member of the Group;

e. Customers, consultants, business or joint venture partners, franchisees, contractors, agents or representatives of any member of the Group;

f. Individuals or entities who provide any member of the Group with the design, research, development or other support or any advice, consultancy, professional or other services; and

g. The associates of any person mentioned in paragraphs a to f above (the above persons are collectively referred to as "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 Share Option Scheme and any other schemes of the Group shall not in aggregate exceed 10% of the Shares in issue as of the Listing Date (such 10% limit representing 120,000,000 Shares, excluding Shares which may fall to be issued upon exercise of the over-allotment option granted by the Company) (the "Scheme Mandate Limit") provided that:

a. The Company may at any time as the Board thinks fit seek approval from the Shareholders to refresh the Scheme Mandate Limit, save that the maximum number of Shares which may be issued upon exercise of all Options to be granted under the Share Option Scheme and any other schemes of the Company shall not exceed 10% of the Shares in issue as of the date of approval by the Shareholders of the refreshment of the Scheme Mandate Limit at the general meeting. Options previously granted under the Share Option Scheme and any other schemes of the Company (including those outstanding, cancelled, lapsed or exercised in accordance with the terms of the Share Option Scheme or any other schemes of the Company) shall not be counted for the purpose of calculating the Scheme Mandate Limit as refreshed. The Company shall send a circular to the Shareholders containing the details and data required under the Listing Rules;

b. The Company may seek separate approval from the Shareholders at the general meeting for granting Options beyond the Scheme Mandate Limit, provided that the Options in excess of the Scheme Mandate Limit are granted only to the Eligible Persons specified by the Company before such approval is obtained. The Company shall send a circular to the Shareholders containing the details and data required under the Listing Rules; and

c. The maximum number of Shares which may be issued upon exercise of all outstanding Options granted and yet to be exercised under the Share Option Scheme and any other schemes of the Group shall not exceed 30% of the Company's issued share capital from time to time. No Options may be granted under the Share Option Scheme and any other share option scheme of the Company if this will result in such limit being exceeded.

(4) Term for Acceptance and Exercise of Options

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

Any offer of the grant of Options may be accepted in respect of less than the number of Shares in respect of which it is offered, provided that it is accepted in respect of board lots for dealing in Shares on the Stock Exchange or an integral multiple thereof and such number shall be clearly stated in the duplicate offer letter comprising acceptance of the offer of Options. To the extent that the offer of the grant of Options is not accepted by the Acceptance Date, it will be deemed to have been irrevocably declined.

Subject to the terms of the Share Option Scheme, the Scheme shall be valid and effective for a period of ten years from the date on which it becomes unconditional.

(5) Lapse of Share Option Scheme

The Share Option Scheme will lapse automatically and not be exercisable under the circumstances set out in "Appendix V – Statutory and General Information – 13. Lapse of Share Option Scheme" of the Prospectus. No compensation shall be payable upon the lapse of any Option, provided that the Board shall be entitled in its discretion to pay such compensation to the grantee in such manner as it may consider appropriate in any particular case.

Below sets out the details of the changes in the Options under the Share Option Scheme for the year ended 31 December 2019 and the Options outstanding during the year 2019:

		Number of Options									
Name of grantee	Date of grant	As at 1 January 2019	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled/ forfeited during the year	Outstanding as at 31 December 2019	Exercise price per Share (HK$)	Share price immediately prior to the date of grant (HK$ per Share)	Fair value of Options (HK$ per Share)	Exercise period
Mr. Liu Zhanjie (vice chairman of the Board and executive Director)	11 October 2018	342,000	–	–	–	–	342,000	0.964	0.950	0.449	11 October 2019 to 10 October 2023
	11 October 2018	342,000	–	–	–	–	342,000	0.964	0.950	0.449	11 October 2020 to 10 October 2023
	11 October 2018	456,000	–	–	–	–	456,000	0.964	0.950	0.449	11 October 2021 to 10 October 2023
Ms. Liu Hongwei (chief executive officer and executive Director)	11 October 2018	166,500	–	–	–	–	166,500	0.964	0.950	0.449	11 October 2019 to 10 October 2023
	11 October 2018	166,500	–	–	–	–	166,500	0.964	0.950	0.449	11 October 2020 to 10 October 2023
	11 October 2018	222,000	–	–	–	–	222,000	0.964	0.950	0.449	11 October 2021 to 10 October 2023
Mr. Ren Caiyin (executive president and executive Director)	11 October 2018	166,500	–	–	–	–	166,500	0.964	0.950	0.449	11 October 2019 to 10 October 2023
	11 October 2018	166,500	–	–	–	–	166,500	0.964	0.950	0.449	11 October 2020 to 10 October 2023
	11 October 2018	222,000	–	–	–	–	222,000	0.964	0.950	0.449	11 October 2021 to 10 October 2023

Name of grantee	Date of grant	Number of Options: As at 1 January 2019	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled/ forfeited during the year	Outstanding as at 31 December 2019	Exercise price per Share (HK$)	Share price immediately prior to the date of grant (HK$ per Share)	Fair value of Options (HK$ per Share)	Exercise period
Ms. Yang Li (executive Director)	11 October 2018	171,000	–	–	–	–	171,000	0.964	0.950	0.449	11 October 2019 to 10 October 2023
	11 October 2018	171,000	–	–	–	–	171,000	0.964	0.950	0.449	11 October 2020 to 10 October 2023
	11 October 2018	228,000	–	–	–	–	228,000	0.964	0.950	0.449	11 October 2021 to 10 October 2023
		2,820,000	–	–	–	–	2,820,000				
Total for employees	11 October 2018	711,000	–	–	–	–	711,000	0.964	0.950	0.449	11 October 2019 to 10 October 2023
	11 October 2018	711,000	–	–	–	–	711,000	0.964	0.950	0.449	11 October 2020 to 10 October 2023
	11 October 2018	948,000	–	–	–	–	948,000	0.964	0.950	0.449	11 October 2021 to 10 October 2023
Total		5,190,000	–	–	–	–	5,190,000				

The values of Options calculated using the binomial model are subject to certain fundamental limitations, due to the subjective nature of and uncertainty relating to a number of assumptions of the expected future performance input to the model, and certain inherent limitations of the model itself. The value of an Option varies with different variables of certain subjective assumptions. Any change to the variables used may materially affect the estimation of the fair value of an Option.

Further details of the Share Option Scheme are set out in note 29 to the consolidated financial statements in this annual report.

BONDS ISSUED

The Company did not have any bonds in issue or existence for the year ended 31 December 2019.

SHARE-LINKED AGREEMENT

For the year ended 31 December 2019, the Company did not enter into or have any share-linked agreement, and was not obligated to enter into any agreement which would or might cause the Company to issue any Share.

PURCHASE, SALE OR REDEMPTION OF THE LISTED SECURITIES

For the year ended 31 December 2019, the Company purchased a total of 12,672,000 Shares at a total purchase price (net of expenses) of approximately HK$9,893,000 on the Stock Exchange. The reason for such Share repurchases was that the Board believed that the Shares had been traded at a level which significantly undervalued the Company's performance and underlying value; and since the Board is committed to actively managing the Company's capital, such Share repurchases would create capital management benefits to the Shareholders. The Company is dealing with the cancellation procedures of all the Shares so purchased. The details of purchase of these Shares are set out as follows:

Month of purchase	Number of Shares purchased	Maximum price paid per Share (HK$)	Minimum price paid per Share (HK$)	Total purchase price (HK$'000)
October 2019	2,826,000	0.7600	0.7300	2,090
November 2019	8,688,000	0.8200	0.7600	6,816
December 2019	1,158,000	0.8700	0.8400	987
Total	12,672,000			9,893

PRE-EMPTIVE RIGHT

There is no provision of pre-emptive right in the Articles of Association and the laws of Cayman Islands that requires the Company to offer new Shares to the existing Shareholders on a pro rata basis.

PERMITTED INDEMNITIES

For the year ended 31 December 2019, the Company did not have any permitted indemnities that used to take effect or was effective in favour of any Director (whether entered into by the Company or not) or any director of any company associated with the Company (if entered into by the Company).

The Company has purchased liability insurance for the relevant legal proceedings that the Directors may be involved in.

REMUNERATION POLICY

The Remuneration Committee has been set up to review the Group's emolument policy and structure for all remuneration of the Directors and senior management of the Group, having regard to the Group's operating results, individual performance of the Directors and senior management and comparable market practices.

The Directors and senior management of the Company 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" in this report. Details of the remuneration of the Directors and five highest paid individuals during the Reporting Period are set out in note 8 and note 9 to the consolidated financial statements.

PENSION AND EMPLOYEE BENEFIT SCHEMES

Details for the Company's pension and employee benefit scheme are set out in note 2.4 to the consolidated financial statements in this annual report.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

For details, please refer to the section headed "Corporate Governance Report" on pages 62 to 75 in this annual report.

AUDIT COMMITTEE

For the year ended 31 December 2019, the audit committee of the Company (the "Audit Committee") consisted of three members, namely Mr. Yao Zhijun (chairman), Mr. Guo Litian and Mr. Wan Joseph Jason, all of whom are independent non-executive Directors.

The Audit Committee has adopted the terms of reference which are in line with the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Listing Rules. The primary duties of the Audit Committee include reviewing and monitoring the financial control, risk management and internal control systems and procedures of the Group, reviewing the financial information of the Group and the relationship with the external auditor of the Company. The annual results and the consolidated financial report of the Group for the year 2019 have been reviewed by the Audit Committee.

AUDITORS

Ernst & Young were appointed as the auditors of the Company for the year ended 31 December 2019. Ernst & Young have audited the consolidated financial statements as attached which were prepared in accordance with the International Financial Reporting Standards.

Ernst & Young shall retire at the forthcoming AGM, and, being eligible, offers itself for re-appointment. The resolution for re-appointing Ernst & Young as the auditors of the Company will be submitted to the AGM.

UNDERTAKING OF AVERTING PEER COMPETITION BY CONTROLLING SHAREHOLDERS

The Company has received a letter of confirmation from each of the Controlling Shareholders that they complied with all the undertakings made in the non-competition undertakings provided for the Company in 2019. For details of the non-competition undertakings, please refer to the Prospectus.

The independent non-executive Directors have reviewed the performance of the non-competition undertakings during the Reporting Period based on the information and confirmation provided by or obtained from the covenanters, and are satisfied that the Controlling Shareholders have complied with the non-competition undertakings.

PUBLIC FLOAT

According to the information publicly available to the Company and to the knowledge of the Directors, at any time for the year ended 31 December 2019 and up to the date of this annual report, at least 25% (i.e., the prescribed minimum percentage of public float approved by the Stock Exchange and permitted under the Listing Rules) of the total issued Shares of the Company were held by the public.

MATERIAL LITIGATION

As of 31 December 2019, the Company was not involved in any material litigation or arbitration. To the knowledge of the Directors, there is also no unknown or threatened material litigation or claim.

CONNECTED TRANSACTIONS

During the year ended 31 December 2019, the Group entered into certain non-exempt connected transactions pursuant to Chapter 14A of the Listing Rules. In respect of the connected transaction between Shijiazhuang Institute of Technology and Ningbo Tianzuo, the Company should have complied with the relevant notification and announcement requirements under Rule 14.34 of the Listing Rules in respect of the construction contracts as and when such obligations arose. Regrettably, the Company acknowledges that the notification and announcement in respect of the construction contracts as required under Chapter 14 of the Listing Rules has been delayed due to its unintentional oversight. The Directors have published an announcement in respect of such connected transaction. For details, please refer to the announcement of the Company dated 30 March 2020. Except for the connected transaction between Shijiazhuang Institute of Technology and Ningbo Tianzuo, the Company confirmed that it had complied with the disclosure requirements under Chapter 14A of the Listing Rules during the year ended 31 December 2019.

1. ***Shijiazhuang Institute of Technology Property Lease Agreement***

   As set out in note 34(c)(i) to the consolidated financial statements, on 4 May 2018, Shijiazhuang Institute of Technology, as lessee, entered into a property lease agreement ("Shijiazhuang Institute of Technology Property Lease Agreement") with Lionful Education, as lessor, pursuant to which Shijiazhuang Institute of Technology leased from Lionful Education nine dormitory buildings, one auto training center, one canteen, one infirmary and a library located at Hengshan Village, Luquan Development Area, Shijiazhuang, Hebei Province, the PRC with an aggregate construction area of approximately 71,460 sq.m. at an annual rental of RMB5.5 million. The term of lease is 10 years with an option granted to Shijiazhuang Institute of Technology to renew the agreement by giving a written notice to the lessor three months prior to the expiration of the lease under normal commercial terms or better to Shijiazhuang Institute of Technology and in compliance with applicable laws and regulations as well as the Listing Rules.

   Pursuant to the Shijiazhuang Institute of Technology Property Lease Agreement, (i) the lessor shall not terminate the lease agreement without a written notice of 12 months and the consent with the lessee; (ii) the lessee was granted a pre-emptive right to rent the property under the same terms, which should be normal commercial terms or better to the lessee, where a third party also intends to rent the relevant properties; (iii) the lessee was granted a right of first refusal in the circumstances where the lessor was to sell the properties under the lease agreement to any third party; and (iv) if the lessee decides not to exercise its right of first refusal as mentioned in (iii), the lessor shall ensure that the maintenance of the lease of relevant properties to the lessee will be one of the conditions precedent to the transfer of any relevant properties to any third party.

   Lionful Education is controlled as to 88.96% and 11.04% by Mr. Li Yunong and Ms. Luo Xinlan, respectively. Pursuant to Rule 14A.07(1) of the Listing Rules, Mr. Li Yunong, a Director and one of the Controlling Shareholders, and Ms. Luo Xinlan, one of the Controlling Shareholders, are connected persons of the Company. Lionful Education is a 30%-controlled company (as defined in Rule 14A.12(1)(c) of the Listing Rules) held directly by connected persons as defined in Rule 14A.07(1) of the Listing Rules, and hence an associate of Mr. Li Yunong and Ms. Luo Xinlan and a connected person of the Company.

2. ***Saintach Kindergartens Property Lease Agreements***

As set out in note 34(c)(ii) to the consolidated financial statements, Blue Crystal Kindergarten and Shijiazhuang City Chang'an District Qinghui Saintach Kindergarten* (石家莊市長安區新天際清暉幼兒園) ("Qinghui Kindergarten") leased certain buildings for use in the operation of their respective kindergartens from Hebei Ansince Property Management Co., Ltd. Shijiazhuang Branch* (河北安信聯行物業股份有限公司石家莊分公司) ("Hebei Ansince Shijiazhuang Branch") at an aggregated annual rental of RMB0.5 million for each of the three years ended 31 December 2020. Set out below are the principal terms and details of the two property lease agreements (collectively, the "Saintach Kindergartens Property Lease Agreements") entered into between each of Blue Crystal Kindergarten and Qinghui Kindergarten and Hebei Ansince Shijiazhuang Branch on 4 May 2018.

Lessee	Lessor	Duration of the Lease	Description and use of the properties leased
1. Blue Crystal Kindergarten	Hebei Ansince Shijiazhuang Branch	For a term ending 31 December 2020, with an option to renew for an additional term upon giving written notice to the lessor three months prior to the expiration	One property used as teaching area with an aggregate construction area of 1,267 sq.m. located in No. 6 Xingfang Street, Shijiazhuang, Hebei Province, the PRC
2. Qinghui Kindergarten	Hebei Ansince Shijiazhuang Branch	For a term ending 31 December 2020, with an option to renew for an additional term upon giving written notice to the lessor three months prior to the expiration	One property used as teaching area with an aggregate construction area of 1,363 sq.m. located in No. 270 Guanghua Road, Chang'an District, Shijiazhuang, Hebei Province, the PRC

Hebei Ansince Shijiazhuang Branch is a branch of Hebei Ansince Property Management Co., Ltd.* (河北安信聯行物業股份有限公司), which was held as to 10% by Ms. Luo Xinlan and 90% by Beijing Yihe Dazhong Commercial Investment Co., Ltd.* (北京宜和大眾商業投資有限公司) ("Beijing Yihe"), respectively as of the date of this annual report. Beijing Yihe was held as to 26.09% by Mr. Li Yunong and 73.91% by Lionful Investment Holding as of the date of this annual report. Accordingly, Hebei Ansince Shijiazhuang Branch is controlled by Mr. Li Yunong and Ms. Luo Xinlan indirectly. Pursuant to Rule 14A.07(1) of the Listing Rules, Mr. Li Yunong, a Director and one of the Controlling Shareholders and Ms. Luo Xinlan, one of the Controlling Shareholders, are connected persons of the Company. Hebei Ansince Shijiazhuang Branch is a 30%-controlled company (as defined in Rule 14A.12(1)(c) of the Listing Rules) held indirectly by connected persons as defined in Rule 14A.07(1) of the Listing Rules, and hence an associate of Mr. Li Yunong and Ms. Luo Xinlan and a connected person of the Company.

3. Entrustment Agreement

As set out in note 34(d)(1) to the consolidated financial statements, on 21 June 2010, Shijiazhuang Institute of Technology entered into an entrustment agreement with Lionful Education (the "Entrustment Agreement"), pursuant to which Lionful Education engaged Shijiazhuang Institute of Technology, which has sufficient campus management capability, to implement the key school operation and student administration of Sifang College West Campus and the yearly entrusted management fee is 65% of the tuition fees generated by Sifang College West Campus. Such rate represents the amount of revenue generated from the tuition fees of Sifang College West Campus to which Lionful Education is entitled as agreed between Lionful Education and Shijiazhuang Tiedao University pursuant to the joint schooling arrangement, which was determined through arm's length negotiation between Lionful Education and Shijiazhuang Tiedao University, taking into account the reputation of Shijiazhuang Tiedao University and the capacity and quality of school facilities provided by Lionful Education to Sifang College West Campus for its operations. The term of the Entrustment Agreement is ten years commencing on 1 July 2010 and ending on 30 June 2020 and may be renewable by negotiation before expiration of the term. The annual caps for the Entrustment Agreement for each of the years ended 31 December 2018 and 2019 and six months ending 30 June 2020 are RMB21.00 million, RMB21.00 million and RMB12.00 million, respectively.

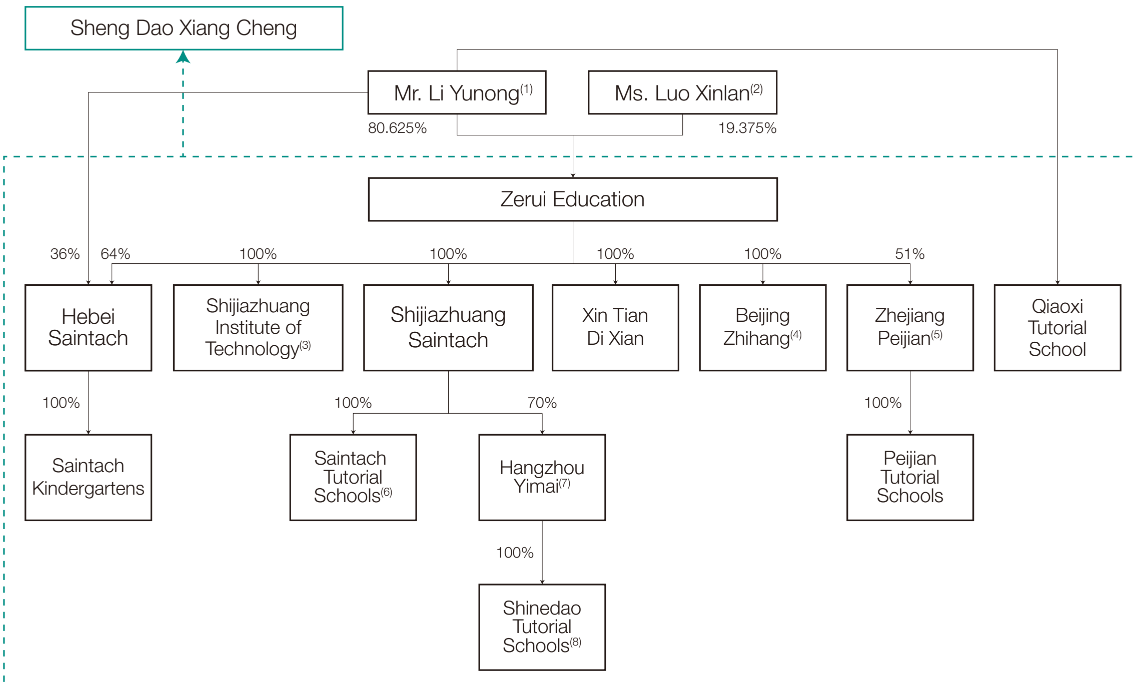
Lionful Education is controlled by Mr. Li Yunong and Ms. Luo Xinlan as to 88.96% and 11.04%, respectively. Pursuant to Rule 14A.07(1) of the Listing Rules, Mr. Li Yunong, a Director and one of the Controlling Shareholders, and Ms. Luo Xinlan, one of the Controlling Shareholders, are connected persons of the Company. Lionful Education is a 30%-controlled company (as defined in Rule 14A.12(1)(c) of the Listing Rules) held directly by connected persons (as defined in Rule 14A.07(1) of the Listing Rules), and hence an associate of Mr. Li Yunong and Ms. Luo Xinlan and a connected person of the Company.

4. Structured Contracts

A. Description

The Company currently conducts its private education business through the PRC Operating Entities in the PRC where PRC laws, regulations and regulatory practice generally restricts the operation of higher, preschool, academic non-credential and secondary vocational education to Sino-foreign ownership with qualification requirements imposed on the foreign owners. The academic non-credential education provided by the Company includes individualized or small group tutoring for primary, middle and high school students, given that these tutoring services are conducted as a supplement to school education and the tutorial schools do not grant diplomas or degrees to its students. The Company does not hold any equity interest or school sponsors' interests in its PRC Operating Entities. In addition to our primary business of private education, we also conducted online to offline education services, which are considered value-added telecommunications services in the PRC, through Xin Tian Di Xian. The PRC laws and regulations currently restrict foreign ownership in enterprises providing value-added telecommunications services, in addition to imposing a qualification requirement on the foreign owners. The Structured Contracts, through which the Company obtains control over and derives economic benefits from its PRC Operating Entities, have been narrowly tailored to achieve its business purpose and minimize the potential conflict with relevant PRC laws and regulations.

The following simplified diagram illustrates the flow of economic benefits from the PRC Operating Entities to the Group stipulated under the Structured Contracts:



Notes:

(1) Mr. Li Yunong is the son-in-law of Ms. Luo Xinlan.

(2) Ms. Luo Xinlan is the mother-in-law of Mr. Li Yunong.

(3) Infirmary of Shijiazhuang Institute of Technology was wholly-owned by Shijiazhuang Institute of Technology.

(4) Beijing Zhihang refers to Beijing Zhihang Education Technology Co., Ltd.* (北京志航教育科技有限公司).

(5) The remaining 49% equity interests of Zhejiang Peijian in total are held by five individual shareholders, who are independent third parties of the Company (as defined under the Listing Rules).

(6) For the illustration purpose of this diagram, Saintach Tutorial Schools include Chang'an Tutorial School, Donggang Tutorial School, Zhicheng Tutorial School, High-tech Zone Tutorial School and Huixuan Tutorial School, and do not include Qiaoxi Tutorial School.

(7) The remaining 30% equity interests of Hangzhou Yimai are held by Ningbo Xuenuo Enterprise Management Co., Ltd.* (寧波學諾企業管理有限責任公司), which is an independent third party of the Company (as defined under the Listing Rules).

(8) The school sponsor's interests in Zhoushan Dinghai Shinedao Education Tutorial School* (舟山市定海區學鼎教育培訓學校), Yuyao Xueneng Tutorial School Limited* (余姚學能培訓學校有限公司), Yuyao Xuedao Education Tutorial School Limited* (余姚學道教育培訓學校有限公司) and Jiashan County Shinedao Education Tutorial School Limited* (嘉善縣學鼎培訓學校有限公司) are held by Hangzhou Yimai. The school sponsor's interests in Shaoxing Shangyu Shinedao Education Tutorial School* (紹興市上虞區學鼎教育培訓學校) is held by Shaoxing Shangyu Shinedao Education Consultancy Co., Ltd.* (紹興上虞學鼎教育諮詢有限公司), which is wholly-owned by Hangzhou Yimai.

(9) "⟶" denotes direct legal and beneficial ownership in the equity interest or school sponsor's interest.

(10) "- - ->" denotes flow of economic benefits.

B. Summary of the Material Terms of the Structured Contracts

(1) Business Cooperation Agreements

Pursuant to the Business Cooperation Agreements, Sheng Dao Xiang Cheng shall provide technical service and management consultancy service necessary for the private education business pursuant to the Structured Contracts, and in return, the PRC Operating Entities of the Company shall make payments pursuant to the Structured Contracts. To ensure the due performance of the Structured Contracts, each of the PRC Operating Entities agreed to comply with, and procure any of its subsidiaries to comply with, the obligations as prescribed under the Business Cooperation Agreements.

In order to prevent the leakage of assets and values of the consolidated affiliated entities, Mr. Li Yunong, Ms. Luo Xinlan and each of the relevant PRC Operating Entities have undertaken that, without prior written consent of Sheng Dao Xiang Cheng or its designated party, he/she/it shall not conduct or cause to conduct any activity or transaction which may have actual adverse impact on the assets, business, staff, obligations, rights or operations of the PRC Operating Entities.

Furthermore, each of Mr. Li Yunong and Ms. Luo Xinlan undertakes to Sheng Dao Xiang Cheng that, without prior written consent of Sheng Dao Xiang Cheng, he or she shall not (i) directly or indirectly engage, participate in or conduct any business or activities which compete or may potentially compete with the business or activities any of the PRC Operating Entities (the "Competing Business"), (ii) acquire or hold any interest in the Competing Business, (iii) use information obtained from any of the PRC Operating Entities for the Competing Business, and (iv) obtain any benefit from any Competing Business.

(2) Exclusive Service Agreements

Pursuant to the Exclusive Service Agreements, Sheng Dao Xiang Cheng, as the exclusive service provider of the PRC Operating Entities, agreed to provide exclusive technical services and exclusive management consultancy services to the PRC Operating Entities related to their business.

In consideration of the technical and management consultancy services provided by Sheng Dao Xiang Cheng, each of the relevant PRC Operating Entities agreed to pay Sheng Dao Xiang Cheng a service fee equal to the respective portion of net profit attributable to the Group after deducting all costs, expenses, taxes, losses from the previous year, social donated capital (if any), state funded capital (if any) and the legally compulsory development fund of the respective school (if required by the law), or a lesser amount determined by Sheng Dao Xiang Cheng at its absolute discretion.

Unless otherwise prescribed under the PRC laws and regulations, Sheng Dao Xiang Cheng shall have exclusive proprietary rights to any technology and intellectual property developed and materials prepared in the course of the provision of research and development, technical support and services by Sheng Dao Xiang Cheng to the PRC Operating Entities, and any intellectual property in the products developed, including any other rights derived thereunder, in the course of performance of obligations under the Exclusive Service Agreements and/or any other agreements entered into between Sheng Dao Xiang Cheng and other parties.

(3) Exclusive Call Option Agreements
Under the Exclusive Call Option Agreements, Sheng Dao Xiang Cheng or its designated person have been granted an exclusive right to purchase all or part of the equity interest in Zerui Education, Shijiazhuang Saintach, Hebei Saintach, Zhejiang Peijian, Hangzhou Yimai and Shaoxing Shangyu Shinedao Education Consultancy Co., Ltd.* (紹興上虞學鼎教育諮詢有限公司), and all or part of the school sponsor's interest in Fukang Kindergarten, Tianshan Kindergarten, Lidu Kindergarten, Zhejiang Peijian, Hangzhou Yimai and Shaoxing Shangyu Shinedao Education Consultancy Co., Ltd., Qiaoxi Tutorial School, Peijian Tutorial Schools and Shinedao Tutorial Schools ("Call Options"). The purchase price payable by Sheng Dao Xiang Cheng in respect of the transfer of such equity interest or school sponsor's interest upon exercise of the Call Options shall be RMB1.00 or the lowest price permitted under the PRC laws and regulations. Sheng Dao Xiang Cheng or its designated purchaser shall have the right to purchase such proportion of the equity interest or school sponsor's interest of the PRC Operating Entities as it decides at any time.

In the event that PRC laws and regulations allow Sheng Dao Xiang Cheng or the Company to directly hold all or part of the equity interest or school sponsor's interest in the PRC Operating Entities and operate private education business in the PRC, Sheng Dao Xiang Cheng shall issue the notice of exercise of the Call Options as soon as practicable, and the percentage of equity interest or school sponsor's interest purchased upon exercise of the Call Options shall not be lower than the maximum percentage then allowed to be held by Sheng Dao Xiang Cheng or the Company under PRC laws and regulations.

(4) School Sponsors' and Directors' Rights Entrustment Agreements
Pursuant to the School Sponsors' and Directors' Rights Entrustment Agreements, Sheng Dao Xiang Cheng has been irrevocably authorized and entrusted to exercise all the rights as school sponsor of each of the schools to the extent permitted by the PRC laws, and each of directors or council members of the schools has irrevocably authorized and entrusted Sheng Dao Xiang Cheng or its designated persons to exercise all his/her rights as directors or council members and to the extent permitted by the PRC laws.

In addition, each of the school sponsor and the appointed directors or council members of the schools have irrevocably agreed that, where permissible by PRC laws, (i) Sheng Dao Xiang Cheng may delegate its rights under the School Sponsors' and Directors' Rights Entrustment Agreements to the directors of Sheng Dao Xiang Cheng or its designated persons, without prior notice to or approval by the schools or their appointed directors or council members; and (ii) Sheng Dao Xiang Cheng is entitle to revoke its delegation to the aforesaid directors of Sheng Dao Xiang Cheng or other persons.

(5) Shareholders' Rights Entrustment Agreements
Pursuant to the Shareholders' Rights Entrustment Agreements, Sheng Dao Xiang Cheng has been irrevocably authorized and entrusted to exercise all the rights as shareholders of each of Zerui Education, Hebei Saintach, Shijiazhuang Saintach, Zhejiang Peijian and Hangzhou Yimai to the extent permitted by the PRC laws and the relevant articles of association.

In addition, it has been irrevocably agreed that, without violation of PRC laws, (i) Sheng Dao Xiang Cheng may delegate its rights under the Shareholders' Rights Entrustment Agreement to the directors of Sheng Dao Xiang Cheng or its designated persons, without prior notice to or approval; and (ii) Sheng Dao Xiang Cheng is entitle to revoke its delegation to the aforesaid directors of Sheng Dao Xiang Cheng or other persons.

(6) Equity Pledge Agreements
Pursuant to the Equity Pledge Agreements, the equity holders of the relevant PRC Operating Entities have unconditionally and irrevocably pledged and granted security interests over all of his/her/its equity interest in the relevant PRC Operating Entities have, together with all related rights thereto to Sheng Dao Xiang Cheng as security for performance of the Structured Contracts. In addition, the equity holders shall not, without the prior written consent of Sheng Dao Xiang Cheng, create further pledge or encumbrance over the pledged equity interests.

(7) School Sponsors' Powers of Attorney
Pursuant to the School Sponsors' Powers of Attorney executed by each of the school sponsors in favor of Sheng Dao Xiang Cheng, each of the school sponsors authorized and appointed Sheng Dao Xiang Cheng as his/her/its agent to act on his/her/its behalf to exercise or delegate the exercise of all his/her/its rights as school sponsor of our schools. For details of the rights granted, please see "Structured Contracts – Operation of the Structured Contracts – Summary of the Material Terms of the Structured Contracts – (4) School Sponsors' and Directors' Rights Entrustment Agreement" in the Prospectus.

Sheng Dao Xiang Cheng shall have the right to further delegate the rights so granted to its directors or other designated persons. Each of the school sponsors irrevocably agree that the authorization appointment in the School Sponsors' Powers of Attorney shall not be invalid, prejudiced or otherwise adversely affected by reason of Sheng Dao Xiang Cheng's subdivision, merger, winding up, consolidation, liquidation or other similar events. The School Sponsors' Power of Attorney shall constitute a part and incorporate terms of the School Sponsors' and Directors' Rights Entrustment Agreements.

(8) Directors' Powers of Attorney
Pursuant to the Directors' Powers of Attorney executed by each of the directors or council members of the relevant schools in favor of Sheng Dao Xiang Cheng, each of the appointees authorized and appointed Sheng Dao Xiang Cheng as his/her agent to act on his/her behalf to exercise or delegate the exercise of all his/her rights as directors or council members. For details of the rights granted, please see "Structured Contracts – Operation of the Structured Contracts – Summary of the Material Terms of the Structured Contracts – (4) School Sponsors' and Directors' Rights Entrustment Agreement" in the Prospectus.

Sheng Dao Xiang Cheng shall have the right to further delegate the rights so granted to its directors or other designated persons. Each of the appointees irrevocably agree that the authorization appointment in the Directors' Powers of Attorney shall not be invalid, prejudiced or otherwise adversely affected by reason of Sheng Dao Xiang Cheng's subdivision, merger, winding up, consolidation, liquidation or other similar events. The Directors' Powers of Attorney shall constitute a part and incorporate terms of the School Sponsors' and Directors' Rights Entrustment Agreements.

(9) Shareholders' Power of Attorney
Pursuant to the Shareholders' Power of Attorney executed by each of equity holders of the relevant PRC Operating Entities in favor of Sheng Dao Xiang Cheng, each of the appointees authorized and appointed Sheng Dao Xiang Cheng as his/her/its agent to act on his/her/its behalf to exercise or delegate the exercise of all the rights as shareholders. For details of the rights granted, please see "Structured Contracts – Operation of the Structured Contracts – Summary of the Material Terms of the Structured Contracts – (5) Shareholders' Rights Entrustment Agreement" in the Prospectus.

Sheng Dao Xiang Cheng shall have the right to further delegate the rights so granted to its directors or other designated persons. Each of the appointees irrevocably agree that the authorization appointment in the Shareholders' Powers of Attorney shall not be invalid, prejudiced or otherwise adversely affected by reason of Sheng Dao Xiang Cheng's subdivision, merger, winding up, consolidation, liquidation or other similar events. The Shareholders' Power of Attorney shall constitute a part and incorporate terms of the Shareholders' Rights Entrustment Agreements.

(10) Spouse Undertakings

Pursuant to the Spouse Undertakings, the respective spouse of each of Mr. Li Yunong and Ms. Luo Xinlan, the Registered Shareholders, has irrevocably undertaken that:

(a) the spouse has full knowledge of and has consented to the entering into of the Structured Contracts by the relevant Registered Shareholder, whether as a contractual party or not, and in particular, the arrangement as set out in the Structured Contracts in relation to the equity interest and/or school sponsor's interest in the PRC Operating Entities, including but not limited to any restrictions imposed, pledge or transfer or the disposal in any other forms;

(b) the spouse has not, is not and shall not in the future participate in the operation, management, liquidation, dissolution or other matters in relation to the PRC Operating Entities; and

(c) the spouse authorizes the respective Registered Shareholder and/or his/her authorized person to execute all necessary documents and perform all necessary procedures from time to time for and on behalf of the spouse in order to safeguard the interest of Sheng Dao Xiang Cheng under the Structured Contracts and give effect to the fundamental purposes thereunder, and confirms and agrees to all such documents and procedures.

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

C. *Business Activities of PRC Operating Entities and Their Significance and Financial Contributions to the Group*

The main business activities of the PRC Operating Entities are to provide a wide range of students from preschool students in kindergartens of the Group, to primary school, middle school and high school students in tutorial centers of the Group, to junior college and continuing education students in the college of the Group. In addition to our primary business of private education, we also conducted online to offline education services.

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

	Significance and financial contribution to the Group		
	Revenue for the year ended 31 December 2019	Net profit for the year ended 31 December 2019	Total assets as at 31 December 2019
PRC Operating Entities	100%	107%	80%

D. Revenue and Assets Involved in Structured Contracts

The table below sets out (i) revenue; and (ii) total assets involved in the PRC Operating Entities as at 31 December 2019, which would be consolidated into the Group's financial statements pursuant to the Structured Contracts:

	Revenue RMB'000	Total assets RMB'000
PRC Operating Entities	234,242	860,723

E. Regulatory Framework

(1) Preschool and Higher Education, Academic Non-credential and Secondary Vocational Education

On 30 June 2019, the National Development and Reform Commission of the PRC and the Ministry of Commerce of the PRC jointly promulgated Special Administrative Measures for Access of Foreign Investment (Negative List) (2019 Edition) (外商投資准入特別管理措施(負面清單)(2019年版)) (the "Negative List"), which became effective on 30 July 2019. Pursuant to the Negative List, the provision of preschool and higher education in the PRC falls within the "restricted" category. In particular, the Negative List explicitly restricts the participation of foreign-invested entities in preschool and higher education to Sino-foreign cooperation, which means that foreign investors may only operate educational institutions offering preschool and higher education through joint ventures with PRC incorporated entities that are in compliance with the Sino-foreign Regulations. 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 chief executive officer of the schools shall be a PRC national, and (b) the representative of the domestic party shall account for no less than half of the total members of the board of directors, the executive council or the joint administration committee of the Sino-foreign cooperative educational institution (the "Foreign Control Restriction").

In relation to the interpretation of Sino-foreign cooperation, pursuant to the Regulation on Sino-foreign Cooperation in Operating Schools of the PRC《中華人民共和國中外合作辦學條例》(the "Sino-Foreign Regulations"), if the Company was to apply for any of the schools for PRC students that is operated by the Group to be reorganized as a Sino-foreign joint venture private school ("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 high quality of education. Furthermore, pursuant to the Implementation Opinions on Encouraging and Guiding Private Fund's Entry into the Education Sector and Promoting Healthy Development of Private Education《關於鼓勵和引導民間資金進入教育領域促進民辦教育健康發展的實施意見》promulgated by the Ministry of Education of the PRC (the "MOE") on 18 June 2012 ("Implementation Opinions"), the foreign portion of the total investment in a Sino-Foreign Joint Venture Private School should be below 50% (the "Foreign Ownership Restriction"). As advised by the PRC Legal Advisor, the establishment of a Sino-Foreign Joint Venture Private School offering preschool education is subject to the approval of education authorities at the provincial level, and the establishment of a Sino-Foreign Joint Venture Private School offering junior college education is subject to the approval of education authorities and government at the provincial level and the establishment of a Sino-Foreign Joint Venture Private School offering undergraduate education or above is subject to the approval of education authorities at the national level.

As at the date of this annual report, as advised by the PRC Legal Advisor, the Company does not meet the above qualification requirement since the Company has no experience in operating a school outside the PRC. In addition, it is not practicable for the Company to seek to reorganize any of the PRC Operating Entities as a Sino-Foreign Joint Venture Private School.

The Company has taken particular plans and commenced to implement specific measures, while the Company believes that such plans and measures had considerable significance in striving to demonstrate their compliance with the above qualification requirement. Please also refer to the section headed "Structured Contracts" in the Prospectus for details of the efforts and actions made by the Group in accordance with the above qualification requirement.

As advised by the PRC Legal Advisor, none of the implementation regulations related to the above qualification requirement was updated since the Listing Date up to 31 December 2019.

(2) Online to Offline ("O2O") Education Services
In addition to our primary business of private education, we also conducted O2O education services, which are considered value-added telecommunications services in the PRC, through Xin Tian Di Xian, which has obtained the ICP License required for carrying out value-added telecommunications services and operating our O2O education services. The PRC laws and regulations currently restrict foreign ownership in enterprises providing value-added telecommunications services, in addition to imposing a qualification requirement on the foreign owners.

As advised by our PRC Legal Advisor, according to the Negative List, the foreign investors are prohibited from holding more than 50% equity interest in the value-added telecommunications services offered by Xin Tian Di Xian. According to the Regulations for the Administration of Foreign-Invested Telecommunications Enterprises (revised in 2016) (外商投資電信企業管理規定(2016年修訂)) ("FITE Regulations"), foreign investors are not allowed to hold more than 50% equity interest in a company providing value-added telecommunications services, including ICP services. In addition, a foreign investor who invests in a foreign-invested value-added telecommunications enterprise in the PRC must demonstrate a good track record and experience in operating value-added telecommunications businesses ("VDT Qualification Requirement"). Moreover, foreign investors that meet these requirements must obtain approvals from the Ministry of Industry and Information Technology of the PRC ("MIIT"), or its authorized local counterparts, which retain considerable discretion in granting approvals, for the commencement of that investor of value-added telecommunications businesses in the PRC. Currently, none of the applicable PRC laws, regulations or rules provides clear guidance or interpretation on the VDT Qualification Requirement. On 1 August 2019, the MIIT issued A Guidance Memorandum on the Application Requirements for Establishing Foreign-invested Telecommunications Enterprises (外商投資經營電信業務審批服務指南) ("Guidance Memorandum") in the PRC. According to the Guidance Memorandum, if any foreign investor intends to invest in the telecommunications business in the PRC and it is the main foreign investor, it is required to provide, among other things, the materials to prove its operation experience on telecommunications business.

As at the date of this annual report, the Company does not meet the VDT Qualification Requirement since we have no experience in operating any value-added telecommunications business outside the PRC. In order to comply with the PRC laws and regulations while availing the Company to the international capital markets and maintaining effective control over Xin Tian Di Xian, the Company adopts the Structured Contracts to gain effective control over, and receive all the economic benefits generated by the business currently operated by the PRC Operating Entities, and consolidate the financial and results of operations of the PRC Operating Entities as if they were wholly-owned subsidiaries of the Group.

(3) Foreign Investment Law

On 15 March 2019, the Foreign Investment Law was formally adopted by the 13th National People's Congress, which took force from 1 January 2020. The Foreign Investment Law does not explicitly stipulate contractual arrangement constitutes a form of foreign investment. As advised by the PRC Legal Advisor, as contractual arrangement is not classified as an investment under the Foreign Investment Law, and if contractual arrangement is not included as a form of foreign investment into future laws, administrative regulations or provisions of the State Council, the Structured Contracts of the Company as a whole and the various agreements underlying the Structured Contracts will not be affected. Despite the above, the Foreign Investment Law stipulates that foreign investments include "investments made by foreign investors in the manners prescribed by laws, administrative regulations or otherwise by the State Council". Therefore, future laws, administrative regulations or provisions of the State Council may regard contractual arrangement as a form of foreign investment, and it is uncertain whether the Company's Structured Contracts will be recognized as foreign investments, whether they will be considered as violating foreign investment access requirements and how the above Structured Contracts will be handled. As such, there is no assurance that the Company's Structured Contracts and the business of the PRC's Operating Entities will not be materially and adversely affected in the future.

Save as disclosed, the Company and the Board, after consulting the PRC Legal Advisor, are satisfied that there are no other up-to-date information on the Foreign Investment Law.

F. Risks Associated with the Arrangements and the Actions Taken to Mitigate the Risks

Foreign investment in the education industry in China is extensively regulated and subject to numerous restrictions. Under the Foreign Investment Catalog, preschool education and higher education are restricted industries for foreign investors, and foreign investors are only allowed to invest in preschool education and higher education in cooperative ways and the domestic party shall play a dominant role in the cooperation. Furthermore, under 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》, which was issued by the MOE on 18 June 2012, the foreign portion of the total investment in a Sino-foreign joint venture private school should be below 50%. According to relevant regulations and as confirmed by the Commission of Education in Hebei Province, the foreign investors invested in preschools, higher education, academic non-credential and secondary vocational education must be foreign educational institutions with relevant qualification and experience.

In addition to our primary business of private education, we also conducted O2O education services, which considered as value-added telecommunications services in the PRC, through Xin Tian Di Xian, and it has obtained the ICP License required for carrying out value-added telecommunications services and operating our O2O education services. The PRC laws and regulations currently restrict foreign ownership in enterprises providing value-added telecommunications services, as well as imposing a qualification requirement on the foreign owners.

Accordingly, foreign investment in preschools, higher education, academic non-credential and secondary vocational education, and O2O education services is not prohibited. However, Sheng Dao Xiang Cheng, a subsidiary of the Company, is ineligible to independently or jointly operate preschools, higher educational institutions, academic non-credential and secondary vocational education, and O2O education services. Accordingly, the Company has been and are expected to continue to be dependent on our Structured Contracts to operate its businesses.

Please also refer to the section headed "Risk Factors – Risks Relating to Our Structured Contracts" in the Prospectus.

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

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

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

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

(d) the Company and the Directors have undertaken to provide periodic updates in the annual and interim reports regarding the qualification requirements and the status of compliance with the Foreign Investment Law, including the latest relevant regulatory development, as well as the plan and progress towards demonstrating compliance with the qualification requirements;

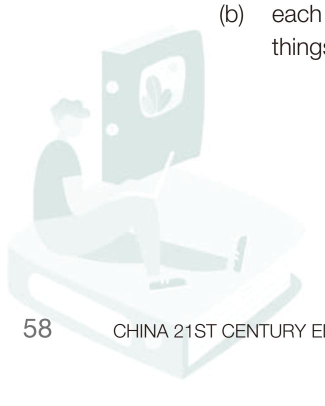
(e) the Company shall disclose, as soon as possible (i) any updates of changes to the Foreign Investment Law that will materially and adversely affect the Company as and when they occur; and (ii) a clear description and analysis of the Foreign Investment Law as implemented, specific measures taken by the Company to fully comply with the Foreign Investment Law supported by a PRC legal opinion and any material impact of the Foreign Investment Law on the operations and financial position of the Company; and

(f) the Company shall engage external legal advisors or other professional advisors, if necessary, to assist the Board to review the implementation of the Structured Contracts and the legal compliance of Sheng Dao Xiang Cheng and the PRC Operating Entities to deal with specific issues or matters arising from the Structured Contracts.

In addition, notwithstanding that one of the Directors, Mr. Li Yunong, is also one of the Registered Shareholders, the Company believes that the Directors are able to perform their roles in the Group independently and the Group is capable of managing its business independently under the following measures:

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

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



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

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

G. *Material Changes*
Save as disclosed above, as of the date of this annual report, there were no material changes in the Structured Contracts and/or the circumstances under which the Structured Contracts were adopted.

H. *Unwinding of the Structured Contracts*
As of the date of this annual report, there has not been any unwinding of any Structured Contracts, nor has there been any failure to unwind any Structured Contracts when the restrictions that led to the adoption of the Structured Contracts are removed. For more details, please refer to the section headed "Structured Contracts – Circumstances in Which We Will Unwind the Structured Contracts" of the Prospectus. In the event that the PRC regulatory environment changes and all of the qualification requirements, the foreign ownership restrictions and the foreign control restrictions are removed (and assuming there are no other changes in the relevant PRC laws and regulations), Sheng Dao Xiang Cheng will exercise the Equity Call Option in full to unwind the contractual arrangements so that the Company will be able to directly operate the schools without using the Structured Contracts.

5. Ningbo Tianzuo Construction Contracts

As set out in note 34(c)(iii) to the consolidated financial statements, on 24 January 2019 and 27 November 2019, Shijiazhuang Institute of Technology, one of our PRC Operating Entities, entered into two construction contracts with Ningbo Tianzuo ("Ningbo Tianzuo Construction Contracts"), under which Ningbo Tianzuo shall repair Building 11 of Shijiazhuang Institute of Technology, for a contract sum of RMB825,049, and foyer and landscape of Building 11, Starlight Stadium, Central Avenue and asphalt pavement of Shijiazhuang Institute of Technology, for a contract sum of RMB3,723,733, respectively.

Since Mr. Li Yunong, one of the Controlling Shareholders and the chairman of the Board, indirectly controls more than 30% of the voting power at general meetings of Ningbo Tianzuo, Ningbo Tianzuo is an associate of Mr. Li under the Listing Rules and therefore a connected person of the Company. The transactions contemplated under the Ningbo Tianzuo Construction Contracts thus constitute connected transactions for the Company under Chapter 14A of the Listing Rules.

6. Confirmation of Independent Non-executive Directors

The independent non-executive Directors have reviewed the continuing connected transactions above and confirmed that such transactions were:

(1) entered into in the ordinary and usual course of business of the Group;

(2) conducted on normal commercial terms; and

(3) carried out according to the relevant agreements governing such transactions on fair and reasonable terms and in the interest of the Shareholders as a whole.

In particular, the independent non-executive Directors have reviewed the Structured Contracts and confirmed that:

(1) the transactions carried out during the year ended 31 December 2019 were entered into in accordance with the relevant provisions of the Structured Contracts, and were operated so that the profit generated by the PRC Operating Entities was substantially retained by the Group;

(2) no dividends or other distributions were made by the PRC Operating Entities to the holders of its school sponsor's interest which were not otherwise subsequently assigned or transferred to the Group; and

(3) the Structured Contracts and if any, any new contracts entered into, renewed or reproduced between the Group and the PRC Operating Entities during the year ended 31 December 2019 were fair and reasonable or advantageous to the Shareholders and the Group, and in the interests of the Shareholders as a whole.

7. Confirmation of the Company's Auditors

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

The Company's auditors have performed certain pre-determined review procedures in respect of the continuing connected transactions of the Group set out above for the year ended 31 December 2019, and reported to the Board that:

(1) nothing has come to their attention that causes them to believe that such continuing connected transactions have not been approved by the Board;

(2) nothing has come to their attention that causes them to believe that such continuing connected transactions were not, in all material respects, in accordance with the pricing policies of the Group if the transactions involve the provision of goods or services by the Company;

(3) nothing has come to their attention that causes them to believe that such continuing connected transactions were not entered into, in all material respects, in accordance with the relevant agreements governing the transactions;

(4) in respect of the transactions under the Structured Contracts, no dividends or other distributions have been made by the PRC Operating Entities to the Registered Shareholders which are not otherwise subsequently assigned or transferred to the Group; and

(5) in respect of such continuing connected transactions other than the transactions under the Structured Contracts, nothing has come to their attention that causes them to believe that the transaction amounts exceeded the annual caps.

In the view of the Directors, save as disclosed above, the other transactions set out in note 34 to the consolidated financial statements either do not constitute connected transactions or continuing connected transactions or are exempt from reporting, announcement, annual review and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

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 34 to the consolidated financial statements.

MODEL CODE

The Company has adopted the Model Code as its own code of conduct regarding Directors' securities transactions. Upon specific enquiries to all the Directors, each of them has confirmed that he/she complied with the requirements set out in the Model Code for the year ended 31 December 2019.

By order of the Board
Li Yunong
Chairman

Hong Kong, 31 March 2020

VII. Corporate Governance Report

The Board is pleased to present the corporate governance report set out in the annual report of the Company for the year ended 31 December 2019.

• CORPORATE GOVERNANCE PRACTICES

The Group is committed to maintaining high standards of corporate governance to safeguard the interests of the Shareholders and to enhance corporate value and accountability. The Company has adopted the CG Code as its own code of corporate governance.

For the year ended 31 December 2019, the Company has complied with all applicable code provisions under the CG Code and adopted most of the recommended best practices set out therein. The Company will continue to review and monitor its corporate governance practices to ensure the compliance with the CG Code.

• THE BOARD

Responsibilities

The Board is responsible for the overall leadership of the Group, oversees the Group's strategic decisions and monitors business and performance. The Board has delegated the authority and responsibility for day-to-day management and operation of the Group to the senior management of the Group. To oversee particular aspects of the Company's affairs, the Board has established three Board committees including the Audit Committee, the Remuneration Committee and the Nomination Committee of the Company (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 shall ensure that they carry out duties in good faith, in compliance with applicable laws and regulations, and in the interests of the Company and its Shareholders at all times.

The Company has purchased appropriate liability insurances for the legal proceedings that the Directors may be involved in, and will review the insurance coverage on a yearly basis.

• BOARD COMPOSITION

During the year ended 31 December 2019, the Board comprised five executive Directors and three independent non-executive Directors detailed as follows:

Executive Directors:
Mr. Li Yunong
Ms. Liu Hongwei
Mr. Ren Caiyin
Mr. Liu Zhanjie
Ms. Yang Li

Independent non-executive Directors:
Mr. Guo Litian
Mr. Yao Zhijun
Mr. Wan Joseph Jason

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

For the year ended 31 December 2019, the Board has complied with the requirements under Rule 3.10(1) and Rule 3.10(2) of the Listing Rules that at least three independent non-executive directors shall be appointed with at least one independent non-executive director possessing appropriate professional qualifications or accounting or relevant financial management expertise. The Company has also complied with the requirements under Rule 3.10A of the Listing Rules that the number of independent non-executive directors as appointed shall be equivalent to one-third of the number of board members.

Each of the independent non-executive Directors has confirmed his independence pursuant to Rule 3.13 of the Listing Rules and the Company considers each of them to be independent.

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

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

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

• INDUCTION AND CONTINUOUS PROFESSIONAL DEVELOPMENT

All newly appointed Directors would be provided with necessary induction training and information to ensure that they have a proper understanding of the Company's operations and businesses as well as their responsibilities under relevant statutes, laws, rules and regulations. The Company also arranges regular seminars to provide the Directors with updates on the 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.

All Directors are encouraged by the Company to participate in continuous professional development to develop and refresh their knowledge and skills. From time to time, the joint company secretaries of the Company update and provide the Directors with written training materials in relation to their roles, functions and duties.

A summary of training received by the Directors for the year ended 31 December 2019 according to the information provided by the Directors is as follows:

Name of Director	Nature of continuous professional development program
Executive Directors:	
Mr. Li Yunong	A/B/C/D[1]
Ms. Liu Hongwei	A/B/C/D
Mr. Ren Caiyin	A/B/C/D
Mr. Liu Zhanjie	A/B/C/D
Ms. Yang Li	A/B/C/D
Independent non-executive Directors:	
Mr. Guo Litian	A/B/C/D
Mr. Yao Zhijun	A/B/C/D
Mr. Wan Joseph Jason	A/B/C/D

Note 1: A: attending seminars and/or conferences and/or forums and/or briefings; B: making speeches at seminars and/or conferences and/or forums; C: participating in trainings provided by law firms and that relating to the business of the issuer; D: reading materials on various topics, including corporate governance, directors' duties, Listing Rules and the amendments to other relevant laws.

• CHAIRMAN AND CHIEF EXECUTIVE OFFICER

In accordance with the code provision A.2.1 of the CG Code, the roles of chairman of the Board and chief executive officer should be separate and should not be performed by the same individual.

Mr. Li Yunong acts as the chairman of the Board. Ms. Liu Hongwei acts as the chief executive officer of the Company (the "Chief Executive Officer"). The chairman of the Board is responsible for the overall formulation of business strategy and guidance of development of the Group, and the Chief Executive Officer is responsible for the overall operations and development of the Group, thus separating these two different positions by function.

• APPOINTMENT OF DIRECTORS

Each of the executive Directors has entered into a service contract with the Company for a term of three years commencing on the Listing Date, which may be renewable automatically for three years and subject to termination in accordance with the provisions of the service contract.

Mr. Guo Litian and Mr. Yao Zhijun have each entered into a letter of appointment with the Company for a term of one year commencing on the Listing Date, which may be subject to termination in accordance with the provisions of the letter of appointment. Mr. Wan Joseph Jason has entered into a letter of appointment with the Company for a fixed term of one year, commencing from 6 March 2019, which may be subject to termination in accordance with the provisions of the letter of appointment.

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

• BOARD MEETINGS

The Company has adopted the practice of holding Board meetings regularly, at least four times a year, and at approximately quarterly intervals. Notices of no less than fourteen days are given for 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 meetings and Board Committee meetings, reasonable notice will be given by the Company. The agenda and accompanying board papers included in the notice of meetings are dispatched at least three days before the date of the Board meetings or Board Committee meetings to ensure that the Directors have sufficient time to review the papers and be adequately prepared for the meetings. When the Directors or the 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 of the Board prior to the meeting. Minutes of meetings shall be kept by the joint company secretaries with copies circulated to all Directors for reference and records.

Minutes of the Board meetings and Board Committee meetings are recorded in sufficient detail on 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/will be sent to the Directors for their consideration within a reasonable time after the date on which the meeting is held. The minutes of Board meetings are open for inspection by the Directors.

For the year ended 31 December 2019, the Board held 10 Board meetings, including 4 regular Board meetings, and held one general meeting. Attendance of individual Directors at Board meetings and the general meeting are set out in the table below:

Director	Number of Board meetings attended/number of Board meetings	Number of general meetings attended/number of general meetings
Executive Directors:		
Mr. Li Yunong	4/4	1/1
Ms. Liu Hongwei	4/4	1/1
Mr. Ren Caiyin	4/4	0/1
Mr. Liu Zhanjie	4/4	0/1
Ms. Yang Li	4/4	1/1
Independent non-executive Directors:		
Mr. Guo Litian	4/4	1/1
Mr. Yao Zhijun	4/4	0/1
Mr. Wan Joseph Jason	4/4	0/1

• MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as its own code of conduct regarding Directors' securities transactions. Specific enquiries have been made to all the Directors and each of the Directors has confirmed that he/she has complied with the code provisions of the Model Code throughout the year ended 31 December 2019.

For the year ended 31 December 2019, the Company also adopted its own code of conduct regarding employees' securities transactions on terms no less exacting than the standard set out in the Model Code for the compliance by its relevant employees who are likely to be in possession of unpublished inside information of the Company in respect of their dealings in the Company's securities.

DELEGATION BY THE BOARD

The Board reserves for its decision on 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 will have recourse to seek independent professional advice in performing their duties at the Company's expense. Directors 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 of the Company. 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 senior management of the Company.

CORPORATE GOVERNANCE FUNCTION

The Board recognizes that corporate governance should be the collective responsibility of the Directors, and their corporate governance functions include:

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

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

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

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

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

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

BOARD COMMITTEES

Audit Committee

For the year ended 31 December 2019, the Audit Committee comprised three members, namely Mr. Yao Zhijun (chairman), Mr. Guo Litian and Mr. Wan Joseph Jason, all of whom are independent non-executive Directors.

The main duties and responsibilities of the Audit Committee are as follows:

(1) to assure that adequate internal controls are in place and followed;

(2) to assure that appropriate accounting principles and reporting practices are followed;

(3) to provide liaison among the Shareholders, management, the authorized independent auditors (the "External Auditor"), internal auditors or any person responsible for internal audit function (the "IA People");

(4) to consider the qualifications and independence of the External Auditor;

(5) to satisfy itself as to compliance with any applicable legal requirements;

(6) to review audit and control related to corporate representations made to External Auditor, IA People and to the Shareholders;

(7) to ensure itself that good accounting and audit policy, internal control, ethics of conduct and proper business ethics have been followed;

(8) to contribute towards a climate of discipline, risk management awareness and control within the Group; and

(9) to perform any other duties as delegated by the Board.

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

For the year ended 31 December 2019, the Audit Committee held 2 meetings. A summary of work performed by the Audit Committee is as follows:

- to review the annual results of the Company and its subsidiaries for the current financial year and the audit report prepared by the External Auditor on accounting matters and significant findings during the audit;

- to review the interim results of the Company and its subsidiaries for the six months ended 30 June 2019; and

- to review the financial reporting system, compliance procedures, internal control (including whether the resources, qualifications, training courses, and budgets for employees of the accounting and financial reporting departments of the Company were sufficient), risk management system and procedures, and the re-appointment of the External Auditor. The Board had not deviated from any recommendations made by the Audit Committee regarding the selection, appointment, retirement, or removal of the External Auditor.

  Attendance of the members of the Audit Committee at the meetings is set out in the table below:

Name of Director	Number of attendance/number of meeting
Mr. Yao Zhijun	2/2
Mr. Guo Litian	2/2
Mr. Wan Joseph Jason	2/2

- **Nomination Committee**

  For the year ended 31 December 2019, the Nomination Committee comprised three members, namely one executive Director, Mr. Li Yunong (chairman), and two independent non-executive Directors, Mr. Yao Zhijun and Mr. Wan Joseph Jason.

The main duties and responsibilities of the Nomination Committee are as follows:

(1) to review the structure, size and diversity (including without limitation, gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

(2) to identify individuals suitably qualified to become Directors and select or make recommendations to the Board on the selection of individuals nominated for directorships. In identifying suitable candidates, the Nomination Committee shall consider candidates on merit and against the objective criteria, with due regard for the benefits of diversity on the Board;

(3) to assess the independence of independent non-executive Directors; and

(4) to 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 officer, taking into account the Company's corporate strategy and the mix of skills, knowledge, experience and diversity needed in the future.

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

During the year ended 31 December 2019, the Nomination Committee held one meeting. The work performed by the Nomination Committee is summarized as follows:

- The Nomination Committee reviewed the structure, size and composition of the Board. The Board Diversity Policy and Directors subject to re-election and retirement by rotation were also reviewed.

  Attendance of the members of the Nomination Committee at the meeting is set out in the table below:

Director	Number of attendance/number of meeting
Mr. Li Yunong	1/1
Mr. Yao Zhijun	1/1
Mr. Wan Joseph Jason	1/1

- **Board Diversity Policy and Nomination Policy**

Purposes

(1) to guide the Board in relation to appointment/re-appointment/removal of Directors;

(2) to devise criteria for performance evaluation of the independent non-executive Directors and the Board as a whole;

(3) to devise a policy on the size and composition of the Board taking into account the suitability, diversity and balance in terms of experience, knowledge, skills and judgment of the Directors.

Board Diversity

The Nomination Committee has formulated the "Board Diversity Policy" in respect of the nomination and appointment of new Directors, which states that, the criteria for selecting Director candidates shall include various diversity factors such as gender, age, cultural and educational background, race, professional experience, skills, knowledge and years of service, and the final candidates will be determined based on their comprehensive capabilities and the contributions they may make to the Board. The Company aims to maintain the balanced and diversified opinions of the Board members in respect of the business development of the Company.

Nomination and Re-election of Board Members

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 for making recommendations to the Board on the appointment, re-election and succession planning of Directors. After the Nomination Committee makes its recommendations to the Board, the Board will have final authority on determining the selection of the candidates for nomination to the Board.

The Nomination Committee will assess the candidate or incumbent on criteria such as integrity, experience, skill and ability to commit time and effort to carry out the duties and responsibilities. The recommendations of the Nomination Committee will then be put to the Board for decision. The Nomination Committee shall obtain all applicable declarations and undertaking as provided under the laws of the Cayman Islands and the Listing Rules. In case of independent non-executive Directors, the Nomination Committee shall ensure that the independent non-executive Directors meet the criteria of independence as set out in the Listing Rules.

Once the Nomination Committee determines that an additional or replacement Director is required, the Nomination Committee may take such measures that it considers appropriate in connection with its evaluation of a candidate, including candidate interviews, inquiry of the person or persons making the recommendation or nomination, engagement of an external search firm to gather additional information, or reliance on the knowledge of the members of the Nomination Committee, the Board or the management.

According to the Articles of Association, all the Directors shall retire by rotation once at least every three years. Any new Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting after his/her appointment and be subject to re-election by Shareholders at such meeting, and any Director appointed by the Board as an addition to the Board shall hold office only until the next annual general meeting of the Company and shall then be eligible for re-election.

- **Remuneration Committee**

During the year ended 31 December 2019, the Remuneration Committee comprised three members, namely two independent non-executive Directors, i.e. Mr. Wan Joseph Jason (chairman) and Mr. Guo Litian, and one executive Director, i.e. Mr. Liu Zhanjie.

The main duties and responsibilities of the Remuneration Committee are as follows:

(1) to consult the chairman and/or chief executive officer about their remuneration proposals for other executive Directors;

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

(3) to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives;

(4) to determine, with delegated responsibility, or to make recommendations to the Board, the remuneration packages of individual executive directors and senior management. The remuneration packages should include benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment;

(5) to make recommendations to the Board on the remuneration of non-executive Directors;

(6) to consider salaries paid by comparable companies, time commitment and responsibilities, and employment conditions elsewhere in the Group;

(7) to review and approve compensation payable to executive Directors and the senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms;

(8) to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that they are consistent with contractual terms;

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

(10) in respect of any service contract to be entered into between any members of the Group and its Director or proposed Director that requires Shareholders' approval, to review and provide recommendation to the Company's Shareholders as to whether the terms of the service contracts are fair and reasonable and whether such service contracts are in the interests of the Company and the Shareholders as a whole, and to advise Shareholders on how to vote.

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

During the year ended 31 December 2019, the Remuneration Committee held one meeting, the work performed by the Remuneration Committee is summarized as follows:

- The Remuneration Committee discussed on the Company's remuneration policy, the Company's structure, and Directors' and the senior management's remuneration structure and policy, and make recommendations to the Board on such matters.

  Attendance of the members of the Remuneration Committee at the meeting is set out in the table below:

Name of Director	Number of attendance/number of meetings
Mr. Wan Joseph Jason	1/1
Mr. Guo Litian	1/1
Mr. Liu Zhanjie	1/1

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The remuneration of the Directors and senior management of the Company for the year ended 31 December 2019 falls under the following bands:

Band of remuneration (RMB'000)	Number of individuals
Above 200	8
100-200	3
50-100	4
Below 50	1

DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING OF FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for preparing the consolidated financial statements as set out on page 120 of this annual report.

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 consolidated financial statements, which are put to the Board for approval. The Company provides all members of the Board with updates on the Company's performance, positions and prospects.

The statement by the auditors of the Company regarding their reporting responsibilities on the consolidated financial statements is set out in the Independent Auditor's Report on pages 120 to 121 of this annual report.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for supervising the design, implementation and monitoring of risk management system by the management to ensure the establishment and maintenance of an effective risk management system of the Company and its subsidiaries. The Board keeps supervising risk management and internal control systems of the Company and its subsidiaries and reviews the effectiveness of the risk management and internal control systems of the Group at least once annually. Regular reviews also cover all significant controls, including the controls over finance, operation and compliance with laws and regulations, as well as the risk management function of the Company. These systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board shall bear full responsibility for maintaining sound and effective risk management and internal control measures to safeguard the assets of the Company and interests of Shareholders. The Directors confirmed that the Company carried out regular inspections on the daily operation, business exploration, investments in acquisition and mergers, internal rules and systems, business procedures, asset management, bidding and tendering processes, contract management, operation procedures, practices and systems through risk control and compliance department to ensure that none of the operating activities of the Company are carried out in violation of the legal requirements at the places where it operates, and safeguard assets from inappropriate use, maintain proper accounts and ensure the compliance with and implementation of relevant regulations.

The internal management mechanism and review procedures currently implemented and put in place by the Company in respect of risk management and compliance management mainly include:

(1) to prepare a risk list based on the contents and types of risks that are common and likely to be encountered in the Company's operations;

(2) to further improve and optimize the Company's contract management measures and management system;

(3) to regularly review and summarize the effectiveness of the company's risk management, internal control and compliance management systems and measures through pre-established internal assessment mechanisms to achieve effective operations and improve risk management;

(4) to prepare plans for major risks and common risks and provide training and guidance to the operations department on the relevant plans;

(5) to effectively and regularly communicate with the Board and each senior management personnel on risk management, internal control and compliance management to ensure the implementation and practice of the Company's internal risk control and internal audit mechanisms.

The Group established a compliance system of internal monitor and control information reporting which consists of internal major information contacts, which mainly includes regular material information reporting and temporary material information reporting, for the purpose of ensuring the effective identification of, and the high efficiency and order of the transmission and usage of, the Group's internal information. The Group complies with requirements of the SFO and the Listing Rules. Before the information is fully disclosed to the public, the Group ensures the information is kept strictly confidential. If the Group believes that the necessary degree of confidentiality cannot be maintained or that confidentiality may have been breached, the Group would immediately disclose the information to the public. The Group is also committed to ensuring that the information contained in announcements are not false or misleading as to a material fact, or false or misleading through the omission of a material fact with a view to presenting information in a clear and balanced way, which requires equal disclosure of both positive and negative facts. The Company formulated and published systems including the Management System of Information Disclosure as the internal monitoring, controlling and safeguarding measures for the processing and releasing procedures of inside information and applied them within the Group.

For the year ended 31 December 2019, the Board has reviewed the effectiveness of the Company's risk management and internal control systems through the Audit Committee, including resource adequacy, as well as the qualifications, experience of and the training plans and budgets for the Group's accounting and financial reporting staff. The Directors all consider that the Group's current risk management and internal control systems are operating effectively and sufficiently.

• DIVIDEND POLICY

The Board considers that stable dividend payment to Shareholders is the primary objective of the Company. It is the policy of the Board, in considering the payment of dividends, to allow Shareholders to share the Company's profits whilst retaining adequate capital for the Group's future growth.

Under the applicable laws of the Cayman Islands and the Articles of Association, all of the Shareholders have equal rights to dividends and distributions. The Board determines the dividend which requires the approval of Shareholders. In addition to cash, dividends may be distributed in the form of Shares. Any distribution of Shares also requires the approval of Shareholders.

The Board takes into account the following factors when considering the declaration and payment of dividends:

(1) liquidity position of the Company;

(2) actual and expected financial results of the Company;

(3) gearing ratio of the Group, Shareholders' interests and any restriction that may be imposed by any creditor;

(4) general business conditions and strategies;

(5) capital requirements;

(6) contractual restrictions on the payment of dividends by the Company to the Shareholders or by the subsidiaries to the Company, if any;

(7) taxation considerations;

(8) general economic conditions and other internal or external factors that may affect the business or financial performance and conditions of the Company;

(9) statutory and regulatory restrictions; and

(10) any other factors the Board may deem relevant.

The Company will not declare any dividend under the following circumstances:

(1) during the growth phase of the Company or during significant expansion or undertaking of any acquisitions or joint ventures requiring higher allocation of capital;

(2) whenever the Company proposes or plans to utilize surplus cash to repurchase the Shares of the Company;

(3) when profits are inadequate or the Company incurs losses, or there are reasonable grounds for believing that the Company is or would be, after a dividend payment, unable to pay its liabilities or discharge its obligations as and when they become due;

(4) according to other requirements set forth by law.

The Board will continually review the dividend policy from time to time and no assurance can be given that dividends will be paid in any particular amount for any given period.

• AUDITOR'S REMUNERATION

For the year ended 31 December 2019, the Company appointed Ernst & Young as the External Auditor. The approximate remuneration of the auditor in respect of the audit and non-audit services provided to the Company for the year ended 31 December 2019 is as follows:

Type of services	Amount (RMB'000)
Audit services	1,680
Non-audit services	50
Total	1,730

• JOINT COMPANY SECRETARIES

Mr. Zheng Tieqiu ("Mr. Zheng") was appointed as a joint company secretary of the Company on 28 January 2019. The joint company secretaries of the Company are responsible for advising the Board on corporate governance matters and ensuring that the Board policy and procedures, and the applicable laws, rules and regulations are complied with.

In order to uphold good corporate governance and ensure compliance with the Listing Rules and applicable laws of Hong Kong, the Company also engages Ms. Wong Sau Ping ("Ms. Wong"), associate director of TMF Hong Kong Limited (a global corporate service provider), as the other joint company secretary of the Company to assist Mr. Zheng to discharge his duties as joint company secretary of the Company. Mr. Zheng is the primary contact person of Ms. Wong at the Company.

For the year ended 31 December 2019, Mr. Zheng and Ms. Wong have 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 Shareholders is essential for enhancing investor relations and understanding of the Group's business, performance and strategies. The Company also recognises the importance of timely and non-selective disclosure of information on the Company, which enables Shareholders and investors to make informed investment decisions.

Annual general meetings provide opportunities for Shareholders to communicate directly with the Directors. The chairman of the Company and the chairmen of the Board Committees of the Company will attend the annual general meetings to answer questions from the Shareholders. The External Auditor of the Company will also attend the annual general meetings to answer inquiries concerning the conduct of the audit, the preparation and contents of the auditor's report, the accounting policies and auditor's 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 its Shareholders and maintains a website at www.21centuryedu.com and enquiry channels for investors (telephone: +86 10 65951509; email: ir@21stedu.com), where updates on the Company's business operations and development, corporate governance practices and other information are available for public access. Shareholders may make enquires about the Company to the Board through the channels above.

• SHAREHOLDERS' RIGHTS

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

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

• CONVENING AN EXTRAORDINARY GENERAL MEETING AND PUTTING FORWARD PROPOSALS

According to the Articles of Association, Shareholders may put forward proposals for consideration at the general meetings of the Company. Any one or more Shareholder(s), at the date of deposit of the requisition, holding not less than one-tenth of the paid up share capital of the Company carrying the right of voting at the general meetings of the Company shall at all times have the right, by written requisition to the Board or any one of the joint company secretaries of the Company to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within 21 days after such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself/herself/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 to convene such general meeting shall be reimbursed to the requisitionist(s) by the Company.

For recommending a Director candidate, please refer to the relevant procedures on the Company's website.

• AMENDMENTS TO THE CONSTITUTIONAL DOCUMENTS

For the year ended 31 December 2019, the Articles of Association have not been amended and restated.

VIII. Environmental, Social and Governance Report

ABOUT THIS REPORT

Brief Introduction

This is the second Environmental, Social and Governance Report published by us, with a view to responding to each of the major stakeholders of 21st Century Education in an open and transparent manner and demonstrating to the public our performance in 2019 in respect of Environmental, Social and Governance.

This report will focus on the management and performance of 21st Century Education in environment and social aspects. For information on our performance in corporate governance, please refer to the section headed "Corporate Governance Report".

Reporting Scope

Unless otherwise stated, this report covers the educational institutions of 21st Century Education in the PRC, including the related businesses of Shijiazhuang Institute of Technology, Saintach Tutorial Schools and Saintach Kindergartens. The time period covered by this report is from 1 January 2019 to 31 December 2019, same as that of the 2019 annual report.

Reference and Basis

This report is prepared with reference to the Environmental, Social and Governance Reporting Guide (the "ESG Guide") set out in Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited issued by the Stock Exchange.

The preparation of this report is based on the principles of materiality, quantitative, consistency and balance set out in the ESG Guide and has been in compliance with all the "comply or explain" provisions thereunder.

Cautionary Statement

This report has been published in both Traditional Chinese and English. In the event of any inconsistency, the Traditional Chinese version shall prevail. Soft copy of the ESG Report is available for reading and downloading on the official websites of 21st Century Education and the Stock Exchange.

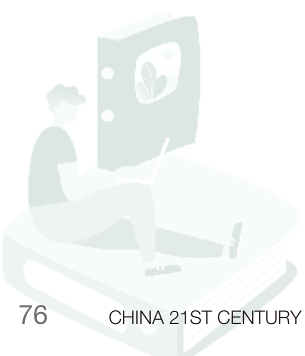
Contact Information

21st Century Education attaches great importance to the views, opinions and suggestions of the readers. Should you have any enquiry or comment on the content of this report, please feel free to contact us through the following:

Telephone: 010-65951509

Email: info@21stedu.com

Company address: 15th Floor, South Building, China Overseas Plaza, Chaoyang District, Beijing



ABOUT 21ST CENTURY EDUCATION

21st Century Education has been adhering to the core philosophy of "assisting you in your whole life" and striving unremittingly to provide clients with customized services and solutions based on individual demand. Through systematic sorting and analysis of business performance, we chose vocational education and quality-oriented education as important business objectives and added "Content+Technology" elements to "Vocational Education+Quality-oriented Education" under the mission of "Promoting education development through content and technology", constructing the two sides of business transformation.

As of the end of the Reporting Period, we have established 21 schools in Shijiazhuang, Hebei Province, including one private college (Shijiazhuang Institute of Technology) in the field of vocational education, six Saintach Tutorial Schools in the field of quality-oriented education, which consist of 11 Saintach tutoring centers, 2 tip-top training schools, 4 Xueding training schools and 8 Saintach Kindergartens and are responsible for the custody of the west campus of Shijiazhuang Tiedao University Sifang College. We have a diversified revenue source covering full-time vocational education and continuing education, K12 after-school tutoring and pre-school education and online education.

Vision: Creating Equality by Education		
Mission: Promoting education development through content and technology	For staff	Providing an employment platform where the staff can achieve sustainable growth, work with dignity and have a proud career
	For clients	Providing customized services and solutions based on individual demand to make education more friendly; and making education more convenient through the innovation driven by content + technology
	For industry	Pushing forward resource sharing and building an open platform; promoting the localization of education and the values with a global perspective
	For society	Providing effective means contributive to the whole life, promoting the balanced social development by education, and practicing love by education
Values	Co-existence	Client is the only reason we exist
	Sharing	Making achievements with openness, and realizing freedom with openness
	All-win	We are successful if we can make clients satisfied, make the industry praise and make the society accept
Service philosophy	Striving for perfection with unremitting enthusiasm	
View on talents	Passion, sincerity and willingness to win	
Pursuit of professional manager	Obsession, joy and gratefulness	

UNIMPEDED COMMUNICATION CHANNELS

In order to guarantee that 21st Century Education could understand and respond to stakeholders' expectations timely in daily operation and management and build a good corporate image, we integrated various communication channels with stakeholders into our operational activities, maintaining close communication with stakeholders such as investors, government and regulatory authorities, students and parents, industry associations, internal management and employees.

Stakeholders	Expectations and demands	Communication channels
Investors (Shareholders)	• Results performance • Latest operational information	• Holding performance briefing regularly • Holding meetings for latest operational information • Disclosure of relevant information through websites of the Stock Exchange and the Company to ensure that investors could obtained the latest information about the Company
Media	• Corporate development • Corporate-related activities	• Press conference • Interview
Government	• Safe and compliant operations • Contribution to the development of economy and society	• Submission of documents • Inspection • Attending meetings
Industry association	• Promotion of sound development of the industry	• Attending activities and meetings hosted by association • Holding the post of the president of the association
Staff (including faculty)	• Comfortable and healthy working environment • Good development platform • Platforms and opportunities to communicate with management • Protect the rights and interests of staffs	• Organizing staff discussions, work meetings, training and other activities • Organizing annual meetings and carnival activities • Staff appraisals
Students and parents	• Teaching quality provided by the school • Safe and healthy educational environment for students	• Questionnaire survey • Holding parent conferences • Daily interaction

Display of communication activities with some stakeholders during the Reporting Period

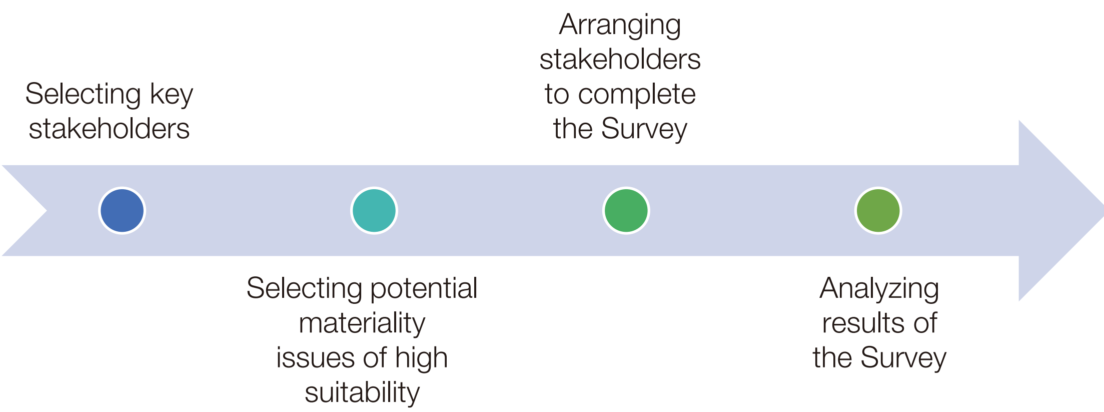
On 25 September 2019, Shijiazhuang Institute of Technology held a working conference for all student cadres to encourage them to speak enthusiastically and elaborate their understanding of the work of student cadres.

On 21 October 2019, Shijiazhuang Institute of Technology was invited to attend the Working Meeting of President of Hebei Province Association for Private Education and Seminar on Reform of Application-oriented Talents Training Models in Private Colleges and Universities. The meeting summarized the work of the previous year, discussed the development of private education, and proposed work ideas for the next stage.

On 16 May 2019, Saintach Kindergartens invited the directors, backbone teachers from different kindergartens to visit its kindergarten featured with sports characteristic. The guests attended the basketball class, balance bike class, aesthetic education class and other courses of the kindergarten, and deeply experienced the professionalism of education in Saintach Kindergartens.

On 9 April 2019, six experts from the annual inspection team of Education Department of Hebei Province came to Shijiazhuang Institute of Technology for inspection and guidance. They had a discussion with the school teachers and students, and exchanged views with college leaders on relevant issues.

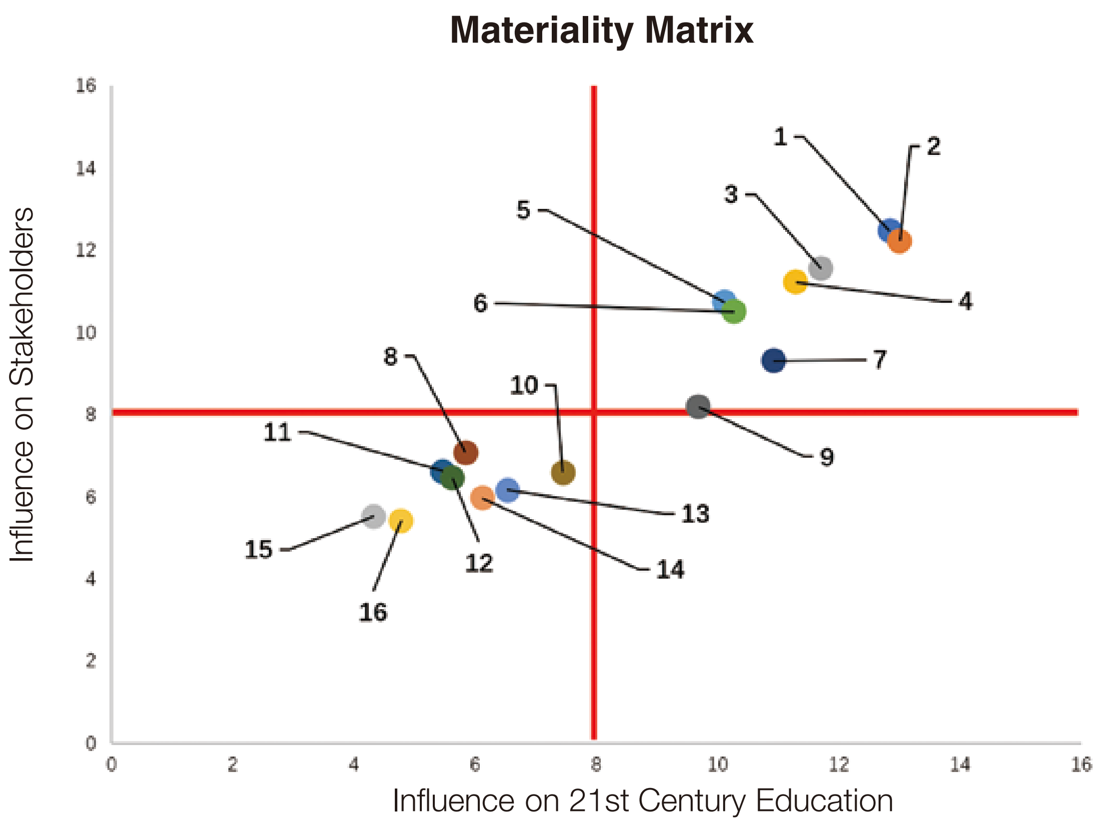
In order to implement our plan of understanding the major concerns of stakeholders on ESG issues of the 21st Century Education and to report on these ESG issues in this report, we conducted a materiality survey (the "Survey") on the ESG issues during the Reporting Period, aiming to understand the priority importance for different ESG issues. A total of 790 valid questionnaires were collected in the Survey.



Major steps of the survey	
Selecting key stakeholders[1]	Based on the analysis of "the influence by the enterprise" and "the influence on the enterprise", the stakeholders were selected for participating in the survey.
Selecting potential materiality issues of high suitability	Based on the comprehensive analysis of ESG guidelines, industry issues and enterprise characteristics, the topics with high relevance to 21st Century Education were selected and used in the survey.
Arranging stakeholders to complete the survey	A questionnaire was prepared and sent via the Internet to all stakeholders who were invited to respond.
Analyzing results of the survey	The materiality of the issue was evaluated according to the scores of each issue in the dimensions of "the influence on 21st Century Education" and "the influence on stakeholders", and finally identified by the senior management of 21st Century Education.

[1] Internal staff and management from key stakeholders were invited to participate in the Survey. In the future, we will continue to optimize the stakeholder survey procedures and strive to invite more stakeholders to participate in the Survey.

According to the results of the Survey, for 21st Century Education and the stakeholders, the eight issues including "Advanced educational philosophy, models and goals", "Teachers' qualification and ethics", "Employment management", "Staff training and development", "Students' core values and their sense of identity with the school", "Health and safety of staff", "School building safety and accident management" and "Food safety in canteens" are of high materiality.



No. of issue	Content of issue	No. of issue	Content of issue
1	Advanced educational philosophy, models and goals	9	Food safety in canteens
2	Teachers' qualification and ethics	10	Advertising and marketing
3	Employment management	11	Environmental protection initiatives and awareness
4	Staff training and development	12	Public welfare for communities
5	Students' core values and their sense of identity with the school	13	Supply chain management
6	Health and safety of staff	14	Anti-corruption/bribery/extortion/fraud/money laundering
7	School building safety and accident management	15	Waste discharge
8	Resource utilization	16	Prevention of child labor and forced labor

STANDARDIZATION OF THE SCHOOL OPERATION AND MANAGEMENT

Standardized school operation and management is the cornerstone to ensure that 21st Century Education focuses on the operation and content incubation of education industry and develops the innovative education system and education services. It is also a solid guarantee for us to promote the healthy development of the enterprise, attract more students and teachers, and establish a good brand image.

During the Reporting Period, we adhered to our consistent management style to maintain a high level of school management, by which we constantly improved all aspects of school management procedures and management rules for the purpose of providing high-quality and advanced education services for students.

Advanced Educational Model

We strictly abides by requirements of various laws and regulations including the Law of the People's Republic of China on the Promotion of Private Education, the Education Law of the People's Republic of China and the Regulations of Hebei Province on Private Education in relation to teaching quality and standardization of the private education, and have formulated a series of standardization policies, such as the Control System and Evaluation System for Teaching Quality (the "Standardization System"), the Manual on the Standardization of Teaching Process (the "Standardization Process"), and the Measures for the Update and Maintenance of Corporate Standardization Management System (the "Standardization Update"). 21st Century Education has established a highly scalable educational business model, and introduced advanced information technology means to strengthen supervision, monitoring, evaluation and guidance of teaching quality, so as to ensure the legal compliance of the educational activities and scientific and standardized conduct of the teaching quality.

Standardization System	**Standardization Process**	**Standardization Update**
Teaching quality standard system	Formulation of teaching standards	Establishing the review and analysis system
Teaching quality monitoring and organization system	Classroom management system	Setting up discussion groups for the plans
Supervision for the operating system	Tests for teachers' professional skills	Implementing new standardization system
Teaching quality monitoring information system	Attendance and review system	Establishing inspection mechanism
Teaching quality evaluation system	Writing standards for teaching plans	

Key works of the standardization system

Standardizing the External Publicity

In response to the requirements of relevant laws and regulations such as the Advertising Law of the People's Republic of China, the Law of the People's Republic of China on the Promotion of Private Education and the Anti-unfair Competition Law of the People's Republic of China on the prohibition of making false or misleading commercial publicity, 21st Century Education strictly manages advertising and promotional activities, promising not to use false information in advertisements, implementing the procedures for filing student recruitment brochures and advertisements with the authorities for examination and approval, and putting an end to any illegal publicity.

During the Reporting Period, all our external publicity work strictly complied with the above laws and regulations related to advertising and promotion, and did not violate any laws and regulations related to advertising and promotion.

Eliminating Violations of Laws and Regulations

According to definitions and management requirements on the acts of bribery, extortion, fraud, money laundering and corruption stated in the Criminal Law of the People's Republic of China (《中華人民共和國刑法》), the Anti-Money Laundering Law of the People's Republic of China (《中華人民共和國反洗錢法》) and other laws and regulations, we have formulated the Anti-fraud, Anti-corruption and Anti-money Laundering Management System of Shijiazhuang Saintach Education and Technology Co., Ltd. (《石家莊新天際教育科技有限公司反舞弊、貪污及洗黑錢管理制度》), the Anti-fraud, Anti-corruption and Anti-money Laundering Management System of Saintach Child Education (《新天際幼兒教育反舞弊、貪污及洗黑錢管理制度》) and other internal management regulations to prevent various acts of corruption.

As required in the regulations, the Audit Committee is the main responsible establishment for anti-fraud, anti-corruption and anti-money laundering activities, and is responsible for leading daily supervision and internal education of anti-fraud, anti-corruption and anti-money laundering. The management of 21st Century Education is in charge of the prevention of fraud, corruption, and money laundering, and has taken various approaches in this regard, including but not limited to:

- identifying and assessing risks of fraud, corruption and money laundering;
- preventing and reducing the cases of false financial report and abuse of corporate assets by ways including approval, authorization, inspection, verification and division of powers;
- discovering the connections between business fraud, corruption and money laundering and those of finance to establish prevention and controlling mechanisms at the source of such acts.

Meanwhile, we have put in place a specific reporting telephone and a reporting email for staffs at various levels and people from all works of society to inform and report suspected fraud, corruption or money laundering cases occurred in 21st Century Education. As the main responsible unit, the audit department is required, based on the principles of fairness and independence, to carry out investigations and report the corresponding results to the management and the Board in a timely manner. At the same time, responsible departments are strictly required to protect the information of the reporter, and all obstructions, interference or hostile acts against reporters and those involved shall be strictly prohibited.

During the Reporting Period, thanks to sound education and management, 21st Century Education and its employees did not receive any case and lawsuit in relation to corruption, bribery, extortion, fraud, and money laundering that violates the Criminal Law of the People's Republic of China and the Anti-Money Laundering Law of the People's Republic of China.

Implementing Supply Management

In order to effectively control and reduce the operational risks in the supply chain, we have formulated the Procurement Management Measures of 21st Century Education Group (《21世紀教育集團採購管理辦法》), the Guidelines of Suppliers Classification and Rating of Shijiazhuang Saintach Education and Technology Co., Ltd. (《石家莊新天際教育科技有限公司供應商分類評級工作指引》) and other management requirements to regulate our daily procurement. According to such management requirements, all bidding units in 21st Century Education must establish bidding leading teams, bidding working teams and bidding evaluation teams to conduct bidding work. Meanwhile, the bidding units are required to compile the project bidding documents and conduct inspection of the bidding information twice a year, focusing on the review of the compliance of such documents, reporting any problems found therein in a timely manner and issuing rectification requirement with a time limit set. For the daily management of suppliers, we follow the principles of "management by classification, standard setting, openness and transparency, supervision and control" to evaluate suppliers by way of classification and ratings, and establish a supplier classification and rating database for management use. For suppliers who have violated laws and regulations, provided false materials, and engaged in commercial bribery and other misconduct, we will blacklist them after assessment, and terms in the blacklist are divided into short-term, mid-term and permanent based on the level of misconduct.

During the Reporting Period, we maintained good cooperative relationships with 85 suppliers from Hebei and 5 suppliers from outside Hebei Province, and consistently adopted the above standard in the tendering and management of them.

Promoting Mutual Communication

For the purpose of promoting the communication between 21st Century Education and students and their parents, ensuring that complaints from students and parents about the management of each school can be received, and improving our management work in a timely manner based on actual conditions, we have formulated the Management System for Complaints from Parents/Students (《家長／學生投訴的管理制度》), the Management Measures of Shijiazhuang Institute of Technology for Filing Complaints by In-school Students (《石家莊理工職業學院學生校內申訴管理辦法》) and other internal policies to implement our complaint management and response measures:

- establishing a complaint handling organization to receive and investigate complaints from students and parents;
- specifying the requirements for complaint handling through documents and adopting reasonable and justified solutions;
- making the procedures for handling complaints clear, and assigning a complaint handling organization to follow up and report the process in time to ensure that the complaint handling work is carried out in accordance with regulations.

During the Reporting Period, we received 6 complaints in total, which were all resolved through the required complaint handling process with proper feedback.

Protecting the Intellectual Property Rights

Pursuant to the requirements for the protection of patents, trademarks and other intellectual properties in the Patent Law of the People's Republic of China (《中華人民共和國專利法》), the Trademark Law of the People's Republic of China (《中華人民共和國商標法》) and other laws, we have formulated internal management measures including the Trademark Management Measures of 21st Century Education Group (《21世紀教育集團商標管理辦法》) and the Control Procedures of Saintach Education for the Risk Management of Intellectual Property Rights (《新天際教育知識產權風險管理控制程序》) based on our industry characteristics.

Our intellectual property management procedures include four main procedures, namely intellectual property risk information collection, risk assessment, establishment of risk strategy and risk response. We emphasized that the retrieves information of the intellectual property management department should be used by the subordinate departments before they start the research and development activities, so as to ensure that such activities will not infringe on the intellectual property rights of others. At the same time, to protect their own intellectual property rights, they are required to notify relevant departments for the application of patents once the research and development is completed.

During the Reporting Period, our intellectual property management process was operated smoothly and we did not receive any case related to the infringement of intellectual property rights.

Providing Protection of Privacy

As a high-end education service provider, 21st Century Education attaches great importance to the information security of students, therefore we have formulated information management measures such as the Information Management Measures for Education Customers of Saintach Child Education (《新天際幼兒教育客戶信息管理辦法》) and the Service Process of Gold Medal Tutors (《金牌導師服務流程》) to regulate the information protection work of students.

According to relevant regulations, permission is required to access to computers storing student information and anyone without permission is not allowed to log in to the system for student files. Computers storing student information and their auxiliary facilities are regularly inspected and checked by special personnel to prevent potential safety hazards in a timely manner and maintain the security of the computer system. Student information, either on paper or by electronic way, are not allowed to be carried out of school; and student information that are expired (including graduation, withdrawal and etc.) should be compiled into files or destroyed in a timely manner. Once an employee is found to have violated the management regulations, he/she will be imposed certain penalties and held accountable by law in accordance with the provisions under the Criminal Law of the People's Republic of China.

During the Reporting Period, we strictly complied with the Criminal Law of the People's Republic of China and other relevant laws and regulations, and we did not receive any cases of information leakage.

Safeguarding the Health of Students

21st Century Education respects the health and safety interests and rights of every student. According to the Education Law of the People's Republic of China (《中華人民共和國教育法》), the Measures for the Safety Management of Primary and Secondary Schools and Kindergartens of Saintach (《中小學新天際幼兒園安全管理辦法》), the Law of the People's Republic of China on the Protection of Minors (《中華人民共和國未成年人保護法》) and other laws and regulations, we have issued a series of internal management policies, and adopted comprehensive security measures and monitoring mechanisms on campus[2]. We protect the safety of students from various aspects, such as the campus security, student mental health safetysecurity, and canteen food security. At the same time, according to the Fire Protection Law of the People's Republic of China (《中華人民共和國消防法》), the Fire Protection Regulations of Hebei Province (《河北省消防條例》), the Regulations on the Fire Safety Management of Colleges and Universities (《高等學校消防安全管理規定》) and other relevant laws and regulations, each school of 21st Century Education have carried out fire drills, fire system inspection and maintenance during the Reporting Period in accordance with relevant regulations to guarantee the fire safety on the campus.

During the Reporting Period, all campus areas (including Shijiazhuang Institute of Technology, Saintach Kindergartens and Saintach Tutorial Schools) have carried out student safety and health management work in strict accordance with the above laws and regulations, and no safety and health accidents and fire safety accidents have occurred at school.

2 Details of the security measures and monitoring mechanisms will be stated below.

Safety Management in the Campus Area

To manage the safety issues in different school based on the specific conditions, Shijiazhuang Institute of Technology, Saintach Tutorial Schools and Saintach Kindergartens have formulated corresponding safety management measures according to their actual conditions and management needs:

Saintach Kindergartens	Formulating the Safety Management Standardization Manual for Saintach Kindergartens (《新天際幼兒園安全管理標準化手冊》) and other policy documents, which focus on the prevention and emergency response of common and sudden diseases and accidental injuries of children, safety requirements for large-scale activities in Saintach Kindergartens, the prevention and settlement of the risks from fire and natural disasters, the risks of infectious diseases against children and their prevention, the risks in the children's pick-up process and their prevention, the risks in the diet and sleep of children and their prevention, the risks during washing, toileting, water drinking, free activities, practical operations of children and their prevention, and the risks in the outdoor activities of children and their prevention. Subject to the cases, analysis and specific requirements are provided on the cause, prevention and treatment of each safety issue.
Saintach Tutorial Schools	Documents such as Safety Management Systems of Saintach Education (《新天際教育安全管理制度》) have been issued to prevent, reduce, and avoid the occurrence of security incidents. Such policy mainly regulates safety-related issues such as students' behavior during class break, electrical usage safety during teaching activities, responsibilities of teachers' care, classroom management and student status, as well as extracurricular activities, non-school personnel entry and exit, and other issues. If a safety incident occurs, the teacher in charge needs to deal with it in a timely manner, promptly take the student to a doctor or for special care, and notify the supervisor and the students' parents.
Shijiazhuang Institute of Technology	For all kinds of safety issues in teaching and dormitory areas, Shijiazhuang Institute of Technology has formulated the Regulations of Shijiazhuang Institute of Technology on the Education and Management of Student Safety (《石家莊理工職業學院學生安全教育及管理規定》), Safety Emergency Plan of Shijiazhuang Institute of Technology (《石家莊理工職業學院安全應急預案》) Regulations of Shijiazhuang Institute of Technology on Accommodation Management (《石家莊理工職業學院住宿管理規定》) and other policies, and integrated the Safety System Compilation of Shijiazhuang Institute of Technology（《石家莊理工職業學院安保制度彙編》) to implement the safety management duties and security work rules of the security department. The series of policies have made comprehensive regulations from campus safety management, accident handling, safety education, to accommodation and daily management of dormitory areas, and have established comprehensive campus and dormitory area safety management specifications. In response to the needs of fire safety management, Shijiazhuang Institute of Technology has issued regulations such as Fire Safety Management System of Shijiazhuang Institute of Technology（《石家莊理工職業學院消防安全管理制度》) to systematically establish the fire response management structure, daily fire management requirements and the procedures of fire response such as emergency evacuation.

Case: Campus security inspection for the Spring semester in 2019 conducted by Shijiazhuang Institute of Technology

On 5 March 2019, Shijiazhuang Institute of Technology organized a safety self-examination and self-correction activity aimed at key objects, key points and key areas in the campus. This self-inspection was led by the head of the college, and cooperated with colleagues from the teaching and scientific research department, logistics management department and other departments to conduct a comprehensive special inspection on the experimental site, safety design, basic safety, mechanical and electrical safety, and safety of special equipment.

Case: Fire drill conducted by Shijiazhuang Institute of Technology

On 8 November 2019, the security department, student department, and secondary colleges of Shijiazhuang Institute of Technology organized a fire emergency drill. In order to ensure that the drill can achieve the expected results, the security department and the student department jointly formulated a detailed work plan and trained relevant personnel. During the drill, all faculties and students were able to maintain swift and orderly actions, and it took only 4 minutes and 20 seconds to evacuate to the outdoor safe area through the safe passage in the apartment building.

On the safe area, the fire director introduced extensive fire-fighting knowledge to the teachers and students present, demonstrated the use of fire extinguishers and invited them to participate in fire drills on site to master the use of fire extinguishers through practice.

Mental Health Protection

The mental health of students is also one of our priorities. According to the State Council's Opinions on Implementing Healthy China Action (《國務院關於實施健康中國行動的意見》), Healthy China Action – Child and Adolescent Mental Health Action Plan (2019-2022) (《健康中國行動–兒童青少年心理健康行動方案(2019-2022年)》)and other requirements, 21st Century Education actively develops student mental health services and advocates children and adolescents to maintain a healthy mental state and work tirelessly for it.

Saintach Kindergartens	Observation and record by the teachers are the main forms in managing children's mental health for Saintach Kindergartens, and a unified analysis will be conducted on the behaviors of the children in the two aspects of teaching and life. Teachers responsible for observation and recording are required to fill out children development reports at the end of each semester to comprehensively evaluate each child in terms of their performance in five major areas: health, art, science, language and social behavior, and then offer the feedback of the corresponding results to respective parents. Meanwhile, teachers are also required to put forward educational suggestions to realize the co-education of "family" and "kindergarten".
Saintach Tutorial Schools	Saintach Tutorial Schools has formulated the Implementation Plan for the Education on Mental Health (《心理健康教育實施方案》) with the purpose of solving psychological problems, maintaining mental health and improving psychological quality of students at school. Saintach Tutorial Schools promoted the construction of students' mental health by starting from development-oriented mental health education and remedy-oriented mental health education. At the same time, the implementation plan further requires each school to take advantage of the classroom and actively conduct psychological health classes, and invites parents to attend relevant courses or seminars at the school to enhance the family's educational awareness, so that the school education can effectively integrate with family education and promote comprehensive mental health for students.
Shijiazhuang Institute of Technology	Shijiazhuang Institute of Technology regularly conducts mental health evaluation and holds mental health lectures on campus according to the needs of teaching and students. At the same time, tutors are also required to organize more than two class meetings with the theme of mental health per semester in accordance with relevant regulations to promptly guide students to carry out their own mental health management.

Case: Mental health lecture for students of 2019

On 24 December 2019, Shijiazhuang Institute of Technology invited psychological experts from Shijiazhuang Public Security Bureau to school to hold a mental health lecture under the theme of "I am the Master of My Emotion (我的情緒,我做主)" for the freshmen of 2019. Experts introduced three educational segments including "self-awareness", "self-experience" and "self-regulation" to guide students to establish a correct philosophy for mental health, so as to help students to smooth their emotions and release stress, thus providing a good guide for safeguarding daily mental health for students.

Ensuring Food Quality

Both Shijiazhuang Institute of Technology and Saintach Kindergartens provide dining service with students eating together during the teaching business course. To manage and monitor the school canteen and food suppliers is a key part of our daily work to maintain health and safety of students. We intensely focus on the issues of canteen food safety and the management of food suppliers, and prevent any health and safety accident arising from food quality in accordance with the requirements of laws and regulations such as Food Safety Law of the People's Republic of China (《中華人民共和國食品安全法》), the Regulations on the Sanitation Management of Student Canteens and Collective Student Meals (《學校食堂與學生集體用餐衛生管理規定》).

During the Reporting Period, we strictly followed the laws and regulations above and actively coordinated with the China Food and Drug Administration (CFDA) in periodic inspection and random test, and no food safety risks were found and no food safety accidents occurred during such inspection and test.

Saintach Kindergartens

Saintach Kindergartens developed the Healthcare and Diet Standardization Manual of Saintach Kindergartens (《新天際幼兒園保健與膳食標準化手冊》) as a rule to manage food safety. The Manual improves the food management system in respects of making recipes, acquiring ingredients, managing kitchens, managing food preparation, food retention samples, managing the allocation, receipt and distribution of meals and dietary supervision. As for every important job, Saintach Kindergartens customize the corresponding procedure and standard to make sure that the job has been done, on which discussion and analysis will be conducted at the meetings convened by the catering committee twice a semester, and during the meeting, experience will be summarized and problems will be solved to raise the diet quality of kids.

Shijiazhuang Institute of Technology

Shijiazhuang Institute of Technology issued the Standardized Operation Manual for the Canteen Merchants in Shijiazhuang Institute of Technology (《石家莊理工職業學院食堂商戶標準化操作手冊》), the Standardized Canteen Management Manual of Shijiazhuang Institute of Technology (《石家莊理工職業學院食堂管理標準化管理手冊》), the Emergency Plans for Food Poisoning of Shijiazhuang Institute of Technology (《石家莊理工職業學院食物中毒應急預案》) and other rules, pursuant to which, Shijiazhuang Institute of Technology established a food safety self-disciplined body of canteen with the head of the college as the first person responsible. The self-disciplined body is mainly responsible for improving relevant regulations and rules, creating emergency response mechanism and measures, as well as implementing and supervising every task of food safety in Shijiazhuang Institute of Technology, and informing food processing and producing staff of updated safety management rules in a timely manner. In the management of canteen suppliers, we raise requirements about the operation staff, operation room, ingredients procurement, sterilization and sample, and we standardize the work of canteen managers, canteen cleaning staff and merchants.

BROADENING THE EDUCATION TALENT RESERVE

21st Century Education's success depends on a team comprising of excellent expertise and staff with good conduct. We understand the importance of broadening the education talent reserve and consistently manage and cultivate our staff and keep strengthening our talented team to ensure that the management system in each campus runs effectively and a quality teaching is provided.

During the Reporting Period, 21st Century Education had 1,262 employees in total (excluding the staff from Zhejiang Peijian and Hangzhou Yimai). The details of subdivision and its number are as follows:

Number of staff by gender[3]	Number	Proportion
Male staff	361	29%
Female staff	901	71%

[3] Due to the business nature and industry needs of the education industry, the number of female staff is higher than the number of male staff in 21st Century Education..

Number of staff by age group	Number	Proportion
30 and below	386	31%
30 to 50	757	60%
50 and above	119	9%

Number of staff by type of employment	Number	Proportion
Full time	1,262	100%

Number of staff by region	Number	Proportion
Within Hebei Province	1,217	96%
Outside Hebei Province	45	4%

Counting turnover of staff by gender	Turnover	Turnover rate
Male staff	75	17%
Female staff	481	35%

Counting turnover of staff by age group	Turnover	Turnover rate
30 and below	358	48%
30 to 50	-96	-15%
50 and above	294	71%

Counting turnover of staff by region	Turnover	Turnover rate
Within Hebei Province	543	31%
Outside Hebei Province	13	22%

Protecting Staff's Rights and Interests

In accordance with the requirements relating to compensation, recruitment, dismissal, working hours, rest periods, welfares, equal opportunity, antidiscrimination, anti-forced labor and other basic rights and interests of the Labor Law of the People's Republic of China (《中華人民共和國勞動法》), the Labor Contract Law of the People's Republic of China (《中華人民共和國勞動合同法》), the Administrative Measures on Labor Contracts of Hebei Province(《河北省勞動合同管理辦法》) and other national and local laws and regulations, and the requirements on the prohibition of child labor of the Law of the People's Republic of China for the Protection of Minors(《中華人民共和國未成年人保護法》) and the Provisions on the Prohibition of Child Labor (《禁止使用童工規定》), the 21st Century Education has formulated various internal policies which include the Remuneration Management Measures of 21st Century Education Group (21世紀教育集團薪酬管理辦法》), the Administrative Measures of 21st Century Education Group for Staff Changes (《21世紀教育集團員工異動管理辦法》) and The Measures of 21st Century Education Group for Work Attendance and Absence Management (《21世紀教育集團考勤及假別管理辦法》) to safeguard staff's rights and interests.

During the Reporting Period, we strictly complied with the above-mentioned laws and regulations relating to employee management and labor practices, and there were no violations in the relevant areas.

Some staff management and measures are set out below:

Remuneration	The evaluation of job value, the supply and demand of human resources in the market, and the performance of work constitute a reference basis for the formulation of salary standards, and the specific remuneration is made into position salary, seniority salary, class allowance, subsidy, bonus and business commission.
Recruitment	Internal recruitment: we recruit by internal personnel through competition, transfer and other ways to meet the needs of staff. Each unit will be through the OA[4] system to publish the employment needs, employees can send resume for candidates according to their ability. External recruitment: external recruitment will be through media release, online recruitment, headhunters and other ways. The human resources department of each unit is responsible for establishing screening criteria, and then the head of the demand department or the decision-making leader is responsible for the review and approval.
Promotion	Job promotion: eligible employees fill out the corresponding report and the demand unit will evaluate it, to give the passer a job level promotion. Level promotion: in the annual assessment, a Grade A scorer who achieves an A grade in the 5 grades A (Excellent), B (Good), C (Qualified), D (To be improved) and E (Incompetent) will be given the priority to the promotion of the grade in the same position.

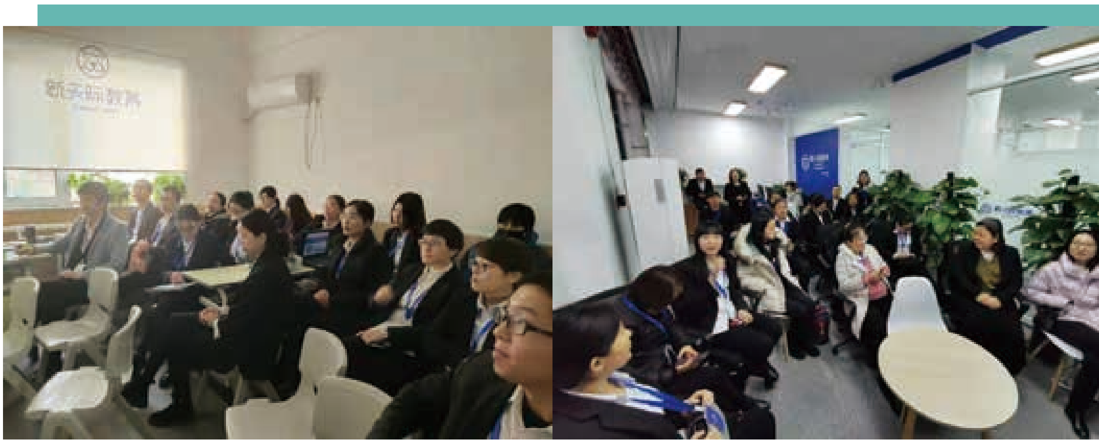
4 OA refers to Office Automation

Leaving-office	Leaving-office can be divided into four categories, namely self-resignation, dismissal, retirement and other reasons. When an employee meets the defined conditions for leaving, the head of the human resources department shall be responsible for the relevant procedures and approval. If the separation compensation is involved, it shall be dealt with in accordance with the relevant laws and regulations and the results of the consultation between the employers and employees.
Working hours	The normal working hours are five days per week, and the employee works 8 hours a day.
Holiday	Employees are entitled to national statutory holidays, sick leave, marriage leave, bereavement leave, maternity leave, nursing leave and annual leave.
Equality and anti-discrimination	We treat all employees equally and prohibit all forms of discrimination within the Company. Among employee management policies, we never include gender, age, cultural background, religious beliefs and other conditions containing discriminatory factors, nevertheless, we take the performance and professional ability as the employee management basis.
Diversification	In addition to professionalism, we recruit people from a wide range of cultural backgrounds to support our employees in fostering personal interests, and bring a richer perspective to the multi-cultural construction of the 21st Century Education.
Welfares	On top of the basic benefits stipulated by the state law, we provide transportation, medical care, academic training and other subsidies for senior managers, provide periodic recreational activities organized by the old staff club for employees who have been employed for 3 years or more, and provide holiday funds, tourism, team building and other benefits for all employees.
Anti-child labor	In the recruitment process, we will carefully investigate and record the identity of the candidates and their academic background. Once we found that the candidate is a minor, we will not hire him/her.
Anti-forced labor	In addition to normal working hours based on work needs, we restrict employees' overtime behavior and never force employees to work outside of normal work. If an employee needs to work overtime, the OA system must be logged in to fill out the overtime application and obtain management approval before it can be executed.

Establishing Awareness of Health

Except for protecting the basic rights and interests of employees, 21st Century Education also hopes to strengthen employees' occupational health and safety management, to provide them with a safe working environment while bringing health protection on working and life. During the Reporting Period, we strictly complied with the laws and regulations of the Law of the PRC on the Prevention and Treatment of Occupational Diseases (《中華人民共和國職業病防治法》) and Plan of the Hebei Province on the Prevention and Treatment of Occupational Diseases (《河北省職業病防治規劃》), which require enterprises to carry out occupational disease prevention work and set up occupational disease prevention mechanisms. Meanwhile, in order to protect our employees from various occupational health and safety risks, we have formulated the Safety Management Systems[5] (《安全管理制度彙編》), which includes policies such as the Safety Inspection Plan and Protective Measures (《安全檢查計劃及防範措施》), the Safety Emergency Plan (《安全應急預案》), and the targeted management measures such as Shijiazhuang Institute of Technology's Precautionary Measures and Emergency Plans for Outdoor Sports Activities in Response to Smoggy Weather (《石家莊理工職業學院關於應對霧霾天氣戶外體育活動防範措施及應急預案》) to protect employees' occupational safety, and actively organize employees to participate in health and safety training activities, learn knowledge about health, and improve their occupational health and safety consciousness.

During the Reporting Period, the 21st Century Education strictly complied with the above laws and regulations associated with employees' health and safe and there were no violation in the relevant areas.



Saintach Tutorial Schools organized employees to participate in the safety knowledge training

While ensuring the safety working environment in school, 21st Century Education often organizes diversified cultural and sports activities for employees to enrich their life outside work, helping them relieve stress, refine their temperament and maintain good occupational health. During the Reporting Period, we held a variety of activities for many times, and extensively invited employees to join in, which was for giving employees physical and mental care while promoting the exchanges between 21st Century Education and employees

5 Specific practices on campus safety protection can refer to the section headed "Safety Management on Campus"

Case: Shijiazhuang Institute of Technology and the college town jointly held 2019 "Funny Sports Games for the Faculty in Autumn"

Shijiazhuang Institute of Technology held a "Funny Sports Games for the Faculty in Autumn" on 24 October 2019 so as to reach the goal of strengthening the bodybuilding awareness of employees, improving their health and happiness index, and enhancing the cooperation between different departments of it. A total of 11 funny activities including "Three people with four feet ", "Running like a crab "and "Bowling" and one team contest are included in the sports competition. The faculty of Shijiazhuang Institute of Technology actively took part in the autumn funny sports, which strengthened the relationship between each other and also improved the connection among Shijiazhuang Institute of Technology.

Case: "Love you and me, inclusiveness in the world" principal salon activity

In routine work, the principals of each Saintach Kindergartens have always been the busiest and the most stressed group. In order to help the principals of all kindergartens relieve the pressure, 21st Century Education has organized the "Love you and me, inclusiveness in the world" principal salon activity, by inviting a special explanation teacher, to lead the principals to make handmade bags.

Enhancing Skills Development

To implement the mission of 21st Century Education: "Providing an employment platform where the staff can achieve sustainable growth, work with dignity and have a proud career " and at the same time to ensure high-quality campus management and provide the talent reserve needed for good quality teaching, we attach great attention to the education and cultivation of employees in our daily business management process, and require each business department according to its own business and the needs of employees to design and arrange a reasonable employee training system and plan:

- The Shijiazhuang Institute of Technology has formulated a 2019 training program based on the principles of practicality, effectiveness, pertinence and sustainability, focusing on improving the comprehensive ability of all employees, the management ability of senior and middle-level employees, team cooperation and integration, and the actual post skills of employees. The training system is divided into five parts: teacher system, learning management system, functional manager system, new employee training and corporate culture training. On this basis, in order to ensure the continuous improvement of the efficiency of employee training and timely feedback of employees' opinions, Shijiazhuang Institute of Technology requires participants to fill in the feedback form on time, and the Human Resources Department summarizes the feedback and puts forward the corresponding reflection and improvement plan.

- The Saintach Tutorial Schools has developed and implemented a three-tier training system of "new staff training + line-business training + president college echelon training". According to the reflection on the training work in 2018, the training system in 2019 adopts a layered design, which layers the training of school recruitment and social recruitment, layers the training of basic knowledge and upgrading knowledge, and establishes a training-learning and performance growth meeting to reflect the training work in time.

- In order to meet the demand from the increasing number of Saintach Kindergartens, the Saintach Kindergartens have established a training mechanism of 100 cadres with the main purpose of cultivating more management cadres. The training mechanism classifies all kinds of employees into four echelons: the general manager echelon, the principal echelon, the head of insurance and education echelon, and the head of general affairs echelon. Each echelon's employees are equipped with corresponding training plans and training focuses, and periodic training is carried out by means of centralized training, functional research, and agent placement.

During the Reporting Period, Shijiazhuang Institute of Technology, Saintach Tutorial Schools and Saintach Kindergartens conducted various training activities in accordance with their respective training plans and training systems, and the specific information on staff attendance in training is as follows:

Summary of staff training information for Shijiazhuang Institute of Technology	Staff by gender		Staff by category		
	Male staff	Female staff	High level	Middle level	Basic level
Number of trainees	139	241	5	25	350
Proportion of trainees (%)	100%	100%	100%	100%	100%
Average training time (hours)	27.65	24.86	19.14	49.85	24.99

Summary of staff training information for Saintach Tutorial Schools	Staff by gender		Staff by category		
	Male staff	Female staff	Management	Business and function position	Teacher
Number of trainees	68	237	30	122	153
Proportion of trainee (%)	97%	90%	83%	92%	93%
Average training time (hours)	13.76	13.76	21.00	14.14	11.92

Summary of staff training information for Saintach Kindergartens	Staff by gender		Staff by category		
	Male staff	Female staff	Management	Business and function position	Teacher
Number of trainee	17	267	7	66	211
Proportion of trainee (%)	100%	100%	100%	100%	100%
Average training time (hours)	5.18	26.78	9.71	9.05	31.15

Case: Shijiazhuang Institute of Technology held a lecture of "Classroom Revolution in the Age of Intelligent Cloud"

On 7 March 2019, the special lecture "Classroom Revolution in the Age of Intelligent Cloud" organized by Shijiazhuang Institute of Technology was successfully held. The dean from China Education Zhiku Network Talent Training Big Data Research Institute (中國教育智庫網人才培養大數據研究院), Beijing Blue Ink Big Data Research Institute (北京藍墨大數據研究院) gave lectures to teachers of Shijiazhuang Institute of Technology. The lecturer analyzed the characteristics and advantages of cloud teaching and teaching modernization from four stages of the development of educational informatization, the concept and characteristics of cloud teaching and the promotion of teaching modernization by cloud teaching, which made the teachers of Shijiazhuang Institute of Technology further understand cloud teaching, and laid a solid foundation for the promotion of classroom teaching modernization and classroom quality of Shijiazhuang Institute of Technology.

Case: a series of "Principals Academy" training held by Saintach Tutorial Schools

In May, August and November 2019, Saintach Tutorial Schools held three sessions of "Principals Academy" training. In the 2019 series of activity training, the teaching of market and operation arrangement, career planning, sales and management before and after summer vacation, have become a focus of the series of training, further improved the business level of relevant participants.

Case: Development training camp for teachers of Saintach Kindergartens

Saintach Kindergartens organized three sessions of teacher training camps for master teachers and three of that for match-teachers in the period of June, July and August 2019. The master teachers, match-teachers, assistant teachers and other personnel from Saintach Kindergartens were invited to participate in this training camp, and were mainly taught various subjects such as class management, communication with parents, organization of collective activities and emergency management. All of the teachers being trained have made significant progress in the process of training, which laid a foundation for the formation of excellent talent supply for Saintach Kindergartens.

Cultivate Teachers' Virtue and Ethics

In addition to the necessary professional knowledge and skills, we also attach great importance to the cultivation of teachers' professional quality, virtue and ethics. For this purpose, we organized special professional ethics cultivation activities for new teachers during their induction period, and organized many micro-class competitions, teacher summits and other activities to improve teachers' virtue and ethics and optimize teachers' overall image and teaching style according to the work and business needs of each business division during the Reporting Period.

Case: The fourth-quarter teaching summit of Saintach Tutorial Schools in 2019

The fourth-quarter teaching summit was successfully held by Saintach Tutorial Schools in December 2019. At the summit, new teachers also took part in the oath-taking ceremony, and teachers with excellent performance were honored as star teachers by Saintach Tutorial Schools in recognition of their long-term outstanding contributions to the teaching work.

Case: New teacher training activity of Shijiazhuang Institute of Technology

In order to improve the overall teaching ability and professional quality of new teachers, improve the classroom control ability and the ability to communicate with students, a total of 22 new teachers, trainee teachers and internship instructors were invited to participate in this training activity with multiple training subjects including teacher behavior standardization, educational administration system explanation, management regulation explanation, classroom teaching problem communication and exchange, which laid a solid foundation for the future growth and professional training of such new teachers.

TAKING ENVIRONMENTAL AND SOCIAL RESPONSIBILITIES

As an enterprise with up-to-date concept and rich sense of responsibility, while raising its level of business operation, 21st Century Education actively advocates and fulfills the environmental and social responsibilities of the enterprise, and practices our environmental and social responsibilities through regularly participating in the social activities and strictly managing resource use and pollutants discharge on campus.

Promoting Enterprise's Love

21st Century Education communicates with government agencies, official media and other organizations actively, takes the activities issued or organized by them as the benchmark and participates in public welfare activities according to the actual situation. In order to take advantage of its own strengths and make an effective use of the resources of 21st Century Education to promote the sustainable development of the society, we focus on social issues related to education, environmental protection, health, culture and sports in our work for public welfare.

Shijiazhuang Institute of Technology organized its representatives to participate in the nursing home volunteer activities

Shijiazhuang Institute of Technology organized its representatives to participate in the World Mental Health Day activities in Shijiazhuang City

Case: Shijiazhuang Institute of Technology co-built a youth volunteer forest

On 13 March 2019, Shijiazhuang Institute of Technology organized more than 100 representatives of teachers and students to build a youth volunteer forest in Luquan Mountain area, together with the Youth Entrepreneurship Service Center in Hebei Province (河北省青年創業服務中心), Luquan District League Committee (鹿泉區團委), Luquan District Women's Federation (鹿泉區婦女聯合會), Luquan District Culture and Sports Bureau (鹿泉區文體局) on the occasion of the 41st Arbor Day. With the joint efforts of teachers and students of Shijiazhuang Institute of Technology and other participants, rows of small pine trees were planted in the slopes of the Taihang Mountains in less than two hours.

The tree-planting activity enabled the students and teachers of Shijiazhuang Institute of Technology to spread the green idea via practical action, to practice the green life, to promote the spirit of voluntary service and to jointly contribute to the construction of ecological civilization.

Case: "Walking Milk" large-scale public welfare activity

The donation ceremony of 2019 "Walking Milk" large-scale public welfare activity was successfully held by Junlebao Charity Public Welfare Foundation in Hebei Province who initiated and sponsored the activity on 13 April 2019. A team of more than 10 teachers from 21st Century Education went to the site and participate in the event. More than 2,000 people of over 200 teams from different areas took part in the 50-kilometer hiking challenge to raise money for charity projects to improve the living and educational conditions of children in poor areas.

As an enterprise in the native area, we hoped to play a good role of pioneer, pass the spirit of love and charity to everyone through this activity and make contributions to the society and education.

BUILDING GREEN CAMPUS

In the daily operation and management of 21st Century Education, the environmental impacts involved mainly focus on the resources used for the purpose of teaching and student management and the related emissions generated. Although these environmental impacts were not obvious due to the industry characteristics and type of enterprise, we still strictly carried out environmental management work, and on this basis, brought students with a subtle environmental education.

We complied with the Environmental Protection Law of the People's Republic of China《中華人民共和國環境保護法》, the Law of the People's Republic of China on the Prevention and Control of Air Pollution (《中華人民共和國大氣污染防治法》) and other laws and regulations, and strictly control the generation and emission of air pollutants, sewage and wastes to ensure that the operation and management of the schools will not violate relevant laws and regulations. During the Reporting Period, we strictly complied with the requirements of the laws abovementioned, and did not have any non-compliance relating to environmental pollution.

Our emissions mainly include wastewater, air pollutants and carbon dioxide, and the resources used include water, electricity and other materials related to teaching and living. Among of which the wastewater mainly came from the domestic sewage generated in teaching activities. The air pollutants mainly came from the natural gas consumed for supplying heat to the school areas and the liquidified petroleum gas used by canteens. Greenhouse gas emissions were generated by fossil energy consumption (Scope 1) and purchased electricity (Scope 2) in the above processes. The electricity used comes from the municipal grid, and the water used comes from the municipal pipelines, with difficulty in acquisition. Other living and teaching materials were provided by external suppliers[6]. During the Reporting Period, the information on our pollutant emissions and resource utilization are as follows:

Pollution and Use of Resources

Statistical item		2019	2018	Unit
Air pollutant emissions	NOx emissions[7]	4,445.9	4,152.9	kg
	SOx emissions	1,961.6	1,949.9	kg
	PM emissions	825.2	795.9	g
Greenhouse gas emissions	Scope 1 emissions[8]	1,136.6	1,075.9	ton
	Scope 1 emission intensity[9]	0.1	0.1	ton/person
	Scope 2 emissions[10]	6,092.3	5,622.5	ton
	Scope 2 emissions intensity	0.5	0.3	ton/person
	Tree planting reducing emissions[11]	–48.7	–46.1	ton
	Comprehensive emissions	7,182.9	6,652.3	ton
Use of energy[12]	Petroleum gas consumption	1,182.5	1,182.5	thousand kWh
	Petroleum gas consumption intensity	0.1	0.1	thousand kWh/person
	Natural gas consumption	4,368.8	4,052.0	thousand kWh/person
	Natural gas consumption intensity	0.4	0.3	thousand kWh/person
	Purchased electricity consumption	6,889.4	6,358.2	thousand kWh
	Purchased electricity consumption intensity	0.6	0.4	thousand kWh/person
Consumption of water[13]	Consumption	444,480.0	411,050.0	ton
	Consumption intensity	40.4	27.2	ton/person

6 Unless otherwise stated, all the data and environmental related measures disclosed in this section shall be based on the statistical caliber of the Shijiazhuang Institute of Technology.

7 The air pollutant emission factors of the liquidified petroleum gas and natural gas were determined with reference to the Manual on the Pollution Generation and Emission Factors of Urban Domestic Sources under the First National Pollution Source Survey (《第一次全國污染源普查城鎮生活源產排污系數手冊》) issued by the Office of the Leading Group for the First National Pollution Source Survey under the State Council.

8 The greenhouse gas emission factors of the liquidified petroleum gas and natural gas were determined with reference to the Accounting Methods and Reporting Guide for the Greenhouse Gas Emissions of Public Building Operators (Trial) (《公共建築運營企業溫室氣體排放核算方法和報告指南(試行)》) issued by the National Development and Reform Commission.

9 The denominator used herein and subsequence in the calculation of the intensity is 11,231, i.e. the sum of the number of students 10,626 and the number of staffs 605 in the Shijiazhuang Institute of Technology.

10 The greenhouse gas emission factors of purchased electricity were determined with reference to the Average Carbon Dioxide Emission Factors for the Electric Networks in China in 2011 and 2012 (《2011年和2012年中國區域電網平均二氧化碳排放因子》) issued by the National Development and Reform Commission.

11 The emission reduction coefficient of the trees is determined with reference to those set out in the Reporting Guidelines for Environmental Key Performance Indicators (《環境關鍵績效指標匯報指引》) in Appendix II to How to Prepare Environmental, Social and Governance Report (《如何準備環境、社會及管治報告》).We also cover all trees statistics that meet the requirements, so we recalculate the tree emission reduction in 2018. The total number of trees in 2018 was 2003, and that in 2019 was 2116.

12 The energy use of petroleum gas and natural gas refers to the calculation of low calorific value provided in the Accounting Methods and Reporting Guide for the Greenhouse Gas Emissions of Public Building Operators (Trial) (《公共建築運營企業溫室氣體排放核算方法和報告指南(試行)》) issued by the National Development and Reform Commission.

13 Since water is mainly supplied by municipal water systems, we have no difficulty in getting it.

We have taken various measures in campus to reduce the possible pollution of different degrees and the use of various resources, and formulated internal policies such the Regulations on the Management of Resource Utilization (《資源使用管理規定》) to regulate the operation behaviors related to environmental protection of Shijiazhuang Institute of Technology:

- Promoting the construction of paperless office system, encouraging the use of electronic documents, email and other network channels for communication and reducing the use of paper;
- Managing and regularly cleaning all kinds of office supplies to extend the service life of office supplies;
- Delivering the non-hazardous wastes[14], including domestic wastes and waste paper, to qualified suppliers for recycling and disposing;
- Delivering the hazardous wastes[15], including chemicals used in engineering courses and other types of hazardous wastes generated in daily operations, to qualified suppliers for collection and handling to ensure to dispose them with harmless measures;
- Inspecting the use of lights in the schools regularly to turn off in time and turning off computers when leaving the post for more than 4 hours;
- Developing and implementing the electric control renovation plan for the student domitories and converting the public lighting system to the sound and light control system in the campus so as to implement the electricity saving plan for the campus;
- Including water pipe inspection in daily inspection to prevent the occurrence of water running, dripping and leaking, and incorporating water conservation as a criteria for performance appraisal;
- Repairing some leaky valves and fire pipes and transforming the water system of the toilets into the automatic flushing system to save water resources;
- Stopping the heating, maintaining the boiler and replacing the burner during the winter vacation to improve the heating efficiency and the natural gas utilization efficiency so as to reduce the pollutants generated by the combustion;
- Strengthening the environmental publicity and education for students and teachers and cultivating the environmental awareness among all teachers and students.

The awareness of energy conservation and environmental protection among students and teachers in Shijiazhuang Institute of Technology have been significantly improved and the environmental management work in campus has been further standardized, laying a solid foundation for 21st Century Education to build a green campus gradually through our publicity, education and the formulation and implementation of regulations.

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14 A total of approximately 3,000 cubic meters of non-hazardous waste was generated in 2019, and the unit produced in the campus was approximately 0.27 cubic meters per person, which is approximately the same as in 2018.

15 The output of hazardous waste is low, and not included in daily statistics accordingly.

FIGHT THE EPIDEMIC AND FORGE AHEAD

In face of the severe epidemic prevention situation brought by COVID-19, 21st Century Education, as a listed enterprise, actively performed its responsibilities and functions, provided free online courses nationwide at the earliest possible time, initiated and organized donations to the infected areas, participated in the charity works against COVID-19 and made its best efforts to succeed in the epidemic prevention and control.

Although the epidemic prevention work did not take place during the Reporting Period, we still wish to disclose the progress of our epidemic prevention work in an open and transparent manner in this report in considering the sudden and significant nature of COVID-19 issue.

Widely Presented Free Online Courses

We must reduce the gathering of people to prevent COVID-19 from spreading because of its high infection. During the epidemic, we followed the corporate mission of " Promoting education development through content and technology", and our sub-brands "Saintach Education", "Peijian Education", "Bamasoso" have provided free online courses and learning platforms for students, so that they can receive distance education even at home.

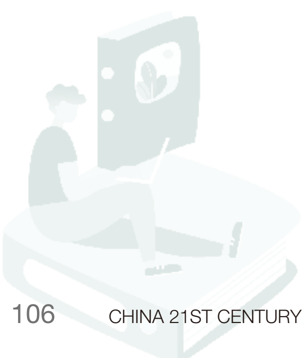
- Realizing "suspended class, ongoing learning", and achieving the offline to online transformation of K12 tutorial programs (including teachers and students) before the Spring Festival.

- Continuous spot checks, feedback and rectification of the online platform operation specifications of K12 campus, and the launching of special recording and broadcasting course.

- Providing 100 sets of "online education live platforms" for public schools and training institutions for free for 2 months, covering teaching scenes of 1-on-1 and small-class courses.

- Providing 100,000 free online courses to all primary school students by the Internet education brand "parents search" and allowing students to study at home through mobile phones and computers.

- In addition to providing free online courses for students, we also provided 100,000 free online courses for kindergarten teachers from all over China on "Xingxinghe Kindergarten Teacher University", a comprehensive platform for improving the teaching skills of kindergarten teachers to help them grow and escort the development of each Saintach Kindergartens after the epidemic.



Donations to Medical Practitioners

Following the core philosophy of "assisting you in your whole life" and carrying forward the fine tradition of "when disaster struck, help came from all sides", 21st Century Education and LIONFUL FOUNDATION in Hebei Province launched the project of "Everyone Combat Against Epidemic" through the Tencent Charity Platform. Within 5 hours after launching, a total of RMB500,199.09 was successfully raised. The funds were used to purchase personal protective equipment, disinfection products and living materials in various areas in Hubei Province to fight against the epidemic.

We urgently contacted various channels and purchased from them 7,440 detection reagents, sampling tubes and other medical supplies, which were subsequently donated to Luotian County People's Hospital of Huanggang City, Hubei Province (湖北省黃岡市羅田縣人民醫院), Wuhan Asia Heart Hospital, Tongji Hospital, Tongji Medical College of Huazhong University of Science & Technology and Bethune International Peace Hospital of PLA, China (中國人民解放軍白求恩國際和平醫院) located in Hebei Province. In addition, we made targeted donations to medical assistance teams offering assistance in Hebei Province.

Teachers and Students Working together to Fight the Epidemic

While 21st Century Education was fulfilling its corporate social responsibilities by supporting the fight against the epidemic, around 20 graduates majored in nursing from Shijiazhuang Institute of Technology, one of our higher educational institutions, also joined the front line of epidemic prevention and control in their respective units by applying professional skills to their posts and contributing their strength in the epidemic prevention and control.

Cheng Wenjie (程文潔), a nursing graduate in 2015 working in the isolation wards of She County Hospital (涉縣人民醫院) of Handan City, Hebei Province, has been working in the isolation ward of her hospital since 29 January 2020, and has become a front-line medical staff to fight against the epidemic. Despite tough working conditions and the shortage of materials and equipments, she still effectively fulfilled her duties as a medical staff with a positive attitude.

Medical staffs cheer up for fighting against the epidemic

Cheng Wenjie is in the front-line to fight against the epidemic

Liu Xiabing (劉夏兵), who works in Hanjiaji Town Health Centre (韓家集鎮衛生院) in Huining County, Baiyin City, Gansu Province, is a nursing graduate who graduated from Shijiazhuang Institute of Technology in June 2019. At 7am every day, she would start to check all people coming in and going out of the hospital and also be responsible for pre-examination, sub-diagnosis, reporting on and sending patients with fever.

Liu Xiabing is ready for work at the testing points for prevention and control

Liu Xiabing is working at the testing points for prevention and control

Clean and Safe Campus

After receiving the deployment requests from relevant government departments, 21st Century Education immediately established the "Epidemic Prevention Leadership Group of 21st Century Education Group." We comply with the relevant provisions of the "General Office of the State Council Notice of Extending the 2020 Spring Festival Holiday" and postponed the commencement dates of Shijiazhuang Institute of Technology and Saintach Kindergartens. We also changed all offline teaching of Saintach Tutorial Schools to online teaching in order to prevent infections caused by public gathering during the epidemic, and protect the safety of employees and students.

In order to prevent the virus from spreading in campus, we have formulated a series of measures to try to cut off the transmission of the virus and put forward epidemic prevention requirements for schools and students.

Our requirements for schools:

- Publishing the Proposal for the Prevention and Control on Novel Coronavirus of School Commercial and Business Department (《校園商業事業部防控新型冠狀病毒工作預案》) to stipulate security staff should wear masks while discharging duties and strictly register personnel entering or exiting school;

- Setting specialized disposal facility for masks in school;

- Setting adequate preventive products such as masks, liquid hand soap, disinfectants, body temperature thermometers in school for those who need to enter school;

- Mapping teachers' movement during the Spring Festival Holiday. As for those who have been to Hubei and taken public transport, they are required to perform self-observation for 14 days and then permitted to go back school only if without uncomfortable conditions;

- Disinfecting the public areas of school for at least twice a day and the inside of buildings twice or three times a day. Ventilation is also required to be kept by cleaners when cleaning;

- Disinfecting canteen for at least three times a day, and food service workers are required to work with specialized and enclosed masks on all the time;

- Disinfecting commercial network points comprehensively for three times a week prior to the commencement of semester and three times a day after the commencement of school.

Our requirements for students:

- Providing body temperature records for not less than 14 days after returning to school;

- Wearing masks on the way back to school all the time and reducing communication with strangers;

- Measuring and registering body temperature when entering school.

APPENDIX: CONTENT INDEX OF THE ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING GUIDE

General Disclosures and KPIs			
A. Environmental			Disclosure sections and explanations
Aspect A1: Emissions	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste. Note: Air emissions include NOx, SOx, and other pollutants regulated under national laws and regulations. Greenhouse gases include carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons and sulphur hexafluoride. Hazardous wastes are those defined by national regulations.		"Building Green Campus"
	KPI A1.1	The types of emissions and respective emissions data.	"Building Green Campus"
	KPI A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	"Building Green Campus"
	KPI A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	"Building Green Campus"
	KPI A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	"Building Green Campus"
	KPI A1.5	Description of measures to mitigate emissions and results achieved.	"Building Green Campus"
	KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	"Building Green Campus"

General Disclosures and KPIs			
Aspect A2: Use of Resources	General Disclosure Policies on the efficient use of resources, including energy, water and other raw materials. Note: Resources may be used in production, in storage, transportation, in buildings, electronic equipment, etc.		"Building Green Campus"
	KPI A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in'000s) and intensity (e.g. per unit of production volume, per facility).	"Building Green Campus"
	KPI A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	"Building Green Campus"
	KPI A2.3	Description of energy use efficiency initiatives and results achieved.	"Building Green Campus"
	KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	"Building Green Campus"
	KPI A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	Not applicable to the industry where 21st Century Education operates
Aspect A3: The Environment and Natural Resources	General Disclosure Policies on minimising the issuer's significant impact on the environment and natural resources.		"Building Green Campus"
	KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	"Building Green Campus"

General Disclosure and KPIs			
B. Social			Disclosure sections and explanations
Employment and Labour Practices			
Aspect B1: Employment	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, antidiscrimination, and other benefits and welfare.		"Enhancing Educational Talent Reserves", "Protecting Staff's Rights and Interests"
	KPI B1.1	Total workforce by gender, employment type, age group and geographical region.	"Enhancing Educational Talent Reserves"
	KPI B1.2	Employee turnover rate by gender, age group and geographical region.	"Enhancing Educational Talent Reserves"
Aspect B2: Health and Safety	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.		"Establishing Awareness of Health"
	KPI B2.1	Number and rate of work-related fatalities.	Work-related fatalities did not occur.
	KPI B2.2	Lost days due to work injury.	Work injury did not occur.
	KPI B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.	"Establishing Awareness of Health"

General Disclosure and KPIs			
Aspect B3: Development and Training	General Disclosure Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities. Note: Training refers to vocational training. It may include internal and external courses paid by the employer.		"Establishing Awareness of Health"
	KPI B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	"Enhancing Skills Development"
	KPI B3.2	The average training hours completed per employee by gender and employee category.	"Enhancing Skills Development"
Aspect B4: Labour Standards	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.		"Protecting Staff's Rights and Interests"
	KPI B4.1	Description of measures to review employment practices to avoid child and forced labour.	"Protecting Staff's Rights and Interests"
	KPI B4.2	Description of steps taken to eliminate such practices when discovered.	Since 21st Century Education has eradicated the possibility of child and forced labour in recruitment and daily work, there was no chance of irregularity.

General Disclosure and KPIs			
Operating Practices			
Aspect B5: Supply Chain Management	General Disclosure Policies on managing environmental and social risks of the supply chain.		"Implementing Supply Management"
	KPI B5.1	Number of suppliers by geographical region.	"Implementing Supply Management"
	KPI B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	"Implementing Supply Management"
Aspect B6: Product Responsibility	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labeling and privacy matters relating to products and services provided and methods of redress.		"Standardising Publicity", "Managing Campus Safety", "Guaranteeing Mental Health", "Ensuring Food Quality" and "Providing Protection of Privacy"
	KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	The businesses of 21st Century Education do not involve any sales or shipping of products
	KPI B6.2	Number of products and service related complaints received and how they are dealt with.	"Enhancing Mutual Communication"
	KPI B6.3	Description of practices relating to observing and protecting intellectual property rights.	"Protecting Intellectual Property Rights"

General Disclosure and KPIs			
	KPI B6.4	Description of quality assurance process and recall procedures.	"Advanced Teaching Models" The services provided by 21st Century Education was not involved in any recalls
	KPI B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.	"Providing Privacy Protection"
Aspect B7: Anti-corruption	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.		"Eradicating violation of laws and discipline"
	KPI B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	"Eradicating violation of laws and discipline"
	KPI B7.2	Description of preventive measures and whistleblowing procedures, how they are implemented and monitored.	"Eradicating violation of laws and discipline"
Community			
Aspect B8: Community Investment	General Disclosure Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.		"Promoting Compassion of Corporate"
	KPI B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).	"Promoting Compassion of Corporate"
	KPI B8.2	Resources contributed (e.g. money or time) to the focus area.	"Promoting Compassion of Corporate"

IX. Independent Auditor's Report

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

安永會計師事務所
香港中環添美道1號
中信大廈22樓

Tel 電話: +852 2846 9888
Fax 傳真: +852 2868 4432
ey.com

To the shareholders of China 21st Century Education Group Limited
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of China 21st Century Education Group Limited (the "Company") and its subsidiaries (the "Group") set out on pages 122 to 207, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (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 Certified Public Accountants ("HKICPA"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

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

KEY AUDIT MATTERS (CONTINUED)

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

Key audit matter	How our audit addressed the key audit matter
Revenue recognition	
The occurrence and completeness of the Group's revenue are of high inherent risk because of the large volume of tuition and boarding fees processed. In addition, tuition and boarding fees paid in advance at or prior to the beginning of each academic year are recognised as revenue proportionately over the financial years covering that academic year or the respective program. Therefore, revenue may be recorded in an incorrect period of the financial year. The accounting policy for revenue recognition and disclosure of the amount of revenue are included in notes 2.4 and 5 to the financial statements.	As to our audit procedures, we: • tested the controls on the collection of tuition and boarding fees and the controls designed and applied by the Group to calculate the contract liabilities and the corresponding amount of revenue; • on a sampling basis, interviewed students, reviewed and checked the relevant supporting documents including the student payment records, official student records registered with the relevant education authorities of the People's Republic of China (the "PRC"), and the payment remittance receipts of tuition and boarding fees; • recalculated the amount of contract liabilities and revenue recognised during the year; and • checked the number of newly enrolled students during the year to the enrolment approval by the relevant PRC education authorities, and reconciled the total number of students at the financial year end to the records on China Credentials Verification website.

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Income tax	
According to the Regulations for the Implementation of the Law on the Promotion of Non-public Schools of the People's Republic of China (the "Implementation Regulations"), private schools, whether requiring reasonable returns or not, may enjoy preferential tax treatments. The Implementation Regulations provide that the relevant authorities under the State Council may introduce preferential tax treatments and related policies applicable to private schools requiring reasonable returns. Up to 31 December 2019, no separate policies, regulations or rules have been introduced by the authorities in this regard. No corporate income tax was provided on the income from the provision of formal educational services by certain schools in the PRC (the "Certain PRC Schools"). Significant judgement is required in determining the provision for income taxes as there are uncertainties in interpreting the relevant tax laws and regulations with regard to the preferential tax treatments enjoyed by the Certain PRC Schools. The Group has assessed its income tax obligations, and there were significant judgements involved in the management's analysis and assessment, such as an assessment on the possible outcome of the tax provision based on historical experiences, and estimations about future events after 31 December 2019 that may cause the Group to change its judgements regarding the adequacy of the tax liabilities. Such changes to tax liabilities will impact the tax expense in the period in which such determination is made. Relevant disclosures are included in note 3 "Significant Accounting Judgements and Estimates" and note 10 "Income Tax" to the financial statements.	As to our audit procedures, we: • discussed with the Group's PRC legal advisors about the tax position taken by the Certain PRC Schools particularly in respect of the eligibility of the preferential tax treatments under the relevant tax rules and regulations; • assessed any new policies, regulations or rules that have been introduced by the authorities up to the date of this report, which might have an impact on the tax position of the Certain PRC Schools; • checked to historical tax returns; • involved our internal tax experts to assist us in analysing the preferential tax treatments enjoyed by the Certain PRC Schools and assessing the adequacy of tax provisions; and • evaluated the adequacy of the Group's disclosures regarding income tax.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Hui Kin Fai Stephen.

Ernst & Young
Certified Public Accountants

Hong Kong
31 March 2020

X. Consolidated Statement of Profit or Loss and Other Comprehensive Income

Year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
REVENUE	5	**234,242**	201,995
Cost of sales		**(112,934)**	(99,691)
Gross profit		**121,308**	102,304
Other income and gains	5	**26,209**	10,590
Selling and distribution expenses		**(11,868)**	(7,618)
Administrative expenses		**(40,907)**	(31,474)
Impairment losses on financial assets	20	**(979)**	–
Other expenses		**(895)**	(944)
Finance costs	7	**(8,204)**	(2,662)
PROFIT BEFORE TAX	6	**84,664**	70,196
Income tax expense	10	**(1,911)**	(776)
PROFIT FOR THE YEAR		**82,753**	69,420
Attributable to:			
Owners of the Company		**82,585**	69,420
Non-controlling interests		**168**	–
		82,753	69,420
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
Basic and diluted			
– For profit for the year	12	**RMB6.78 cents**	RMB6.48 cents

	2019 RMB'000	2018 RMB'000
PROFIT FOR THE YEAR	**82,753**	69,420
OTHER COMPREHENSIVE INCOME		
Exchange differences on translation of foreign operations	**7,798**	25,946
Other comprehensive income that may not be reclassified to profit or loss in subsequent periods: Equity investment designated at fair value through other comprehensive income: Changes in fair value	**(1,820)**	–
OTHER COMPREHENSIVE INCOME FOR THE YEAR	**5,978**	25,946
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**88,731**	95,366
Attributable to:		
Owners of the Company	**88,563**	95,366
Non-controlling interests	**168**	–
	88,731	95,366

XI. Consolidated Statement of Financial Position

31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	140,719	125,541
Right-of-use assets	14(b)	127,368	–
Prepaid land lease payments	14(a)	–	58,583
Goodwill	15	47,171	17,121
Other intangible assets	16	19,817	2,584
Equity investment at fair value through other comprehensive income	17	180	–
Financial assets at fair value through profit or loss	18	37,888	–
Other non-current assets	19	60,187	–
Total non-current assets		433,330	203,829
CURRENT ASSETS			
Trade receivables	20	2,683	1,885
Contract costs	21	2,563	2,663
Prepayments, other receivables and other assets	22	124,535	17,662
Amount due from a related party	34(b)	2,638	2,815
Term deposits	23	70,000	162,638
Pledged deposits	23	178,500	105,000
Cash and bank balances	23	258,613	259,491
Total current assets		639,532	552,154
CURRENT LIABILITIES			
Other payables and accruals	24	74,179	83,272
Contract liabilities	25	93,296	71,637
Interest-bearing bank and other borrowings	26	139,082	13,000
Lease liabilities	14(c)	16,266	–
Amount due to a related party	34(b)	1,142	–
Tax payable		3,562	2,285
Total current liabilities		327,527	170,194

continued/...

31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
NET CURRENT ASSETS		312,005	381,960
TOTAL ASSETS LESS CURRENT LIABILITIES		745,335	585,789
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	26	4,000	–
Lease liabilities	14(c)	50,428	–
Deferred tax liabilities	27	981	167
Other non-current liabilities	31	17,332	717
Total non-current liabilities		72,741	884
Net assets		672,594	584,905
EQUITY			
Share capital	28	10,286	10,323
Treasury shares		(114)	(37)
Reserves	30	655,479	574,619
		665,651	584,905
Non-controlling interests		6,943	–
Total equity		672,594	584,905

LI YUNONG
Director

LIU HONGWEI
Director

XII. Consolidated Statement of Changes in Equity

Year ended 31 December 2019

	Attributable to owners of the Company														
	Share capital RMB'000 (note 28)	Treasury shares* RMB'000 (note 28)	Share premium* RMB'000 (note 30)	Capital reserve* RMB'000 (note 30)	Capital redemption reserve* RMB'000 (note 30)	Statutory surplus reserve* RMB'000 (note 30)	Share option reserve* RMB'000 (note 29)	Fair value reserve of financial assets at fair value through other comprehensive income RMB'000	Exchange fluctuation reserve* RMB'000	Other reserve* RMB'000 (note 30)	Retained profits* RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2019	10,323	(37)	320,319	54,796	98	80,496	266	-	25,972	1,631	91,041	584,905	-	584,905
Profit for the year	-	-	-	-	-	-	-	-	-	-	82,585	82,585	168	82,753
Other comprehensive income for the year:														
Change in fair value of equity investment	-	-	-	-	-	-	-	(1,820)	-	-	-	(1,820)	-	(1,820)
Exchange differences related to foreign operations	-	-	-	-	-	-	-	-	7,798	-	-	7,798	-	7,798
Total comprehensive income for the year	-	-	-	-	-	-	-	(1,820)	7,798	-	82,585	88,563	168	88,731
Acquisition of a subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	6,775	6,775
Shares repurchased	(37)	(77)	(8,762)	-	37	-	-	-	-	-	(37)	(8,876)	-	(8,876)
Transfer from retained profits	-	-	-	-	-	20,941	-	-	-	-	(20,941)	-	-	-
Equity-settled share option arrangements	-	-	-	-	-	-	1,059	-	-	-	-	1,059	-	1,059
At 31 December 2019	10,286	(114)	311,557	54,796	135	101,437	1,325	(1,820)	33,770	1,631	152,648	665,651	6,943	672,594

continued/...

Year ended 31 December 2019

	Share capital RMB'000 *(note 28)*	Treasury shares^ RMB'000 *(note 28)*	Share premium* RMB'000 *(note 30)*	Capital reserve* RMB'000 *(note 30)*	Capital redemption reserve* RMB'000 *(note 30)*	Statutory surplus reserve* RMB'000 *(note 30)*	Share option reserve* RMB'000 *(note 29)*	Exchange fluctuation reserve* RMB'000	Other reserve* RMB'000 *(note 30)*	Retained profits* RMB'000	Total RMB'000
At 31 December 2017	–	–	–	54,796	–	63,700	–	26	1,631	37,438	157,591
Effect of adoption of IFRS 15	–	–	–	–	–	–	–	–	–	1,077	1,077
At 1 January 2018	–	–	–	54,796	–	63,700	–	26	1,631	38,515	158,668
Profit for the year	–	–	–	–	–	–	–	–	–	69,420	69,420
Other comprehensive income for the year:											
Exchange differences related to foreign operations	–	–	–	–	–	–	–	25,946	–	–	25,946
Total comprehensive income for the year	–	–	–	–	–	–	–	25,946	–	69,420	95,366
Capitalisation of share premium	7,082	–	(7,082)	–	–	–	–	–	–	–	–
Issue of shares	3,339	–	363,696	–	–	–	–	–	–	–	367,035
Shares repurchased	(98)	(37)	(12,990)	–	98	–	–	–	–	(98)	(13,125)
Share issue expense	–	–	(23,305)	–	–	–	–	–	–	–	(23,305)
Transfer from retained profits	–	–	–	–	–	16,796	–	–	–	(16,796)	–
Equity-settled share option arrangements	–	–	–	–	–	–	266	–	–	–	266
At 31 December 2018	10,323	(37)	320,319	54,796	98	80,496	266	25,972	1,631	91,041	584,905

^ During the year, the Company repurchased 12,672,000 (2018: 15,459,000) of its Shares on the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Upon completion of the repurchase, the number of the then total repurchased Shares was 16,929,000 (2018: 15,459,000), out of which 4,257,000 (2018: 11,202,000) were subsequently cancelled and the remaining 12,672,000 (2018: 4,257,000) repurchased Shares were presented as treasury Shares amounting to RMB114,000 as at 31 December 2019 (2018: RMB37,000).

* These reserve accounts comprise the consolidated reserves of RMB655,479,000 in the consolidated statement of financial position as at 31 December 2019 (2018: RMB574,619,000).

XIII. 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		**84,664**	70,196
Adjustments for:			
Finance costs	7	**8,204**	2,662
Interest income	5	**(12,426)**	(3,241)
Fair value gains, net:			
Financial assets at fair value through profit or loss	6	**(236)**	–
Depreciation	6	**13,461**	10,730
Depreciation of right-of-use assets/recognition of prepaid land lease payments	6	**17,346**	1,758
Amortisation of intangible assets	6	**706**	230
Equity-settled share option expense	29	**1,059**	266
Provision for expected credit losses of trade receivables	6, 20	**979**	–
Loss on disposal of items of property, plant and equipment	6	**84**	371
		113,841	82,972
(Increase)/decrease in prepayments, other receivables and other assets		**(11,231)**	21,139
Increase in trade receivables		**(1,777)**	(706)
Decrease/(increase) in contract costs		**100**	(1,586)
Decrease/(increase) in an amount due from a related party		**134**	(1,589)
(Increase)/decrease in other payables and accruals		**(4,789)**	9,619
Increase in an amount due to a related party		**1,142**	–
Increase in contract liabilities		**13,098**	14,104
Decrease/(increase) in other non-current liabilities		**–**	(64)
Cash generated from operations		**110,518**	123,889
Interest received		**9,679**	338
Income tax paid		**(1,085)**	(351)
Net cash flows from operating activities		**119,112**	123,876
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**982**	1,669
Purchases and prepayment for items of property, plant and equipment		**(90,753)**	(15,282)
Purchases and prepayment for intangible assets		**(7,405)**	(588)
Net cash outflow in respect of acquisition of subsidiaries	31	**(14,361)**	(10,432)
Settlement of remaining consideration in respect of acquisition of a subsidiary		**(7,360)**	–
Purchases of financial assets at fair value through profit or loss		**(37,648)**	–
Equity investment designated at fair value through other comprehensive income		**(2,000)**	–
Proceeds from disposal of items of property, plant and equipment		**–**	7
Advances to third parties		**(85,269)**	–
Increase in pledged deposits		**(73,500)**	(105,000)
Decrease/(increase) in non-pledged term deposits with original maturity of more than three months		**92,638**	(92,638)
Net cash flows used in investing activities		**(224,676)**	(222,264)

Year ended 31 December 2019

	Note	2019 RMB'000	2018 RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank and other borrowings		**183,308**	13,000
Repayment of bank and other borrowings		**(53,226)**	(35,106)
Listing expenses paid		**(2,500)**	(37,018)
Principal portion of lease payments		**(13,877)**	–
Interest paid		**(7,980)**	(2,805)
Proceeds from issue of shares on initial public offering and the over-allotment option		**–**	367,035
Repurchase of shares		**(8,876)**	(13,125)
Net cash flows from financing activities		**96,849**	291,981
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(8,715)**	193,593
Cash and cash equivalents at beginning of year		**259,491**	39,864
Effect of foreign exchange rate changes, net		**7,837**	26,034
CASH AND CASH EQUIVALENTS AT END OF YEAR		**258,613**	259,491
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents as stated in the consolidated statement of financial position and consolidated statement of cash flows	*23*	**258,613**	259,491

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1. CORPORATE INFORMATION

China 21st Century Education Group Limited (the "Company") is a limited liability company incorporated in the Cayman Islands on 20 September 2016. The registered office address of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. Shares of the Company were listed on the Stock Exchange on 29 May 2018.

The Company is an investment holding company. During the year, the Company and its subsidiaries (collectively referred to as the "Group") were principally engaged in providing educational services and related management services in the People's Republic of China (the "PRC").

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

Information about subsidiaries

Particulars of the Company's subsidiaries are as follows:

Company name	Place and date of incorporation/ establishment and place of operations	Issued ordinary/ registered share capital	Percentage of equity interests attributable to the Company Direct	Indirect	Principal activities
Sainage Investment Limited (新安投資有限公司)	BVI 19 October 2016	US$50,000	100	–	Investment holding
21st Century Education (HK) Investment Limited (香港21世紀教育投資有限公司)	Hong Kong 1 November 2016	HK$ 10,000	–	100	Investment holding
Saintach Education (HK) Investment Limited (香港新天際教育投資有限公司)	Hong Kong 3 November 2016	HK$ 10,000	–	100	Investment holding
河北晟道象成教育科技有限公司 Hebei Sheng Dao Xiang Cheng Education and Technology Co., Ltd.*# ("Sheng Dao Xiang Cheng")	PRC/Mainland China 14 December 2016	US$500,000	–	100	Provision of technical and management consultancy services
河北澤瑞教育科技有限公司 Hebei Zerui Education Technology Co., Ltd. ("Zerui Education")	PRC/Mainland China 12 July 2017	RMB70,000,000	–	100	Investment holding
石家莊理工職業學院 Shijiazhuang Institute of Technology*#	PRC/Mainland China 1 July 2003	RMB5,000,000	–	100	Provision of university education services and relevant management services
河北新天際教育科技有限公司 Hebei Saintach Education and Technology Co., Ltd.*# ("Hebei Saintach")	PRC/Mainland China 17 September 2002	RMB10,000,000	–	100	Investment holding and provision of kindergarten management service

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1. CORPORATE INFORMATION (CONTINUED)

Information about subsidiaries (continued)

Particulars of the Company's subsidiaries are as follows: (continued)

Company name	Place and date of incorporation/ establishment and place of operations	Issued ordinary/ registered share capital	Percentage of equity interests attributable to the Company Direct	Indirect	Principal activities
石家莊市橋西區新天際藍水晶幼兒園 Shijiazhuang Qiaoxi District Blue Crystal Saintach Kindergarten*# ("Blue Crystal")	PRC/Mainland China 4 January 2011	RMB900,000	–	100	Provision of kindergarten education service
正定縣新天際幼兒園 Zhengding County Saintach Kindergarten*# ("Zhengding")	PRC/Mainland China 28 September 2012	RMB500,000	–	100	Provision of kindergarten education service
石家莊市鹿泉區新天際福康幼兒園 Shijiazhuang Luquan District Fukang Saintach Kindergarten*# ("Fukang")	PRC/Mainland China 12 October 2012	RMB500,000	–	100	Provision of kindergarten education service
石家莊市長安區新天際清暉幼兒園 Shijiazhuang Chang'an District Qinghui Saintach Kindergarten*# ("Qinghui")	PRC/Mainland China 29 March 2013	RMB500,000	–	100	Provision of kindergarten education service
石家莊高新技術產業開發區 新天際天山幼兒園 Shijiazhuang High-tech Industrial Development Zone Tianshan Saintach Kindergarten*# ("Tianshan")	PRC/Mainland China 20 May 2013	RMB500,000	–	100	Provision of kindergarten education service
石家莊市長安區新天際建華幼兒園 Shijiazhuang Chang'an District Jianhua Saintach Kindergarten*# ("Jianhua")	PRC/Mainland China 7 March 2014	RMB100,000	–	100	Provision of kindergarten education service
石家莊市橋西區新天際麗都幼兒園 Shijiazhuang Qiaoxi District Lidu Saintach Kindergarten*# ("Lidu")	PRC/Mainland China 29 June 2015	RMB500,000	–	100	Provision of kindergarten education service
正定縣新天際福門裡幼兒園 Zhengding County Fumenli Saintach Kindergarten*# ("Fumenli")	PRC/Mainland China 29 April 2015	RMB500,000	–	100	Provision of kindergarten education service
石家莊新天際教育科技有限公司 Shijiazhuang Saintach Education and Technology Co., Ltd.*# ("Shijiazhuang Saintach")	PRC/Mainland China 13 July 2011	RMB3,000,000	–	100	Investment holding and provision of after-school tutoring service
石家莊市橋西區智城培訓學校 Shijiazhuang Qiaoxi District Zhicheng Tutorial School*# ("Zhicheng")	PRC/Mainland China 26 February 2009	RMB1,000,000	–	100	Provision of after-school tutoring service

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1. CORPORATE INFORMATION (CONTINUED)

Information about subsidiaries (continued)

Particulars of the Company's subsidiaries are as follows: (continued)

Company name	Place and date of incorporation/ establishment and place of operations	Issued ordinary/ registered share capital	Percentage of equity interests attributable to the Company Direct	Indirect	Principal activities
石家莊市長安區新天際培訓學校 Shijiazhuang Chang'an District Saintach Tutorial School*# ("Chang'an")	PRC/Mainland China 20 April 2010	RMB5,000,000	–	100	Provision of after-school tutoring service
石家莊市橋西區雙語文化培訓學校 Shijiazhuang Qiaoxi District Bilingual Culture Tutorial School*# ("Qiaoxi")	PRC/Mainland China 26 November 2013	RMB200,000	–	100	Provision of after-school tutoring service
石家莊市裕華區東崗路新天際培訓學校 Shijiazhuang Yuhua District Donggang Road Saintach Tutorial School*# ("Donggang")	PRC/Mainland China 1 February 2016	RMB1,000,000	–	100	Provision of after-school tutoring service
石家莊市新華區慧軒教育培訓學校 Shijiazhuang Xinhua District Huixuan Education Tutorial School*# ("Huixuan")	PRC/Mainland China 3 August 2016	RMB600,000	–	100	Provision of after-school tutoring service
石家莊市高新區新天際培訓學校 Shijiazhuang High-tech Industrial Development Zone Saintach Tutorial School*# ("Gaoxin")	PRC/Mainland China 19 December 2016	RMB500,000	–	100	Provision of after-school tutoring service
北京新天地線信息技術有限公司 Beijing Xin Tian Di Xian Information and Technology Co.,Ltd.*# ("Xin Tian Di Xian")	PRC/Mainland China 6 March 2015	RMB3,157,900	–	100	Provision of technical service
北京志航教育科技有限公司 Beijing Zhihang Education Technology Co., Ltd.*# ("Beijing Zhihang")	PRC/Mainland China 30 July 2019	RMB3,000,000	–	100	Provision of technical service
上海志宇教育科技有限公司 Shanghai Zhiyu Education Technology Co., Ltd.*# ("Shanghai Zhiyu")	PRC/Mainland China 16 January 2019	RMB5,000,000	–	100	Provision of technical service
浙江培尖科技有限公司 Zhejiang Peijian Technology Co., Ltd.*# ("Zhejiang Peijian")	PRC/Mainland China 29 December 2017	RMB10,000,000	–	51	Investment holding and provision of after-school tutoring service
重慶培尖科技有限公司 Chongqing Peijian Technology Co., Ltd.*# ("Chongqing Peijian")	PRC/Mainland China 16 May 2018	RMB1,000,000	–	51	Provision of after-school tutoring service
杭州華石培尖培訓學校有限公司 Hangzhou Huashi Peijian Training School Co., Ltd.*# ("Hangzhou Huashi")	PRC/Mainland China 17 October 2018	RMB1,000,000	–	51	Provision of after-school tutoring service

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1. CORPORATE INFORMATION (CONTINUED)

Information about subsidiaries (continued)

Particulars of the Company's subsidiaries are as follows: (continued)

Company name	Place and date of incorporation/ establishment and place of operations	Issued ordinary/ registered share capital	Percentage of equity interests attributable to the Company Direct	Indirect	Principal activities
杭州一脈企業管理諮詢有限責任公司 Hangzhou Yimai Enterprise Management Consulting Co., Ltd.*# ("Hangzhou Yimai")	PRC/Mainland China 16 May 2018	RMB1,250,000	–	70	Investment holding
紹興上虞學鼎教育諮詢有限公司 Shaoxing Shangyu Xueding Education Consulting Co., Ltd.*# ("Shangyu Company")	PRC/Mainland China 17 September 2010	RMB150,000	–	70	Investment holding and provision of after-school tutoring service
紹興市上虞區學鼎教育培訓學校 Shaoxing Shangyu District Xueding Education Training School*# ("Shangyu School")	PRC/Mainland China 3 April 2018	RMB300,000	–	70	Provision of after-school tutoring service
嘉善縣學鼎培訓學校有限公司 Jiashan County Xueding Training School Co., Ltd.*# ("Jiashan School")	PRC/Mainland China 5 November 2010	RMB150,000	–	70	Provision of after-school tutoring service
余姚學道教育培訓學校有限公司 Yuyao Xuedao Education Training School Limited*# ("Yuyaoxuedao")	PRC/Mainland China 27 June 2016	RMB100,000	–	70	Provision of after-school tutoring service
余姚學能培訓學校有限公司 Yuyao Xueneng Training School Co., Ltd.*# ("Yuyaoxueneng")	PRC/Mainland China 21 May 2019	RMB100,000	–	70	Provision of after-school tutoring service
舟山市定海區學鼎教育培訓學校 Zhoushan Dinghai District Xueding Education Training School*# ("Dinghai School")	PRC/Mainland China 14 November 2018	RMB300,000	–	70	Provision of after-school tutoring service

* The English names of all the above companies represent the best effort made by the Directors to translate the Chinese names as these companies have not been registered with any official English names.

These entities are owned through contractual arrangements.

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2.1 BASIS OF PRESENTATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") (which include all International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations) issued 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, except for an equity investment at fair value through other comprehensive income, financial assets at fair value through profit or loss, and a contingent consideration payable which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the 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 Company 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.

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2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

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

Except for the amendments to IFRS 9, IAS 19 and IAS 28, and *Annual Improvements to IFRSs 2015-2017 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised IFRSs are described below:

(a) 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, if any, 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.

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2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

(a) (continued)

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, machinery, motor 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).

Impact on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019. The 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 consolidated 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

31 December 2019

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

(a) (continued)

Financial impact at 1 January 2019

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

	Increase/ (decrease) RMB'000
Assets	
Increase in right-of-use assets	129,590
Decrease in prepaid land lease payments	(58,583)
Decrease in prepayments, other receivables and other assets	(6,255)
Increase in total assets	64,752
Liabilities	
Increase in lease liabilities	65,533
Decrease in other payables and accruals	(64)
Decrease in other non-current liabilities	(717)
Increase in total liabilities	64,752
Decrease in retained earnings	–

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

	RMB'000
Operating lease commitments as at 31 December 2018	**26,604**
Less:	
Commitments relating to short-term leases	(940)
Add:	
Payments in optional termination periods not recognised as at 31 December 2018	53,268
	78,932
Weighted average incremental borrowing rate as at 1 January 2019	4.26%
Discounted operating lease commitments at 1 January 2019	65,533
Lease liabilities as at 1 January 2019	**65,533**

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2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

(b) IFRIC 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of IAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. Upon adoption of the interpretation, the Group considered the interpretation did not have any impact on the financial position or performance of the Group.

2.3 ISSUED BUT NOT YET EFFECTIVE IFRSs

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

Amendments to IFRS 3	*Definition of a Business*[1]
Amendments to IFRS 9, IAS 39 and IFRS 7	*Interest Rate Benchmark Reform*[1]
Amendments to IAS 1	*Classification of Liabilities as Current or Non-current*[3]
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]

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

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

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

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture.

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

Business combinations and goodwill

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

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

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

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combinations and goodwill (continued)

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

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

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

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

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

Fair value measurement

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair value measurement (continued)

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

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

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

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

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

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

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) as 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), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

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

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of non-financial assets (continued)

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

Related parties

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

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

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

(ii) has significant influence over the Group; or

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

or

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

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

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment and depreciation

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

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 and facilities	4.75% to 19.00%
Leasehold improvements	20.00% to 33.33%
Equipment	19.00% to 31.67%
Furniture and fixtures	19.00%
Motor vehicles	11.88% to 23.75%

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 as at each financial year end.

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

Construction in progress mainly represents buildings under construction, which are stated at cost less any impairment losses, and are not depreciated. Cost comprises the direct costs 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 as at each financial year end.

Computer software

Purchased computer software is stated at cost less any impairment losses and is amortised on a straight-line basis over its estimated useful life of 5 to 10 years.

Brands

Brands mainly represent brands arising from the acquisition of subsidiaries (note 31) that are stated at cost less any impairment losses and are amortised on a straight-line basis over their estimated useful lives of 10 years.

Other intangible assets

Other intangible assets mainly represent certain media platforms arising from the acquisition of a subsidiary that are stated at cost less any impairment losses and are amortised on a straight-line basis over their estimated useful lives ranging from 3 to 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	36 years
Buildings	1 to 14 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 property (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.

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.

Leases (applicable before 1 January 2019)

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

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

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost.

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (continued)

Initial recognition and measurement (continued)

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

Subsequent measurement

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

Financial assets at amortised cost (debt instruments)

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

Financial assets designated at fair value through other comprehensive income (equity investments)

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

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

Financial assets at fair value through profit or loss

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

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

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in the consolidated statement of profit or loss and other comprehensive income. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

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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.

The Group considers a financial asset in default when contractual payments are 30 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (continued)

General approach (continued)

Debt investments at fair value through other comprehensive income and financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

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

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

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

Simplified approach

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

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as loans and borrowings or payables.

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

The Group's financial liabilities include other payables and accruals and loans from the ultimate holding company and related parties.

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities (continued)

Financial liabilities at amortised cost (loans and borrowings)

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

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

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

Treasury shares

Own equity instruments which are reacquired and held by the Company or the Group (treasury shares) are recognised directly in equity at cost. No gain or loss is recognised in the consolidated statement of profit or loss and other comprehensive income on the purchase, sale, issue or cancellation of the Group's own equity instruments.

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 which are not restricted as to use.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each of the year, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax (continued)

Deferred tax is provided, using the liability method, on all temporary differences as at the end of each 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 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 carry forward 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, and the carry forward 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.

The carrying amount of deferred tax assets is reviewed as 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 as 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 each reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

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.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition

Revenue from contracts with customers

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

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

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

Tuition and boarding fees are generally received by the college, tutorial centers and kindergartens in advance prior to the beginning of each academic year or the respective program, and are initially recorded as contract liabilities. Tuition and boarding fees are recognised proportionately over the relevant period of the academic year of the respective 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 Group does not expect to have significant contracts where the period between the transfer of the promised services to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

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.

College management service income and other services income are recognised when services are provided.

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).

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contract costs

Other than the costs which are capitalised as property, plant and equipment and intangible assets, costs incurred to fulfil a contract with a customer are capitalised as an asset if all of the following criteria are met:

(a) The costs relate directly to a contract or to an anticipated contract that the entity can specifically identify.

(b) The costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future.

(c) The costs are expected to be recovered.

The capitalised contract costs are amortised and charged to the consolidated statement of profit or loss and other comprehensive income on a systematic basis that is consistent with the pattern of the revenue to which the asset related is recognised. Other contract costs are expensed as incurred.

Share-based payments

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. Further details are given in note 29 to these financial statements.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the consolidated statement of profit or loss and other comprehensive income for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Share-based payments (continued)

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Other employee benefits

Pension scheme

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. The subsidiaries operating in Mainland China are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

Borrowing costs

Borrowing costs are expensed in the period in which they are incurred.

Foreign currencies

These financial statements are presented in RMB. The functional currency of the Company is Hong Kong dollars ("HK$"). 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 as at the end of each of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

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

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

The functional currencies of certain overseas subsidiaries are currencies other than RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into RMB at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into RMB at the weighted average exchange rates for the year.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies (continued)

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

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

Contractual arrangements

The Group exercises control over Shijiazhuang Institute of Technology, Shijiazhuang Saintach and its tutorial centers (collectively, "Saintach Tutorial Centers"), Zhejiang Peijian and its tutorial schools (collectively, "Peijian Tutorial Schools"), Hangzhou Yimai, Shangyu Company and its tutorial schools (collectively, "Shinedao Tutorial Schools"), Hebei Saintach and its kindergartens (collectively, "Saintach Kindergartens"), Xin Tian Di Xian, Beijing Zhihang and Zerui Education (the "structured entities") and enjoys economic benefits of the structured entities through a series of contractual arrangements.

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

Current and deferred tax

According to the Regulations for the Implementation of the Law on the Promotion of Non-public Schools of the People's Republic of China (the "Implementation Regulations"), private schools, whether requiring reasonable returns or not, may enjoy preferential tax treatments. The Implementation Regulations provide that the relevant authorities under the State Council may introduce preferential tax treatments and related policies applicable to private schools requiring reasonable returns. Up to 31 December 2019, no separate policies, regulations or rules have been introduced by the authorities in this regard. No corporate income tax was provided on the income from the provision of formal educational services by certain schools in the People's Republic of China (the "Certain PRC Schools").

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3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Judgements (continued)

Current and deferred tax (continued)

Significant judgement is required in interpreting the relevant tax rules and regulations so as to determine whether the Group is subject to corporate income tax. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Group to change its judgement regarding the adequacy of the tax liabilities. Such changes to tax liabilities will impact tax expense in the period in which such determination is made. Further details of the current and deferred tax are set out in note 10 to the financial statements.

Estimation uncertainty

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

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating unit to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. As at 31 December 2019, the carrying amount of goodwill was RMB47,171,000 (2018 RMB17,121,000). Further details are given in note 15 to the financial statements.

Leases – Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in a lease, and therefore, it uses an incremental borrowing rate ("IBR") to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group "would have to pay", which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when it needs to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

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 provision of services, or from a change in the market demand for the 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 as at the end of each reporting period. Further details of the property, plant and equipment are set out in note 13 to the financial statements.

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4. OPERATING SEGMENT INFORMATION

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

During the year, management has revised reportable segments and revised the Group's internal reporting, combining all non-vocational businesses, including tutorial center education service, preschool education service, online education service into one segment (quality-oriented education), while the former tertiary education has become vocational education. As a result of the changes to reportable segments and segment presentation, segment information for the year ended 31 December 2018 has been re-presented to conform with the revised presentation.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit which is measured consistently with the Group's profit before tax except that finance costs (other than interest on lease liabilities), interest income and other unallocated expenses are excluded from such measurement.

Segment assets exclude cash and bank balances, term deposits, pledged deposits, an amount due from a related party, financial assets at fair value through profit or loss, an equity investment at fair value through other comprehensive income and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude interest-bearing bank and other borrowings, an amount due to a related party, tax payable and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

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4. OPERATING SEGMENT INFORMATION (CONTINUED)

Year ended 31 December 2019	Vocational education RMB'000	Quality-oriented education RMB'000	Total RMB'000
Segment Revenue (note 5)			
Sales to external customers	141,028	93,214	234,242
Other segment revenue	8,165	618	8,783
Revenue from continuing operations	149,193	93,832	243,025
Segment results	77,885	18,346	96,231
Reconciliation			
Finance costs (other than interest on lease liabilities)			(5,587)
Interest income			12,426
Unallocated expenses			(18,406)
Profit before tax			84,664
Segment assets	338,408	59,314	397,722
Reconciliation			
Amount due from a related party			2,638
Term deposits			70,000
Pledged deposits			178,500
Cash and bank balances			258,613
Financial assets at fair value through profit or loss			37,888
Equity investment at fair value through other comprehensive income			180
Unallocated head office and corporate assets			127,321
Total assets			1,072,862
Segment liabilities	(154,755)	(71,044)	(225,799)
Reconciliation:			
Interest-bearing bank and other borrowings			(143,082)
Amount due to a related party			(1,142)
Tax payable			(3,562)
Unallocated head office and corporate liabilities			(26,683)
Total liabilities			(400,268)
Other segment information:			
Depreciation and amortisation	20,019	11,494	31,513
Capital expenditure^	21,384	25,278	46,662
Loss on disposal of items of property, plant, and equipment	84	–	84

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4. OPERATING SEGMENT INFORMATION (CONTINUED)

Year ended 31 December 2018	Vocational education RMB'000	Quality-oriented education RMB'000	Total RMB'000
Segment Revenue (note 5)			
Sales to external customers	119,048	82,947	201,995
Other segment revenue	7,184	165	7,349
Revenue from continuing operations	126,232	83,112	209,344
Segment results	68,799	18,240	87,039
Reconciliation			
Finance costs			(2,662)
Interest income			3,241
Unallocated expenses			(17,422)
Profit before tax			70,196
Segment assets	207,595	14,512	222,107
Reconciliation			
Amount due from a related party			2,815
Term deposits			162,638
Pledged deposits			105,000
Cash and bank balances			259,491
Unallocated head office and corporate assets			3,932
Total assets			755,983
Segment liabilities	(105,113)	(37,376)	(142,489)
Reconciliation			
Interest-bearing bank and other borrowings			(13,000)
Tax payable			(2,285)
Unallocated head office and corporate liabilities			(13,304)
Total liabilities			(171,078)
Other segment information:			
Depreciation and amortisation	11,275	1,443	12,718
Capital expenditure^	13,266	1,677	14,943
Loss on disposal of items of property, plant, and equipment	369	2	371

^: Capital expenditure consists of additions in property, plant and equipment, and intangible assets including assets from the acquisition of subsidiaries.

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4. OPERATING SEGMENT INFORMATION (CONTINUED)

Geographical information

During the years ended 31 December 2019 and 2018, the Group operated within one geographical segment because all of its revenue was generated in Mainland China and all of its long-term assets were located in Mainland China. Accordingly, no geographical segment information is presented.

Information about major customers

During the years ended 31 December 2019 and 2018, no revenue from transactions with a single external customer amounted to 10% or more of the Group's total revenue.

5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	Notes	**2019** **RMB'000**	2018 RMB'000
Revenue from contracts with customers			
Vocational education			
Tuition fees		**93,055**	73,564
Boarding fees		**11,273**	7,928
College operation service income	*(a)*	**20,132**	20,415
Others	*(b)*	**16,568**	17,141
		141,028	119,048
Quality-oriented education			
Tutoring fees		**57,016**	49,937
Tuition fees		**28,648**	29,322
Consultation fees		**7,550**	3,688
		93,214	82,947
		234,242	201,995

Notes:

(a) The college operation service income comprises the service income derived from the provision of college operation services and the provision of accommodation services to the students; and

(b) Others represent service fees received from certain independent universities in respect of the provision of student recruitment services, income received from the provision of vocational training and examination preparation courses and income derived from granting the right of canteen management.

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5. REVENUE, OTHER INCOME AND GAINS (CONTINUED)

Revenue from contracts with customers

(i) Disaggregated revenue information

	2019 RMB'000	2018 RMB'000
Timing of revenue recognition		
Education related services transferred over time	**222,827**	189,194
Other services recognised at point of time	**11,415**	12,801
	234,242	201,995

The Group's contracts with students for college education programmes are normally with duration of 1 year renewed up to total duration of 3–5 years depending on the education programmes, while those for boarding fees are normally with duration of 1 year. Tuition fees of preschool education are with duration of 1 month and for the tutorial center, tuition is charged based on the number of tutoring hours to be taken by students and the type of class. Tuition and boarding fees are determined and paid by the students before the start of the school year.

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

	2019 RMB'000	2018 RMB'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Tuition fees	**55,861**	47,239
Boarding fees	**6,725**	3,807
Others	**9,051**	6,484
	71,637	57,530

No revenue recognised during the year relates to performance obligation that was satisfied in prior years.

5. REVENUE, OTHER INCOME AND GAINS (CONTINUED)

Revenue from contracts with customers (continued)

(ii) Performance obligations

Education related services

The performance obligations for the provision of education related services are satisfied over time as services are rendered and tuition fees and boarding fees are normally required before rendering the services.

Other services

The performance obligations related to other services are satisfied at the point of time upon completion of the related services.

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

An analysis of other income and gains is as follows:

	Notes	**2019 RMB'000**	2018 RMB'000
Other income and gains			
Interest income		**12,426**	3,241
Site use fees	*(a)*	**2,844**	3,443
Sale of education materials and living goods		**4,660**	2,812
Government grants	*(b)*	**5,000**	–
Financial assets at fair value through profit or loss		**236**	–
Others		**1,043**	1,094
		26,209	10,590

Notes:

(a) The amounts represent usage fees received from certain colleges and enterprises in connection with their uses of the school premises and facilities of the Group to organise teaching and training activities.

(b) The government grants are related to Zerui Education, a subsidiary of the Group, which received RMB5,000,000 from the local government for awarding the Group's listing of shares.

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6. PROFIT BEFORE TAX

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

	Notes	2019 RMB'000	2018 RMB'000
Depreciation of property, plant and equipment	13	**13,461**	10,730
Depreciation of right-of-use assets			
(2018: amortisation of land lease payments)	14(a), (b)	**17,346**	1,758
Amortisation of intangible assets*	16	**706**	230
Minimum lease payments under operating leases			
– Buildings		**3,621**	8,462
– Others		**13**	674
		3,634	9,136
Employee benefit expense (excluding directors' remuneration *(note (8))*:			
Wages and salaries		**73,754**	69,340
Pension scheme contributions (defined contribution scheme)		**11,197**	8,391
Equity-settled share option expense		**484**	266
		85,435	77,997
Impairment of trade receivables	20	**979**	–
Fair value gains, net:			
Financial investment at fair value through profit or loss		**(236)**	–
Auditor's remuneration		**1,680**	1,400
Loss on disposal of items of property, plant and equipment		**84**	371

* The amortisation of intangible assets for each of the reporting periods is included in "Cost of sales" or "Administrative expenses" in the consolidated statement of profit or loss and other comprehensive income.

7. FINANCE COSTS

	2019 RMB'000	2018 RMB'000
Interest on bank and other borrowings	**4,807**	1,801
Interest on lease liabilities	**2,617**	–
Financing consultancy service charges^	**780**	861
	8,204	2,662

^ Financing consultancy service charges represented service charges paid by the Group in respect of certain bank and other borrowings obtained.

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8. DIRECTORS' REMUNERATION

Details of Directors' remuneration for the year, disclosed pursuant to the requirements of the Rules Governing the Listing of Securities of the Main Board on the Stock Exchange, section 383(1)(a),(b),(c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, are as follows:

	2019 RMB'000	2018 RMB'000
Fees	**173**	100
Other emoluments:		
Salaries, allowances and benefits in kind	**776**	612
Equity-settled share option expense	**575**	143
Pension scheme contributions	**209**	201
	1,560	956
	1,733	1,056

During the year, certain Directors were granted share options under the share option scheme of the Company in respect of their services to the Group. Further details are set out in note 29 to the financial statements. The fair value of such options, which has been recognised in the consolidated statement of profit or loss and other comprehensive income over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above Directors' and chief executive's remuneration disclosures.

(a) Independent non-executive Directors

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

	2019 RMB'000	2018 RMB'000
Mr. Guo Litian	**60**	30
Mr. Ma Guoqing*	**–**	40
Mr. Yao Zhijun	**60**	30
Mr. Wan Joseph Jason	**53**	–
	173	100

There were no other emoluments payable to the independent non-executive Directors during the year (2018: Nil).

* Mr. Ma Guoqing resigned as an independent non-executive Director on 6 March 2019. Mr. Wan Joseph Jason succeeded him as the independent non-executive Director with effect from 6 March 2019.

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8. DIRECTORS' REMUNERATION (CONTINUED)

(b) Executive Directors

Year ended 31 December 2019	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Equity-settled share option expense RMB'000	Total remuneration RMB'000
Mr. Li Yunong	240	67	–	307
Mr. Liu Zhanjie	184	46	233	463
Ms. Liu Hongwei	150	36	113	299
Mr. Ren Caiyin	129	32	113	274
Ms. Yang Li	73	28	116	217
	776	209	575	1,560

Year ended 31 December 2018	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Equity-settled share option expense RMB'000	Total remuneration RMB'000
Mr. Li Yunong	240	61	–	301
Mr. Liu Zhanjie	123	45	58	226
Ms. Liu Hongwei	97	26	28	151
Mr. Ren Caiyin	80	38	28	146
Ms. Yang Li	72	31	29	132
	612	201	143	956

There was no arrangement under which a Director waived or agreed to waive any remuneration during the year and no emolument were paid by the Group to them as inducement to join or upon joining the Group or as compensation for loss of office.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two Directors (2018: two), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year 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	**649**	537
Pension scheme contributions	**47**	199
	696	736

There was no discretionary bonus during the year (2018: Nil).

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

	2019	2018
Nil to HK$1,000,000	**3**	3

10. INCOME TAX

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands and accordingly is not subject to income tax.

The Company's directly held subsidiary was incorporated in the BVI as an exempted company with limited liability under the BVI Companies Act. 2004 and accordingly is not subject to income tax.

Hong Kong Profits Tax

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

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10. INCOME TAX (CONTINUED)

PRC Corporate Income Tax ("CIT")

Xin Tian Di Xian was accredited as a High-tech Enterprise and was entitled to a preferential tax rate of 15% (2018:15%).

Blue Crystal, Qinghui, Tianshan, Lidu, Fumenli, Shijiazhuang Saintach, Zhicheng, Qiaoxi, Huixuan, Donggang and Sheng Dao Xiang Cheng were certified as small and micro-sized enterprises ("SMEs") in 2019 whose accumulated taxable income of the year was below RMB1,000,000, and enjoyed 75% reduction of the accumulated taxable income and the preferential CIT rate of 20% for the year (2018: 50% reduction of the accumulated taxable income and the preferential CIT rate of 20%).

Jian Hua, Chang'an and Gaoxin were certified as SMEs in 2019, whose accumulated taxable income of the year exceeded RMB1,000,000 but below RMB3,000,000. These subsidiaries enjoyed 75% reduction of the accumulated taxable income and the preferential CIT rate of 20% for the taxable income below RMB1,000,000, and 50% reduction of the accumulated taxable income and the preferential CIT rate of 20% for the taxable income exceeding RMB1,000,000 and below RMB3,000,000 (2018: 50% reduction of the accumulated taxable income and the preferential CIT rate of 20%).

Pursuant to the CIT Law and the respective regulations, the other PRC subsidiaries were subject to income tax at a statutory rate of 25% for the year (2018: 25%).

According to Implementation Regulations, non-public schools, whether requiring reasonable returns or not, may enjoy preferential tax treatments. non-public schools for which the school sponsors do not require reasonable returns are eligible to enjoy the same preferential tax treatment as public schools. It is stated in the Implementation Regulations that the relevant authorities under the State Council may introduce preferential tax treatments and related policies applicable to private schools requiring reasonable returns. During the year and up to the date approved of these financial statements, no separate policies, regulations or rules have been introduced by the authorities in this regard. In accordance with the historical tax returns filed to the relevant tax authorities, the Group's schools which require reasonable returns did not pay CIT and had enjoyed the preferential CIT exemption treatments in 2019. Except for the tutorial centers and certain kindergartens, there was no CIT imposed on Shijiazhuang Institute of Technology and the remaining kindergartens in respect of the education services provided in 2019.

As a result, no income tax expense was recognised for the income from the provision of formal education services for the year ended 31 December 2019 (2018: Nil).

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

	2019 RMB'000	2018 RMB'000
Current – Mainland China		
Charge for the year	**2,106**	670
(Overprovision)/underprovision in prior years	**(124)**	106
Deferred *(note 27)*	**(71)**	–
	1,911	776

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10. INCOME TAX (CONTINUED)

PRC Corporate Income Tax (continued)

A reconciliation of the tax expense applicable to profit before tax at the statutory rates for the countries (or jurisdictions) in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates is as follows:

	2019 **RMB'000**	2018 RMB'000
Profit before tax	**84,664**	70,196
Tax at the statutory tax rate	**21,166**	17,549
Profit arising from schools not subject to tax	**(25,226)**	(20,083)
Effect of different tax rates for certain group entities	**(1,134)**	102
Expenses not deductible for tax	**629**	324
Adjustments in respect of current tax of previous periods	**(124)**	106
Tax losses utilised from previous periods	**(716)**	(1,313)
Tax losses not recognised	**7,316**	4,091
	1,911	776

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

At 31 December 2019, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China (2018: Nil). In the opinion of the directors, the Group's unremitted earnings will be retained in Mainland China for the expansion of the Group's operation, so it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB124,906,000 at 31 December 2019 (2018: RMB88,303,000).

As at 31 December 2019, the Group had tax losses arising in Mainland China of RMB28,198,000 (2018: RMB12,773,000) which will expire in one to five years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

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11. DIVIDENDS

As at the date of this annual report, the Board has resolved to propose a final dividend of HK2.22 cents per Share for the year ended 31 December 2019 (2018: Nil). The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

12. EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings per Share is based on the profit attributable to ordinary equity holders of the Company and the weighted average number of the ordinary Shares of 1,218,762,058 (2018: 1,070,547,156) in issue during the year.

The weighted average number of Shares in issue during the year ended 31 December 2018 is based on the assumption that 840,000,000 Shares were in issue as if the 839,990,000 Shares issued by capitalisation of the share premium account for allotment and issue to Sainange Holdings Company Limited and Sainray Limited, the then two Shareholders of the Company, were outstanding throughout the entire period presented (note 28 (a)).

No adjustment has been made to the basic earnings per Share amount presented for the years ended 31 December 2019 and 2018. There was no dilution effect on the basis earnings per Share amount presented in respect of the share option outstanding as at 31 December 2019 and 2018. And the Group had no potential dilutive ordinary Share 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 Company, used in the basic and diluted earnings per Share calculation	**82,585**	69,420

	Number of shares	
	2019	2018
Shares Weighted average number of ordinary Shares in issue during the year used in the basic and diluted earnings per share calculation	**1,218,762,058**	1,070,547,156

13. PROPERTY, PLANT AND EQUIPMENT

31 December 2019	Buildings and facilities RMB'000	Leasehold improvements RMB'000	Equipment RMB'000	Furniture and fixtures RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
At 31 December 2018 and 1 January 2019:							
Cost	112,887	31,814	32,807	19,018	65	878	197,469
Accumulated depreciation	(12,188)	(19,244)	(24,989)	(15,452)	(55)	–	(71,928)
Net carrying amount	100,699	12,570	7,818	3,566	10	878	125,541
At 1 January 2019, net of accumulated depreciation	100,699	12,570	7,818	3,566	10	878	125,541
Additions	–	15,893	2,573	2,651	–	5,950	27,067
Acquisition of subsidiaries *(note 31)*	–	1,114	395	147	–	–	1,656
Disposals	–	–	(49)	(34)	(1)	–	(84)
Depreciation provided during the year *(note 6)*	(5,635)	(4,689)	(2,259)	(876)	(2)	–	(13,461)
Transfer	–	2,650	693	532	–	(3,875)	–
At 31 December 2019, net of accumulated depreciation	95,064	27,538	9,171	5,986	7	2,953	140,719
At 31 December 2019:							
Cost	112,887	51,472	35,391	21,769	60	2,953	224,532
Accumulated depreciation	(17,823)	(23,934)	(26,220)	(15,783)	(53)	–	(83,813)
Net carrying amount	95,064	27,538	9,171	5,986	7	2,953	140,719

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13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

31 December 2018	Buildings and facilities RMB'000	Leasehold improvements RMB'000	Equipment RMB'000	Furniture and fixtures RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
At 31 December 2017 and 1 January 2018:							
Cost	113,144	23,135	29,824	19,111	64	–	185,278
Accumulated depreciation	(6,619)	(16,572)	(23,825)	(15,957)	(49)	–	(63,022)
Net carrying amount	106,525	6,563	5,999	3,154	15	–	122,256
At 1 January 2018, net of accumulated depreciation	106,525	6,563	5,999	3,154	15	–	122,256
Additions	–	8,280	3,607	1,181	–	1,287	14,355
Acquisition of a subsidiary *(note 31)*	–	–	31	7	–	–	38
Disposals	(183)	(7)	(61)	(127)	–	–	(378)
Depreciation provided during the year *(note 6)*	(5,643)	(2,675)	(1,758)	(649)	(5)	–	(10,730)
Transfer	–	409	–	–	–	(409)	–
At 31 December 2018, net of accumulated depreciation	100,699	12,570	7,818	3,566	10	878	125,541
At 31 December 2018:							
Cost	112,887	31,814	32,807	19,018	65	878	197,469
Accumulated depreciation	(12,188)	(19,244)	(24,989)	(15,452)	(55)	–	(71,928)
Net carrying amount	100,699	12,570	7,818	3,566	10	878	125,541

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14. LEASES

The Group as a lessee

The Group has lease contracts for various items of land and buildings used in its operations. Lump sum payments were made upfront to acquire the leased land from the owners with lease periods of 36 years, and no ongoing payments will be made under the terms of these land leases. Leases of some buildings generally have lease terms between 1 and 14 years. Other buildings generally have lease terms of 12 months or less and/or is individually of low value. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group.

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

	RMB'000
Carrying amount at 1 January 2018	62,099
Recognised in profit or loss during the year	(1,758)
Carrying amount at 31 December 2018	60,341
Current portion included in prepayments, other receivables and other assets *(note 22)*	(1,758)
Non-current portion	58,583

(b) Right-of-use assets

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

	Prepaid land lease payments RMB'000	**Buildings** RMB'000	**Total** RMB'000
As at 1 January 2019	60,341	69,249	129,590
Additions	–	6,774	6,774
Additions as a result of acquisition of a subsidiaries	–	8,350	8,350
Depreciation charge	1,757	15,589	17,346
As at 31 December 2019	**58,584**	**68,784**	**127,368**

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14. LEASES (CONTINUED)

The Group as a lessee (continued)

(c) ***Lease liabilities***

The carrying amount of lease liabilities and the movements during the year are as follows:

	Lease liabilities 2019 RMB'000
Carrying amount at 1 January	65,533
New leases	6,688
Additions as a result of acquisition of a subsidiaries	8,350
Accretion of interest recognised during the year	2,617
Payments	(16,494)
Carrying amount at 31 December	66,694
Analysed into:	
Current portion	16,266
Non-current portion	50,428

(d) ***The amounts recognised in profit or loss in relation to leases are as follows:***

	2019 RMB'000
Interest on lease liabilities	2,617
Depreciation charge of right-of-use assets	15,590
Expense relating to short-term leases and other leases with remaining lease terms ended on or before 31 December 2019 (included in cost of sales)	2,454
Expense relating to leases of low-value assets (included in administrative expenses)	1,180
Total amount recognised in profit or loss	21,841

(e) The total cash outflow for leases is disclosed in note 32(c) to the financial statements.

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15. GOODWILL

	2019 RMB'000
Cost:	
At 1 January 2019	**17,121**
Acquisition of subsidiaries *(note 31)*	**30,050**
Cost and net carrying amount at 31 December 2019	**47,171**

Impairment testing of goodwill

Goodwill acquired through business combinations is allocated to the following cash-generating units for impairment testing:

- Cash-generating unit of Xin Tian Di Xian;
- Cash-generating unit of Hangzhou Yimai; and
- Cash-generating unit of Zhejiang Peijian.

Cash-generating unit of Xin Tian Di Xian

The recoverable amount of the Xin Tian Di Xian cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 23%. The growth rate used to extrapolate the cash flows of Xin Tian Di Xian beyond the five-year period is 3%.

In the opinion of the Company's directors, a decrease in the growth rate by 1.5% to 1.5% would cause the carrying amount of the cash-generating unit to exceed its recoverable amount by approximately RMB249,000 to RMB17,622,000, and any reasonably possible change in the other key assumptions on which the recoverable amount is based would not cause the cash-generating unit's carrying amount to exceed its recoverable amount.

Cash-generating unit of Hangzhou Yimai

The recoverable amount of the Hangzhou Yimai cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 19%. The growth rate used to extrapolate the cash flows of Hangzhou Yimai beyond the five-year period is 3%.

In the opinion of the Company's directors, a decrease in the growth rate by 1.5% to 1.5% would cause the carrying amount of the cash-generating unit to exceed its recoverable amount by approximately RMB241,000 to RMB16,439,000, and any reasonably possible change in the other key assumptions on which the recoverable amount is based would not cause the cash-generating unit's carrying amount to exceed its recoverable amount.

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15. GOODWILL (CONTINUED)

Impairment testing of goodwill (continued)

Cash-generating unit of Zhejiang Peijian

The recoverable amount of the Zhejiang Peijian cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 24%. The growth rate used to extrapolate the cash flows of Zhejiang Peijian beyond the five-year period is 3%.

In the opinion of the Company's directors, a decrease in the growth rate by 0.7% to 2.3% would cause the carrying amount of the cash-generating unit to exceed its recoverable amount by approximately RMB110,000 to RMB45,214,000, and any reasonably possible change in the other key assumptions on which the recoverable amount is based would not cause the cash-generating unit's carrying amount to exceed its recoverable amount.

The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted sales amounts – The budgeted sales amounts are based on the historical data and management's expectation on the future market.

Budgeted gross margins – The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budget year, increased for expected efficiency improvements, and expected market development.

Long term growth rate – The long term growth rate is based on the historical data and management's exception on the future market.

Discount rate – The discount rate reflects specific risks relating to the relevant unit, which is determined using the capital asset pricing model with reference to the beta coefficient and debt ratio of certain publicly listed companies conducting business in the industry.

The values assigned to the key assumptions on market development of the cash-generating unit and the discount rate are consistent with external information sources.

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16. OTHER INTANGIBLE ASSETS

	Computer software RMB'000	Brands RMB'000	Other intangible assets RMB'000	Total RMB'000
31 December 2019				
Cost at 1 January 2019, net of accumulated amortisation	**1,468**	**–**	**1,116**	**2,584**
Additions	**239**	**–**	**–**	**239**
Acquisition of subsidiaries *(note 31)*	**–**	**17,700**	**–**	**17,700**
Amortisation provided during the year *(note 6)*	**(238)**	**(216)**	**(252)**	**(706)**
At 31 December 2019, net of accumulated amortisation	**1,469**	**17,484**	**864**	**19,817**
At 31 December 2019:				
Cost	**2,908**	**17,700**	**1,116**	**21,724**
Accumulated amortisation	**(1,439)**	**(216)**	**(252)**	**(1,907)**
Net carrying amount	**1,469**	**17,484**	**864**	**19,817**

	Computer software RMB'000	Other intangible assets RMB'000	Total RMB'000
31 December 2018			
Cost at 1 January 2018, net of accumulated amortisation	1,110	–	1,110
Additions	588	–	588
Acquisition of a subsidiary *(note 31)*	–	1,116	1,116
Amortisation provided during the year *(note 6)*	(230)	–	(230)
At 31 December 2018, net of accumulated amortisation	1,468	1,116	2,584
At 31 December 2018:			
Cost	2,669	1,116	3,785
Accumulated amortisation	(1,201)	–	(1,201)
Net carrying amount	1,468	1,116	2,584

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17. EQUITY INVESTMENT DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2019 RMB'000	2018 RMB'000
Equity investment designated at fair value through other comprehensive income		
Unlisted equity investment, at fair value		
Beijing Ying Yu New Media Interaction Technology Co., Ltd.	**180**	–

The above equity investment is irrevocably designated at fair value through other comprehensive income as the Group considers the investment to be strategic in nature.

18. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2019 RMB'000	2018 RMB'000
Other unlisted investment, at fair value		
Wealth capital management products	**37,888**	–

Note:

The unlisted investment was wealth management products, which were mandatorily classified as financial assets at fair value through profit or loss as their contractual cash flows are not solely payments of principal and interest.

19. OTHER NON-CURRENT ASSETS

	2019 RMB'000	2018 RMB'000
Other unlisted investments, at amortised cost		
Trust funds	**60,187**	–

Other non-current assets are stand-alone trust funds classified as financial assets at amortised cost as their contractual cash flows are solely payments of principal and interest. The financial assets included in the above balances relate to receivables for which there was no recent history of default and past due amounts. As at 31 December 2019, the loss allowance was assessed to be minimal.

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20. TRADE RECEIVABLES

	2019 RMB'000	2018 RMB'000
Tuition receivables	3,662	1,885
Impairment	(979)	–
	2,683	1,885

The Group's students are required to pay tuition fees and boarding fees in advance for the upcoming school year, which normally commences in September. The outstanding receivables represent amounts related to students who have applied for the delayed payment of tuition fees and boarding fees. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified students, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

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

	2019 RMB'000	2018 RMB'000
Within one year	2,331	1,885
One to two years	352	–
	2,683	1,885

The movements in the loss allowance for impairment of trade receivables are as follows:

	2019 RMB'000	2018 RMB'000
At beginning of year	–	–
Impairment losses *(note 6)*	979	–
At end of year	979	–

The increase in the loss allowance of RMB979,000 was due to a net increase in the gross carrying amount of trade receivables which were past due.

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20. TRADE RECEIVABLES (CONTINUED)

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates for the measurement of the expected credit losses of the contract assets are based on those of the trade receivables as the trade receivables are from the same customer bases. The provision rates of the trade receivables are based on days past due of trade receivables 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 contract assets using a provision matrix:

As at 31 December 2019

		Past due		
	Current	Less than 183 days	Over 183 days	Total
Expected credit loss rate	**13%**	**75%**	**100%**	**27%**
Gross carrying amount (RMB'000)	**2,885**	**688**	**89**	**3,662**
Expected credit losses (RMB'000)	**375**	**515**	**89**	**979**

As at 31 December 2018

		Past due		
	Current	Less than 183 days	Over 183 days	Total
Expected credit loss rate	–	–	–	–
Gross carrying amount (RMB'000)	1,885	–	–	1,885
Expected credit losses (RMB'000)	–	–	–	–

21. CONTRACT COSTS

Contract costs capitalised as at 31 December 2019 relate to the incremental commission fees for successful referral of students entering into contracts for the tuition services. Contract costs are recognised as part of selling expenses in the consolidated statement of profit or loss and other comprehensive income in the period in which revenue from the related tuition services is recognised. The amount of capitalised costs recognised in profit or loss during the year ended 31 December 2019 was RMB3,296,000 (2018: RMB2,892,000). There was no impairment in relation to the costs capitalised as at 31 December 2019.

The contract costs are amortised over the duration of the education programmes ranging from 1 to 3 years.

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22. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2019 RMB'000	2018 RMB'000
Prepayments	**7,938**	8,627
Deposits	**7,227**	3,352
Other receivables	**109,370**	3,925
Current portion of prepaid land lease payments	**–**	1,758
	124,535	17,662

The financial assets included in the above balances relate to receivables for which there was no recent history of default and past due amounts. As at 31 December 2019 and 2018, the loss allowance was assessed to be minimal.

23. CASH AND BANK BALANCES, TERM DEPOSITS AND PLEDGED DEPOSITS

	2019 RMB'000	2018 RMB'000
Cash and bank balances	**258,613**	259,491
Pledged deposits	**178,500**	105,000
Term deposits	**70,000**	162,638
	507,113	527,129
Less: Pledged deposits for bank facilities	**(178,500)**	(105,000)
Term deposits with original maturity over three months	**(70,000)**	(162,638)
	258,613	259,491
Cash and cash equivalents		
Denominated in:		
RMB	**454,127**	275,663
HK$	**32,583**	31,586
US dollars (US$)	**20,403**	219,880
	507,113	527,129

As at 31 December 2019, the Group's cash and bank balances, term deposits and pledged deposits denominated in RMB amounted to RMB464,390,000 (2018: RMB275,663,000). The RMB is not freely convertible into other currencies, however, under the PRC 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. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances, term deposits and pledged deposits are deposited with creditworthy banks with no recent history of default.

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24. OTHER PAYABLES AND ACCRUALS

	2019 RMB'000	2018 RMB'000
Salary and welfare payables	25,646	24,158
Miscellaneous advances from students*	23,733	21,647
Other tax payables	4,325	3,775
Payables for purchases of property, plant and equipment	1,720	926
Deposits	2,515	3,046
Accrued listing expenses	–	4,621
Scholarships	1,632	1,946
Other payables	12,790	15,729
Remaining consideration payable for acquisition of subsidiaries *(note 31)*	1,818	7,360
Current portion of deferred rental obligations	–	64
	74,179	83,272

* The balances mainly represented miscellaneous advances received from students for purchasing uniforms and textbooks on their behalf.

The above balances are unsecured and non-interest-bearing. The carrying amount of other payables and accruals as at the end of the reporting period approximated to their fair values due to their short term maturities.

25. CONTRACT LIABILITIES

Contract liabilities

Details of contract liabilities as at 31 December 2019, 31 December 2018 and 1 January 2018 are as follows:

	31 December 2019 RMB'000	31 December 2018 RMB'000	1 January 2018 RMB'000
Tuition fees	78,253	55,861	47,239
Boarding fees	9,786	6,725	3,807
Others	5,257	9,051	6,484
Total contract liabilities	93,296	71,637	57,530

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

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26. INTEREST-BEARING BANK AND OTHER BORROWINGS

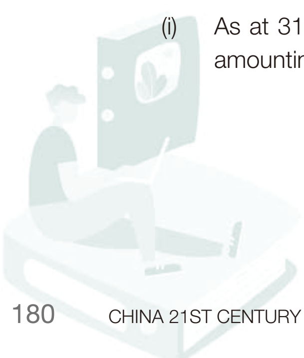
		2019			2018		
	Notes	**Effective interest rate (%)**	**Maturity**	**RMB'000**	Effective interest rate (%)	Maturity	RMB'000
Current							
Short term bank loan – secured	*(i)*	**4.35**	**2020**	**70,000**	–	–	–
Short term bank loan – unsecured	*(ii)*	**HIBOR +2.7–8.27**	**2020**	**58,082**	8.27	2019	13,000
Current portion of long term other borrowing – secured	*(iii)*	**6.20**	**2020**	**11,000**	–	–	–
				139,082			13,000
Non-current							
Other borrowing – secured	*(iii)*	**6.20**	**2021**	**4,000**	–	–	–
				143,082			13,000

	2019 RMB'000	2018 RMB'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	**128,082**	13,000
Other borrowing repayable:		
Within one year or on demand	**11,000**	–
In the second year	**4,000**	–
	143,082	13,000

Other borrowing of the Group represented a borrowing obtained from independent financial institutions.

Details of guarantees and/or securities provided by the Group and its related parties or third parties in connection with certain bank and other borrowing obtained by the Group during the year are as follows:

(i) As at 31 December 2019, a bank borrowing of RMB70,000,000 was secured by the Group's term deposits amounting to RMB73,500,000.



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26. INTEREST-BEARING BANK AND OTHER BORROWINGS (CONTINUED)

Details of guarantees and/or securities provided by the Group and its related parties or third parties in connection with certain bank and other borrowing obtained by the Group during the year are as follows: (continued)

(ii) As at 31 December 2019, a bank borrowing of RMB20,000,000 was guaranteed by an independent financing guarantee company. Pursuant to the relevant guarantee agreement with the independent financing guarantee company, a counter guarantee arrangement was required comprising a) a guarantee provided by Lionful Education; and b) a property owned by Lionful Education (note 34(d)(3)).

As at 31 December 2019 and 2018, a bank borrowing of RMB13,000,000 was a guaranteed by an independent financing guarantee company. Pursuant to the relevant guarantee agreement with the independent financing guarantee company, a counter guarantee arrangement was required comprising a guarantee provided by Hebei Saintach.

As at 31 December 2019, bank borrowings of HK$28,000,000 (equivalent to RMB25,082,000) were unsecured.

(iii) As at 31 December 2019, other borrowing of RMB15,000,000 was secured by the Group's security deposits amounting to RMB1,000,000 and guaranteed by Sheng Dao Xiang Cheng and Zerui Education.

27. DEFERRED TAX LIABILITIES

	2019 Fair value adjustments arising from acquisition of subsidiaries RMB'000
At 1 January 2019	**167**
Acquisition of subsidiaries *(note 31)*	**885**
Deferred tax credited to the consolidated statement of profit or loss and other comprehensive income during the year *(note 10)*	**(71)**
Gross deferred tax liabilities recognised in the consolidated statement of financial position at 31 December 2019	**981**

	2018 Fair value adjustments arising from acquisition of a subsidiary RMB'000
At 1 January 2018	–
Acquisition of a subsidiary *(note 31)*	167
Gross deferred tax liabilities recognised in the consolidated statement of financial position at 31 December 2018	167

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28. SHARE CAPITAL

	2019 RMB'000	2018 RMB'000
Authorised: 3,000,000,000 ordinary shares of HK$0.01 each as at 31 December 2019	**25,293**	25,293
Issued and fully paid: 1,220,541,000 (2018: 1,224,798,000)	**10,286**	10,323

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

	Number of shares in issue	Share capital RMB'000
At 1 January 2018	10,000	–*
Capitalisation issue *(note (a))*	839,990,000	7,082
Issuance of ordinary shares upon listing *(note (b))*	360,000,000	3,035
Exercise of over-allotment options *(note (c))*	36,000,000	304
Shares repurchased *(note (d))*	(11,202,000)	(98)
At 31 December 2018	1,224,798,000	10,323
At 31 December 2018 and 1 January 2019	1,224,798,000	10,323
Shares repurchased *(note (d))*	(4,257,000)	(37)
At 31 December 2019	1,220,541,000	10,286

* *Less than RMB1,000*

Notes:

(a) 839,990,000 shares were allotted and issued to the two shareholders of the Company, Sainange Holdings Company Limited and Sainray Limited, credited as fully paid at par value, immediately prior to the listing of the Company's shares on 29 May 2018 by way of capitalisation of the sum of HK$8,400,000 (approximately RMB7,082,000) standing to the credit of the share premium account of the Company.

(b) On 29 May 2018, in connection with the Company's initial public offering, 360,000,000 new ordinary shares of the Company of HK$0.01 each were issued at a price of HK$1.13 per share.

(c) On 17 June 2018, the Company issued additional 36,000,000 shares at the price of HK$1.13 per share as a result of the exercise of the over-allotment options by the underwriters.

(d) During the year ended 31 December 2019, the Company repurchased 12,672,000 (2018: 15,459,000) of its shares on the Stock Exchange. Upon completion of the repurchase, the number of the then total repurchased shares was 16,929,000 (2018: 15,459,000), out of which 4,257,000 (2018:11,202,000) were subsequently cancelled and the remaining 12,672,000 (2018: 4,257,000) repurchased shares were presented as treasury shares amounting to RMB114,000 as at 31 December 2019 (2018: RMB37,000).

Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 29 to the financial statements.

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29. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The Scheme became effective on 11 October 2018 and, unless otherwise cancelled or amended, will remain in force for 5 years from that date.

Share options granted to a director or chief executive of the Company are subject to approval in advance by the independent non-executive directors.

The offer of a grant of share options may be accepted within 28 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise price of share options is determinable by the directors, but may not be less than the higher of (i) the Stock Exchange closing price of the Company's shares on the date of offer of the share options; and (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of offer.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

The following share options were outstanding under the Scheme during the year:

	2019		2018	
	Weighted average exercise price HK$ per share	**Number of options '000**	Weighted average exercise price HK$ per share	Number of options '000
At 1 January	**0.964**	**5,190**	–	–
Granted during the year	**–**	**–**	0.964	5,190
At 31 December	**0.964**	**5,190**	0.964	5,190

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

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Number of options '000	Exercise price HK$ per share	Exercise period
1,557	0.964	11 October 2019 to 10 October 2023
1,557	0.964	11 October 2020 to 10 October 2023
2,076	0.964	11 October 2021 to 10 October 2023
5,190		

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29. SHARE OPTION SCHEME (CONTINUED)

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows: (continued)

31 December 2018

Number of options '000	Exercise price HK$ per share	Exercise period
1,557	0.964	11 October 2019 to 10 October 2023
1,557	0.964	11 October 2020 to 10 October 2023
2,076	0.964	11 October 2021 to 10 October 2023
5,190		

The fair value of the share options granted during the year was nil (2018: RMB2,050,000 equivalent to HK$2,330,000 (HK$0.449 each)), of which the Group recognised a share option expense of HK$1,059,000 (2018: RMB266,000) during the year ended 31 December 2019.

The fair value of equity-settled share options granted during the year was estimated as at the date of grant using the popular binomial tree model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

	2018
Dividend yield (%)	–
Volatility (%)	64.49
Risk-free interest rate (%)	2.53
Exit rate (%)	0.91
Exercise multiple	2.80
Expected life of options (year)	5
Weighted average share price (HK$ per share)	0.88

The volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

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30. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 125 to 126 of the financial statements.

Share premium

Share premium can be distributed provided that immediately following the date on which such reserves are proposed to be distributed, the Company would be in a position to pay off its debts as and when they fall due in the ordinary course of business.

Capital reserve

The capital reserve of the Group represents the capital contribution from the then investors or school sponsors of the PRC Operating Entities.

Capital redemption reserve

Capital redemption reserve arises from repurchase of its own ordinary shares on the Stock Exchange. When the repurchased shares are cancelled by the Company, the issued share capital of the Company are reduced by the nominal value of these shares. The premium paid on the repurchase is charged to the share premium.

Statutory surplus reserve

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

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

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

Other reserve

Other reserve mainly represents the difference between the cost of acquisition and the non-controlling interests acquired in the case of acquisition of additional non-controlling interests of subsidiaries.

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31. BUSINESS COMBINATION

Year ended 31 December 2019

(a) Hangzhou Yimai

On 6 September 2019, Shijiazhuang Saintach, a subsidiary of the Group, entered into equity transfer agreements with Ningbo Xuenuo Enterprise Management Co., Ltd. ("Ningbo Xuenuo") and Hebei Zhiqirui Education Technology Co., Ltd. ("Hebei Zhiqirui") to acquire 70% of equity interests for a total consideration of RMB14,000,000.

Hangzhou Yimai is a limited liability company established in the PRC on 16 May 2018. Hangzhou Yimai has training schools in Zhejiang Province, which mainly provide services to students in primary schools, middle schools and high schools, including customised tutoring, training for independent college admission examinations and college entrance examination voluntary choice services.

The handover was completed on 25 September 2019. Upon completion of the acquisition, Hangzhou Yimai has become a subsidiary of the Group and has been held as to 70% by Shijiazhuang Saintach and as to 30% by Ningbo Xuenuo, respectively.

The fair values of the identifiable assets and liabilities of Hangzhou Yimai as at the date of acquisition were as follows:

	Notes	**Fair value recognised on acquisition RMB'000**
Property, plant and equipment	*13*	**22**
Other intangible assets	*16*	**4,100**
Prepayments, other receivables and other assets		**1,442**
Right-of-use assets	*14(b)*	**3,117**
Cash and bank balances		**2,981**
Other payables and accruals		**(7,265)**
Tax payable		**(359)**
Deferred tax liability	*27*	**(205)**
Lease liabilities	*14(c)*	**(3,117)**
Total identifiable net assets at fair value		**716**
Non-controlling interests		**(215)**
Goodwill on acquisition	*15*	**13,417**
Total purchase consideration		**3,918**
– Cash paid		**12,100**
– Cash payable		**1,818**

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31. BUSINESS COMBINATION (CONTINUED)

Year ended 31 December 2019 (continued)

(a) Hangzhou Yimai (continued)

None of the goodwill recognised is expected to be deductible for income tax purposes.

An analysis of the cash flows in respect of the acquisition of Hangzhou Yimai is as follows:

	RMB'000
Cash consideration paid	(12,100)
Cash and bank balances acquired	2,981
Net outflow of cash and cash balances included in cash flows from investing activities	(9,119)

Since the acquisition, Hangzhou Yimai contributed RMB3,928,000 to the Group's revenue and RMB646,000 to the consolidated profit for the year ended 31 December 2019.

Had the combination taken place at the beginning of the year, the revenue of the Group and the profit of the Group for the year would have been RMB245,900,000 and RMB85,600,000 respectively.

(b) Zhejiang Peijian

On 5 September 2019, Zerui Education, a subsidiary of the Group, entered into an equity transfer agreement with, among others, Zhejiang Peijian and the five individual shareholders of Zhejiang Peijian (the "Peijian Individual Shareholders") in the People's Republic of China, pursuant to which Zerui Education agreed to acquire and Peijian Individual Shareholders agreed to sell a total of 51% equity interests in Zhejiang Peijian.

Zhejiang Peijian is a limited liability company established in the PRC on 29 December 2017. Zhejiang Peijian has training schools in Zhejiang Province as well as nationwide, which mainly provide services to middle and high school students, including training for academic competitions, subject improvement tutoring, training for independent college admission examinations and "three-in-one" training.

Pursuant to the clause related to performance guarantee in the equity transfer agreement, 2019-2022 is the performance guarantee period for the Peijian Individual Shareholders, and the transaction consideration will be paid in four stages, with the consideration of each period calculated based on the audited net profit of Zhejiang Peijian's performance according to the formula agreed in the equity transfer agreement.

The consideration for the Zhejiang Peijian Acquisition was satisfied by the Group as follows:

- RMB6,130,000 in cash;

- contingent consideration payable of RMB17,351,000, arising from the performance guarantee, which is disclosed under other non-current liabilities in the financial statements.

The handover was completed on 22 November 2019. Upon completion of the acquisition, Zhejiang Peijian has become a subsidiary of the Group and has been held as to 51% by Zerui Education and as to 49% in total by Peijian Individual Shareholders, respectively.

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31. BUSINESS COMBINATION (CONTINUED)

Year ended 31 December 2019 (continued)

(b) Zhejiang Peijian (continued)

The fair values of the identifiable assets and liabilities of Zhejiang Peijian as at the date of acquisition were as follows:

	Notes	Fair value recognised on acquisition Zhejiang Peijian RMB'000
Property, plant and equipment	*13*	**1,634**
Other intangible assets	*16*	**13,600**
Trade receivables		**1,776**
Prepayments, other receivables and other assets		**1,366**
Right-of-use assets	*14(b)*	**5,233**
Cash and bank balances		**888**
Trade payables		**(898)**
Other payables and accruals		**(4,275)**
Tax payable		**(21)**
Deferred tax liability	*27*	**(680)**
Lease liabilities	*14(c)*	**(5,233)**
Total identifiable net assets at fair value		**13,390**
Non-controlling interests		**(6,561)**
Goodwill on acquisition	*15*	**16,633**
Total purchase consideration		**23,462**
– Cash paid		**6,130**
– Contingent consideration payable		**17,332**

None of the goodwill recognised is expected to be deductible for income tax purposes.

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31. BUSINESS COMBINATION (CONTINUED)

Year ended 31 December 2019 (continued)

(b) Zhejiang Peijian (continued)

An analysis of the cash flows in respect of the acquisition of Zhejiang Peijian is as follows:

	RMB'000
Cash consideration paid	(6,130)
Cash and bank balances acquired	888
Net outflow of cash and cash balances included in cash flows from investing activities	(5,242)

The Group measured the acquired lease liabilities using the present value of the remaining lease payments at the date of acquisition. The right-of-use assets were measured at an amount equal to the lease liabilities.

The contingent consideration was determined using the discounted cash flow model and is within Level 3 fair value measurement. The consideration is due for final measurement and payment to the former shareholders on the next four years. At the date of approval of these financial statements, no further significant changes to the consideration are expected.

Significant unobservable valuation inputs for the fair value measurement of contingent consideration and the sensitivity analysis are set out in note 36 to the financial statements.

The Group incurred transaction costs of RMB233,000 for this acquisition. These transaction costs have been expensed and are included in administrative expenses in the consolidated statement of profit or loss and other comprehensive income.

Since the acquisition, Zhejiang Peijian contributed RMB2,849,000 to the Group's revenue and RMB92,000 to the consolidated profit for the year ended 31 December 2019.

Had the combination taken place at the beginning of the year, the revenue of the Group and the profit of the Group for the year would have been RMB279,500,000 and RMB86,200,000 respectively.

31. BUSINESS COMBINATION (CONTINUED)

Year ended 31 December 2018

On 29 December 2018, Sheng Dao Xiang Cheng, a subsidiary of the Group, acquired a 100% equity interest of Xin Tian Di Xian for a total consideration of RMB20 million and Xin Tian Di Xian was accounted for as a subsidiary of the Group.

The fair values of the identifiable assets and liabilities of Xin Tian Di Xian as at the date of acquisition were as follows:

	Notes	Fair value recognised on acquisition RMB'000
Property, plant and equipment	*13*	38
Other intangible assets	*16*	1,116
Prepayments, other receivables and other assets		165
Cash and bank balances		2,208
Other payables and accruals		(470)
Tax payable		(11)
Deferred tax liability	*27*	(167)
Total identifiable net assets at fair value		2,879
Goodwill on acquisition	*15*	17,121
Total purchase consideration		20,000
– Cash paid		12,640
– Cash payable		7,360

None of the goodwill recognised is expected to be deductible for income tax purposes.

An analysis of the cash flows in respect of the acquisition of Xin Tian Di Xian is as follows:

	RMB'000
Cash consideration paid	(12,640)
Cash and bank balances acquired	2,208
Net outflow of cash and cash balances included in cash flows from investing activities	(10,432)

As the above transaction occurred at a time approaching the year end, its contribution to the Group's revenue and net profit was insignificant since the acquisition.

Had the acquisition taken place at the beginning of the year, revenue and the net profit of the Group for the year ended 31 December 2018 would have been approximately RMB206 million and RMB71 million, respectively.

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32. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

During the year, the Group had non-cash additions to right-of-use assets and lease liabilities of RMB6,688,000 and RMB6,688,000, respectively, in respect of lease arrangements for buildings (2018: Nil).

(b) Changes in liabilities arising from financing activities

2019	Interest payables included in other payables and accruals RMB'000	Interest-bearing bank and other borrowings RMB'000	Accrued listing expenses included in other payables and accruals RMB'000	Lease liabilities RMB'000	Total liabilities from financing activities RMB'000
At 31 December 2018	27	13,000	2,500	–	15,527
Effect of adoption of IFRS 16	–	–	–	65,533	65,533
At 1 January 2019 (restated)	27	13,000	2,500	65,533	81,060
Changes from financing cash flows	(5,363)	130,082	(2,500)	(16,494)	105,725
New lease	–	–	–	6,688	6,688
Interest expense	5,587	–	–	2,617	8,204
Increase arising from acquisition of subsidiaries	–	–	–	8,350	8,350
At 31 December 2019	251	143,082	–	66,694	210,027

2018	Interest payables included in other payables and accruals RMB'000	Interest-bearing bank and other borrowings RMB'000	Accrued listing expenses included in other payables and accruals RMB'000	Total liabilities from financing activities RMB'000
At 1 January 2018	169	35,106	160	35,435
Changes from financing cash flows	(2,805)	(22,106)	(13,713)	(38,624)
Interest expense	2,663	–	–	2,663
Others	–	–	16,053	16,053
At 31 December 2018	27	13,000	2,500	15,527

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32. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

(c) Total cash outflow for leases

The total cash outflow for leases included in the consolidated statement of cash flows is as follows:

	2019 RMB'000
Within operating activities	**2,890**
Within financing activities	**16,494**
	19,384

33. CONTINGENT LIABILITIES

As at 31 December 2019, the Group did not have any significant contingent liabilities (2018: Nil).

34. RELATED PARTY TRANSACTIONS AND BALANCES

(a) Name and relationship of related parties

Name	Relationship
Mr. Li Yunong	Chairman, one of the controlling shareholders of the Group, and son-in-law of Ms. Luo Xinlan
Ms. Luo Xinlan	One of the controlling shareholders of the Group, and mother-in-law of Mr. Li Yunong
Lionful Investment Holding Co., Ltd. ("Lionful Investment Holding")	A company controlled by the controlling shareholders
Lionful Education	A company controlled by the controlling shareholders
河北安信聯行物業服務有限公司石家莊分公司 Hebei Ansince Property Management Co., Ltd. Shijiazhuang Branch* ("Hebei Ansince Shijiazhuang Branch")	A company controlled by Mr. Li Yunong
寧波天作工程項目管理有限公司 Ningbo Tianzuo Project Management Co., Ltd. ("Ningbo Tianzuo")	A company controlled by Mr. Li Yunong

* The English names of the companies stated above in this note represent the best effort made by the Directors to translate the Chinese names as those companies have not been registered with any official English names.

(b) Outstanding balances with a related party

Amount due from a related party

	2019 RMB'000	2018 RMB'000
Lionful Education	**2,638**	2,815

As at 31 December 2019 and 2018, the amount due from Lionful Education represented a service fee receivable arising from the provision of college operation services. In the opinion of the Directors, the amount due is trade in nature and would be settled according to the term agreed mutually in the normal course of business.

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34. RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

(b) Outstanding balances with a related party (continued)

Amount due to a related party (continued)

	2019 RMB'000	2018 RMB'000
Ningbo Tianzuo	**1,142**	–

As at 31 December 2019, the amount due to Ningbo Tianzuo represented a service fee payable for the repair of certain properties of Shijiazhuang Institute of Technology. In the opinion of the directors, the amount due is trade in nature and would be settled according to the term agreed in the contract.

(c) Transactions with related parties

Purchases of services and leases of assets from related parties

	Notes	2019 RMB'000	2018 RMB'000
Lionful Education	*(i)*	**5,500**	5,500
Hebei Ansince Shijiazhuang Branch	*(ii)*	**492**	624
Ningbo Tianzuo	*(iii)*	**4,549**	–
		10,541	6,124

Notes:

(i) A lease agreement was entered into between the Group and Lionful Education on 4 May 2018, pursuant to which properties owned by Lionful Education that were used as the Group's library, student dormitory, infirmary and a training center were leased at an annual rate of RMB5,500,000. The lease agreement was cancellable and, hence, there was no operating lease commitment under this lease agreement as at 31 December 2018.

(ii) Details of the property rentals paid to and fee paid for property management services provided by Hebei Ansince Shijiazhuang Branch are set out as follows:

	2019 RMB'000	2018 RMB'000
Property rentals	**264**	354
Property management services	**228**	270
	492	624

Properties leased from Hebei Ansince Shijiazhuang Branch were used as premises of the Group's kindergartens. Rental charges and service charges were based on prices mutually agreed between the Group and Hebei Ansince Shijiazhuang Branch.

(iii) Two construction service contracts were entered into between Shijiazhuang Institute of Technology and Ningbo Tianzuo on 24 January 2019 and 27 November 2019 respectively, under which Ningbo Tianzuo repaired certain properties of Shijiazhuang Institute of Technology.

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34. RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

(d) Others

(1) During the year, the Group has provided college operation services to Lionful Education in connection with the operation of the West Campus of 石家莊鐵道大學四方學院 (Shijiazhuang Tiedao University Sifang College) ("Sifang"). Lionful Education has been jointly operating the West Campus of Sifang College with 石家莊鐵道大學 ("ShijiazhuangTiedao University") ("Tiedao University").

Details of the college operation service income received from Lionful Education for each of the year are as follows:

	2019 RMB'000	2018 RMB'000
College operation service income	**17,862**	18,633

Other than the college operation service stated above, under the relevant agreements, Shijiazhuang Institute of Technology is responsible for providing the accommodation services to the students enrolled by the West Campus of Sifang College. Accommodation service fees are collected directly from the students and are recognised as income for the year as follows:

	2019 RMB'000	2018 RMB'000
Student accommodation service income^^	**2,067**	1,782

^^ included as part of the college operation service income of the Group as disclosed in note 5 to the financial statements.

(2) During the year, certain trademarks owned by Lionful Investment Holding were used by the Group free of charge.

(3) During the year, a certain bank borrowing of the PRC Operating Entities is guaranteed and secured by Lionful Education. Details of this transaction is disclosed in note 26 to the financial statements.

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

	2019 RMB'000	2018 RMB'000
Salaries, allowances and benefits in kind	**1,674**	970
Pension scheme contributions	**352**	324
Equity-settled share option expense	**783**	221
	2,809	1,515

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

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35. FINANCIAL INSTRUMENTS BY CATEGORY

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

2019

Financial assets

	Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income		
	Mandatorily designated as such RMB'000	Equity investment RMB'000	Financial assets at amortised cost RMB'000	Total RMB'000
Equity investment designated at fair value through other comprehensive income	–	180	–	180
Trade receivables	–	–	2,683	2,683
Amount due from a related party	–	–	2,638	2,638
Financial assets included in prepayments, other receivables and other assets	–	–	116,597	116,597
Financial assets at fair value through profit or loss	37,888	–	–	37,888
Other non-current assets	–	–	60,187	60,187
Cash and bank balances	–	–	258,613	258,613
Term deposits	–	–	70,000	70,000
Pledged deposits	–	–	178,500	178,500
	37,888	180	689,218	727,286

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35. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

2019 (continued)

Financial liabilities

	Financial liabilities at fair value through profit or loss		
	Designated as such upon initial recognition RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000
Consideration payable for acquisition of a subsidiary included in other non-current liabilities	17,332	–	17,332
Financial liabilities included in other payables and accruals	–	44,208	44,208
Amount due to a related party	–	1,142	1,142
Lease liabilities	–	66,694	66,694
Interest-bearing bank and other borrowings	–	143,082	143,082
	17,332	255,126	272,458

2018

Financial assets

	Financial assets at amortised cost RMB'000
Trade receivables	1,885
Amount due from a related party	2,815
Financial assets included in prepayments, other receivables and other assets	7,276
Cash and bank balances	259,491
Pledged deposits	105,000
Term deposits	162,638
	539,105

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35. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

2018 (continued)

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Financial liabilities included in other payables and accruals	47,653
Interest-bearing bank and other borrowings	13,000
	60,653

36. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

	Carrying amounts		Fair values	
	2019 RMB'000	2018 RMB'000	**2019 RMB'000**	2018 RMB'000
Financial assets				
Equity investment designated at fair value through other comprehensive income	**180**	–	**180**	–
Financial assets at fair value through profit or loss	**37,888**	–	**37,888**	–
	38,068	–	**38,068**	–
Financial liabilities				
Consideration payable for business combination included in other non-current liabilities	**17,332**	–	**17,332**	–
Interest-bearing bank and other borrowings – non current	**4,000**	–	**4,000**	–
	21,332	–	**21,332**	–

Management has assessed that the fair values of cash and bank balances, term deposits, pledged deposits, trade receivables, financial assets included in prepayments, other receivables, an amount due from/to a related party, other assets, financial liabilities included in other payables and accruals, the interest-bearing borrowing and the current portion of other borrowing approximate to their carrying amounts largely due to the short term maturities of these instruments.

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36. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

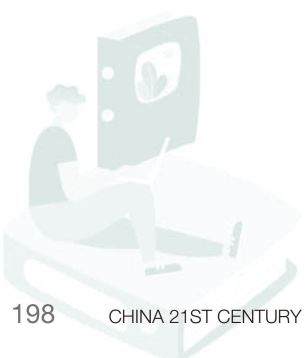
The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

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

The fair values of unlisted equity investment designated at fair value through other comprehensive income have been estimated using a market-based valuation technique based on assumptions that are not supported by observable market prices or rates. The valuation requires the directors to determine comparable public companies (peers) based on industry, size, leverage and strategy, and to calculate an appropriate price multiple, such as enterprise value to earnings before interest, taxes, depreciation and amortisation ("EV/EBITDA") multiple and price to earnings ("P/E") multiple, for each comparable company identified. The multiple is calculated by dividing the enterprise value of the comparable company by an earnings measure. The trading multiple is then discounted for considerations such as illiquidity and size differences between the comparable companies based on company-specific facts and circumstances. The discounted multiple is applied to the corresponding earnings measure of the unlisted equity investments to measure the fair value. The directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the consolidated statement of financial position, and the related changes in fair values, which are recorded in other comprehensive income, are reasonable, and that they were the most appropriate values at the end of the reporting period.

For the fair value of the unlisted equity investment at fair value through other comprehensive income, management has estimated the potential effect of using reasonably possible alternatives as inputs to the valuation model.

The Group invests in unlisted investment, which is a convertible bond through a capital management fund. The Group has estimated the fair value of that unlisted investment by using two valuation models: a) the binomial tree valuation model, in which the bond portion is discounted with the risk discount rate, which is the sum of the risk-free rate and the credit spread of the issuer, and the equity portion is discounted with the risk-free rate; and b) the discounted cash flow valuation model, which is based on the market interest rates of instruments with similar terms and risks.



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36. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

Set out below is a summary of significant unobservable inputs to the valuation of financial instruments together with a quantitative sensitivity analysis as at 31 December 2019 and 2018:

	Valuation technique	Significant unobservable input	Range	Sensitivity of fair value to the input
Unlisted equity investment	Valuation multiples	The median of EV/Sales multiple of peers	6x	1% increase/decrease in multiple would have no significant impact on fair value
		Discount for lack of marketability	21.0%	1% increase/decrease in discount for lack of marketability would result in increase/decrease in fair value by RMB2,000
Financial assets at fair value through profit or loss	Discounted cash flow method	Discount rate	6.1%	1% increase/decrease in discount rate would result in decrease/ increase in fair value by RMB453,913/ RMB469,131
	Binomial tree model	Discount rate	6.7%	1% increase/decrease in discount rate would result in decrease/ increase in fair value by RMB98,752/ RMB99,711
Consideration payable for business combination included in other non-current liabilities	Discounted cash flow method	Discount rate	6.1%	1% increase/decrease in discount rate would result in decrease/ increase in fair value by RMB358,790/ RMB371,460

The discount for lack of marketability represents the amounts of premiums and discounts determined by the Group that market participants would take into account when pricing the investments.

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36. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair value hierarchy

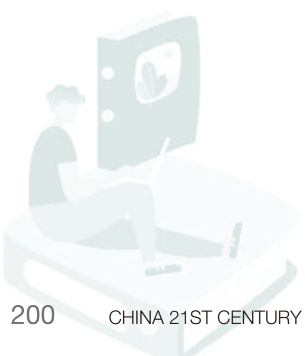
The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

As at 31 December 2019

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Equity investment designated at fair value through other comprehensive income	–	–	180	180
Financial assets at fair value through profit or loss	–	–	37,888	37,888
Consideration payable for business combination included in other non-current liabilities	–	–	17,332	17,332
Interest-bearing bank and other borrowings	–	143,082	–	143,082
	–	143,082	55,400	198,482

As at 31 December 2018

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Interest-bearing bank and other borrowings	–	13,000	–	13,000



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36. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair value hierarchy (continued)

The movements in fair value measurements within Level 3 during the year are as follows:

	2019 RMB'000	2018 RMB'000
Equity investment at fair value through other comprehensive income:		
At 1 January	–	–
Purchases	2,000	–
Total losses recognised in other comprehensive income	(1,820)	–
At 31 December	180	–

	2019 RMB'000	2018 RMB'000
Financial assets at fair value through profit or loss:		
At 1 January	–	–
Purchases	37,648	–
Total gains recognised in the consolidated statement of profit or loss and other comprehensive income included in other income	236	–
Exchange reserve	4	–
At 31 December	37,888	–

	2019 RMB'000	2018 RMB'000
Consideration payable for business combination included in other non-current liabilities:		
At 1 January	–	–
Additions	17,332	–
At 31 December	17,332	–

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2018: Nil).

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

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank and other borrowings and cash and bank balances. The Group has various other financial assets and liabilities such as amounts due from/to a related party, trade receivables, deposits and other receivables and other payables and accruals, which arise directly from its operations.

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

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's debt obligations with a floating interest rate.

As at 31 December 2019, approximately 19% of the Group's borrowings bore floating rates. As at 31 December 2018, the Group's borrowings bore interest at a fixed rate.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings) and the Group's equity.

Year ended 31 December 2019	Increase/(decrease) in basis points	Increase/(decrease) in profit before tax and equity RMB'000
Hong Kong Dollar	50	125
Hong Kong Dollar	(50)	(125)

In the opinion of the Directors, the sensitivity analysis is unrepresentative of the inherent interest rate risk as the year end exposure as at the end of each of the year did not reflect the exposure during the year.

Credit risk

It is the Group's policy that all schools with which the Group has cooperation and students who wish to receive the Group's services on credit terms are subject to credit verification procedures. In addition, receivable balances are monitoring on an ongoing basis and the Group's exposure to bad debt is not significant.

The credit risk of the Group's other financial assets, which comprise cash and bank balances, an amount due from a related party, deposits and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group only provides services to recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty or by service nature. There are no significant concentrations of credit risk regarding the trade receivables of the Group.

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37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk

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

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

	As at 31 December 2019				
	On demand RMB'000	Within 1 year RMB'000	1 to 5 years RMB'000	Total RMB'000	Carrying amount RMB'000
Consideration payable for business combination included in other non-current liabilities	–	1,907	15,425	17,332	17,332
Financial liabilities included in other payables and accruals	–	44,208	–	44,208	44,208
Amounts due to a related party	1,142	–	–	1,142	1,142
Lease liabilities	–	16,266	50,428	66,694	66,694
Interest-bearing bank and other borrowings	–	142,641	4,077	146,718	146,718
	1,142	205,022	69,930	276,094	276,094

	As at 31 December 2018				
	On demand RMB'000	Within 1 year RMB'000	1 to 5 years RMB'000	Total RMB'000	Carrying amount RMB'000
Financial liabilities included in other payables and accruals	–	47,653	–	47,653	47,653
Interest-bearing bank and other borrowings	–	13,096	–	13,096	13,096
	–	60,749	–	60,749	60,749

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37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Capital management

The Group's policy is to maintain a strong capital base so as to maintain creditor and market confidence and to sustain future development of business.

The Directors review the capital structure on a continuous basis taking into account the cost of capital and the risks associated with each class of capital. Based on the recommendations of the Directors, the Group will balance its overall capital structure through the raising of new debts as well as the redemption of the existing debt. The Group's overall strategy remained unchanged during the years ended 31 December 2019 and 2018.

The Group monitors capital using a debt-to-asset ratio, which is total liabilities divided by total assets. The debt-to-asset ratios as at the end of the reporting periods were as follows:

	2019 RMB'000	2018 RMB'000
Total liabilities	**400,268**	171,078
Total assets	**1,072,862**	755,983
Debt-to-asset ratio	**37%**	23%

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38. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

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

	2019 RMB'000	2018 RMB'000
NON-CURRENT ASSETS		
Interests in subsidiaries	1,325	266
Financial assets at fair value through profit or loss	37,888	–
Total non-current assets	39,213	266
CURRENT ASSETS		
Due from subsidiaries	250,859	98,977
Prepayments, other receivables and other assets	32,582	929
Term deposits	–	87,638
Cash and bank balances	43,998	162,863
Total current assets	327,439	350,407
Total assets	366,652	350,673
CURRENT LIABILITIES		
Interest-bearing bank and other borrowings	25,082	–
Amount due to a related party	981	960
Total current liabilities	26,063	960
NET CURRENT ASSETS	301,376	349,447
TOTAL ASSETS LESS CURRENT LIABILITIES	340,589	349,713
Net assets	340,589	349,713
EQUITY		
Share capital	10,285	10,323
Treasury shares	(114)	(37)
Reserves *(note)*	330,418	339,427
	340,589	349,713

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38. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (CONTINUED)

Note:

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

	Share premium RMB'000	Capital redemption reserve RMB'000	Share option reserve RMB'000	Accumulated losses RMB'000	Exchange fluctuation reserve RMB'000	Total reserves RMB'000
Balance at 1 January 2018	–	–	–	(733)	25	(708)
Loss for the year	–	–	–	(6,498)	–	(6,498)
Other comprehensive income for the year:	–					
Exchange differences on translation of foreign operations	–	–	–	–	26,048	26,048
Total comprehensive income for the year	–	–	–	(6,498)	26,048	19,550
At 31 December 2018 and 1 January 2019	320,319	98	266	(7,329)	26,073	339,427
Loss for the year	–	–	–	(9,162)	–	(9,162)
Other comprehensive income for the year:						
Exchange differences on translation of foreign operations	–	–	–	–	7,856	7,856
Total comprehensive income for the year	–	–	–	(9,162)	7,856	(1,306)
Capitalisation issue of shares						
Issue of shares						
Share issue expenses						
Shares repurchased	(8,762)	37	–	(37)	–	(8,762)
Recognition of share-based payment expenses	–	–	1,059	–	–	1,059
At 31 December 2019	311,577	135	1,325	(16,528)	33,929	330,418

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39. EVENTS AFTER THE REPORTING PERIOD

Outbreak of the Novel Coronavirus (COVID-19)

Subsequent to the end of the reporting period, there was an outbreak of the novel coronavirus (COVID-19) across China. The Group provided and completed its education services for the 2019/2020 fall semester by early January 2020. The Group's spring semester has been delayed due to school closure during the outbreak period. The Group implemented certain alternative actions for students during the closure period, including implementing on-line teaching activities.

In view of the alternative actions described above, management had assessed and preliminarily concluded that there was no significant impact on the financial position of the Group subsequent to the year ended 31 December 2019 up to the date of this annual report. Having said that, management would remain alert to the development of the pandemic and take additional measures as appropriate. The Group will release further announcements as and when appropriate in the event that there is any significant financial impact from COVID-19 on the Group's financial results and will reflect such impact in the Group's interim and annual financial statements.

Proposal for final dividend

As at the date of this annual report, the Board has resolved to propose a final dividend of HK2.22 cents per share for the year ended 31 December 2019.

40. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 31 March 2020.

XV. Definitions

"Board"	the board of Directors of the Company
"Business Cooperation Agreements"	the business cooperation agreements dated 17 October 2017 entered into by, among others, Sheng Dao Xiang Cheng and the relevant PRC Operating Entities, as amended and/or supplemented from time to time
"Company" or "21st Century Education"	China 21st Century Education Group Limited, an exempted company incorporated in the Cayman Islands with limited liability on 20 September 2016, with its Shares listed on the Main Board of the Stock Exchange
"Controlling Shareholder(s)"	with the meaning ascribed thereto under the Listing Rules, representing the controlling shareholders of the Company Mr. Li Yunong, Ms. Luo Xinlan, Sainange Holdings Company Limited and Sainray Limited, unless the context requires otherwise
"Director(s)"	the director(s) of the Company
"Directors' Powers of Attorney"	the school director's power of attorney executed by each of the directors of Shijiazhuang Institute of Technology, Saintach Tutorial Schools and Saintach Kindergartens in favor of Sheng Dao Xiang Cheng dated 17 October 2017
"Education Department of Hebei Province"	an integral department of the provincial government, which is responsible for the education cause in Hebei Province
"Equity Pledge Agreements"	the equity pledge agreements entered into among Sheng Dao Xiang Cheng and equity holders of the relevant PRC Operating Entities in relation to the pledge of equity interest in the relevant PRC Operating Entities, as amended and/or supplemented from time to time
"Exclusive Call Option Agreements"	the exclusive call option agreements entered into by, among others, Sheng Dao Xiang Cheng and the relevant PRC Operating Entities in relation to the exclusive call option of the equity interest and/or school sponsor's interests, as amended and/or supplemented from time to time
"Exclusive Service Agreements"	the exclusive technical service and management consultancy agreements entered into by and among Sheng Dao Xiang Cheng and the relevant PRC Operating Entities, as amended and/or supplemented from time to time
"Foreign Investment Law"	the Foreign Investment Law of the PRC* (中華人民共和國外商投資法) promulgated by the 13th National People's Congress on 15 March 2019, which will become effective on 1 January 2020

"government" or "state"	the central government of the PRC, including all governmental sub-divisions (such as provincial, municipal and other regional or local government entities)
"Group" or "we"	the Company, its subsidiaries and the PRC Operating Entities from time to time
"Hangzhou Yimai"	Hangzhou Yimai Enterprise Management Consultancy Co., Ltd.* (杭州一脈企業管理諮詢有限責任公司), a limited liability company established under the laws of the PRC on 16 May 2018 and controlled by Shijiazhuang Saintach as to 70% as of the date of this annual report, and one of our PRC Operating Entities
"Hebei Saintach"	Hebei Saintach Education and Technology Co., Ltd.* (河北新天際教育科技有限公司), a limited liability company established under the laws of the PRC on 17 September 2002, one of the Company's PRC Operating Entities
"Integrated Area"	also known as the Beijing-Tianjin-Hebei Integrated Area. Its concept was raised according to a national strategic initiative to promote the region's economic development
"Listing Date"	29 May 2018, being the date of listing of Shares 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
"Ningbo Tianzuo"	Ningbo Tianzuo Engineering Project Management Co., Ltd.* (寧波天作工程項目管理有限公司), a company established in the PRC and indirectly controlled more than 30% by Mr. Li Yunong
"Peijian Tutorial School(s)"	Chongqing Peijian Tutorial School Limited* (重慶培尖課外培訓學校有限公司) and Hangzhou Huashi Peijian Tutorial School Limited* (杭州華石培尖培訓學校有限公司), which are the PRC Operating Entities
"PRC"	the People's Republic of China
"PRC Legal Advisor"	Jingtian & Gongcheng, the advisor of the Company as to PRC laws
"PRC Operating Entities"	the entities of the Group in the PRC whose financial and results have been consolidated into the Company through contractual arrangements from time to time, mainly include Zerui Education, Shijiazhuang Saintach, Hebei Saintach, Zhejiang Peijian, Hangzhou Yimai, Shaoxing Shangyu Shinedao Education Consultancy Co., Ltd.* (紹興上虞學鼎教育諮詢有限公司), Xin Tian Di Xian, Beijing Zhihang Education Technology Co., Ltd.* (北京志航教育科技有限公司), Shijiazhuang Institute of Technology, Saintach Tutorial Schools, Peijian Tutorial Schools, Shinedao Tutorial Schools and Saintach Kindergartens

"private school(s)"	schools established by social organizations or individuals outside national institutions, using non-state financial capital
"Prospectus"	the prospectus dated 15 May 2018 and issued by the Company in respect of its initial public offering and listing
"public schools"	schools administered by local, provincial or national education authorities
"Qiaoxi Tutorial School"	Shijiazhuang City Qiaoxi District Bilingual Culture Tutorial School* (石家莊市橋西區雙語文化培訓學校), a private school established under the laws of the PRC on 26 November 2013 of which the school sponsor's interest is wholly-owned by Mr. Li Yunong and one of the PRC Operating Entities
"Registered Shareholders"	the Shareholders of Zerui Education, namely Mr. Li Yunong and Ms. Luo Xinlan
"RMB" or "Renminbi"	Renminbi, the existing lawful currency of the PRC
"Saintach Kindergartens"	Blue Crystal Kindergarten, Fukang Kindergarten, Jianhua Kindergarten, Lidu Kindergarten, Tianshan Kindergarten, Qinghui Kindergarten, Zhengding Kindergarten and Fumenli Kindergarten
"Saintach Tutorial Centers"	Tutorial centers in multiple operating locations which are organized into different Saintach Tutorial Schools
"Saintach Tutorial Schools"	Qiaoxi Tutorial School, Chang'an Tutorial School, Donggang Tutorial School, Zhicheng Tutorial School, High-tech Zone Tutorial School and Huixuan Tutorial School
"school sponsor"	the individual(s) or entity(ies) that funds or holds interests in an educational institution
"School Sponsors' and Directors' Rights Entrustment Agreements"	the school sponsors' and directors' rights entrustment agreements entered into among the PRC Operating Entities and the respective school sponsors and directors and Sheng Dao Xiang Cheng, as amended and/or supplemented from time to time
"School Sponsors' Powers of Attorney"	the school sponsor's power of attorney executed by each of the school sponsors, in favor of Sheng Dao Xiang Cheng, as amended and/or supplemented from time to time
"school year"	a school year for all our schools, which generally starts on 1 September of each calendar year and ends on 30 June of the next calendar year
"Share(s)"	ordinary share(s) of HK$0.01 each in the share capital of the Company
"Shareholder(s)"	holder(s) of the Share(s)

"Shareholders' Power of Attorney"	the power of attorney executed by each of the equity holders of the relevant PRC Operating Entities in favor of Sheng Dao Xiang Cheng, as amended and/or supplemented from time to time
"Shareholders' Rights Entrustment Agreements"	the shareholders' rights entrustment agreements entered into among the relevant equity holders and Sheng Dao Xiang Cheng, as amended and/or supplemented from time to time
"Sheng Dao Xiang Cheng"	Sheng Dao Xiang Cheng Education and Technology Co., Ltd.* (河北晟道象成教育科技有限公司), a wholly-foreign owned enterprise established under the laws of PRC on 14 December 2016 and a wholly-owned subsidiary of the Company
"Shijiazhuang Institute of Technology"	Shijiazhuang Institute of Technology* (石家莊理工職業學院), a junior college established under the laws of the PRC on 1 July 2003 (whose school sponsors' interest was wholly-owned by Zerui Education as of the date of this annual report) and one of the PRC Operating Entities
"Shijiazhuang Saintach"	Shijiazhuang Saintach Education and Technology Co., Ltd.* (石家莊新天際教育科技有限公司), a limited liability company established under the laws of the PRC on 13 July 2011 and wholly-owned by Zerui Education as of the date of this annual report, and one of our PRC Operating Entities
"Shinedao Tutorial School(s)"	Shaoxing Shangyu Shinedao Education Tutorial School* (紹興市上虞區學鼎教育培訓學校) , Zhoushan Dinghai Shinedao Education Tutorial School* (舟山市定海區學鼎教育培訓學校), Yuyao Xueneng Tutorial School Limited* (余姚學能培訓學校有限公司), Yuyao Xuedao Education Tutorial School Limited* (余姚學道教育培訓學校有限公司) and Jiashan County Shinedao Education Tutorial School Limited* (嘉善縣學鼎培訓學校有限公司), which are the PRC Operating Entities
"Spouse Undertakings"	the spouse undertakings executed by the spouse of Mr. Li Yunong and the spouse of Ms. Luo Xinlan dated 17 October 2017, respectively
"Sifang College"	Sifang College of Shijiazhuang Tiedao University (石家莊鐵道大學四方學院)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Structured Contracts"	collectively, the Business Cooperation Agreement, the Exclusive Service Agreement, the Exclusive Call Option Agreements, the Equity Pledge Agreements, the School Sponsors' and Directors' Rights Entrustment Agreement, the School Sponsors' Powers of Attorney, the Directors' Powers of Attorney, the Shareholders' Power of Attorney, the Shareholders' Rights Entrustment Agreement and the Spouse Undertakings, as amended and/or supplemented from time to time

"Tutoring Hour(s)"	the unit for measuring tutoring time delivered to students, typically representing a duration of 60 minutes for secondary school students and 40 minutes for primary school students
"Xin Tian Di Xian"	Beijing Xin Tian Di Xian Information and Technology Co., Ltd.* (北京新天地綫信息技術有限公司), a limited liability company established in the PRC on 6 March 2015 and wholly-owned by Zerui Education as of the date of this annual report, and one of our PRC Operating Entities
"Zerui Education"	Hebei Zerui Education Technology Co., Ltd.* (河北澤瑞教育科技有限責任公司), a limited liability company established under the laws of the PRC on 12 July 2017, which was owned as to 80.625% by Mr. Li Yunong and 19.375% by Ms. Luo Xinlan as of the date of this annual report, and one of our PRC Operating Entities
"Zhejiang Peijian"	Zhejiang Peijian Technology Co., Ltd.* (浙江培尖科技有限公司), a limited liability company established under the laws of the PRC on 29 December 2017 and controlled by Zerui Education as to 51% as of the date of this annual report, and one of our PRC Operating Entities
"%"	per cent.

Certain amounts and percentage figures included herein have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

If there is any inconsistency between the Chinese names of entities or enterprises established in the PRC and their English translations marked with "*", the Chinese names shall prevail.

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