China Kepei Education Group Limited
中國科培教育集團有限公司

(Incorporated in the Cayman Islands with limited liability)
（於開曼群島註冊成立的有限公司）

Stock Code 股份代號: 1890

2019
ANNUAL REPORT
年度報告

Contents

Company Profile

China Kepei Education Group Limited (the "Company"), together with its subsidiaries (collectively refers to as the "Group", "we", "our" or "us"), is a leading provider of private higher education in China focusing on profession-oriented education. As of the 2019/2020 school year**, we had an aggregate of 57,924 students enrolled at the schools we operated, namely, Guangdong Polytechnic College and Zhaoqing Science and Technology Secondary Vocational School* (肇慶市科技中等職業學校) ("Zhaoqing School") (collectively, the "PRC Schools"), both of which are located in Zhaoqing City, Guangdong Province.

We are committed to providing students with high-quality profession-oriented education and help them meet the growing and changing market demand. We focus on engineering majors in order to better capture local employment demands, balanced with economics, management, education and art majors to offer well-rounded education services. We endeavor to provide students with various profession-oriented training and internship opportunities in collaboration with research institutions and enterprises, through which we foster practical skills and market competitiveness of our students. We have also built our reputation on the high initial employment rate of our graduates. For the 2018/2019 school year, Guangdong Polytechnic College had 3,196 graduates from its undergraduate programs, achieving a provincial leading initial employment rate of 97.8%.

Through over 19 years of operating private higher education in China, we believe that we have established a strong reputation, which helps us attract high-quality students and teachers and pave the way for our success. We intend to maintain and strengthen our market position in the private higher education industry in China.

* denotes English translation of the name of a Chinese company or entity and is provided for identification purpose only

** a school year generally starts from September 1 of each calendar year to August 31 of the following calendar year

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Ye Nianqiao *(Chairman and Chief Executive Officer)*
Dr. Zhang Xiangwei
Mr. Zha Donghui
Ms. Li Yan
Mr. Ye Xun

Non-executive Director

Mr. Wang Chuanwu

Independent Non-executive Directors

Dr. Xu Ming
Dr. Deng Feiqi
Dr. Li Xiaolu

AUDIT COMMITTEE

Dr. Xu Ming *(Chairman)*
Mr. Wang Chuanwu
Dr. Deng Feiqi

REMUNERATION COMMITTEE

Dr. Deng Feiqi *(Chairman)*
Mr. Zha Donghui
Dr. Li Xiaolu

NOMINATION COMMITTEE

Mr. Ye Nianqiao *(Chairman)*
Dr. Deng Feiqi
Dr. Li Xiaolu

JOINT COMPANY SECRETARIES

Ms. Li Yan
Ms. Leung Suet Wing

AUTHORIZED REPRESENTATIVES

Mr. Ye Nianqiao
Ms. Leung Suet Wing

REGISTERED OFFICE

Maples Corporate Services Limited
P.O. Box 309, Ugland House
Grand Cayman, KY1-1104
Cayman Islands

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

Qifu Road
Gaoyao District
Zhaoqing City
Guangdong Province
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

CAYMAN ISLANDS SHARE REGISTRAR AND TRANSFER OFFICE

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

Corporate Information

HONG KONG SHARE REGISTRAR

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

LEGAL ADVISORS

As to Hong Kong law:
Fangda Partners
26/F, One Exchange Square
8 Connaught Place
Central
Hong Kong

As to PRC law:
Jingtian & Gongcheng
34/F, Tower 3, China Central Place
77 Jianguo Road, Chaoyang District
Beijing
China

As to Cayman Islands law:
Maples and Calder (Hong Kong) LLP
53rd Floor, The Center
99 Queen's Road
Central
Hong Kong

COMPLIANCE ADVISOR

First Shanghai Capital Limited
19/F, Wing On House
71 Des Voeux Road Central
Hong Kong

AUDITOR

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

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited

INVESTOR RELATIONS

Mr. Zheng Chaoran
Investor Relations Director
Email: ir@kepeieducation.com

STOCK CODE

1890

COMPANY'S WEBSITE

www.chinakepeiedu.com

Financial Highlights

A summary of the key financial performance of the Group for the last five financial years, as extracted from the published audited financial statements, is set out below:

FIVE-YEAR COMPARISON OF KEY FINANCIAL FIGURES

Result of operation	For the year ended 31 December				
	2015	2016	2017	2018	**2019**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Revenue	256,097	349,887	455,382	575,451	**714,215**
Gross profit	163,864	235,272	306,229	389,515	**481,791**
Profit for the year	119,503	179,274	230,876	341,956	**456,274**
Core net profit (note 1)	119,503	179,274	240,434	345,412	**449,537**

Note 1: Core net profit was derived from the profit for the year after adjusting for the items which were not indicative of the Group's operating performance. Please refer to the section of "Financial Review" in this annual report for details of the reconciliation of the profit for the year to the core net profit of the Group.

Financial ratio	For the year ended 31 December				
	2015	2016	2017	2018	**2019**
Gross profit margin	64.0%	67.2%	67.2%	67.7%	**67.5%**
Net profit margin	46.7%	51.2%	50.7%	59.4%	**63.9%**
Adjusted net profit margin	46.7%	51.2%	52.8%	60.0%	**62.9%**

Assets, liabilities and equity	As at 31 December				
	2015	2016	2017	2018	**2019**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Non-current assets	728,342	895,312	1,163,411	1,603,428	**1,980,264**
Current assets	503,613	765,910	844,737	726,821	**1,442,854**
Current liabilities	335,525	493,383	509,762	793,715	**521,005**
Net current assets/(liabilities)	168,088	272,527	334,975	(66,894)	**921,849**
Total assets less current liabilities	896,430	1,167,839	1,498,386	1,536,534	**2,902,113**
Non-current liabilities	78,100	170,235	329,777	103,969	**112,200**
Total equity	818,330	997,604	1,168,609	1,432,565	**2,789,913**

Cash flows	For the year ended 31 December				
	2015	2016	2017	2018	**2019**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Net cash from operating activities	258,453	288,232	398,496	483,624	**538,975**

Chairman's Statement

Dear Shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of the Company, I am pleased to present the annual report of the Group for the year ended 31 December 2019.

The shares of the Company (the "Shares") were successfully listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 25 January 2019 (the "Listing"). Landing on the capital markets has brought the Company new opportunities for development. The Company's management will seize the opportunities to further enhance the influence of the Company's brand and further expand its school network with sustained profitability.

BUSINESS HIGHLIGHTS

The Group has achieved encouraging results performance for the year ended 31 December 2019. The students graduated from our undergraduate program achieved a provincial leading initial employment rate of 97.8%. The total student enrolment of the Group increased from 45,118 for the 2018/2019 school year to 57,924 for the 2019/2020 school year, including an increase of 3,846 students in the undergraduate program. The Group's revenue has increased from approximately RMB575.5 million for the year ended 31 December 2018 to RMB714.2 million for the year ended 31 December 2019 and the profit for the year increased from RMB342.0 million for the year ended 31 December 2018 to RMB456.3 million for the year ended 31 December 2019, representing an increase of 33.4% compared with the profits for the previous year.

The Board has resolved to recommend the payment of final dividend of HK$0.10 per Share for the year ended 31 December 2019.

PROSPECTS

The Group plans to further expand its school network and strengthen its market penetration and market share in the private higher education industry in the PRC through strategically identifying suitable acquisition targets. The Group has conducted nationwide research to look for suitable target schools. The Group will target the mergers and acquisitions of: (1) private regular undergraduate institutions; (2) independent colleges; and (3) high-quality private junior colleges which focus on applied science and target to cultivate applied talents. In addition, in order to meet the strong organic growth in the undergraduate program and adult college program, the Group will increase the capacity of its schools by expanding its new and existing school campus.

To cultivate high-quality profession-oriented talent with practical skills, the Group plans to further expand and enrich our school-enterprise collaboration programs and recruit more prominent teachers with "double qualification"（雙師型）. The Group aims to establish collaboration programs with more industry-leading enterprises and strengthen its relationships with existing cooperation partners, focusing on collaborative formulation of class plan and course content, customized training majors and courses at its schools and the provision of internship opportunities to its students.

Furthermore, the Group plans to raise tuition fees and boarding fees as necessary and appropriate to reflect its increased operating costs and the adjustment of its major and curriculum offering. The Group believes its leading position and established reputation enable it to further increase its tuition fees while maintaining competitiveness in student admission.

APPRECIATION

On behalf of the Board, I would like to thank all our shareholders for their continued trust and confidence. I would also like to extend our sincere gratitude to the management and the entire staff for carrying out the Group's strategies with outstanding professionalism, integrity and dedication. The Group will strive to continue to expedite the development of our business and focus on maximizing returns to our shareholders.

Ye Nianqiao
Chairman
Hong Kong, 27 March 2020

Management Discussion and Analysis

MARKET OVERVIEW

The private higher education market experienced rapid growth, and entered the phase of regulated development when relevant authorities made great efforts in completing the regulatory framework for private higher education. Private higher education institutions in China can be divided into three categories: (i) private regular undergraduate institutions (民辦普通本科院校); (ii) independent colleges (獨立學院); and (iii) private junior colleges (民辦普通專科院校). Private higher education institutions are distinct from public institutions of higher education mainly in that public institutions of higher education are generally operated by the PRC national or local governments and their major source of funding is PRC public expenditure on education.

According to the recent market research report, China's private higher education industry has been developing rapidly due to increasing market demand and government support. The total revenue of private higher education industry in China increased from RMB82.9 billion to RMB118.0 billion from 2014 to 2018, representing a compound annual growth rate ("CAGR") of 9.2%. It is expected that it will further increase to RMB163.7 billion in 2023, representing a CAGR of 6.8% from 2018 to 2023. Besides, the number of students enrolled in China's private higher education market increased from 5.9 million to 6.5 million from 2014 to 2018, representing a CAGR of 2.6%. It is expected that it will further increase to 6.7 million in 2023, representing a CAGR of 0.5% from 2018 to 2023. The penetration rate of private higher education in China has increased from 21.1% in 2013 to 22.8% in 2017, which has indicated that more students have chosen to go to private higher education institutions instead of public ones, and this trend is likely to continue as the penetration rate is expected to reach 24.6% in 2022.

BUSINESS OVERVIEW

The Group is a leading provider of private higher education in South China focusing on profession-oriented education. As of the 2019/2020 school year, the Group had an aggregate of 57,924 students enrolled at the PRC Schools we operated.

Market Position

With over 19 years' experience in operating higher education institutions in China, the Group is a leading provider of private higher education services in South China in terms of student enrollment. According to recent market research, Guangdong Polytechnic College ranked first among the private higher education institutions (excluding independent colleges) in South China in terms of the number of newly admitted students and student enrollment. Zhaoqing School ranked first in terms of student enrollment among the private specialized secondary schools in Guangdong Province.

The Group is committed to providing students with high-quality profession-oriented education and helping them meet the growing and changing market demand. It focuses on engineering majors in order to better capture local employment demands, balanced with economics, management, education and art majors to offer well-rounded education services. It endeavors to provide students with various profession-oriented training and internship opportunities in collaboration with research institutions and enterprises, through which it fosters practical skills and market competitiveness of its students.

The PRC Schools

Guangdong Polytechnic College: A degree-granting undergraduate-level education institution established in 2005 which offers undergraduate, junior college and adult education programs. For the 2019/2020 school year, it has a total of 50,315 students enrolled, consisting of 23,823 undergraduate students, 6,833 junior college students and 19,659 adult college students. It offers 41 majors, consisting of 29 undergraduate majors and 20 junior college majors, in a wide range of subject areas. Its core majors include standardisation management, electrical engineering and automation, electronic information engineering and mechanical design; and

Zhaoqing School: A secondary vocational school established in 2000 which provides secondary vocational education in 12 majors, including automobile servicing, electronic commerce, and electromechanical technology application. For the 2019/2020 school year, it has a total of 7,609 students enrolled.

Revenue

For the year ended 31 December 2019, the Group experienced revenue growth at its schools, which was in line with the expansion of its business and student enrollment. Revenue increased from RMB575.5 million for the year ended 31 December 2018 to RMB714.2 million for the year ended 31 December 2019. The Group typically charges students fees comprising tuition fees, boarding fees and other education service fees and tuition fees remained the major revenue, accounted for approximately 91.8% of the total revenue of the Group for the year ended 31 December 2019.

The table below summarises the amount of revenue generated from tuition fees, boarding fees and other education service fees charged by the PRC Schools for the periods indicated:

	Year ended 31 December 2019 RMB'000	Year ended 31 December 2018 RMB'000	**Change** RMB'000	**Percentage Change** (%)
Tuition fees				
Undergraduate program	**448,978**	330,520	118,458	35.8
Junior college program	**113,364**	116,299	(2,935)	(2.5)
Adult college program	**42,113**	27,480	14,633	53.2
Upgrade of junior college students to undergraduate students	**4,242**	5,283	(1,041)	(19.7)
Secondary vocational education	**46,869**	41,532	5,337	12.9
Total tuition fees	**655,566**	521,114	134,452	25.8
Boarding fees	**52,412**	44,191	8,221	18.6
Other education service fees	**6,237**	10,146	(3,909)	(38.5)
Total	**714,215**	575,451	138,764	24.1

The increase of the total revenue of the Group for the year ended 31 December 2019 was mainly due to the increase of the Group's student enrollment and average tuition fee.

The following table sets out the tuition fee information for the PRC Schools for the school years indicated:

	Tuition Fees/ School Year		Boarding Fees/ School Year	
	2019/2020	2018/2019	**2019/2020**	2018/2019
School	**RMB**	RMB	**RMB**	RMB
Guangdong Polytechnic College				
— Undergraduate program	**23,800**	21,800–22,800	**1,800–2,000**	1,600
— Junior college program	**17,800**	15,800–18,800	**1,800–2,000**	1,600
— On-campus adult college program	**5,900–13,300**	5,900–10,700	**1,600**	1,600
— Off-campus adult college program	**680–980**	680–980	**N/A**	N/A
Zhaoqing School				
— Secondary vocational education	**7,200–11,100**	6,100–9,300	**1,170–1,570**	1,170–1,570

Notes:

(1) Tuition fees and boarding fees shown above for both of the PRC Schools only apply to newly enrolled students in the relevant school years.

(2) The tuition fees range excluded the "2+2" undergraduate program and junior college program offered by Guangdong Polytechnic College, which was generally charged higher than the ordinary program.

Student enrollment

The following table sets out information relating to the student enrollment for the PRC Schools for the school years indicated:

	Numbers of Students Enrolled/School Year		Change	Percentage Change
	2019/2020	2018/2019		(%)
School				
Guangdong Polytechnic College				
Undergraduate program	**23,823**	19,977	3,846	19.3
Junior college program	**6,833**	7,610	(777)	(10.2)
On-campus adult college program	**4,783**	1,951	2,832	145.2
Off-campus adult college program	**14,876**	7,322	7,554	103.2
Subtotal	**50,315**	36,860	13,455	36.5
Zhaoqing School				
Secondary vocational program	**7,609**	8,258	(649)	(7.9)
Total	**57,924**	45,118	12,806	28.4

The student enrollment information was based on the records of the relevant school year starting in September. For the 2019/2020 school year, the total number of enrolled students of the Group was 57,924, increased by 28.4% from the 2018/2019 school year.

School Utilisation

School utilisation rate is calculated by boarding student enrollment for a particular school year divided by school capacity for such school year. The capacity for student enrollment at the PRC Schools is calculated by the number of beds available in student dormitories.

	School Capacity/ School Year		School Utilisation Rate/ School Year	
	2019/2020	2018/2019	**2019/2020**	2018/2019
Guangdong Polytechnic College	**29,148**	29,148	**91.1%**	90.8%
Zhaoqing School	**7,288**	6,829	**92.7%**	86.0%
Total	**36,436**	35,977	**91.4%**	89.9%

Risk Management

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

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

Interest Rate Risk

The Group's exposure to the risk of changes in market interest rates relates primarily to its bank loans with floating interest rates.

It is the Group's policy to keep certain borrowings at fixed rates of interest so as to minimise the interest rate risk. The Group currently does not use any derivative contracts to hedge its exposure to interest rate risk. However, the Board will consider hedging significant interest rate risk should the need arise.

Liquidity Risk

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

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

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

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

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

Health and Safety

The Group is dedicated to protecting the health and safety of the students. The Group has on-site medical staff or healthcare personnel at each of the PRC Schools to handle routine medical situations involving students. In certain serious and emergency medical situations, the Group promptly sends the students to local hospitals for treatment. With respect to school safety, the Group engaged a qualified property management company to provide property security services at the Group's school premises.

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

Inclusion as a constituent stock of the index series by Hang Seng Indexes Company Limited

On 16 August 2019, the Company has been selected as a constituent stock of the index series by the Hang Seng Indexes Company Limited, which include Hang Seng Composite Index, Hang Seng Consumer Goods & Services Index, Hang Seng Stock Connect Hong Kong Index, Hang Seng Stock Connect Hong Kong MidCap & SmallCap Index, Hang Seng Stock Connect Hong Kong SmallCap Index, Hang Seng SCHK Mainland China Companies Index and Hang Seng SCHK ex-AH Companies Index, with effect from 9 September 2019. Please refer to the announcement of the Company dated 16 August 2019 for more details.

The Board is of the view that the Company's inclusion in the market benchmark index represents capital market's recognition of the Company, and is expected to expand its shareholder base and increase trading liquidity of the shares of the Company (the "Shares"), resulting in enhanced value of investment and reputation of the Company in the capital market.

Future Plans

In strengthening the Group's position as a leading provider of private higher education focusing on profession-oriented education, it plans to pursue the following business strategies:

(i) Expand the Group's school network through strategic mergers and acquisitions

The Group will target at the mergers and acquisitions of: (1) private regular undergraduate institutions; (2) independent colleges; and (3) high-quality private junior colleges which focus on applied science and target to cultivate applied talents. The Group will continue to look for potential target for mergers and acquisitions.

In terms of geographical coverage, the Group will explore expansion opportunities in South China and Southwest China, where there is also a relative scarcity of higher education resources, as well as other areas in China with market potential. The Group plans to use proceeds from the Listing on 25 January 2019 (the "Listing Date"), supplemented by the Group's working capital, to fund its potential mergers and acquisitions plans.

The management team of the Group will leverage its extensive experience to further increase competitiveness in student admission and graduate employment, and thus receive higher fees and achieve growth. The Group aims to enhance education quality by transplanting its profession-oriented teaching method and market-oriented major and curriculum offering to the acquired schools. With respect to graduate employment, the Group plans to share its employment information and resources as well as extensive school-enterprise relationships with newly acquired schools. The Group will also implement centralised management over its entire school network, optimise pricing strategy and lower the operating costs of newly acquired schools.

(ii) Increase the capacity of the PRC Schools

The third phase of the construction of the new Dinghu campus of Guangdong Polytechnic College is expected to be completed in the second half of 2020, and will further expand the capacity of Guangdong Polytechnic College by around 3,000 students. Besides the new Dinghu campus, the Group plans to further upgrade the Gaoyao campus of Guangdong Polytechnic College, with the focus on the expansion and upgrade of the dormitories and supporting facilities. The construction of the dormitories with a capacity of approximately 7,000 students is expected to be completed in the second half of 2021. The Group plans to use proceeds from the Listing, supplemented by the Group's working capital, to fund such expansion and upgrade.

(iii) Further expand service offering and diversify revenue sources

a. Optimise tuition fees and boarding fees

The Group will raise tuition fees and boarding fees for the 2020/2021 school year to reflect its increased operating costs and the adjustment of its major and curriculum offering. The Group believes its leading position and established reputation enable it to further increase its tuition fees while maintaining competitiveness in student admission.

b. Expand service offering

Guangdong Polytechnic College has provided top-up degree program (專升本項目) starting from 2019/2020 school year and the Group expects that it will enroll more students through this program in 2020/2021 school year due to the expansion plan formulated by the Ministry of Education. In addition, the Group plans to further expand the adult college program by cooperating with more partner education institutions to accommodate various needs of adult college students who might be in the workforce. Furthermore, the Group will expand the course offering of the Qualification Examination Center for Guangdong Polytechnic College to improve their students' market competitiveness. It encourages all of its students to obtain at least one occupational qualification upon graduation.

USE OF PROCEEDS FROM THE LISTING

The Company issued 354,132,000 new Shares (after exercising the over-allotment option in February 2019) with par value of USD0.00001 at the issue price of HK$2.48 per Share in connection with the Listing. The net proceeds after deducting underwriting commission and issuing expenses incurred from the Listing were approximately HK$792.3 million (equivalent to approximately RMB686.8 million).

From the Listing Date to the date of this annual report, the Group has not utilized any of the net proceeds from the Listing. The following sets forth a summary of the utilisation of the net proceeds:

Purpose	Percentage to total amount	Net proceeds RMB (million)	Utilised amount (at 31 December 2019) RMB (million)	Unutilised amount (at 31 December 2019) RMB (million)	Expected timeline for utilizing the unutilized net proceeds[1]
Acquire additional schools	44.9%	308.4	–	308.4	2020
Expand the existing schools owned or operated by the Group	37.6%	258.2	–	258.2	2020
Repay loans from third-party financial institutions	7.5%	51.5	–	51.5	2020
Fund the working capital and general corporate purposes	10.0%	68.7	–	68.7	2020 to 2021
Total	100.0%	686.8	–	686.8	

Note:

(1) The expected timeline for utilizing the remaining proceeds is based on the best estimation of the future market conditions made by the Group. It will be subject to change based on the current and future development of market conditions.

FINANCIAL REVIEW

Revenue

Revenue represents the value of services rendered during the Reporting Period. The Group derives revenue from tuition fees and boarding fees its schools collect from students.

Revenue increased by RMB138.7 million, or 24.1%, from RMB575.5 million for the year ended 31 December 2018 to RMB714.2 million for the year ended 31 December 2019. This increase was primarily the result of: (i) revenue from tuition fees increasing by RMB134.5 million, or 25.8%, from RMB521.1 million for the year ended 31 December 2018 to RMB655.6 million for the year ended 31 December 2019; and (ii) revenue from boarding fees increasing by RMB8.2 million, or 18.6%, from RMB44.2 million for the year ended 31 December 2018 to RMB52.4 million for the year ended 31 December 2019. The tuition fees increased mainly because: (i) the number of undergraduate students and adult college program of Guangdong Polytechnic College increased; and (ii) the Group raised tuition fees for programs of the PRC Schools for the 2019/2020 school year. The boarding fees increased as a result of the expansion of the student enrollment.

Cost of Sales

Cost of sales consists primarily of staff costs, depreciation and amortisation, utilities, teaching supplies, cost of cooperative education, student study and practice fees, office expenses, training expenses, student subsidies, travel and transportation expenses, cost of repairs, property management fees and others.

Cost of sales increased by RMB46.5 million, or 25.0%, from RMB185.9 million for the year ended 31 December 2018 to RMB232.4 million for the year ended 31 December 2019. This increase was primarily the result of an increase in staff costs, depreciation and amortisation. Staff costs increased by RMB24.2 million, or 30.6%, from RMB79.0 million for the year ended 31 December 2018 to RMB103.2 million for the year ended 31 December 2019, primarily as a result of the increase in the number of teachers and increased salaries and benefits payable to the Group's teachers.

Gross Profit and Gross Profit Margin

Gross profit increased by RMB92.3 million, or 23.7% from RMB389.5 million for the year ended 31 December 2018 to RMB481.8 million for the year ended 31 December 2019, which was in line with the growth of the Group's business. Gross profit margin remained relatively stable for the year ended 31 December 2019 compared to the year ended 31 December 2018.

Other Income and Gains

Other income and gains primarily consist of interest income from bank deposits, foreign exchange gain, rental income from lease of campus properties and venues to independent third parties, and gains relating to change in fair value of financial assets at fair value through profit or loss and the convertible bond which was issued in April 2018 (the "Convertible Bond"). Other income and gains increased significantly by RMB23.0 million, or 39.7%, from RMB58.0 million for the year ended 31 December 2018 to RMB81.0 million for the year ended 31 December 2019. This increase was primarily due to: (i) an increase of RMB25.0 million in the fair value gains in the Convertible Bond and financial assets at fair value through profit or loss for the year ended 31 December 2019; (ii) an increase in bank interest income of RMB17.1 million, from RMB4.6 million for the year ended 31 December 2018 to RMB21.7 million for the year ended 31 December 2019 as a result of the increase in bank balance from the IPO proceeds and issuance of the Convertible Bond; and (iii) a decrease in exchange gain of RMB15.8 million from RMB26.4 million for the year ended 31 December 2018 to RMB10.6 million for the year ended 31 December 2019 resulting from the decreased depreciation of Renminbi ("RMB") against U.S. dollar ("USD") in relation to the Group's deposits denominated in USD.

Selling and Distribution Expenses

Selling and distribution expenses primarily consist of advertising expenses, student admission expenses and business entertainment expenses. Selling and distribution expenses increased by RMB9.8 million, or 67.6%, from RMB14.5 million for the year ended 31 December 2018 to RMB24.3 million for the year ended 31 December 2019, due to the increase in advertising and student recruitment expenses after the establishment of Guangdong Polytechnic College Dinghu campus as well as for the increase in new student enrollment of Zhaoqing School in the 2019/2020 school year.

Administrative Expenses

Administrative expenses primarily consist of the administrative staff salaries, office-related expenses, depreciation of office buildings and equipment, travel expenses, expenses related to the issuance of Shares and other expenses. The administrative expenses remain stable for the year ended 31 December 2019 compared to that of the year ended 31 December 2018.

Other Expenses

Other expenses primarily consist of expenses relating to disposal of fixed assets and other costs. Other expenses decreased significantly from RMB4.6 million for the year ended 31 December 2018 to RMB0.8 million for the year ended 31 December 2019. This decrease was primarily due to a loss in fair value of the Convertible Bond of RMB2.7 million recognized during the year ended 31 December 2018.

Finance Costs

Finance costs primarily consist of the interest expenses for the bank loans, lease liabilities and the Convertible Bond. Due to the decreased average bank loans during the Reporting Period and conversion of the Convertible Bond on the Listing Date, the total interest of the Group decreased by RMB7.1 million compared to that of the year ended 31 December 2018.

Core Net Profit

Core net profit was derived from the profit for the year after adjusting the expenses related to the issuance of Shares, change in fair value of the Convertible Bond and the foreign exchange gain, which are not indicatives of the Group's operating performance. This is not a Hong Kong Financial Reporting Standards ("HKFRSs") measure. The Group presents this item because the Group considers it an important supplemental measure of the Group's operational performance used by the Group's management as well as analysts or investors. The following table reconciles from profit for the year to core net profit for both financial years:

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Profit for the year	**456,274**	341,956
Add:		
Expenses related to the issuance of shares	**17,840**	27,203
Change in fair value of the Convertible Bond	**—**	2,700
Less:		
Change in fair value of the Convertible Bond	**13,941**	—
Foreign exchange gain	**10,636**	26,447
Core net profit	**449,537**	345,412

Core net profit increased by RMB104.1 million, or 30.1%, from RMB345.4 million for the year ended 31 December 2018 to RMB449.5 million for the year ended 31 December 2019.

Capital Expenditure

Capital expenditures during the Reporting Period primarily related to the establishment of new school premises, maintaining and upgrading existing school premises and purchasing additional educational facilities and equipment for the PRC Schools. For the year ended 31 December 2019, the Group's capital expenditures were RMB215.0 million.

FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

(a) Unlisted wealth management products

During the Reporting Period, the Group entered into certain structured deposit and wealth management products (collectively referred to as "wealth management products") which were all principal-guaranteed as part of its treasury management. Details of the wealth management products as at 31 December 2019 are as follows:

Bank	Name of products	Currency	Principal amount RMB'000	Term	Maturity date	Expected yield rate	Principal – guaranteed
Shanghai Pudong Development Bank Co., Ltd. (上海浦東發展銀行股份有限公司)	Structured deposit (note 1)	RMB	151,000	30 days	23 January 2020	3.50%–3.60%	Yes
Guangdong Gaoyao Rural Commercial Bank Co., Ltd. (廣東高要農村商業銀行股份有限公司)	Jin Yao Lan – Gao Ying "金搖籃 – 高盈" (note 2)	RMB	40,000	104 days	7 January 2020	2.70%	Yes
Guangdong Gaoyao Rural Commercial Bank Co., Ltd. (廣東高要農村商業銀行股份有限公司)	Jin Yao Lan – Gao Ying "金搖籃 – 高盈" (note 2)	RMB	80,000	104 days	7 January 2020	2.70%	Yes

Note 1: The product is structured deposit of which the return was determined by reference to the performance of the products includes government debt instruments, treasury notes, corporate bonds and etc.

Note 2: Investment portfolio of the products includes government debt instruments, treasury notes, corporate bonds and etc.

The Group has adopted a prudent financial management approach towards its treasury policy and maintained a healthy financial position throughout the Reporting Period. To better utilize surplus cash generated from our operating and financing activities, we have engaged in treasury management activities by investing in wealth management products issued by various PRC financial institutions. All the short-term investments must possess a proper tenor to match the funding needs of our operating and investing activities, with a view to strike a balance among the three major factors, namely whether it is principal guaranteed, its liquidity and yield rate.

The wealth management products have been accounted for financial assets at fair value through profit or loss under the relevant accounting treatment. In the opinion of the Directors, the fair value of the wealth management products at 31 December 2019 approximated their principal amounts, and the fair value of the embedded derivatives is insignificant.

(b) Unlisted Investment

The unlisted investment of the Group as at 31 December 2019 included an investment in a fund (the "Product") issued by a fund company incorporated in the Cayman Islands with the fair value amount of RMB50,136,000. The investment cost of the Product was USD6,500,000. There was no given yield rate for the Product. The return on the Product is not guaranteed, and hence its contractual cash flows do not qualify for solely payments of principal and interest. Therefore, it was classified as a financial asset at fair value through profit or loss under the relevant accounting treatment. The fair value gain of the unlisted investment of the Group for the year ended 31 December 2019 amounted to RMB6,363,000.

The principal investment objective of the Product is to achieve consistent absolute returns by investing primarily in the bonds, commodities and equities listed in the U.S., Hong Kong, the PRC and Taiwan, as well as other foreign currencies, cash and other derivatives. With reference to the investment objective of the Product and the extensive experience and skills of the directors and the manager of the fund, the Board believes the subscription of the Product will enable the Group to capture investment opportunities and further maximize its long-term investment return.

Liquidity and Financial Resources

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Net cash flows from operating activities	**538,975**	483,624
Net cash flows used in investing activities	**(413,883)**	(514,093)
Net cash flows from financing activities	**543,100**	67,885
Net increase in cash and cash equivalents	**668,192**	37,416
Cash and cash equivalents at beginning of year	**432,921**	369,058
Effect of foreign exchange rate changes, net	**10,636**	26,447
Cash and cash equivalents at end of year	**1,111,749**	432,921

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Interest-bearing bank loans	**100,000**	110,000

Analysis of the maturity profile of the interest-bearing bank loans of the Group as at 31 December 2019 and 2018 is set out in the note 23 to the consolidated financial statements. The Group had adequate liquidity to meet its daily management and capital expenditure requirements and control internal operating cash flows.

Capital Structure

The Group's financial department is responsible for the Group's financial risk management which operates according to policies implemented and approved by the senior management. As at 31 December 2019, all the interest-bearing bank loans were settled in RMB, while cash and cash equivalents were primarily held in RMB, Hong Kong dollar ("HKD") and USD. The Group plans to maintain an appropriate mix of financial equity and debt to ensure an efficient capital structure. The outstanding balances of interest-bearing bank loans as at 31 December 2019 were at fixed interest rate for loans denominated in RMB.

Significant Investments, Acquisitions and Disposals

There were no significant investments held as at 31 December 2019, nor other material acquisitions and disposals of subsidiaries and associated companies.

Gearing Ratio

The gearing ratio of the Group, which was calculated as total interest-bearing bank loans divided by total equity as at the end of the relevant financial year, decreased from approximately 7.7% as at 31 December 2018 to approximately 3.6% as at 31 December 2019, primarily due to the increase in the Group's total equity resulting from the Listing.

Foreign Exchange Risk Management

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

Contingent Liabilities

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

Pledge of Assets

As at 31 December 2019, the Group did not pledge any of its assets to secure general banking facilities or other source of funding.

Human Resources

As at 31 December 2019, the Group had 2,289 employees (as at 31 December 2018: 2,089 employees).

The remuneration policy and package of the Group's employees are periodically reviewed in accordance with industry practice and result performance of the Group. The Group provides external and internal training programs to its employees. The Group participates in various employee social security plans for its employees that are administered by local governments, including housing, pension, medical insurance, occupational injury insurance, maternity insurance and unemployment insurance.

The total remuneration cost incurred by the Group for the year ended 31 December 2019 was RMB126.7 million (as at 31 December 2018: RMB101.6 million).

RECENT DEVELOPMENTS OF REGULATORY FRAMEWORK

(I) Classification Registration

According to the Several Opinions of the State Council on Encouraging Social Power to Set up Education to Promote the Healthy Development of Private Education (29 December 2016), a classification registration and management system shall be applicable to private schools, and private school sponsors can choose to run non-profit or for-profit private schools. The revised Laws for Promoting Private Education of the PRC (implemented on 1 September 2017) also promulgated the same provisions.

According to the Implemental Rules on Private School Registration (30 December 2016), if an existing private school chooses to register as a non-profit private school, it should modify its article of association, continue to run the school and complete new registration procedures in accordance with relevant laws. If it chooses to register as a for-profit private school, it should conduct financial settlement, clarify the ownership of the schools' land, buildings and accumulations with the consent of the relevant departments of the people's governments at or below the provincial level, pay relevant taxes and fees, obtain new school permits, carry out their re-registration and continue their school operation.

In order to further implement the above requirements, on 4 May 2018, the government and relevant competent departments in Guangdong Province where the Group operates its schools issued supporting measures of Implementation Opinions issued by the People's Government of Guangdong Province on Supporting Social Forces to Set up Education to Promote the Healthy Development of Private Education. The above local regulation provides a framework procedure for the classification and registration of existing private schools as for-profit private schools or non-profit private schools, but do not further specify the process of classification and registration, for example, (1) the specific procedures for a school to be registered as a for-profit or non-profit school, and (2) the various preferential taxes and land policies that can be enjoyed by for-profit and non-profit schools.

As of the date of this annual report, the Company has not commenced the process of classification and registration for schools under the Group. Since there are certain uncertainties in the interpretation and application of the above requirements, the uncertainties are in respect of when the private schools under the Group can complete the classification registration, whether the relevant taxes and fees will need to be paid in accordance with local supporting rules in the process of classification registration in the future, and what supporting policies provided by government regarding tax and land they will enjoy.

(II) The MOJ Draft for Comments

On 10 August 2018, the Ministry of Justice issued the Regulations for the Implementation of the Law on the Promotion of Private Education of the People's Republic of China (Revised Draft) (the Draft for Examination and Approval) (the "MOJ Draft for Comments") to solicit public opinions.

If the MOJ Draft for Comments is implemented in its current form, and our school management model is considered as centralized school management model or if our Structured Contracts (as defined in the prospectus of the Company dated 15 January 2019 (the "Prospectus")) are considered as "contractual arrangements" under Clause 12 of the MOJ Draft for Comments, we may need to register our schools as for-profit private schools. In addition, as we can no longer acquire or control non-profit private schools by means of franchising or contractual agreements, our acquisition scope may be limited, this provision may have an impact on our expansion strategy. In addition, our Structured Contracts may be treated as connected transactions.

However, the MOJ has not provided the timeframe for the promulgation of the revised implementation rules on the Law for Promoting Private Education of the PRC, even though the public consultation on the MOJ Draft for Comments has ended on 10 September 2018. There are still uncertainties as to whether the MOJ Draft for Comments will be adopted in its current form and how it will be interpreted and implemented. As of the date of this annual report, we were not able to quantify the impact of the laws or regulations related to the implementation of the Private Education Promotion Law of the PRC may have on our business, financial condition, results of operations and prospects.

As confirmed by our PRC legal advisors, the Company hereby informs its shareholders of the Company (the "Shareholders") and investors that no revised implementation rules on the Law for Promoting Private Education of the PRC have been promulgated or implemented in China. The Company will continue to follow up the development of the MOJ Draft for Comments and relevant laws and regulations.

(III) Foreign Investment Law

The Foreign Investment Law of the PRC (the “Foreign Investment Law”) approved by the National People’s Congress on 15 March 2019 has been implemented since 1 January 2020, and has become the basic law for foreign investment in China. According to the Foreign Investment Law, existing foreign-invested enterprises may maintain their existing organization structure within five years from the effective date of the Foreign Investment Law. On 26 December 2019, the State Council issued the Implementation Regulations of the Foreign Investment Law of the PRC (the “Implementation Regulations”), which also came into effect on 1 January 2020, aiming to implement the legislative principles and purposes of the Foreign Investment Law.

The Foreign Investment Law clearly specifies three forms of foreign investment, but neither the Foreign Investment Law nor the Implementing Regulations explicitly stipulate contractual agreements as a form of foreign investment. As confirmed by our PRC legal advisors, as the Foreign Investment Law and the Implementation Regulations do not define contractual agreements as a form of foreign investment, the Structured Contracts as a whole and the agreements constituting the Structured Contracts have not been affected, and will continue to be legally valid, effective and binding on the parties. However, if future laws, administrative regulations, and regulations of the State Council stipulate contractual agreements as one of the ways of foreign investment, the Group may need to take relevant measures in accordance with the requirements of the laws, regulations and regulations of the State Council at that time. There will be uncertainty as to whether we can complete these measures in a timely manner or at all. Failure to take appropriate measures in a timely manner to address any of the compliance requirements in the above provisions may have a significant effect on our current group structure, corporate governance and business operations.

As of the date of this annual report, the Company’s operations have not been affected by the Foreign Investment Law and the Implementation Regulations. The Board will continue to monitor any updates regarding the relevant laws regulating foreign investment and seek guidance from our PRC legal advisors to ensure that the Company complies with all relevant laws and regulations in China.

EVENTS AFTER THE REPORTING PERIOD

(a) On 10 January 2020, the Company entered into a strategic cooperation agreement with Shanghai Pudong Development Bank Co, Ltd. (Guangzhou Branch) (上海浦東發展銀行股份有限公司 (廣州分行)), pursuant to which Shanghai Pudong Development Bank Co, Ltd. (Guangzhou Branch) will provide various financial services, including but not limited to the granting of credit facility of RMB2,300,000,000, cash management services, clearing and settlement services, grant of syndicate credits, etc, to the Group.

(b) On 13 January 2020, the Company, Zhaoqing Kepei Education Investment Development Co., Ltd.* (肇慶市科培教育投資開發有限公司), Harbin Huarui Enterprise Co., Ltd.* (哈爾濱華瑞實業有限公司), Mr. Wang Fu, Mr. Xie Yongli and Harbin Institute of Petroleum* (哈爾濱石油學院) (the "Target School") entered into an equity transfer agreement, pursuant to which the Company will acquire the 100% sponsorship interest in the Target School and 100% equity interest in the new companies to be incorporated for the purpose of restructuring upon completion. For more details, please refer to the announcement of the Company dated 13 January 2020.

(c) Since the outbreak of novel coronavirus ("COVID-19"), the PRC government has implemented various emergency precaution measures to prevent the spread of the coronavirus, including but not limited to closure of schools and delays in classroom commencement during the outbreak period. As a result, certain new school campus construction projects in the PRC schools have been put on hold and delayed, other aspects of the operations of the Group such as staff recruitment, school open days and student internships etc. have also been interrupted.

In response to the outbreak, the Group has put in place a series of alternative action plans for students in both of the PRC Schools during the schools closure period, which include implementation of online modules and website distance learning activities, so as to ensure students can keep track of the school curriculum and prepare for the upcoming exams and assessments.

In view of the implementation of the above mentioned action plans, the management has conducted internal assessment and concluded that at this stage, there was no material adverse impact on the business operations and financial position of the Group subsequent to the year ended 31 December 2019 and up to the date of this annual report. The Group will continue to closely monitor the Group's exposure to the risks and uncertainties in connection with the COVID-19 and is committed to take imminent action to mitigate its negative impact on the Group, if any. In the event that there is any material adverse impact to the Group, the Company will publish further announcement to inform the Shareholders as and when appropriate.

* denotes English translation of the name of a Chinese company or entity and is provided for identification purpose only

Directors and Senior Management

DIRECTORS

Executive Directors

Mr. Ye Nianqiao (葉念喬), aged 56, is the founder of the Group. He has been an executive Director, the chairman of the Board and the general manager of the Company since its establishment in August 2017, and the chief executive officer of our Company since 26 November 2017. He is primarily responsible for the overall management, strategic planning, business development and cooperation of our Group. Mr. Ye has over 35 years of experience in the education industry.

From September 1984 to July 1992, he served as a teacher at No. 2 Middle School of Jiujiang County, Jiangxi Province (江西省九江縣第二中學) (which was renamed as No. 2 Middle School of Chaisang District, Jiujiang City, Jiangxi Province (江西省九江市柴桑區第二中學) in October 2017). From June 1992 to July 1995, he served as a teacher at Zhaoqing Gaoyao Normal School of Guangdong Province (廣東省肇慶市高要師範學校). From July 1995 to May 2000, Mr. Ye served as the chairman of the board of Zhaoqing Technology Training School (肇慶科技培訓學校). Mr. Ye founded Zhaoqing School (formerly known as Zhaoqing Technology School (肇慶科技學校)) and served as the chairman of its board from May 2000 to July 2010. Mr. Ye founded Guangdong Polytechnic College (formerly known as Zhaoqing Technology Vocational Technical College (肇慶科技職業技術學院)) and has been serving as the chairman of its board since May 2004. Since September 2016, he has also been the chairman of the board of Zhaoqing Kepei Education Investment Development Co., Ltd.* (肇慶市科培教育投資開發有限公司) ("Zhaoqing Kepei").

Mr. Ye obtained his bachelor's degree in Mathematics from Jiangxi Normal University (江西師範大學) in March 1987. He graduated with a master's degree in Business Management from Sun Yat-Sen University (中山大學) in December 2008. Mr. Ye is a member of the Standing Committee of Guangdong Province of the China Democratic League (中國民主同盟). He was also a committee member of the 11th Chinese People's Political Consultative Conference of Zhaoqing City (中國人民政治協商會議肇慶市第十一屆委員會).

Mr. Ye is the father of Mr. Ye Xun, one of the Directors, and the brother of Mr. Ye Nianjiu, one of the senior management of the Company.

Dr. Zhang Xiangwei (張湘偉), aged 69, has been an executive Director and the chief operating officer of the Company since 26 November 2017. He is primarily responsible for the daily management and overall operations of the Group. He has over 32 years of experience in the education industry.

From December 1987 to January 1997, Dr. Zhang successively held various positions at Chongqing University (重慶大學), including an associate professor of Mechanical Engineering, professor of Mechanical Engineering, head of the faculty of Mechanics, director of the Scientific Technology Research Office (科學技術研究處), vice principal and doctoral tutor. From February 1997 to May 2001, Dr. Zhang served as the principal at Shantou University (汕頭大學). From June 2001 to November 2010, Dr. Zhang served as the principal of Guangdong University of Technology (廣東工業大學). Dr. Zhang has held various positions at Guangdong Polytechnic College (formerly known as Zhaoqing Technology Vocational Technical College (肇慶科技職業技術學院)), including the acting dean from November 2010 to September 2013, a director since December 2011, the dean since September 2013 and the vice chairman of the board since September 2016.

Dr. Zhang obtained his doctor's degree in Engineering from the University of Tokyo in March 1987.

* denotes English translation of the name of a Chinese company or entity and is provided for identification purpose only

Mr. Zha Donghui (查東輝), aged 51, has been an executive Director and the deputy general manager of the Company since its establishment. He is primarily responsible for the designing, planning, development and construction of buildings and infrastructure of the Group. Mr. Zha has over 22 years of experience in the education industry.

From September 1996 to August 2001, Mr. Zha served as the vice principal of Zhaoqing Technology Training School (肇慶科技培訓學校). From September 2001 to August 2004, he served as the vice president of Zhaoqing School (formerly known as Zhaoqing Technology College (肇慶科技學校)). From June 2005 to September 2016, Mr. Zha was a director of Zhaoqing School. Since September 2004, Mr. Zha has been serving as a director and an associate dean of Guangdong Polytechnic College (formerly known as Zhaoqing Technology Vocational Technical College (肇慶科技職業技術學院)), and has been primarily responsible for management of infrastructure and equipment of Guangdong Polytechnic College.

Mr. Zha obtained his master's degree in Computer Science from Guangzhou University of Technology in June 2009.

Ms. Li Yan (李艷), aged 39, has been an executive Director and the deputy general manager of the Company since its establishment and the chief financial officer of the Company since 26 November 2017. She is primarily responsible for the financial management and budget of the Group. Ms. Li has over 14 years of experience in the education industry.

From September 2004 to May 2014, Ms. Li held various positions at Guangdong Polytechnic College (formerly known as Zhaoqing Technology Vocational Technical College (肇慶科技職業技術學院)), including an accounting teacher, the deputy head of the Department of Accounting, and the secretary to the Party General Branch (黨總支書記) of the Department of Accounting, and was mainly responsible for teaching activities, student management, student admission and graduate employment. Ms. Li has been appointed as the head of the Department of Accounting of Guangdong Polytechnic College since June 2014, a director of Guangdong Polytechnic College since November 2015, and a member of the College Party Committee (黨委委員) of Guangdong Polytechnic College since March 2017. Ms. Li has been appointed as a director and the financial manager of Zhaoqing Kepei since September 2016, and has been responsible for its financial management and budget.

Ms. Li obtained her master's degree in Accounting from Sun Yat-Sen University (中山大學) in June 2011 and obtained the qualification of associate professor of accounting issued by Human Resources and Social Security Department of Guangdong Province (廣東省人力資源和社會保障廳) in December 2014.

Mr. Ye Xun (葉潯), aged 30, has been an executive Director and the deputy general manager of the Company since its establishment. He is primarily responsible for the day-to-day procurement and logistic services and operations of the Group.

From September 2011 to July 2012, Mr. Ye Xun served as an assistant to the dean of Guangdong Polytechnic College (formerly known as Zhaoqing Technology Vocational Technical College (肇慶科技職業技術學院)). Since October 2016, he has been a director and the head of procurement and logistic services of Guangdong Polytechnic College.

Mr. Ye Xun obtained his master's degree in Business Administration from Northwestern Polytechnic University in April 2015.

Mr. Ye Xun is the son of Mr. Ye Nianqiao, one of the Directors.

Non-executive Director

Mr. Wang Chuanwu (王傳武), aged 73, has been a non-executive Director of the Company since its establishment in August 2017. He is primarily responsible for providing advice on our strategic development and risk management of the Group. Mr. Wang has over 33 years of experience in the education industry.

From February 1986 to July 1991, Mr. Wang served as the deputy principal and the principal of Zhaoqing No. 5 Middle School of Guangdong Province (廣東省肇慶市第五中學). From August 1991 to November 2000, he held various positions at the Education Bureau of Duanzhou District, Zhaoqing City (肇慶市端州區教育局), including the deputy director (副局長) from August 1991 to December 1997, the director (局長) from December 1997 to November 2000 and the secretary to the Party Group (黨組書記) from October 1998 to November 2000, and was primarily responsible for the education system of Duanzhou District. From December 2000 to August 2001, Mr. Wang served as a consultant of Zhaoqing Technology Training School (肇慶科技培訓學校). From September 2001 to August 2004, Mr. Wang served as a consultant of Zhaoqing School (formerly known as Zhaoqing Technology School (肇慶科技學校)). From September 2004 to September 2016, he served as a director and the vice chairman of the board of Guangdong Polytechnic College (formerly known as Zhaoqing Technology Vocational Technical College (肇慶科技職業技術學院)). Since September 2016, he has been serving as a consultant of Guangdong Polytechnic College.

Mr. Wang obtained his bachelor's degree in Politics Education from South China Normal University (華南師範大學) in July 1985.

Independent Non-executive Directors

Dr. Xu Ming (徐明), aged 48, has been an independent non-executive Director of the Company since 26 November 2017 and is primarily responsible for providing independent opinion and judgment to the Board. Dr. Xu has over 21 years of experience in business management.

From January 2002 to April 2010, Dr. Xu served as the manager of the finance department, the chief financial officer and a director of Chuancai Securities Brokerage Company Limited (川財證券經紀有限公司), and was responsible for the Company's operation and financial management. Mr. Xu Ming joined Chengdu Fangyu Industrial Investment Management Company Limited (成都方輿產業投資管理有限公司) in December 2011 and served as an executive director from November 2013 to September 2014, responsible for the operation and strategy development of the company. From August 2015 to November 2018, Dr. Xu served as an executive director and the chief executive officer of Virscend Education Company Limited, a company listed on the Stock Exchange (Stock Code: 1565). Since February 2016, Dr. Xu has been an external director of Sichuan Agricultural Credit Guarantee Company Limited (四川省農業信貸擔保有限公司).

Dr. Xu obtained his doctor's degree in Economics from Sichuan University in China in June 2009. In August 1997, Dr. Xu was qualified as a Certified Public Accountant by the Certified Public Accountants Committee of the Ministry of Finance of the PRC. In June 1998, he was qualified as a Certified Public Valuer by the Ministry of Finance of the PRC. In February 1999, he was qualified as a Certified Tax Adviser by the State Administration of Taxation of the PRC. In December 2003, he was qualified as a Senior Accountant by the Chengdu Competency Reform Working Group. He is also a member of the Second Session of Financial Accounting Committee of the Securities Association of China.

Dr. Deng Feiqi (鄧飛其), aged 58, has been an independent non-executive Director of the Company since 26 November 2017 and is primarily responsible for providing independent opinion and judgment to the Board.

From September 1991 to July 1995, Dr. Deng served as a secretary of foundation education division (基礎部教學秘書) at the Northeast Heavy Machinery Institute (東北重型機械學院). Dr. Deng has held various positions at South China University of Technology (華南理工大學), including a professor since May 2000 and a doctoral tutor since December 2000. From March 2000 to November 2000, he served as a research associate at the Chinese University of Hong Kong. From January 2008 to January 2013, he served as the dean of Industrial Technology Institute at South China University of Technology (華南理工大學工業研究總院).

Dr. Deng was a member of the Control Systems Simulation Committee of China Systems Simulation Federation (中國系統仿真學會控制系統仿真專業委員會委員) from June 1998 to May 2003. He was a member of the Guangdong Provincial Committee of the Chinese People's Political Consultative Conference Standing Committee (中國人民政治協商會議廣東省委員會常委) from January 2008 to January 2013. He was also a member of the Technical Committee on Control Theory (TCCT) under Chinese Association of Automation (中國自動化學會控制理論專業委員會委員) from January 2013 to December 2017.

Dr. Deng has been a member of the editorial committee of publications including Theory and Application of Control (控制理論與應用) since May 2008, Journal of Systems Engineering (系統工程學報) since August 2011, Systems and Controls (系統與控制縱橫) since January 2014 and Systems Engineering and Electronics (系統工程與電子技術) since April 2016. He has been the associate editor of IEEE Access since February 2018. Dr. Deng has published more than 300 papers in academic publications, including IEEE Transactions on Automatic Control, IEEE Transactions on Circuits and Systems as well as IEEE Transactions on Systems.

Dr. Deng obtained his bachelor's degree in Science from the Department of Applied Mathematics of Hunan University in July 1983. He obtained his doctor's degree in Engineering from the Department of Control Theory and Application of South China University of Technology in July 1997.

Dr. Li Xiaolu (李小魯), aged 67, has been an independent non-executive Director of the Company since 26 November 2017 and is primarily responsible for providing independent opinion and judgment to the Board.

From June 1992 to November 1994, he served as the director of the Office of Guangzhou Academy of Social Sciences (廣州市社會科學院辦公室). From November 1994 to November 1997, he served as the research director of the Office of Guangzhou Chinese People's Political Consultative Conference (廣州市政協辦公廳). From December 1997 to March 2012, he served as a deputy director at the Guangdong Provincial Department of Education (廣東省教育廳). Since March 2010, he has served as a professor at South China University of Technology (華南理工大學) and a doctoral tutor since July 2010.

Dr. Li assumes managerial roles in various associations involving education. Since November 2010, he has been the president of the Research Association for Ideological and Political Education of Higher Education in Guangdong Province (廣東省高等教育思想政治教育研究會). Since May 2012, he has been the president of the Moral Education Research Association of Primary and Secondary Schools in the Guangdong Province (廣東省中小學德育研究會). Since November 2013, he has been the president of the Guangdong Society of Technical and Vocational Education (廣東省職業技術教育學會). From June 2010 to June 2015, Dr. Li served as a deputy head member of the Ideological and Political Theories Teaching Steering Committee for "Situation and Policy" and "Contemporary World Economy and Politics" under the Ministry of Education (教育部高校思想政治理論課"形勢與政策"和"當代世界經濟與政治"分教學指導委員會副主任委員). Since June 2016, he has been the vice president of the Chinese Society of Vocational and Technical Education (中國職業技術教育學會).

Dr. Li obtained his master's degree in Philosophy from South China Normal University (華南師範大學) in July 1988. He obtained his doctor's degree in Philosophy from Sun Yat-Sen University (中山大學) in December 2004.

SENIOR MANAGEMENT

For the biographies of Mr. Ye Nianqiao (葉念喬), Dr. Zhang Xiangwei (張湘偉), Mr. Ye Xun (葉潯), Ms. Li Yan (李艷) and Mr. Zha Donghui (查東輝), please refer to "Directors and Senior Management — Directors" in this annual report.

Mr. Ye Nianjiu (葉念廄) (formerly known as Mr. Wang Ganwei (王贛偉)), aged 46, has been the chairman of the board of Zhaoqing School since July 2010, and the dean of Zhaoqing School since September 2016, a director of Guangdong Polytechnic College since June 2014, and a director of Zhaoqing Kepei since March 2000. He is primarily responsible for the day-to-day management of student affairs relating to student admission and graduate employment. Mr. Ye has over 24 years of experience in the education industry.

From July 1995 to June 2001, Mr. Ye Nianjiu served as the head of student admission and graduate employment of Zhaoqing Technology Training School (肇慶科技培訓學校) and was primarily responsible for student admission and graduate employment. From July 2001 to February 2004, he served as the head of student admission and graduate employment of Zhaoqing School (formerly known as Zhaoqing Technology School (肇慶科技學校)) and was primarily responsible for student admission and graduate employment. From March 2004 to May 2014, Mr. Ye Nianjiu served as the vice chairman of the board of Guangdong Polytechnic College (formerly known as Zhaoqing Technology Vocational Technical College (肇慶科技職業技術學院)). Since June 2014, he has also been serving as the dean of the College of Continuing Education, within Guangdong Polytechnic College and has been primarily responsible for student admission and graduate employment.

Mr. Ye Nianjiu obtained his junior college diploma in Computer Applications Technology from Guangdong Polytechnic College in January 2011 and obtained his undergraduate diploma in human resource management from Zhaoqing College (肇慶學院) in January 2015.

Mr. Ye Nianjiu is the brother of Mr. Ye Nianqiao, one of the Directors.

Report of Directors

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

GLOBAL OFFERING

The Company was incorporated on 24 August 2017 as an exempted company with limited liability under the laws of the Cayman Islands. The Shares were listed on the Main Board of the Stock Exchange on 25 January 2019.

Use of Proceeds from the Listing

Net proceeds from the Listing were approximately HK$792.3 million, which, as disclosed in the Prospectus, will be used for (i) acquiring additional schools; (ii) expanding the existing schools the Group owns or operates; (iii) repaying loans from third-party financial institutions; and (iv) funding the working capital and general corporate purposes.

From the Listing Date to the date of this annual report, the Group has not utilized any of the net proceeds from the Listing.

PRINCIPAL ACTIVITIES

The Group is a leading provider of private higher education in China focusing on profession-oriented education. Analysis of the principal activities of the Group during the Reporting Period is set out in the note 1 to the consolidated financial statements.

RESULTS

The results of the Group for the year ended 31 December 2019 are set out in the consolidated statement of profit or loss and consolidated statement of comprehensive income on pages 91 to 92 of this annual report.

DIVIDEND POLICY

The Board has adopted a dividend policy (the "Dividend Policy") in compliance with code provision E.1.5 of the Corporate Governance Code and Corporate Governance Report (the "CG Code") with effect from 15 January 2019. Declaration and payment of dividends by the Company is also subject to compliance with applicable laws and regulations including the laws of the Cayman Islands and the articles of association of the Company (the "Articles of Association").

Under the Dividend Policy, the Company can declare interim dividends or special dividends from time to time in addition to the final dividends. In deciding whether to propose a dividend and in determining the dividend amount, the Board shall take into account, inter alia, the financial results, cash flow situation, business conditions and strategies, future operations and earnings, the Group's expected capital requirements, the statutory fund reserve requirements, the retained earnings and distributable reserves of the Company and each of the members of the Group, and any other factors that the Board deems appropriate.

The Dividend Policy will continue to be reviewed and updated from time to time by the Board and the Dividend Policy shall in no way constitute a legally binding commitment by the Company that any dividend will be proposed or declared in any given period.

FINAL DIVIDENDS

The Board recommended the payment of a final dividend of HK$0.10 per Share for the year ended 31 December 2019 (2018: HK$0.10 per Share). The final dividend is subject to the approval of shareholders of the Company (the "Shareholders") at the forthcoming annual general meeting of the Company to be held on 5 June 2020 (the "AGM") and will be payable on or around 7 July 2020 to the Shareholders whose names appear on the register of members of the Company on 17 June 2020.

BUSINESS REVIEW

A review of the business of the Group during the Reporting Period and analysis by using financial key performance indicators, the compliance with laws and regulations and a discussion on the Group's future business development are contained in the section headed "Management Discussion and Analysis" on pages 8 to 25 of this annual report.

RISKS AND UNCERTAINTIES

The principal risks and uncertainties that may cause the Group's financial conditions or results materially different from the expected or historical results are set out in note 34 to the consolidated financial statements and in the section headed "Management Discussion and Analysis" on pages 8 to 25 of this annual report.

FINANCIAL SUMMARY

A summary of the Group's key financial performance for the last five financial years are set out in the section headed "Financial Highlights" on page 5 of this annual report. This summary does not form part of the audited consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

Major Customers

For the year ended 31 December 2019, the Group's customers primarily consist of the Group's students. The Group did not have any single customer who accounted for more than 5% of the Group's revenue.

Major Suppliers

For the year ended 31 December 2019, the Group's five largest suppliers accounted for 51.6% (for the year ended 31 December 2018: 57.8%) of the Group's total purchases and our single largest supplier accounted for 37.8% (for the year ended 31 December 2018: 46.1%) of the Group's total purchases.

As at the date of this annual report, none of the Directors or any of their close associates or any Shareholders (which, to the best knowledge of the Directors, own more than 5% of the number of issued Shares) had any interest in the Group's five largest customers and suppliers.

RELATIONSHIP WITH EMPLOYEES, SUPPLIERS AND CUSTOMERS

The Group understands the importance of maintaining a good relationship with its employees, suppliers and customers to meet its immediate and long-term goals. The Group maintains a good relationship with employees, suppliers and customers. During the Reporting Period, the Group strived to satisfy both the students and their parents by continuing to provide better education services. The Group also maintained ongoing communication with suppliers to shorten the delivering cycle and to obtain better payment terms. There was no material and significant dispute between the Group and its employees, suppliers and/or customers during the Reporting Period.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the Reporting Period are set out in note 13 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the Reporting Period are set out in note 26 to the consolidated financial statements.

RESERVES AND DISTRIBUTABLE RESERVES

Details of movements in the reserves of the Company and the Group during the Reporting Period are set out in the consolidated statement of changes in equity on pages 95 to 96 and summary of the Company's reserve on page 182 of this annual report respectively, of which, the reserves available for distribution to Shareholders as at 31 December 2019 are set out in note 27 to the consolidated financial statements.

BANK LOANS

Particulars of bank loans of the Group as at 31 December 2019 are set out in note 23 to the consolidated financial statements.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is committed to improving environmental sustainability and will closely monitor the performance. Incorporating the sustainable development concept of creating a green campus and a green environment into educational courses and extracurricular activities to enable students to develop habits with the concept of environmental protection and green development, is essential to the green sustainable development of our schools and the society. The Group has been in strict compliance with the Environmental Protection Law of the PRC, the Pollution Prevention and Control Law of the PRC, the Water Pollution Prevention and Control Law of the PRC, the Environmental Noise Pollution Prevention and Control Law, the Solid Waste Pollution Prevention and Control Law of the PRC and the Energy Conservation Law of the PRC. The Group strictly controls the generation and emission of air pollutants and waste to ensure that the operation and management of schools will not violate the relevant environmental laws and regulations.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The environmental, social and governance report will be issued within three months after the publication of this annual report in accordance with Appendix 27 of the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”).

DIRECTORS

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

Executive Directors

Mr. Ye Nianqiao *(Chairman and Chief Executive Officer)*
Dr. Zhang Xiangwei
Mr. Zha Donghui
Ms. Li Yan
Mr. Ye Xun

Non-executive Director

Mr. Wang Chuanwu

Independent Non-executive Directors

Dr. Xu Ming
Dr. Deng Feiqi
Dr. Li Xiaolu

In accordance with article 16.19 of the Articles of Association, the Directors being Mr. Zha Donghui, Ms. Li Yan and Dr. Li Xiaolu shall retire by rotation and being eligible, have offered themselves for re-election as Directors at the forthcoming AGM.

Details of the Directors to be re-elected at the forthcoming AGM are set out in the circular to the Shareholders.

DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and senior management of the Group are set out on pages 26 to 31 of this annual report.

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules from each of the independent non-executive Directors and the Company considers such Directors to be independent during the period from the Listing Date to the date of this annual report.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

Save as disclosed in the section headed "Continuing Connected Transaction" and otherwise disclosed in this annual report, no Director had a material interest, either directly or indirectly, in any transaction, arrangement or contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the period from the Listing Date to the date of this annual report.

CONTROLLING SHAREHOLDERS' INTEREST IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in the section headed "Continuing Connected Transaction" and otherwise disclosed in this annual report, no contract of significance to which the Company or any of its subsidiaries was a party and in which the controlling Shareholders of the Company or an entity connected with the controlling Shareholders had a material interest, either directly or indirectly, subsisted during the period from the Listing Date to the date of this annual report.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the period from the Listing Date to the date of this annual report.

EMOLUMENT POLICY

A remuneration committee was set up for reviewing the Group's emolument policy and structure for all remuneration of the Directors and senior management of the Group, having regard to the Group's operating results, individual performance of the Directors and senior management and comparable market practices. In addition, the Company has adopted a share option scheme as an incentive to Directors, senior management and employees for their contribution to the Group and to attract and retain key personnel.

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

RETIREMENT AND EMPLOYEE BENEFITS SCHEME

Details of the retirement and employee benefits scheme of the Company are set out in note 2.4 to the consolidated financial statements.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors, non-executive Director and independent non-executive Directors has entered into a service contract with us for an initial fixed term of three years commencing from 26 April 2018 and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other, which notice shall not expire until after the fixed term.

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

DIRECTORS' INTEREST IN COMPETING BUSINESS

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

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

As at 31 December 2019, the interests and short positions of the Directors and the chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap 571) (the "SFO")) which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have taken under such provisions of the SFO), or which were recorded in the register required to be kept pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules were as follows:

Name of Director or chief executive	Capacity/Nature of Interest	Number of Shares(2)	Approximate Percentage of Shareholding in the Company(1)
Ye Nianqiao	Interest in a controlled corporation(3)	675,000,000(L)	33.74%
	Interest of spouse(4)	375,000,000(L)	18.74%
Ye Xun	Interest in a controlled corporation(5)	300,000,000(L)	14.99%

Notes:

1. As at 31 December 2019, the total number of issued Shares is 2,000,798,667 Shares.

2. The letter "L" denoted the person's long position in the Shares.

3. Qiaoge Company Limited is wholly-owned by Mr. Ye Nianqiao. By virtue of Part XV of the SFO, Mr. Ye Nianqiao is deemed to be interested in the Shares held by Qiaoge Company Limited.

4. Mr. Ye Nianqiao is the husband of Ms. Shu Liping. By virtue of Part XV of the SFO, Mr. Ye Nianqiao is deemed to be interested in the Shares indirectly held by Ms. Shu Liping through Shuye Company Limited.

5. Chenye Company Limited is beneficially and wholly-owned by Mr. Ye Xun. By virtue of Part XV of the SFO, Mr. Ye Xun is deemed to be interested in the Shares held by Chenye Company Limited.

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

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

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

As at 31 December 2019, to the best knowledge of the Directors, the following persons (not being a Director or chief executive of the Company) had interests or short positions in the Shares or underlying Shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Name of Shareholder	Nature of Interest	Number of Shares[2]	Approximate Percentage of Shareholding in the Company[1]
Qiaoge Company Limited	Beneficial owner	675,000,000(L)	33.74%
Shuye Company Limited	Beneficial owner[3]	375,000,000(L)	18.74%
Shu Liping	Interest in a controlled corporation[3]	375,000,000(L)	18.74%
	Interest of spouse[3]	675,000,000(L)	33.74%
Chenye Company Limited	Beneficial owner	300,000,000(L)	14.99%
SKYLINE MIRACLE LIMITED	Beneficial owner[4]	146,666,667(L)	7.33%
Gabriel Li	Interest in a controlled corporation[4]	146,666,667(L)	7.33%
Lam Lai Ming	Interest in a controlled corporation[4]	146,666,667(L)	7.33%
AREO HOLDINGS LIMITED	Interest in a controlled corporation[4]	146,666,667(L)	7.33%
ORCHID ASIA V GROUP, LIMITED	Interest in a controlled corporation[4]	136,400,000(L)	6.82%
ORCHID ASIA V GROUP MANAGEMENT, LIMITED	Interest in a controlled corporation[4]	136,400,000(L)	6.82%
ORCHID ASIA VII GP, LIMITED	Interest in a controlled corporation[4]	136,400,000(L)	6.82%
OAVII HOLDINGS, L.P.	Interest in a controlled corporation[4]	136,400,000(L)	6.82%
ORCHID ASIA VII, L.P.	Interest in a controlled corporation[4]	136,400,000(L)	6.82%

Notes:

1. As at 31 December 2019, the total number of issued Shares is 2,000,798,667 Shares.

2. The letter "L" denoted the person's long position in the Shares.

3. Shuye Company Limited is wholly-owned by Ms. Shu Liping. By virtue of Part XV of the SFO, Ms. Shu Liping is deemed to be interested in the Shares held by Shuye Company Limited. Mr. Ye Nianqiao is the husband of Ms. Shu Liping. By virtue of Part XV of the SFO, Ms. Shu Liping is deemed to be interested in the Shares indirectly held by Mr. Ye Nianqiao through Qiaoge Company Limited.

4. Skyline Miracle Limited, was beneficially owned by Orchid Asia VII, L.P. as to 93% and Orchid Asia VII Co-Investment, Limited as to 7%. Orchid Asia VII, L.P. was wholly controlled by OAVII Holdings, L.P. (in its capacity as general partner of Orchid Asia VII, L.P.), which was in turn wholly controlled by Orchid Asia VII GP, Limited (in its capacity as general partner of OAVII Holdings, L.P.), which was in turn wholly owned by Orchid Asia V Group Management, Limited, which was in turn wholly owned by Orchid Asia V Group, Limited, which was in turn wholly owned by Areo Holdings Limited. Areo Holdings Limited was wholly owned by Ms. Lam Lai Ming. Areo Holdings Limited was also controlled by Mr. Gabriel Li by virtue of his directorship therein. Accordingly, Ms. Lam Lai Ming and Mr. Gabriel Li were taken to be interested in the Conversion Shares in which Areo Holdings Limited was interested by virtue of Part XV of the SFO.

Save as disclosed above, as at 31 December 2019, the Directors were not aware of any persons (who were not Directors or chief executive of the Company) who had an interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein.

SHARE OPTION SCHEME

The Company has adopted a share option scheme on 10 January 2019 (the "Share Option Scheme"), under which the Company may issue options to purchase up to a total of 200,000,066 Shares to the Directors, senior management and employees. The Share Option Scheme will be valid and effective for a period of ten years commencing on 10 January 2019. Details of which are set out below:

1. Purpose

The purpose of the Share Option Scheme is to provide incentives and rewards to the Directors, employees, advisers, consultants and business partners of the Group for their contribution, and to align the corporate objectives and interest between the Group and its key talents.

2. Who may join

The Board may, at its absolute discretion, offer to grant an option to subscribe for such number of Shares as the Board may determine to any director, employee, adviser, consultant and business partners of the Group (collectively, the "Eligible Participant").

In determining the basis of offering options to an Eligible Participant, the Board shall take into account, without limitations, the employee grade, years of service, overall performance of such Eligible Participant, and/or such factors as the Board may at its discretion consider appropriate, for the purpose of management.

3. Maximum number of Shares in respect of which options may be granted

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 must not in aggregate exceed 200,000,066 Shares, representing 10% of the Shares in issue as at the Listing Date (the "Scheme Mandate Limit"), excluding for this purpose options lapsed in accordance with the terms of the Share Option Scheme and any other share option schemes of the Company, provided that:

(a) the Company may at any time as the Board think fit seek approval from the Shareholders to refresh the Scheme Mandate Limit, save that the total number of Shares which may be issued upon the 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 at the date on which the Shareholders approve the refreshment of the Scheme Mandate Limit. Options previously granted under the Share Option Scheme and any other schemes of the Company (including those outstanding, canceled, lapsed or exercised in accordance with the terms of the relevant scheme) will not be counted for the purpose of calculating the Scheme Mandate Limit as refreshed. The Company shall send to the Shareholders a circular containing the information required under Chapter 17 of the Listing Rules;

(b) the Company may seek separate approval from the Shareholders in general meeting for granting options to any Eligible Participant specifically identified by them which would cause the Scheme Mandate Limit to be exceeded. The Company shall send to the Shareholders a circular containing, among other things, a generic description of the specified Eligible Participant who may be granted such options, the number and terms of the options to be granted, the purpose of granting options to the specified Eligible Participant with an explanation as to how the terms of the options serve such purpose and such other information required under Chapter 17 of 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 share option schemes of the Company must not exceed 30% of the Shares in issue from time to time.

The maximum number of Shares in respect of which options may be granted shall be adjusted in the event of any alteration to the capital structure of the Company whether by way of capitalisation of profits or reserves, open offer, rights issue, consolidation, reclassification, reconstruction, subdivision of shares, or reduction of the share capital of the Company but shall not in any event exceed the limits imposed by the Listing Rules.

4. Maximum entitlement of each participant

No option may be granted to any Eligible Participant which, if exercised, would result in such Eligible Participant becoming entitled to subscribe for such number of Shares as, when aggregated with the total number of Shares already issued or to be issued to him under all Options granted to him (including exercised, canceled and outstanding Options) in the 12-month period up to and including the date of offer, exceeds 1% of the Shares in issue at such date. Any further grant of options in excess of this 1% limit shall be subject to the approval of the Shareholders in general meeting with such Eligible Participant and his associates (as defined in the Listing Rules) abstaining from voting. The Company shall send to the Shareholders a circular containing the identity of the Eligible Participant, the number and terms of the options to be granted (and options previously granted to such Eligible Participant) and such other information required under Chapter 17 of the Listing Rules.

The number and terms (including the exercise price) of the options to be granted to such Eligible Participant must be fixed before the Shareholders' approval and the date of the Board meeting approving such further grant shall be taken as the date of grant for the purpose of determining the exercise price of the options.

5. Granting Options to connected persons

Any grant of options to a Director (including an independent non-executive Director), chief executive or substantial shareholder (as defined in the Listing Rules) of the Company, or any of their respective associates (as defined in the Listing Rules), under the Share Option Scheme must be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the proposed grantee of the options).

Where any grant of options to a substantial shareholder (as defined in the Listing Rules) or an independent non—executive Director, or any of their respective associates (as defined in the Listing Rules), will result in the Shares issued and to be issued upon exercise of all options already granted and to be granted under the Share Option Scheme (including options exercised, canceled and outstanding) to such person in the 12-month period up to and including the date of such grant:

(a) representing in aggregate over 0.1% of the Shares in issue; and

(b) having an aggregate value, based on the closing price of the securities at the date of each grant, in excess of HK$5.0 million,

such further grant of options by the Board must be approved by the Shareholders. Any Shareholder who is a connected person (as defined in the Listing Rules) of the Company must abstain from voting on the resolution to approve such further grant of options, except that such a connected person (as defined in the Listing Rules) may vote against such resolution subject to the requirements under Chapter 17 of the Listing Rules. The Company shall send to the Shareholders a circular containing the information required under Chapter 17 of the Listing Rules.

6. Acceptance of an offer of options

An offer of options shall be open for acceptance for such period (not exceeding 30 calendar days from, and inclusive of, the date of grant) as the Board may determine and notify to the Eligible Participant concerned provided that no such offer shall be open for acceptance after the expiry of the duration of the Share Option Scheme or after the Share Option Scheme has been terminated. An offer of options not accepted within this period shall lapse. An amount of HK$1.00 is payable upon acceptance of the grant of options and such payment shall not be refundable and shall not be deemed to be a part of payment of the exercise price.

7. Exercise price

The exercise price in respect of any option shall be such price as the Board determined by the Board and notified to an option holder and which shall not be less than the higher of:

(a) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the relevant option, which must be a business day;

(b) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of grant; and

(c) the nominal value of the Shares.

8. Duration of the Share Option Scheme

The Share Option Scheme shall be valid and effective for a period of ten years commencing on the adoption date of the Share Option Scheme after which no further options will be granted, but the provisions of the Share Option Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any options granted prior thereto which are at that time or become thereafter capable of exercise under the Share Option Scheme.

9. Timing of vesting and exercise of options

Any option shall be vested on an option holder immediately upon his acceptance of the offer of options. Any vested option which has not lapsed and which conditions have been satisfied or waived by the Board in its sole discretion may, unless the Board determines otherwise in its absolute discretion, be exercised at any time from the next business day after the offer of options has been accepted. Any option which remain unexercised shall lapse upon the expiry of the option period, which period shall be determined by the Board and shall not exceed 10 years from the grant date of the option.

An option shall be subject to such terms and conditions (if any) as may be determined by the Board at the date of offer and specified in the offer of the option. Notwithstanding the above, there is no minimum period for which any option must be held before it can be exercised and no performance target which needs to be achieved by an option holder before the option can be exercised.

10. Restriction on the time of grant of options

The Board may not grant any options after inside information has come to its knowledge until such inside information has been published in accordance with the Listing Rules. In particular, during the period commencing one month immediately preceding the earlier of:

(a) the date of the Board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of the Company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules); and

(b) the deadline for our Company to publish an announcement of its results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules), and ending on the date of the results announcement, no option may be granted. The period during which no option may be granted will cover any period of delay in the publication of a results announcement.

Other details of the Share Option Scheme and the terms thereof are set out in the Prospectus.

As at 31 December 2019, no option under the Share Option Scheme has been granted and no options remain outstanding and unexercised.

As at the date of this annual report, the total number of shares available for issue under the Share Option Scheme was 200,000,066 representing approximately 10% of the issued Shares and the remaining life of the Share Option Scheme was around eight years and ten months.

EQUITY-LINKED AGREEMENTS

Save as the disclosed in the section headed "Share Option Scheme" of this annual report, no equity-linked agreements were entered into by the Company, or existed during the period from the Listing Date to the date of this annual report.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the period from the Listing Date to the date of this annual report, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

PRE-EMPTIVE RIGHTS

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

CONTINUING CONNECTED TRANSACTION

During the Reporting Period, the Group has entered into the following non-exempt continuing connected transactions pursuant to Chapter 14A of the Listing Rules:

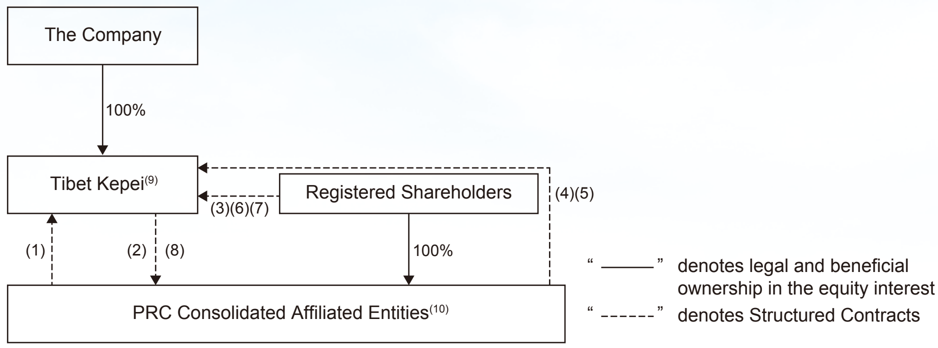
Structured Contracts

A. Overview

The Group conducts private higher education and secondary vocational education business through the PRC Schools in Guangdong Province of the PRC. In the PRC, the private education industry is subject to certain foreign ownership restrictions. Under applicable laws and regulations in Guangdong Province, education institutions offering higher education and secondary vocational education must be operated in the form of Sino-foreign cooperation. Furthermore, applicable PRC laws and regulations impose Qualification Requirements on the foreign investors of Sino-foreign joint venture private schools ("Sino-Foreign Joint Venture Private Schools"). However, in practice, the PRC government usually withholds approval in respect of the application for the establishment of Sino-foreign joint venture private schools. As such, the Group does not hold any equity interest in the PRC Schools and it obtained control over and derive economic benefits from the PRC Schools and Zhaoqing Kepei Education Investment Development Co., Ltd. (肇慶市科培教育投資開發有限公司) ("Zhaoqing Kepei" or the "School Sponsor") through the Structured Contracts. The Structured Contracts have been narrowly tailored to achieve the Group's business purpose and minimize the potential conflict with the relevant PRC laws and regulations.

In order to comply with the PRC laws and regulations as set out above while availing the Group of international capital markets and maintaining effective control over all of our operations, on 10 July 2018, the Group's wholly-owned subsidiary, Tibet Kepei Information Technology Co., Ltd.* (西藏科培信息科技有限公司) ("Tibet Kepei"), entered into the Structured Contracts with, among others, the PRC Schools and the School Sponsor, pursuant to which all economic benefits arising from the business of the PRC Schools and the School Sponsor are transferred to Tibet Kepei to the extent permitted under the PRC laws and regulations by means of service fees payable by the PRC Schools and the School Sponsor to Tibet Kepei.

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



Notes:

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

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

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

(4) Entrustment of the School Sponsor's rights in the PRC Schools by Zhaoqing Kepei. Please see "— Operation of the Structured Contracts — Summary of the Material Terms of the Structured Contracts — (6) School Sponsor's and Directors' Rights Entrustment Agreement" and "— Operation of the Structured Contracts — Summary of the Material Terms of the Structured Contracts — (9) School Sponsor's Powers of Attorney" in the Prospectus for details.

(5) Entrustment of directors' rights in the PRC Schools by directors of the PRC Schools including directors' powers of attorney. Please see "— Operation of the Structured Contracts — Summary of the Material Terms of the Structured Contracts — (6) School Sponsor's and Directors' Rights Entrustment Agreement" and "— Operation of the Structured Contracts — Summary of the Material Terms of the Structured Contracts — (8) Directors' Power of Attorney" in the Prospectus for details.

(6) Entrust of Shareholders' right including Registered Shareholders' Power of Attorney. Please see "— Operation of the Structured Contracts — Summary of the Material Terms of the Structured Contracts — (5) Registered Shareholders' Rights Entrustment Agreement" and "— Operation of the Structured Contracts — Summary of the Material Terms of the Structured Contracts — (7) Registered Shareholders' Power of Attorney" in the Prospectus for details.

(7) Pledge of equity interest by the Registered Shareholders of their equity interest in Zhaoqing Kepei. Please see "— Operation of the Structured Contracts — Summary of the Material Terms of the Structured Contracts — (4) Equity Pledge Agreement" in the Prospectus for details.

(8) Provision of loans by Tibet Kepei to Zhaoqing Kepei. Please see "— Operation of the Structured Contracts — Summary of the Material Terms of the Structured Contracts — (11) Loan Agreement" in the Prospectus for further details.

(9) On 10 July 2018, the original structured contracts dated 26 April 2018 were terminated as we incorporated a new wholly foreign owned enterprise in Tibet Autonomous Region, Tibet Kepei, which had assumed the rights and obligations of Zhaoqing Information Technology under the original structured contracts since 10 July 2018.

(10) Guangdong Polytechnic College held 49% of the equity in Research Institute of Intelligent Manufacturing (Zhaoqing Gaoyao) Co., Ltd (the "Research Institute"). Research Institute was established in the PRC on 11 May 2016 with an initial registered capital of RMB5,000,000, and was held by Guangdong Polytechnic College and Guangzhou Wanzhi Information Technology Co., Ltd. (廣州萬智資訊科技有限公司), an independent third party, as to 49% and 51%, respectively. The principal business of Research Institute is researching and fostering intelligent manufacturing technology and applications.

(11) According to the PRC laws and regulations, entities and individuals who establish private schools are commonly referred to as "school sponsors" instead of "owners" or "shareholders." Please see "Regulatory Overview" in the Prospectus for further details.

Zhaoqing Kepei, the School Sponsor, is a special purpose vehicle established as a holding company to hold interests in the PRC Schools. Zhaoqing Kepei is not engaged in any other business other than the aforesaid. Under the Structured Contracts, each of the School Sponsor and the PRC Schools (collectively, the "PRC Consolidated Affiliated Entities") entered into the Exclusive Technical Service and Management Consultancy Agreement and Loan Agreement with, among others, Tibet Kepei, pursuant to which each of the PRC Schools and the School Sponsor will be directly bound by and subject to the terms and conditions thereof.

Accordingly, for any services provided by Tibet Kepei to any of the PRC Schools and the School Sponsor, the respective service fee will be paid by the School Sponsor and/or PRC Schools to Tibet Kepei directly. In addition, in order to prevent the leakage of assets and values of the PRC Schools, the shareholders of Zhaoqing Kepei, namely Mr. Ye Nianqiao, Ms. Shu Liping, Mr. Ye Xun and Mr. Ye Nianjiu (collectively, the "Registered Shareholders"), the School Sponsor and the PRC Schools have undertaken that, without the prior written consent of Tibet Kepei or its designated party, the Registered Shareholders, the Schools Sponsors or the PRC Schools shall not, among others, distribute dividends or other payments to our School Sponsor, or the Registered Shareholder.

B. Summary of the material terms of Structured Contracts

(1) Business Cooperation Agreement

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

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

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

Furthermore, each of Registered Shareholders undertakes to Tibet Kepei that, unless with the prior written consent of Tibet Kepei, the Registered Shareholders (severally or jointly) shall not (i) directly or indirectly engage, participate in, conduct, acquire or hold any business or activity which competes or may potentially compete with any of the PRC Schools and/or the School Sponsor and its subsidiaries ("Competing Business"), (ii) use information obtained from any of the PRC Schools and/or the School Sponsor or its subsidiaries for the Competing Business, and (iii) obtain any benefit from any Competing Business. Each of the Registered Shareholders further consents and agrees that, in the event that the Registered Shareholders (severally or jointly) directly or indirectly engage, participate in or conduct any Competing Business, Tibet Kepei and/or other entities as designated by us shall be granted an option to require the entity engaging in the Competing Business to (i) enter into an arrangement similar to that of the Structured Contracts, or (ii) cease to engage in such Competing Business.

(2) Exclusive Technical Service and Management Consultancy Agreement

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

Furthermore, Tibet Kepei agreed to provide exclusive management consultancy services to the PRC Schools and the School Sponsor, including but not limited to, (a) design of curricula; (b) preparation, selection and/or recommendation of course materials; (c) provision of teacher and staff recruitment and training support and services; (d) provision of student recruitment support and services; (e) provision of public relation services; (f) preparation of long-term strategic development plans and annual working plans; (g) development of financial management systems and recommendation and optimization on annual budget; (h) advising on the design of internal structures and internal management; (i) provision of management and consultancy training to administrative staff; (j) conducting market research and investigation and providing market information feedback and business development recommendation; (k) preparation of market development plan; (l) building of online and offline marketing networks; and (m) providing other services reasonably requested by the PRC Schools and the School Sponsor.

In consideration of the technical and management consultancy services provided by Tibet Kepei, each of the PRC Schools and our School Sponsor agreed to pay Tibet Kepei a service fee equal to all of their respective amounts of surplus from operations (after deducting necessary costs, expenses, taxes, losses from the previous year (if required by the law) and the legally compulsory development fund of the respective school (if required by the law) and other expenses required by the applicable PRC laws; and our School Sponsor agreed to pay Tibet Kepei a service fee equal to all of its net profit (after deducting all necessary costs, expenses, taxes, losses from the previous year (if required by law) and statutory accumulation funds. Tibet Kepei has the right (but not the obligation) to adjust the amount of such service fee by reference to the actual services provided and the actual business operations and needs of the PRC Schools and the School Sponsor, provided that any adjusted amount shall not exceed the amount mentioned above.

Pursuant to the Exclusive Technical Service and Management Consultancy Agreement, unless otherwise prescribed under the PRC laws and regulations, Tibet Kepei shall have exclusive proprietary rights to any technology and intellectual property developed and materials prepared in the course of the provision of research and development, technical support and services by Tibet Kepei to the PRC Schools and the School Sponsor, and any intellectual property in the products developed, including any other rights derived thereunder, in the course of performance of obligations under the Exclusive Technical Service and Management Consultancy Agreement and/or any other agreements entered into between Tibet Kepei and other parties.

(3) *Exclusive Call Option Agreement*

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

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

(4) Equity Pledge Agreement

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

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

(5) Registered Shareholders' Rights Entrustment Agreement

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

In addition, each of the Registered Shareholders and Zhaoqing Kepei has irrevocably agreed that (i) Tibet Kepei may delegate its rights under the Registered Shareholders' Rights Entrustment Agreement to the directors of Tibet Kepei or its designated person; and (ii) any person as successor of civil rights of Tibet Kepei or liquidator by reason of subdivision, merger or liquidation of Tibet Kepei or other circumstances shall have authority to replace Tibet Kepei to exercise all rights under the Registered Shareholders' Rights Entrustment Agreement.

(6) School Sponsor's and Directors' Rights Entrustment Agreement

Pursuant to the School Sponsor's and Directors' Rights Entrustment Agreement, Zhaoqing Kepei has irrevocably authorized and entrusted Tibet Kepei to exercise all its rights as the school sponsor of each of the PRC Schools to the extent permitted by the PRC laws. These rights include, but are not limited to: (a) the right to appoint and/or elect directors or council members of the schools; (b) the right to appoint and/or elect supervisors of the schools; (c) the right to understand the operation and financial situation of the schools; (d) the right to review the resolutions and records of the board of directors and financial statements and reports of the schools; (e) the right to obtain reasonable returns as the school sponsor of the schools in accordance with the laws and the articles of association of each school; (f) the right to acquire residual assets upon liquidation of the schools in accordance with the laws and the articles of association of each school; (g) the right to transfer school sponsor's interest in accordance with the laws; (h) the right to make a choice between profitability and non-profitability of the schools in accordance with the PRC laws, regulations or regulatory documents; (i) the right to vote on behalf of the schools regarding bankruptcy, liquidation, dissolution or termination of the schools; (j) the right to handle the legal procedures of registration, approval, licensing and filing of the PRC Schools at the education department, the department of civil affairs or other government regulatory departments and deliver any document to the relevant government authority that the school sponsor is required to deliver; and (k) other school sponsor's rights pursuant to applicable PRC laws and regulations and the articles of association of each school as amended from time to time.

Pursuant to the School Sponsor's and Directors' Rights Entrustment Agreement, each of the directors of each PRC Schools appointed by Zhaoqing Kepei (the "Appointees") has irrevocably authorized and entrusted Tibet Kepei to exercise all his/her rights as directors of the PRC Schools is appointed by our School Sponsor and to the extent permitted by the PRC laws. These rights include, but are not limited to: (a) the right to attend meetings of the board of directors as representative of the directors appointed by our School Sponsor; (b) the right to exercise voting rights in respect of all matters discussed and resolved at the board meeting of each of the PRC Schools; (c) the right to propose to convene interim board meetings of each of the PRC Schools; (d) the right to sign all board minutes, board resolutions and other legal documents which the directors appointed by Zhaoqing Kepei has authority to sign in his/her capacity as directors of the PRC Schools; (e) the right to instruct the legal representative and financial and business and administrative responsible persons of the PRC Schools to act in accordance with the instruction of Tibet Kepei; (f) the right to exercise all other rights and voting rights of directors as prescribed under the articles of association of the PRC Schools; (g) the right to vote on behalf of the schools in respect of bankruptcy, liquidation, dissolution or termination of the schools; (h) the right to handle the legal procedures of registration, approval and licensing of the PRC Schools at the education department, the department of civil affairs or other government regulatory departments and deliver any document to the relevant government authority that the school sponsor is required to deliver; and (i) other directors' rights pursuant to applicable PRC laws and regulations and the articles of association of the PRC Schools as amended from time to time.

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

(7) Registered Shareholders' Power of Attorney

Pursuant to the Registered Shareholders' Powers of Attorney executed by each of the Registered Shareholders in favor of Tibet Kepei, each of the Registered Shareholders authorized and appointed Tibet Kepei, as his or their agent to act on his or their behalf to exercise or delegate the exercise of all his or their rights as shareholders of Zhaoqing Kepei. For details of the rights granted, please see "— Operation of the Structured Contracts — Summary of the Material Terms of the Structured Contracts — (5) Registered Shareholders' Rights Entrustment Agreement" in the Prospectus.

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

(8) Directors' Power of Attorney

Pursuant to the Directors' Powers of Attorney executed by each of the Appointees in favor of Tibet Kepei, each of the Appointees authorized and appointed Tibet Kepei (the sole director of which is not a director of any of the School Sponsor and/or the PRC Schools and therefore does not give rise to any conflict of interest), as his/her agent to act on his/her behalf to exercise or delegate the exercise of all of his/her rights as directors of the PRC Schools. For details of the rights granted, please see "— Operation of the Structured Contracts — Summary of the Material Terms of the Structured Contracts — (6) School Sponsor's and Directors' Rights Entrustment Agreement" of the Prospectus.

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

(9) School Sponsor's Power of Attorney

Pursuant to the School Sponsor's Powers of Attorney executed by the School Sponsor in favour of Tibet Kepei, the School Sponsor authorized and appointed Tibet Kepei (the sole director of which is not a director of any of the School Sponsor and/or the PRC Schools and therefore does not give rise to any conflicts of interest), as its agent to act on its behalf to exercise or delegate the exercise of all its rights as school sponsor of each of the PRC Schools. For details of the rights granted, please see "— Operation of the Structured Contracts — Summary of the Material Terms of the Structured Contracts — (6) School Sponsor's and Directors' Rights Entrustment Agreement" of the Prospectus.

Tibet Kepei shall have the right to further delegate the rights so delegated to the directors of Tibet Kepei or other designated person. The School Sponsor irrevocably agreed that the authorization and appointment in the School Sponsor's Powers of Attorney shall not be invalid, prejudiced, derogated or otherwise adversely affected by reason of the School Sponsor's subdivision, merger, winding up, consolidation, liquidation or other similar events. The School Sponsor's Power of Attorney shall constitute a part of and incorporate terms of the School Sponsor's and Directors' Rights Entrustment Agreement.

(10) Spouse Undertakings

Pursuant to the Spouse Undertakings, each of Mr. Ye Nianqiao, Ms. Shu Liping, the spouse of Mr. Ye Nianjiu and the spouse of Mr. Ye Xun (the "Relevant Spouse") has irrevocably undertaken that:

(a) the Relevant Spouse has full knowledge of and has consented to the entering into of the Structured Contracts by his/her spouse, and in particular, the arrangement as set out in the Structured Contracts in relation to the restrictions imposed on the direct or indirect equity interest in Zhaoqing Kepei, pledge or transfer the direct or indirect equity interest in Zhaoqing Kepei, or the disposal of the direct or indirect equity interest in Zhaoqing Kepei in any other forms;

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

(c) the Relevant Spouse authorizes his/her spouse 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 Relevant Spouse in relation to the Relevant Spouse's equity interest in Zhaoqing Kepei (direct or indirect) in order to safeguard the interest of Tibet Kepei under the Structured Contracts and give effect to the fundamental purposes thereunder, and confirms and agrees to all such documents and procedures;

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

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

(f) all undertakings, confirmations, consents and authorizations under the Spouse Undertakings shall continue to be valid and binding until otherwise terminated by both Tibet Kepei and the Relevant Spouse in writing; and

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

(11) Loan Agreement

Pursuant to the Loan Agreement, Tibet Kepei agreed to provide interest-free loans to Zhaoqing Kepei in accordance with the PRC laws and regulations and Zhaoqing Kepei agreed to utilize the proceeds of such loans to contribute as capital of the PRC Schools in its capacity as school sponsor in accordance with the Company's instructions.

The terms of the Loan Agreement shall continue until all direct or indirect interest of the PRC Schools and the School Sponsor has been transferred to Tibet Kepei or its designee and/or the Company or its designee and the registration process required thereafter has been completed with the relevant local authorities.

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

C. Business activities of the PRC Consolidated Affiliated Entities

The business activities of the consolidated affiliated entities of the Group, namely the School Sponsor, Guangdong Polytechnic College and Zhaoqing School are primarily to provide private higher education and secondary vocational education to the Group's students.

D. Significance and Financial Contributions of PRC Consolidated Affiliated Entities

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

	Significances and financial contributions to the Group					
	Revenue For the year ended 31 December		Net profit For the year ended 31 December		Total assets As of 31 December	
	2018	**2019**	2018	**2019**	2018	**2019**
PRC Consolidated Affiliated Entitles	100%	**100%**	102%	**92%**	85%	**72%**

E. Revenue and assets involved in Structured Contracts

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

	Revenue For the year ended 31 December 2019 RMB'000	Total Assets as of 31 December 2019 RMB'000
PRC Consolidated Affiliated Entitles	**714,215**	**2,475,064**

F. Regulatory framework and legality of the Structured Contracts

1. Higher education and secondary vocational education

Pursuant to the Special Administrative Measures for Access of Foreign Investment (Negative List) (2019 Edition) (the "Negative List"), the provision of higher education in the PRC falls within the "restricted" category. In particular, the Negative List explicitly provides that higher education must be operated in the form of Sino-foreign cooperation, which means that the foreign investor shall operate higher education in the PRC through cooperation with a PRC education institution in compliance with the Regulation on Sino-Foreign Cooperation in Operating Schools (中華人民共和國中外合作辦學條款) promulgated by the State Council in 2003 and amended on 18 July 2013 and further amended on 2 March 2019 (the "Sino-Foreign Regulation"). In addition, the Negative List also provides that the domestic party shall play a dominant role in the Sino-foreign cooperation, meaning that (a) the principal or chief executive officer of the school shall be a PRC national; and (b) the representatives of the domestic party shall account for no less than half of the total number of members of the board of directors, the executive council or the joint administration committee of the Sino-foreign cooperative education institution (the "Foreign Control Restriction"). As confirmed by the PRC legal advisors, the Company had complied with the Foreign Control Restriction in respect of the PRC Schools on the basis that (a) the principals and the chief executive officers of the PRC Schools are all PRC nationals; and (b) all the members of the board of directors of the PRC Schools are PRC nationals, while secondary vocational education is not listed as restricted category in the Negative List.

The Company further consulted the Guangdong Provincial Department of Education, being the competent authority as advised by the PRC legal advisors, on the applicability of foreign investment restrictions to secondary vocational education. As advised by the relevant officer of the policies and regulation division at the Guangdong Provincial Department of Education, being the competent authority as advised by the PRC legal advisors, the application by a foreign investor to invest in or operate as a school sponsor of secondary vocational education in any form other than Sino-foreign cooperation will not be approved or permitted.

In relation to the interpretation of Sino-foreign cooperation, pursuant to the Sino-Foreign Regulation, if we were to apply for any of the schools offering higher education to be reorganized as a Sino-Foreign Joint Venture Private School for PRC students, the foreign investor in the Sino-Foreign Joint Venture Private School must be a foreign education institution with relevant qualifications and one that provides high quality education (the "Qualification Requirement"). Furthermore, pursuant to the 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"). In addition, if we were to apply for any of the schools offering secondary vocational education to be reorganized as a Sino-Foreign Joint Venture Private School, we were advised by the relevant officer of the policies and regulation division at the Guangdong Provincial Department of Education, being the competent authority as advised by the PRC legal advisors, that the Foreign Ownership Restriction and Qualification Requirement also apply to education institutions offering secondary vocational education aiming for PRC students.

The PRC legal advisors have advised that there are no implementing measures or specific guidance on the Qualification Requirement in accordance with the existing PRC laws and regulations and therefore it is currently uncertain as to what specific criteria must be met by a foreign investor (such as the length of experience and the form and extent of ownership in the foreign jurisdiction) in order to demonstrate to the relevant educational authority that it meets the Qualification Requirement.

On 20 September 2017, with the assistance of the PRC legal advisors, the Company consulted the Guangdong Provincial Department of Education, being the competent authority as advised by the PRC legal advisors, to confirm the matters relating to the Sino-Foreign Joint Venture Private Schools relevant to the Company. The Company was advised by the relevant officer of the policies and regulation division at the Guangdong Provincial Department of Education that:

(i) the Foreign Ownership Restriction applies to Sino-Foreign Joint Venture Private Schools engaging in higher education and secondary vocational education in the region;

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

(iii) as a matter of policy, no Sino-Foreign Joint Venture Private School (as a separate legal person) had been approved in Guangdong Province after the Sino-Foreign Regulation became effective, and no application had been received in respect of establishing Sino-Foreign Joint Venture Private Schools;

(iv) the application to convert the PRC Schools into Sino-Foreign Joint Venture Private Schools would not be approved; and

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

The PRC legal advisors are of the view that the aforesaid officer is competent to provide the confirmation on the basis that such officer has good and authoritative understanding of the PRC laws and regulations regarding Sino— foreign cooperative education and its actual implementation in Guangdong Province.

2. *Plan to comply with the Qualification Requirement*

The Company has adopted a specific plan and begun to take the following concrete steps which it reasonably believes are meaningful endeavors to demonstrate compliance with the Qualification Requirement. According to the consultation with the Guangdong Provincial Department of Education, they would not approve the Company's application to convert the PRC Schools into Sino-Foreign Joint Venture Private Schools and there were no implementing measures or specific guidance on the Qualification Requirement. The PRC legal advisors are of the view that, notwithstanding it is not possible for the Guangdong Provincial Department of Education to approve the Company's application to convert the PRC Schools into Sino-Foreign Joint Venture Private Schools, taking into consideration that (i) no implementing measures or specific guidance were promulgated pursuant to the Sino-Foreign Regulation, including the Qualification Requirement, in Guangdong Province as of the date of this annual report and (ii) the consultation with the Guangdong Provincial Department of Education as outlined above, the following steps taken by the Company are reasonable, appropriate and sufficient to demonstrate compliance with the Qualification Requirement pursuant to paragraph 16C of Listing Decision HKEX-LD43-3.

As of the date of this annual report, the Company has formed a holding company of a new school in the United States, namely International Academy of Southern California ("International Academy"), which was wholly owned by China Kepei (Hong Kong) Limited (中國科培教育(香港)有限公司). The Company has submitted a formal application to California Bureau for Private Postsecondary Education ("BPPE") for the establishment of a new school under the name of International Academy of Southern California in the State of California, the United States in May 2018 and the application is still in process. International Academy will be responsible for the daily operation and management of the new school to be established and a three-tier management system comprising (i) the board of directors, (ii) the chief executive officer and (iii) the chief academic officer and the chief operating officer will be established. In particular, Ms. Shuye Huan (郇舒葉) ("Ms. Huan") will serve as the chief executive officer of the school. Ms. Huan has approximately 28 years of higher education administration experience in the United States. Ms. Huan worked at Stanford University in the State of California, the United States from February 1990 to February 2017 with positions including assistant director of the SCID (Stanford Center for International Development) China Program and director of SCID Training Programs, where she designed, marketed and guided to completion various academic and training programs. Since 2017, Ms. Huan has been serving as a board member of the board of trustees, mainly responsible for higher education development, at Sofia University in the United States. The mission of the new school is to provide educational services at the bachelor's degree level, with a focus on business administration. As of the date of this annual report, the new school is intended to initially offer bachelor's degrees of science in business administration and has employed four professors, all of whom were awarded a doctorate of philosophy by renowned universities such as Stanford University. In addition, we have entered into a lease agreement for the rent of a premises occupying a total of 5,333 square feet in the city of San Jose, State of California, the United States for the use of the new school. The operation and development of the new school will be funded by the Company's internal resources and the Company has expended approximately US$185,000 in connection with its plan as of the date of this annual report.

As advised by the PRC legal advisors, if both of the Foreign Ownership Restriction and the Foreign Control Restriction are removed but the Qualification Requirement remains and assuming the new school to be operated by International Academy, i.e. the foreign school or another foreign educational institution established by the Company gains a level of foreign experience sufficient to demonstrate compliance with the Qualification Requirement and obtains the approval of the relevant education authorities for the establishment of a Sino-Foreign Joint Venture Private School in the future (provided that the then PRC laws and regulations do not impose new requirements, restrictions, or prohibitions in relation to the establishment of a Sino-Foreign Joint Venture Private School), the Company will be able to operate its schools in the PRC directly through the new school operated by International Academy, i.e. the foreign school or such other educational institution subject to the approval from the competent education authorities.

Furthermore, the Company has undertaken to the Stock Exchange that it will:

(i) under the guidance of the PRC legal advisors, continue to keep itself updated with regard to any relevant regulatory developments and guidance relating to the Qualification Requirement; and

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

Based on the above, the Company's PRC legal advisors are of the opinion that:

(a) each of the PRC Schools and the School Sponsor was duly incorporated and is validly existing and their respective establishment is valid, effective and complies with the relevant PRC laws and regulations. Each of the Registered Shareholders is a legal person with full civil and legal capacity. Each of the PRC Schools and the School Sponsor has also obtained all material approvals and finished all registration as required by the PRC laws and regulations and has the capacity to carry out business operations in accordance with its licenses and approvals;

(b) the Structured Contracts as a whole and each of the agreements comprising the Structured Contracts are legal, valid and binding on the parties thereto, enforceable under the PRC laws and regulations, except that the Structured Contracts provide that the arbitral body may award remedies over the shares and/or assets of the PRC Schools and/or the School Sponsor, injunctive relief and/or winding-up of the PRC Schools and/or School Sponsor, and that the courts of competent jurisdictions are empowered to grant interim remedies in support of the arbitration pending the formation of an arbitral tribunal, while under the PRC laws, an arbitral body has no power to grant injunctive relief and may not directly issue a provisional or final liquidation order for the purpose of protecting the assets of or equity interest in the PRC Schools and/or the School Sponsor in case of disputes. In addition, interim remedies or enforcement orders granted by overseas courts such as the courts of Hong Kong and the Cayman Islands may not be recognizable or enforceable in China, and do not, individually or collectively, constitute breach of any PRC laws and regulations and will not be deemed invalid or ineffective under those laws and regulations; in particular, the Structured Contracts do not violate the provisions of the PRC Contract Law including "concealing illegal intentions with a lawful form," the General Principles of the PRC Civil Law and other applicable PRC laws and regulations;

(c) each of the Structured Contracts is not in violation of provisions of the articles of association of the PRC Schools and the School Sponsor and Tibet Kepei;

(d) each of the Structured Contracts is enforceable under the PRC laws and regulations. Entering into and the performance of the Structured Contracts do not require any approval or authorization from the PRC governmental authorities, except that: (i) the pledge of any equity interest in Zhaoqing Kepei in favor of Tibet Kepei is subject to registration requirements with the Administration of Industry and Commerce Department; (ii) the transfer of the school sponsor's interests in the PRC Schools and/or equity interest in the School Sponsor contemplated under the Structured Contracts is subject to applicable approval and/or registration requirements under the then applicable PRC laws; (iii) the transfer of equity interest in the School Sponsor contemplated under the Structured Contracts is subject to applicable approval and/or registration requirements under the then applicable laws and (iv) any arbitral awards or foreign rulings and/or judgments in relation to the performance of the Structured Contracts are subject to applications to the competent PRC courts for recognition and enforcement;

(e) neither Tibet Kepei nor the Company is obligated to share the losses of the PRC Schools and/or the School Sponsor or provide financial support to the PRC Schools and/or the School Sponsor. Each of the PRC Schools and/or the School Sponsor is solely liable for its own debts and losses with assets and properties owned by itself;

(f) the consummation of the contemplated listing of the Shares on the Stock Exchange does not violate the M&A Rules; and

(g) a private school that does not require reasonable return cannot distribute reasonable returns to its school sponsor. No current national PRC laws or regulations or regulations in Guangdong Province stipulate any proportion and/or amount limit for a reasonable return. Furthermore, in Guangdong Province, whether the school chooses to require reasonable returns or not has no adverse impact on the payment of service fees by the PRC Schools to Tibet Kepei.

For further details of the Structured Contracts, please refer to the section headed "Structured Contracts" in the Prospectus.

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

The Group entered into the Structured Agreements through its wholly-owned subsidiary, Tibet Kepei, pursuant to which all economic benefits arising from the business of the PRC Consolidated Affiliated Entities will be transferred to Tibet Kepei to the extent permitted by the PRC laws and regulations by means of services fees payable by the PRC Consolidated Affiliated Entities to Tibet Kepei.

Foreign investment in the education industry in the PRC is extensively regulated and subject to numerous restrictions. The Company has been and are expected to continue to be dependent on the Structured Contracts to operate its education business. If the Structured Contracts that establish the structure for operating the Group's China business are found to be in violation of any existing or future PRC laws, rules, regulations or fail to obtain or maintain any of the required permits or approvals, the relevant PRC regulatory authorities, including the Ministry of Education ("MOE"), would have broad discretion in dealing with such violations, including:

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

If any of the above penalties are imposed on the Company, its business, financial condition and results of operations may be materially and adversely affected.

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

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

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

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

(d) the Company and the Directors undertake to provide periodic updates in its annual and interim reports regarding (i) the Qualification Requirement; (ii) the Company's status of compliance with the Foreign Investment Law;

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

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

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

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

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

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

H. Material changes

As of the date of this annual report, there were no material changes in the Structured Contracts and/or the circumstances under which the Structured Contracts were adopted.

I. Unwinding of the Structured Contracts

As of the date of this annual report, there has not been any unwinding of any Structured Contracts, nor has there been any failure to unwind any Structured Contracts when the restrictions that led to the adoption of the Structured Contracts are removed. For more details, please refer to the section headed "Structured Contracts — Termination of the Structured Contracts" of the Prospectus. In the event that the PRC regulatory environment changes and all of the Qualification Requirement, the Foreign Ownership Restriction and the Foreign Control Restriction are removed (and assuming there are no other changes in the relevant PRC laws and regulations), Tibet Kepei will exercise the Equity Call Option in full to unwind the Structured Contracts so that the Company will be able to directly operate the schools without using the Structured Contracts.

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

Confirmation of independent non-executive Directors

The independent non-executive Directors have reviewed the above-mentioned continuing connected transactions (the "Continuing Connected Transactions") and confirmed that, during the relevant financial year:

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

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

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

Confirmation of the Company's auditor

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

After performing the procedures related to continuing connected transactions, Ernst & Young confirmed that:

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

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

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

d. nothing has come to their attention that causes them to believe that dividends or other distributions have been made by the PRC Consolidated Affiliated Entities to the Registered Shareholders which are not otherwise subsequently assigned or transferred to the Group.

Save as disclosed in this annual report, as at the date of this annual report, the Company had no connected transactions or continuing connected transactions which are required to be disclosed in accordance with the provisions under Chapter 14A of the Listing Rules in relation to the disclosure of connected transactions and continuing connected transactions.

RELATED PARTY TRANSACTIONS

Details of the related party transactions entered into by the Group during the Reporting Period are set out in note 31 to the consolidated financial statements. The transactions do not fall under "Connected Transactions" or "Continuing Connected Transactions" in accordance with Chapter 14A of the Listing Rules. The Company confirmed that it has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

NON-COMPETITION UNDERTAKING

As of 31 December 2019, the Controlling Shareholders (as defined in the Listing Rules) do not have any other interest in any business that may, directly or indirectly, compete with the business of the Group.

Under the Structured Contracts, Mr. Ye Nianqiao has provided certain non-competition deed in favor of the Company (the "Non-competition Deed"). For details of the Non-competition Deed, please refer to the Prospectus.

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

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

PERMITTED INDEMNITY PROVISION

The Company has arranged for appropriate insurance cover for Directors' and officers' liabilities in respect of legal actions against its Directors and senior management arising out of corporate activities. The permitted indemnity provision is in force for the benefit of the Directors as required by section 470 of the Companies Ordinance (Chapter 622 of the laws of Hong Kong) where the Report of the Board of the Directors prepared by the Directors is approved in accordance with section 391(1)(a) of the Companies Ordinance.

DONATIONS

During the Reporting Period, no charitable and other donations were made by the Group (during the year ended 31 December 2018: RMB1,585,000).

CORPORATE GOVERNANCE

Details are set out in the Corporate Governance Report on pages 67 to 83 of this annual report.

SUFFICIENCY OF PUBLIC FLOAT

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

SIGNIFICANT LEGAL PROCEEDINGS AND COMPLIANCE

During the Reporting Period, the Company was not engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatening against the Company.

During the Reporting Period and up to the date of this annual report, to the best knowledge of the Directors, the Group complied with laws and regulations in all significant aspects.

AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee") had reviewed the accounting principles and policies adopted by the Group and the consolidated financial statements prepared in accordance with HKFRSs for the year ended 31 December 2019.

AUDITOR

Ernst & Young was appointed as the auditor of the Company for the year ended 31 December 2019. The accompanying consolidated financial statements prepared in accordance with HKFRSs have been audited by Ernst & Young.

The Company has been hiring Ernst & Young since the date of preparation for its Listing. Ernst & Young retires and a resolution for its reappointment as auditor of the Company will be proposed at the forthcoming AGM.

POST BALANCE SHEET EVENTS

The material post balance sheet events are disclosed in note 35 to the consolidated financial statements.

On behalf of the Board

Ye Nianqiao
Chairman
Hong Kong, 27 March 2020

Corporate Governance Report

The Board is pleased to present this Corporate Governance Report in the Company's annual report for the year ended 31 December 2019.

CORPORATE GOVERNANCE PRACTICES

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

THE RESPONSIBILITIES OF THE BOARD

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

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

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

Board Composition

As at the date of this annual report, the Board comprises nine Directors, including five executive Directors, one non-executive Director and three independent non-executive Directors as follows:

Name	Position
Ye Nianqiao	Executive Director *(Chairman and chief executive officer)*
Zhang Xiangwei	Executive Director
Zha Donghui	Executive Director
Li Yan	Executive Director
Ye Xun	Executive Director
Wang Chuanwu	Non-executive Director
Xu Ming	Independent Non-executive Director
Deng Feiqi	Independent Non-executive Director
Li Xiaolu	Independent Non-executive Director

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

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

The Company has also complied with Rule 3.10A of the Listing Rules relating to the appointment of independent non-executive Directors representing at least one-third of the Board. As each of the independent non-executive Directors has confirmed his/her independence pursuant to Rule 3.13 of the Listing Rules during the period from the Listing Date and up to the date of this annual report, the Company considers all of them to be independent parties.

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

The Board adopted a diversity policy which sets out the objective and provides that all appointments of the members of the Board should be made on merit, in the content of the talents, skills and experience the Board as a whole requires to be effective. The Nomination Committee will review and assesses the composition of the Board and make recommendations to the Board on appointment of members of the Board. Meanwhile, the Nomination Committee will consider the benefits of all aspects of diversity, including without limitation, professional experience, skills, knowledge, education background, age, gender, cultural and ethnicity and length of service, in order to maintain an appropriate range and balance of talents, skills, experience and diversity of perspectives on the Board.

The Nomination Committee has reviewed such board diversity policy for the year ended 31 December 2019. During the Reporting Period, the Company's existing composition of independent non-executive Directors as well as its senior management team are highly diverse in age, educational background and professional experience.

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

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

Induction and Continuous Professional Development

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

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

The record of professional training received by the Directors during the Reporting Period is as follows:

Name of Directors	Nature of Continuous Professional Development Programmes
Executive Directors	
Ye Nianqiao	A/B/C/D
Zhang Xiangwei	A/B/C/D
Zha Donghui	A/C/D
Li Yan	A/C/D
Ye Xun	A/C/D
Non-executive Director	
Wang Chuanwu	A/C/D
Independent Non-executive Directors	
Xu Ming	A/C/D
Deng Feiqi	A/C/D
Li Xiaolu	A/C/D

Notes:

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

B: Giving talks in the seminars and/or meetings and/or forums

C: Attending training relevant to the Company's business conducted by lawyers

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

Chairman and Chief Executive Officer

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

Mr. Ye Nianqiao currently serves as the chairman of the Board, executive Director and chief executive officer and general manager of the Company. Throughout the Group's business history, Mr. Ye has been the key leadership figure of the Group who has been primarily involved in the strategic development, overall operational management and major decision making of the Group. Taking into account the continuation of the implementation of the Company's business plans, the Directors consider Mr. Ye is the best candidate for both positions and the present arrangements are beneficial and in the interests of the Company and the Shareholders as a whole.

Appointment and Re-election of Directors

In accordance with the Articles of Association, the Board shall have power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy or as an addition to the Board. Any Director so appointed shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election at that meeting.

At every annual general meeting of the Company, one-third of the Directors for the time being (or, if their number is not three or a multiple of three, then the number nearest to, but not less than, one-third) shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years.

None of the Directors has or is proposed to have a service contract with us or any of our subsidiaries (other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation)).

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

Nomination Policy

A director nomination policy (the "Nomination Policy") adopted by the Board aims to enhancing transparency and accountability of the nomination process of Directors and enabling the Company to ensure the Board has a balance of skills and experience and diversity of perspectives appropriate to the requirements of the Company's business.

Under the Nomination Policy, the Nomination Committee is responsible for selecting suitable candidates and giving recommendations to the Board on appointment of Directors. The selection criteria for assessing the suitability of a proposed candidate which shall be taken as reference by the Nomination Committee includes: character and integrity, professional qualifications, skills, knowledge and experience that are relevant to the Company's business and strategy, the potential contribution to the Board from the diversity aspects, and any other factors as the Nomination Committee may deem fit to consider in the best interests of the Company and its Shareholders. These above selection criteria are not exhaustive and conclusive and the Nomination Committee has the discretion to nominate any person as it considers appropriate.

Under the Nomination Policy, upon obtaining the required information from the candidate, the Nomination Committee shall convene a meeting to discuss and consider the recommendation of the candidate to the Board for appointment as a Director. The Nomination Committee shall review whether the candidate is qualified to be appointed, elected or re-elected into the Board under the relevant Listing Rules and the policies of the Company. In particular, the Nomination Committee shall consider the potential contribution a Candidate can bring to the Board in terms of qualification, skills, experience, independence and gender diversity.

Nomination Process of the Appointment of New Director

1. The Nomination Committee and/or the Board should, upon receipt of the proposal on appointment of new Director and the biographical information (or relevant details) of the candidate, evaluate such candidate based on the criteria as set out above to determine whether such candidate is qualified for directorship.

2. The Nomination Committee should then recommend to the Board to appoint the appropriate candidate for directorship (where applicable).

3. For any person that is nominated by a Shareholder for election as a Director at the general meeting of the Company, the Nomination Committee and/or the Board should evaluate such candidate based on the criteria as set out above and, where appropriate, make recommendation to Shareholders in respect of the proposed election of Director at the general meeting.

Board Meetings

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

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

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

During the Reporting Period, four Board meetings and one annual general meeting were held and the attendance of each Director at the meetings is set out in the table below:

Directors	Attended/Eligible to attend Board meeting(s)	 Annual general meeting
Executive Directors		
Ye Nianqiao	4/4	1/1
Zhang Xiangwei	4/4	1/1
Zha Donghui	4/4	1/1
Li Yan	4/4	1/1
Ye Xun	4/4	1/1
Non-executive Director		
Wang Chuanwu	4/4	1/1
Independent Non-executive Directors		
Xu Ming	4/4	1/1
Deng Feiqi	4/4	1/1
Li Xiaolu	4/4	1/1

Model Code for Securities Transactions

The Company has adopted the Model Code as its own code of conduct regarding Directors' securities transactions. Having made specific enquiries of all the Directors, each of the Directors has confirmed that he/she has complied with the required standards as set out in the Model Code during the Reporting Period.

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

Delegation by the Board

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

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

Corporate Governance Function

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

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

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

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

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

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

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

BOARD COMMITTEES

Audit Committee

The Audit Committee comprises three members, including two independent non-executive Directors namely Dr. Xu Ming (chairman) and Dr. Deng Feiqi and one non-executive Director namely Mr. Wang Chuanwu.

The principal duties of the Audit Committee include the following:

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

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

3. To review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures, including the adequacy of the resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function.

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

During the Reporting Period, the Audit Committee held two meetings and the attendance of the Audit Committee members at these meetings is set out in the table below:

Name of Directors	Attended/Eligible to attend
Dr. Xu Ming *(chairman)*	2/2
Mr. Wang Chuanwu	2/2
Dr. Deng Feiqi	2/2

During the Reporting Period, the Audit Committee reviewed the annual results and reports for the year ended 31 December 2018 and the interim results and report for the six months ended 30 June 2019, significant issues on the financial reporting and compliance procedures, internal control and risk management systems, scope of work and appointment of external auditor. Having reviewed the effectiveness of the external audit process as well as the independence, the Audit Committee is satisfied with this relationship.

The Group's annual audited results for the year ended 31 December 2019 have been reviewed by the Audit Committee on 27 March 2020.

Nomination Committee

The Nomination Committee currently comprises three members, including one executive Director namely Mr. Ye Nianqiao (chairman) and two independent non-executive Directors namely Dr. Deng Feiqi and Dr. Li Xiaolu. The principal duties of the Nomination Committee include the following:

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

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

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

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

5. perform tasks assigned by the Board from time to time.

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

The Company recognizes and embraces the benefits of having a diverse Board to enhance its performance and has adopted a board diversity policy aiming to set out the approach to achieve diversity on the Board. The implementation of the policy is monitored by the Nomination Committee. In designing the Board's composition, board diversity has been considered from a number of measurable objectives, including but not limited to, gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The Nomination Committee will continue to monitor the implementation of the board diversity policy and will review the board diversity policy periodically to ensure its continued effectiveness.

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

During the Reporting Period, the Nomination Committee held one meeting to review the nomination procedures and the composition and diversity of the Board and was satisfied with the current procedures and composition.

The attendance of each Nomination Committee members at this meeting is set out in the table below:

Name of Directors	Attended/Eligible to attend
Mr. Ye Nianqiao *(chairman)*	1/1
Dr. Deng Feiqi	1/1
Dr. Li Xiaolu	1/1

Remuneration Committee

The Remuneration Committee comprises three members, including two independent non-executive Directors namely Dr. Deng Feiqi (chairman) and Dr. Li Xiaolu, and one executive Director namely Mr. Zha Donghui. The principal duties of the Remuneration Committee include the following:

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

2. to review and approve the management's remuneration proposals with reference to the corporate goals and objectives determined by the Board;

3. to determine the remuneration packages of individual executive Directors and senior management. These include benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment;

4. to make recommendations to the Board on the remuneration of non-executive Directors;

5. to consider salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Group;

6. to review and approve compensation payable to executive Directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;

7. to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate; and

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

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

During the Reporting Period, the Remuneration Committee held one meeting in order to reviewed and discussed the remuneration policy and structure of the Company, and the remuneration packages of the executive Directors and senior management and other related matters of the Company. The Remuneration Committee ensured that no individual or any of his associates was involved in determining his own remuneration. It also ensured that remuneration awards were determined by reference to the performance of the individual and the Company and were aligned to the market practice and conditions, the Company's goals and strategies. No changes on the policy were recommended by the Remuneration Committee.

The attendance of each Remuneration Committee members at this meeting is set out in the table below:

Name of Directors	Attended/Eligible to attend
Dr. Deng Feiqi *(chairman)*	1/1
Mr. Zha Donghui	1/1
Dr. Li Xiaolu	1/1

Remuneration of Directors and Senior Management

Details of the remuneration by band of the members of the Board and senior management of the Company, whose biographies are set out on pages 26 to 31 of this annual report, for the year ended 31 December 2019 are set out below:

Remuneration band	Number of individual
RMB1 million to RMB2 million	1
RMB0 to RMB1 million	9

DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING IN RESPECT OF FINANCIAL STATEMENTS

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

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

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

The statement by the auditor regarding their reporting responsibilities on the consolidated financial statements of the Company is set out in the Independent Auditor's Report on pages 84 to 90 of this annual report.

RISK MANAGEMENT AND INTERNAL CONTROL

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

The Group's internal audit department plays a major role in monitoring the internal governance of the Company. The major tasks of the internal audit department are reviewing the internal control of the Company and conducting comprehensive audits of all branches and subsidiaries of the Company on a regular basis.

Under the Company's risk management and internal control structure, the management is responsible for the design, implementation and maintenance of risk management and internal control systems to ensure, amongst others, (i) appropriate policies and control procedures have been designed and established to safeguard the Group's assets against improper use or disposal; (ii) relevant laws, rules and regulations are adhered to and complied with; and (iii) that reliable financial and accounting records are maintained in accordance with relevant accounting standards and regulatory reporting requirements.

The main features of risk management and internal control structure of the Company are as follows:

- heads of major operation units or departments manage risks through identification and mitigating risks identified in accordance with the internal guidelines approved by the Board and the Audit Committee;

- the management ensures appropriate actions are taken on major risks affecting the Group's businesses and operations; and

- internal auditors provide independent assurance to the Board, the Audit Committee and the management concerning the effectiveness of risk management and internal control systems.

During the Reporting Period, major works performed by the management in relation to risk management and internal control include the following:

- each major operation unit or department was responsible for daily risk management activities, including identifying major risks that may impact on the Group's performance; assessing and evaluating the identified risks according to their likely impacts and the likelihood of occurrence; formulating and implementing measures, controls and response plans to manage and mitigate such risks;

- the management, together with the controller's department, monitored and reviewed the risk management and internal control systems on an ongoing basis and reported to the Audit Committee regarding the status of the systems;

- the management periodically followed-up and reviewed the implementation of the measures, controls and response plans to major risks identified in order to make sure that sufficient attention, monitor and responses were paid to all major risks identified;

- the management reviewed the risk management and internal control systems periodically to identify process and control deficiencies, and designed and implemented corrective actions to address such deficiencies; and

- the management ensured appropriate procedures and measures such as safeguarding assets against unauthorized use or disposition, controlling capital expenditure, maintaining proper accounting records and ensuring the reliability of financial information used for business and publications, etc. are in place.

The internal audit function of the Company monitored the internal governance of the Company and provided independent assurances as to the adequacy and effectiveness of the Company's risk management and internal control systems. The senior executive in charge of the internal audit function reported directly to the Audit Committee. The internal audit reports on control effectiveness were submitted to the Audit Committee in line with agreed audit plan approved by the Board. All Directors were informed of the findings of internal audit assignments. During the Reporting Period, the internal audit function carried out an analysis and independent appraisal of the adequacy and effectiveness of the risk management and internal control systems of the Company through, amongst others, examination of risk-related documentation prepared by operation units and the management and conducting interviews with employees at all levels. The senior executives in charge of the internal audit function attended meetings of the Audit Committee to explain the internal audit findings and responded to queries from members of the Audit Committee.

The Company has maintained internal guidelines for ensuring that inside information is disseminated to the public in an equal and timely manner in accordance with the applicable laws and regulations. Senior executives of the investor's relation, corporate affairs and financial control functions of the Group are delegated with responsibilities to control and monitor the proper procedures to be observed on the disclosure of inside information. Access to inside information is at all times confined to relevant senior executives and confined on "need-to-know" basis. Relevant personnel and other professional parties involved are reminded to preserve confidentiality of the inside information until it is publicly disclosed. Other procedures such as pre-clearance on dealing in Company's securities by the Directors and designated members of the management, notification of regular blackout period and securities dealing restrictions to Directors and employees, and identification of project by code name have also been implemented by the Company to guard against possible mishandling of inside information within the Group.

The Company has adopted arrangement to facilitate employees and other stakeholders to raise concerns, in confidence, about possible improprieties in financial reporting, internal control or other matters. The Audit Committee reviewed such arrangement regularly and ensured that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action.

During the Reporting Period, the Audit Committee reviewed the effectiveness of the risk management and internal control systems of the Company. The annual review included works such as (i) review of reports submitted by heads of operation units or departments and the management regarding the implementation of the risk management and internal control systems; (ii) periodic discussions with the management and senior executives regarding the effectiveness of the risk management and internal control systems and the works of the internal audit function. Such discussions include the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting, internal audit and financial reporting functions; (iii) evaluation on the scope and quality of management's ongoing monitoring of the risks management and internal control systems; (iv) review of the effectiveness of the internal audit function to ensure coordination within the Group and between the Company's internal and external auditors and to ensure the internal audit function is adequately resourced and has appropriate standing within the Group; and (v) made recommendations to the Board and the management on the scope and quality of the management's ongoing monitoring of the risk management and internal control systems.

The Board has conducted a review of the effectiveness of the risk management and internal control systems of the Group and considered such systems to be effective and adequate. Such systems, however, 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.

AUDITOR'S REMUNERATION

The Company appointed Ernst & Young as the independent auditor for the year ended 31 December 2019. For the year ended 31 December 2019, the total fees paid/payable, including disbursements, in respect of the audit service provided by the Group's independent auditor are set out below:

Item of auditor's service	Amount RMB'000
Audit service:	
Annual audit service	2,600
Total	2,600

JOINT COMPANY SECRETARIES

Ms. Li Yan ("Ms. Li"), being one of the joint company secretaries of the Company, is responsible for advising the Board on corporate governance matters and ensuring that the Board policies and procedures, as well as the applicable laws, rules and regulations are followed.

In order to uphold good corporate governance and ensure compliance with the Listing Rules and applicable Hong Kong laws, the Company also engages Ms. Leung Suet Wing ("Ms. Leung"), a manager of TMF Hong Kong Limited (a company secretarial services provider), as one of the joint company secretaries of the Company to assist Ms. Li to discharge her duties as a company secretary of the Company. Ms. Li is the primary contact person of the Company.

During the Reporting Period, Ms. Li and Ms. Leung 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 the Shareholders is essential for enhancing investor relations and understanding of the Group's business, performance and strategies. The Company also recognizes the importance of timely and non-selective disclosure of information, which will enable Shareholders and investors to make the informed investment decisions.

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

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

SHAREHOLDERS' RIGHTS

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

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

CONVENING OF EXTRAORDINARY GENERAL MEETING AND PUTTING FORWARD PROPOSALS

Pursuant to the Articles of Association, a general meeting shall be convened by the Company on the written requisition of any two or more members deposited at the principal office of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office specifying the objects of the meeting and signed by the requisitionists, provided that such requisitionists held as at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company. General meetings may also be convened on the written requisition of any one member which is a recognised clearing house (or its nominee(s)) deposited at the principal office of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office specifying the objects of the meeting and signed by the requisitionist, provided that such requisitionist held as at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company. If the Board does not within 21 days from the date of deposit of the requisition proceed duly to convene the meeting to be held within a further 21 days, the requisitionist(s) themselves or any of them representing more than one-half of the total voting rights of all of them, may convene the general meeting in the same manner, as nearly as possible, as that in which meetings may be convened by the Board provided that any meeting so convened shall not be held after the expiration of three months from the date of deposit of the requisition, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to them by the Company.

ENQUIRIES TO THE BOARD

Shareholders who intend to put forward their enquiries about the Company to the Board could send their enquiries to the headquarters of the Company at Qifu Road, Gaoyao District, Zhaoqing City, Guangdong Province, the PRC (email address: ir@kepeieducation.com).

CHANGE IN CONSTITUTIONAL DOCUMENTS

The Company has adopted the amended and restated memorandum and articles of association of the Company by special resolution passed on 10 January 2019 and effective on 25 January 2019. Saved as disclosed, there was no change in the memorandum and articles of association of the Company during the Reporting Period.

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 Kepei Education Group Limited
(Incorporated in the Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of China Kepei Education Group Limited (the "Company") and its subsidiaries (the "Group") set out on pages 91 to 182, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated 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 Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") 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 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
Income tax	
As set out in note 10 to the financial statements, according to the Implementation Rules for the Law for Promoting Private Education (the "Implementation Rules"), private schools for which the school sponsors do not require reasonable returns are eligible to enjoy the same preferential tax treatments as public schools. The preferential tax treatment policies applicable to private schools requiring reasonable returns are to be separately formulated by the relevant authorities under the State Council. No corporate income tax was provided on the income from the Group's private schools, Guangdong Polytechnic College which has elected to be a private school does not require reasonable returns and Zhaoqing Science and Technology Secondary Vocational School which has elected to be a private school requires reasonable returns, in the People's Republic of China (the "PRC Schools"). In accordance with the historical tax returns filed to the relevant tax authorities and the historical tax compliance confirmations obtained, the PRC Schools did not pay corporate income tax for the income from formal educational services and have enjoyed the preferential tax treatment since their establishment. As a result, no income tax expense was recognised for the income from the provision of educational services during the year.	The audit procedures included the following: • discussed with the management to evaluate their interpretation of the tax laws and their assessment of the tax obligations of the PRC Schools for the year; • evaluated the management's assessment on the application of preferential tax or applicable tax rate to the respective schools; • discussed with the Group's PRC external legal advisors to understand their view with respect to the interpretation of the existing applicable laws which would have impact on the applicable tax on the respective schools; • obtained the Group's PRC external legal advisor's comments on the tax obligations applied onto the PRC Schools, in particular, whether or not the PRC Schools were required by their respective tax authorities to pay income tax by the end of year 2019 and whether the PRC Schools which enjoyed such preferential tax treatments were in compliance with applicable laws and regulations in China; • examined the historical tax filing returns filed to the relevant tax authorities and the historical tax compliance confirmations obtained, where appropriate;

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
There were significant judgements involved in management's analysis and assessment, such as the assessment on the possible outcome of the tax provision based on historical experiences and interpretation of the relevant tax laws and regulations in respect of the preferential tax treatment enjoyed by the PRC Schools. Relevant disclosures are included in notes 3 and 10 to the financial statements.	• assessed any new policies, regulations or rules that have been introduced by the authorities, which might have an impact on the tax position taken by the Group up to the date of this report; • involved our internal tax specialist to assist us in assessing the uncertainties arising from the preferential tax treatment enjoyed by the PRC Schools; and • evaluated the adequacy of the Group's disclosures regarding income tax.

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
Revenue recognition	
Revenue mainly comprised the tuition fees and boarding fees from students, and these fees are collected at the beginning of each academic year. Students' identity and applicable program are registered with the relevant education authorities. Tuition and boarding fees are calculated by reference to the number of students and the annual fee of applicable program for the academic year, and are recognised proportionately over the relevant period of the applicable program. For the portion of tuition and boarding fees received from students but not earned is recorded as contract liabilities. Given the significant amount and volume of transactions and the risk of overstatement of revenue, we considered it a key audit matter. The accounting policy for revenue recognition and disclosures of the amount of revenue are included in notes 2.4 and 5 to the financial statements.	The audit procedures included the following: • gained an understanding of the basis of revenue recognition and the overall process of transactions relating to revenue and evaluated the effectiveness of the controls designed and applied by the Group over the collection of tuition and boarding fees and the controls over the calculation of the contract liabilities and corresponding amount of revenue; • performed analytical review to evaluate the revenue recognised regarding the tuition fees and boarding fees; • on a sample basis, examined the relevant supporting documentation of tuition and boarding fees including students' register forms, payment records, official student records registered with the relevant PRC education authorities, and the payment remittance receipts of tuition and boarding fees; • recalculated the amount of revenue and contract liabilities recognised during the year; and • reconciled the number of newly enrolled students during the year to the enrolment approval by the relevant PRC education authorities, and the total number of students at the fiscal year end to the records on the China Credentials Verification website.

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

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

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

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

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

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

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

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

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

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

Auditor's responsibilities for the audit of the consolidated financial statements (continued)

- 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 M. L. Chau.

Ernst & Young
Certified Public Accountants
Hong Kong

27 March 2020

Consolidated Statement of Profit or Loss

Year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
REVENUE	5	**714,215**	575,451
Cost of sales		**(232,424)**	(185,936)
Gross profit		**481,791**	389,515
Other income and gains	5	**81,026**	57,988
Selling and distribution expenses		**(24,344)**	(14,540)
Administrative expenses		**(77,297)**	(77,462)
Other expenses		**(789)**	(4,603)
Finance costs	7	**(1,894)**	(8,975)
Share of profits/(losses) of:			
A joint venture		**222**	33
An equity method investment		**(505)**	—
PROFIT BEFORE TAX	6	**458,210**	341,956
Income tax expense	10	**(1,936)**	—
PROFIT FOR THE YEAR		**456,274**	341,956
Attributable to:			
Owners of the parent		**456,274**	341,956
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	12		
Basic			
— For profit for the year		**RMB0.23**	RMB0.23
Diluted			
— For profit for the year		**RMB0.23**	RMB0.22

Consolidated Statement of Comprehensive Income

Year ended 31 December 2019

	2019 RMB'000	2018 RMB'000
PROFIT FOR THE YEAR	**456,274**	341,956
OTHER COMPREHENSIVE INCOME		
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:		
Equity investments designated at fair value through other comprehensive income:		
Changes in fair value	**28,767**	—
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods	**28,767**	—
OTHER COMPREHENSIVE INCOME FOR THE YEAR	**28,767**	—
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**485,041**	341,956
Attributable to:		
Owners of the parent	**485,041**	341,956

Consolidated Statement of Financial Position

31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**1,422,592**	1,274,380
Right-of-use assets	14(b)	**207,973**	—
Prepaid land lease payments	14(a)	**—**	198,104
Investment in a joint venture	15	**2,170**	1,948
Equity method investment	16	**141,695**	—
Equity investments designated at fair value through other comprehensive income	17	**62,653**	—
Financial assets at fair value through profit or loss	20	**50,136**	—
Prepayments for non-current assets		**93,045**	128,996
Total non-current assets		**1,980,264**	1,603,428
CURRENT ASSETS			
Trade receivables	18	**29,658**	22,650
Prepayments, other receivables and other assets	19	**29,481**	25,144
Financial assets at fair value through profit or loss	20	**271,966**	246,106
Cash and cash equivalents	21	**1,111,749**	432,921
Total current assets		**1,442,854**	726,821
CURRENT LIABILITIES			
Contract liabilities	5	**411,870**	334,564
Other payables and accruals	22	**105,931**	115,643
Interest-bearing bank loans	23	**—**	10,000
Lease liabilities	14(c)	**1,526**	—
Convertible redeemable bond	24	**—**	332,700
Tax payable		**870**	—
Deferred income	25	**808**	808
Total current liabilities		**521,005**	793,715
NET CURRENT ASSETS/(LIABILITIES)		**921,849**	(66,894)
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,902,113**	1,536,534

	Notes	2019 RMB'000	2018 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,902,113**	1,536,534
NON-CURRENT LIABILITIES			
Interest-bearing bank loans	23	**100,000**	100,000
Lease liabilities	14(c)	**9,039**	—
Deferred income	25	**3,161**	3,969
Total non-current liabilities		**112,200**	103,969
Net assets		**2,789,913**	1,432,565
EQUITY			
Equity attributable to owners of the parent			
Share capital	26	**136**	—
Reserves	27	**2,789,777**	1,432,565
Total equity		**2,789,913**	1,432,565

....

Ye Nianqiao

Director

....

Li Yan

Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2019

	Attributable to owners of the parent				
	Share capital RMB'000 Note 26	Capital reserve — others RMB'000 Note 27(b)	Statutory and other surplus reserves RMB'000 Note 27(c)	Retained profits RMB'000	Total RMB'000
At 1 January 2018	—	92,129	298,750	777,730	1,168,609
Profit for the year	—	—	—	341,956	341,956
Total comprehensive income for the year	—	—	—	341,956	341,956
Demerger of non-listing business	—	(78,000)	—	—	(78,000)
Transfer from retained profits	—	—	88,505	(88,505)	—
At 31 December 2018	—	14,129	387,255	1,031,181	1,432,565

Consolidated Statement of Changes in Equity (continued)

Year ended 31 December 2019

	Attributable to owners of the parent						
	Share capital RMB'000 Note 26	Capital reserve — share premium RMB'000 Note 27(a)	Capital reserve — others RMB'000 Note 27(b)	Statutory and other surplus reserves RMB'000 Note 27(c)	Fair value reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2019	—	—	14,129	387,255	—	1,031,181	1,432,565
Profit for the year	—	—	—	—	—	456,274	456,274
Other comprehensive income for the year:							
Changes in fair value of equity investments at fair value through other comprehensive income	—	—	—	—	28,767	—	28,767
Total comprehensive income for the year	—	—	—	—	28,767	456,274	485,041
Transfer of fair value reserve upon the disposal of equity investment at fair value through other comprehensive income (note 17)	—	—	—	—	(4,569)	4,569	—
Injection from the shareholders (note 27(b))	—	—	102	—	—	—	102
Capitalisation issue of shares (notes 26, 27(a))	102	(102)	—	—	—	—	—
Conversion of the convertible redeemable bond (notes 26, 27(a))	10	318,749	—	—	—	—	318,759
Issuance of shares for the Initial Public Offering ("IPO") (notes 26, 27(a))	24	758,720	—	—	—	—	758,744
Issuance of shares under the over-allotment option	—	1,693	—	—	—	—	1,693
Share issue expenses	—	(31,167)	—	—	—	—	(31,167)
Final 2018 dividend declared (notes 11, 27(a))	—	(175,824)	—	—	—	—	(175,824)
Transfer from retained profits (note 27(c))	—	—	—	105,314	—	(105,314)	—
At 31 December 2019	136	872,069*	14,231*	492,569*	24,198*	1,386,710*	2,789,913

* These reserve accounts comprise the consolidated reserves of RMB2,789,777,000 (2018: RMB1,432,565,000) in the consolidated statement of financial position.

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		**458,210**	341,956
Adjustments for:			
Finance costs	7	**1,894**	8,975
Exchange gain, net	5	**(10,636)**	(26,447)
Share of profits and losses of a joint venture and an equity method investment		**283**	(33)
Bank interest income	5	**(21,700)**	(4,565)
Fair value (gains)/losses, net:			
Financial assets at fair value through profit or loss	5	**(12,421)**	(1,389)
Convertible redeemable bond		**(13,941)**	2,700
Government grants related to assets released	5	**(808)**	(808)
Loss on disposal of items of property, plant and equipment	6	**38**	5
Depreciation of property, plant and equipment	13	**66,681**	57,316
Depreciation of right-of-use assets/recognition of prepaid land lease payments	14	**6,103**	4,257
Provision for expected credit losses on trade receivables	18	**4,737**	1,287
		478,440	383,254
Increase in trade receivables		**(11,745)**	(5,809)
(Increase)/decrease in prepayments, other receivables and other assets		**(17,996)**	1,177
(Decrease)/increase in other payables and accruals		**(5,705)**	24,668
Increase in contract liabilities		**77,306**	76,169
Decrease in an amount due to a related party		**—**	(400)
Cash generated from operations		**520,300**	479,059
Bank interest received		**19,741**	4,565
PRC profits tax paid		**(1,066)**	—
Net cash flows from operating activities		**538,975**	483,624

	Note	2019 RMB'000	2018 RMB'000
Net cash flows from operating activities		**538,975**	483,624
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received from financial assets at fair value through profit or loss		**4,506**	—
Decrease/(increase) in prepayments for non-current assets		**35,951**	(123,940)
Decrease in an amount due from a director		**—**	178,110
Decrease in amounts due from related parties		**—**	144,566
Addition to prepaid land lease payments		**—**	(48,451)
Purchases of items of property, plant and equipment		**(210,421)**	(420,214)
Proceeds from disposal of items of property, plant and equipment		**48**	53
Capital injection in an equity method investment		**(142,000)**	—
Purchase of financial assets at fair value through profit or loss		**(1,235,059)**	(244,717)
Proceeds from disposal of financial assets at fair value through profit or loss		**1,166,978**	500
Purchases of equity investments designated at fair value through other comprehensive income		**(56,612)**	—
Proceeds from disposal of an equity investment designated at fair value through other comprehensive income		**22,726**	—
Net cash flows used in investing activities		**(413,883)**	(514,093)
CASH FLOWS FROM FINANCING ACTIVITIES			
Injection from the shareholders		**102**	—
Proceeds from issue of shares		**760,437**	—
Share issue expenses		**(20,143)**	—
Proceeds from issue of the convertible redeemable bond	24	**—**	330,000
New bank loans		**—**	271,121
Repayments of bank loans		**(10,000)**	(516,121)
Interest paid		**(10,659)**	(17,115)
Principal portion of lease payments		**(813)**	—
Dividends paid		**(175,824)**	—
Net cash flows from financing activities		**543,100**	67,885

	Note	2019 RMB'000	2018 RMB'000
NET INCREASE IN CASH AND CASH EQUIVALENTS		**668,192**	37,416
Cash and cash equivalents at beginning of year		**432,921**	369,058
Effect of foreign exchange rate changes, net		**10,636**	26,447
CASH AND CASH EQUIVALENTS AT END OF YEAR	21	**1,111,749**	432,921
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	21	**535,623**	432,921
Non-pledged time deposits with original maturity of less than three months when acquired	21	**576,126**	—
Cash and cash equivalents as stated in the statement of financial position		**1,111,749**	432,921
Cash and cash equivalents as stated in the statement of cash flows		**1,111,749**	432,921

1 Corporate and group information

China Kepei Education Group Limited (the "Company") was incorporated in the Cayman Islands on 24 August 2017 as an exempted company with limited liability under the Companies Law of the Cayman Islands. The address of the registered office of the Company is P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. The Company was listed on the Main Board of the Stock Exchange of Hong Kong Limited on 25 January 2019.

The principal activity of the Company is investment holding. During the year, the Company and its subsidiaries (collectively referred to as the "Group") were principally engaged in providing private education services in the People's Republic of China (the "PRC").

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

Information about subsidiaries

Particulars of the Company's subsidiaries are as follows:

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Huanan Education Group Limited&	BVI	US$50,000	100%	—	Investment holding
China Kepei Education (Hong Kong) Limited	Hong Kong	HK$1	—	100%	Investment holding
International Academy of Southern California&	Milpitas, California, USA	HK$10,000	—	100%	Dormant
Zhaoqing Kepei Information Technology Company Limited 肇慶科培信息科技有限公司 ("Zhaoqing Kepei Information Technology")*^&	PRC/ Mainland China	RMB300,000,000	—	100%	Education management and provision of education services

1 Corporate and group information (continued)

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Tibet Kepei Information Technology Company Limited 西藏科培信息科技有限公司 ("Tibet Kepei")*^&	PRC/ Mainland China	RMB1,000,000	—	100%	Education management and provision of education services
Zhaoqing Kepei Education Investment Development Company Limited 肇慶市科培教育投資開發有限公司 ("Zhaoqing Kepei")*#&	PRC/ Mainland China	RMB200,000,000	—	100%	Investment holding
Guangdong Polytechnic College 廣東理工學院*#&	PRC/ Mainland China	RMB90,000,000	—	100%	Provision of undergraduate and junior college education services
Zhaoqing Science and Technology Secondary Vocational School 肇慶市科技中等職業學校*#&	PRC/ Mainland China	—	—	100%	Provision of secondary vocational education services

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

^ Zhaoqing Kepei Information Technology and Tibet Kepei are registered as wholly-foreign-owned enterprise under PRC law.

These entities are owned through contractual arrangements.

& The statutory financial statements of these entities are not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

2.1 Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance.They have been prepared under the historical cost convention,except for certain financial instruments and the convertible redeemable bond which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

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

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

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

(b) rights arising from other contractual arrangements; and

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

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

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

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

2.1 Basis of preparation (continued)

Basis of consolidation (continued)

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

2.2 Changes in accounting policies and disclosures

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

Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*
HKFRS 16	*Leases*
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*
HK(IFRIC) — Int 23	*Uncertainty over Income Tax Treatments*
Annual Improvements to HKFRSs 2015–2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

Except for the amendments to HKFRS 9, HKAS 19 and *Annual Improvements to HKFRSs 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 HKFRSs are described below:

(a) HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC) — Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC) — Int 15 *Operating Leases — Incentives* and HK(SIC) — Int 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 HKFRS 16 is substantially unchanged from HKAS 17. Lessors continue to classify leases as either operating or finance leases using similar principles as in HKAS 17.

    The Group has adopted HKFRS 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 as an adjustment to the opening balance of retained earnings at 1 January 2019, and the comparative information for 2018 was not restated and continues to be reported under HKAS 17 and related interpretation.

2.2 Changes in accounting policies and disclosures (continued)

(a) (continued)

New definition of a lease

Under HKFRS 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 HKAS 17 and HK(IFRIC)-Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

As a lessee — Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

The Group has lease contracts for leasehold lands and buildings. 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 HKFRS 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).

Impacts 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 statement of financial position immediately before 1 January 2019.

All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position. This includes the lease assets of RMB202,698,000 that were reclassified from prepaid land lease payments and prepayments, other receivables and other assets.

The Group has used the following elective practical expedient when applying HKFRS 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

2.2 Changes in accounting policies and disclosures (continued)

(a) (continued)

Financial impacts at 1 January 2019

The impacts arising from the adoption of HKFRS 16 as at 1 January 2019 are as follows:

	Increase/(decrease) RMB'000
Assets	
Increase in right-of-use assets	**208,380**
Decrease in prepaid land lease payments	**(198,104)**
Decrease in prepayments, other receivables and other assets (note 19)	**(4,594)**
Increase in total assets	**5,682**
Liabilities	
Increase in lease liabilities	**5,682**
Increase in total liabilities	**5,682**

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	6,414
Weighted average incremental borrowing rate as at 1 January 2019	5.23%
Discounted operating lease commitments at 1 January 2019	5,682
Lease liabilities as at 1 January 2019	**5,682**

(b) Amendments to HKAS 28 clarify that the scope exclusion of HKFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies HKFRS 9, rather than HKAS 28, including the impairment requirements under HKFRS 9, in accounting for such long-term interests. HKAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group assessed its business model for its long-term interests in the associate and joint venture upon adoption of the amendments on 1 January 2019 and concluded that the long-term interests in the associate and joint venture continued to be measured using the equity method in accordance with HKAS 28. No long-term interests that in substance form part of the net investment in the associate or joint venture were recognised by the Group. Accordingly, the amendments did not have any impact on the financial position or performance of the Group.

2.2 Changes in accounting policies and disclosures (continued)

(c) HK(IFRIC)-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically includes 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 whether it has any uncertain tax positions arising from 1) the preferential tax treatment of the schools within the Group; and 2) the transfer pricing on its intergroup transaction. Based on the Group's tax compliance and transfer pricing study, the Group determined that it is probable that its tax treatments will be accepted by the tax authorities. Accordingly, the interpretation did not have any impact on the financial position or performance of the Group.

2.3 Issued but not yet effective HKFRSs

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

Amendments to HKFRS 3	*Definition of a Business*[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[2]
Amendments to HKAS 1 and HKAS 8	*Definition of Material*[1]

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

2 No mandatory effective date yet determined but available for adoption

Further information about those HKFRSs that are expected to be applicable to the Group is described below:

Amendments to HKFRS 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.

2.3 Issued but not yet effective HKFRSs (continued)

Amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 (2011) was removed by the HKICPA in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

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

2.4 Summary of significant accounting policies

Investments in associates, joint ventures and other equity method investments

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

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

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

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

2.4 Summary of significant accounting policies (continued)

Investments in associates, joint ventures and other equity method investments (continued)

When there has been a change recognised directly in the equity of the associate or joint venture or other equity method investment, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates or joint ventures or other equity method investment are eliminated to the extent of the Group's investments in the associates or joint ventures or other equity method investment, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates or joint ventures is included as part of the Group's investments in associates or joint ventures.

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

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

Fair value measurement

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

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

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

2.4 Summary of significant accounting policies (continued)

Fair value measurement (continued)

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

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

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

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

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

Impairment of non-financial assets

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

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

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

2.4 Summary of significant accounting policies (continued)

Related parties

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

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

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

(ii) has significant influence over the Group; or

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

or

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

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

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

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

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

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

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

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

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

2.4 Summary of significant accounting policies (continued)

Property, plant and equipment and depreciation

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

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

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

Property and buildings	2.4%
Electronic devices	12.5%~19.4%
Motor vehicles	9.7%
Furniture and fixtures	9.7%~19.4%

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

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

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

2.4 Summary of significant accounting policies (continued)

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.

At inception or on reassessment of a contract that contains a lease component and a non-lease component, the Group adopts the practical expedient not to separate a non-lease component and to account for the lease component and the associated non-lease component (e.g., property management services for leases of properties) as a single lease component.

(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. Where applicable, the cost of a right-of-use asset also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located. 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	42 to 50 years
Property and buildings	5 to 6 years

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

(b) Lease liabilities

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

2.4 Summary of significant accounting policies (continued)

Leases (applicable from 1 January 2019) (continued)

Group as a lessee (continued)

(b) Lease liabilities (continued)

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

(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 and buildings (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. When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

Group as a lessor

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

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. Rental income is accounted for on a straight-line basis over the lease terms and is included in other income and gains in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as other income in the period in which they are earned.

Leases that transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, are accounted for as finance leases.

2.4 Summary of significant accounting policies (continued)

Leases (applicable before 1 January 2019)

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

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

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

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

Investments and other financial assets

Initial recognition and measurement

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

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

2.4 Summary of significant accounting policies (continued)

Investments and other financial assets (continued)

Initial recognition and measurement (continued)

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

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

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

Subsequent measurement

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

(a) Financial assets at amortised cost (debt instruments)

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

(b) Financial assets at fair value through OCI (debt instruments)

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to the statement of profit or loss.

2.4 Summary of significant accounting policies (continued)

Investments and other financial assets (continued)

Subsequent measurement (continued)

(c) Financial assets designated at fair value through OCI (equity instruments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under HKAS 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 statement of profit or loss. Dividends are recognised as other income in the statement of profit or loss 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 OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

(d) Financial assets at fair value through profit or loss

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

This category includes derivative instruments and equity investments which the Group had not irrevocably elected to classify at fair value through OCI. Dividends on equity investments classified as financial assets at fair value through profit or loss are also recognised as other income in the statement of profit or loss 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.

Derecognition of financial assets

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

- the rights to receive cash flows from the asset have expired; or

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

2.4 Summary of significant accounting policies (continued)

Derecognition of financial assets (continued)

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the 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 one year past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

2.4 Summary of significant accounting policies (continued)

Impairment of financial assets (continued)

General approach (continued)

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 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.

For trade receivables that contain a significant financing component and lease receivables, the Group chooses as its accounting policy to adopt the simplified approach in calculating ECLs with policies as described above.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include other payables, interest-bearing bank loans, lease liabilities and the convertible redeemable bond.

2.4 Summary of significant accounting policies (continued)

Financial liabilities (continued)

Subsequent measurement

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

(a) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in HKFRS 9 are satisfied. Gains or losses on liabilities designated at fair value through profit or loss are recognised in the statement of profit or loss, except for the gains or losses arising from the Group's own credit risk which are presented in other comprehensive income with no subsequent reclassification to the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

(b) Financial liabilities at amortised cost (loans and borrowings)

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

2.4 Summary of significant accounting policies (continued)

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

Convertible redeemable bond

The convertible redeemable bond with embedded derivatives whose economic risks and characteristics are not closely related to those of the host contract (the liability component) as a whole is designated as a financial liability at fair value through profit or loss on initial recognition.

The Group designates the convertible redeemable bond as a financial liability at fair value through profit or loss. It is initially recognised at fair value. Any directly attributable transaction costs are recognised in the statement of profit or loss.

Subsequent to initial recognition, the convertible redeemable bond is carried at fair value with changes in fair value recognised in the statement of profit or loss.

Cash and cash equivalents

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

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

2.4 Summary of significant accounting policies (continued)

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

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

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

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates, joint ventures and equity method investments, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, and the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates, joint ventures and equity method investments, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

2.4 Summary of significant accounting policies (continued)

Income tax (continued)

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

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

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

Government grants

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

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments.

Revenue recognition

Revenue from contracts with customers

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

Specifically, the Group applies a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price

2.4 Summary of significant accounting policies (continued)

Revenue recognition (continued)

Revenue from contracts with customers (continued)

- Step 4: Allocate the transaction price to the performance obligations in the contract

- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the services underlying the particular performance obligation is transferred to customers. If control of the services transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at the point in time when the customer obtains control of the services.

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

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

Other education service fees from the provision of other education services to students are collected in advance on a lump sum basis. Revenue is recognised proportionately over the periods of the applicable program.

Other income

Rental income is recognised on a time proportion basis over the lease terms. Variable lease payments that do not depend on an index or a rate are recognised as income in the accounting period in which they are incurred.

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

2.4 Summary of significant accounting policies (continued)

Contract balances

Contract assets

A contract asset is the right to consideration in exchange for services transferred to the customer. If the Group performs by transferring services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional. Contract assets are subject to impairment assessment, details of which are included in the accounting policies for impairment of financial assets.

Trade receivables

A receivable represents the Group's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due).

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 services. Contract liabilities are recognised as revenue when the Group performs the obligation under the contract (i.e., transfers control of the related services to the customer).

Employee benefits

Pension scheme

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. The subsidiaries operating in Mainland China are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension scheme. No forfeited contributions may be used by the employer to reduce the existing level of contribution.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

2.4 Summary of significant accounting policies (continued)

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the financial statements.

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

Foreign currencies

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

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

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

3 Significant accounting judgements and estimates

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

Judgements

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

Contractual arrangements

Guangdong Polytechnic College and Zhaoqing Science and Technology Secondary Vocational School (the "PRC Schools") are mainly engaged in the provision of education services, which falls in the scope of "Catalogue of Restricted Foreign Investment Industries" that foreign investors are prohibited to invest.

The Group exercises control over the PRC Schools and enjoys all economic benefits of the PRC Schools through a series of contractual arrangements.

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

Current and deferred taxes

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 and such changes to tax liabilities will impact the tax expense in the period in which such determination is made. Further details of the current and deferred taxes are set out in note 10 to the financial statements.

3 Significant accounting judgements and estimates (continued)

Estimation uncertainty

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

Provision for expected credit losses on trade receivables

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

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

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of a customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in note 18 to the financial statements.

Impairment of non-financial assets (other than goodwill)

The Group assessed whether there are any indicators of impairment for all non-financial assets (including the right-of-use assets) at the end of each reporting period. The non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. Impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

3 Significant accounting judgements and estimates (continued)

Estimation uncertainty (continued)

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

In determining the useful lives and residual values of items of property, plant and equipment, the Group has to consider various factors, such as technical or commercial obsolescence arising from changes or improvements in the production and provision of services, or from a change in the market demand for the product or service output of the asset, expected usage of the asset, expected physical wear and tear, care and maintenance of the asset, and legal or similar limits on the use of the asset. The estimation of the useful life of the asset is based on the experience of the Group with similar assets that are used in a similar way. Additional depreciation is made if the estimated useful lives and/or residual values of items of property, plant and equipment are different from previous estimation. Useful lives and residual values are reviewed at the end of each year based on changes in circumstances. Further details of the property, plant and equipment are set out in note 13 to the financial statements.

Fair value measurement of financial assets at fair value through profit or loss

Certain financial assets have been valued based on the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics. This valuation requires the Group to make estimates about expected future cash flows, credit risk, volatility and discount rates, and hence it is subject to uncertainty. The fair value of such financial assets at 31 December 2019 was RMB271,966,000 (2018: RMB246,106,000). Further details are included in note 33 to the financial statements.

4 Operating segment information

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

HKFRS 8 *Operating Segments* requires operating segments to be identified on the basis of internal reporting about components of the Group that are regularly reviewed by the chief operating decision-maker in order to allocate resources to segments and to assess their performance. The information reported to the directors of the Company, who are the chief operating decision makers, for the purpose of resource allocation and assessment of performance does not contain discrete operating segment financial information and the directors review the financial results of the Group as a whole. Therefore, no further information about the operating segment is presented.

Geographical information

During the year, the Group operated within one geographical segment because all of its revenue was generated in the PRC and majority of its long-term assets/capital expenditures were located/incurred in the PRC. Accordingly, no geographical segment information is presented.

Information about major customers

No revenue from services provided to a single customer amounted to 10% or more of the total revenue of the Group during the year.

5 Revenue, other income and gains

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

	2019 RMB'000	2018 RMB'000
<u>Revenue</u>		
Revenue from contracts with customers		
Tuition fees	**655,566**	521,114
Boarding fees	**52,412**	44,191
Other education service fees*	**6,237**	10,146
	714,215	575,451
<u>Other income and gains</u>		
Bank interest income	**21,700**	4,565
Rental income	**17,125**	16,830
Government grants		
Related to assets	**808**	808
Related to income	**4,395**	7,949
Exchange gain, net	**10,636**	26,447
Fair value gains, net		
Convertible redeemable bond	**13,941**	—
Financial assets at fair value through profit or loss	**12,421**	1,389
	81,026	57,988

* During the year, other education service fees mainly represented income received from the provision of other education services including training services to the students, which was amortised over the training periods of the services rendered.

5 Revenue, other income and gains (continued)

Contract liabilities

The Group receives tuition and boarding fees from students in advance prior to the beginning of each academic year. The performance obligation is satisfied proportionately over the relevant period of the applicable program. The students are entitled to refunds of the payments in relation to the proportionate services not yet provided.

Significant changes in the contract liability balances during the year are as follows:

	2019 RMB'000	2018 RMB'000
At the beginning of the year	334,564	258,395
Revenue recognised that was included in the balance of contract liabilities at the beginning of the year	(334,564)	(258,395)
Increases due to cash received, excluding amounts recognised as revenue during the year	411,870	334,564
At the end of the year	411,870	334,564

5 Revenue, other income and gains (continued)

Contract liabilities (continued)

(1) Revenue recognised in relation to contract liabilities

The following table shows the amounts of revenue recognised in the current year 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 the balance of contract liabilities at the beginning of the year		
Tuition fees	**306,795**	236,985
Boarding fees	**27,769**	21,410
	334,564	258,395

(2) Unsatisfied performance obligations

The amounts of transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December are as follows:

	2019 RMB'000	2018 RMB'000
Expected to be recognised as revenue within one year:		
Tuition fees	**382,295**	306,795
Boarding fees	**29,575**	27,769
	411,870	334,564

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

6 Profit before tax

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

	Notes	2019 RMB'000	2018 RMB'000
Employee benefit expense (excluding directors' and chief executive's remuneration (Note 8)):			
Wages and salaries		**105,415**	84,902
Pension scheme contributions (defined contribution scheme)		**13,891**	10,912
		119,306	95,814
Depreciation of property, plant and equipment	13	**66,681**	57,316
Depreciation of right-of-use assets (2018: recognition of prepaid land lease payments)	14	**6,103**	4,257
Provision for expected credit losses on trade receivables*	18	**4,737**	1,287
Loss on disposal of items of property, plant and equipment		**38**	5
Donation expenses		**—**	1,585
Auditor's remuneration		**2,600**	1,200
Expenses related to the issuance of shares*		**17,840**	27,203
Exchange gain, net	5	**(10,636)**	(26,447)
Fair value (gain)/loss, net**			
Convertible redeemable bond		**(13,941)**	2,700
Financial assets at fair value through profit or loss	5	**(12,421)**	(1,389)
Bank interest income	5	**(21,700)**	(4,565)

* The provision for expected credit losses on trade receivables and expenses related to the issuance of shares are included in administrative expenses in the consolidated statement of profit or loss.

** The fair value gain is included in other income and gains and fair value loss is included in other expenses in the consolidated statement of profit or loss.

7 Finance costs

	2019 RMB'000	2018 RMB'000
Interest on lease liabilities	**478**	—
Interest on bank loans	**5,516**	17,115
Interest on the convertible redeemable bond	**1,365**	3,300
Total interest expense on financial liabilities not at fair value through profit or loss	**7,359**	20,415
Less: Interest capitalised	**(5,465)**	(11,440)
	1,894	8,975

8 Directors' and chief executive's remuneration

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

	2019 RMB'000	2018 RMB'000
Fees	**600**	—
Other emoluments:		
Salaries, allowances and benefits in kind	**3,434**	3,604
Pension scheme contributions	**134**	130
	3,568	3,734
	4,168	3,734

8 Directors' and chief executive's remuneration (continued)

(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. Xu Ming	200	—
Mr. Li Xiaolu	200	—
Mr. Deng Feiqi	200	—
	600	—

There were no other emoluments payable to the independent non-executive directors during the year (2018: Nil).

(b) Executive directors, a non-executive director and the chief executive

2019

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
Executive directors:				
Mr. Ye Nianqiao	—	1,109	34	1,143
Mr. Zhang Xiangwei	—	968	—	968
Mr. Ye Xun	—	230	32	262
Mr. Zha Donghui	—	380	34	414
Ms. Li Yan	—	359	34	393
	—	3,046	134	3,180
Non-executive director:				
Mr. Wang Chuanwu	—	388	—	388
	—	3,434	134	3,568

8 Directors' and chief executive's remuneration (continued)

(b) Executive directors, a non-executive director and the chief executive (continued)

2018

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
Executive directors:				
Mr. Ye Nianqiao	—	1,269	34	1,303
Mr. Zhang Xiangwei	—	1,055	—	1,055
Mr. Ye Xun	—	200	28	228
Mr. Zha Donghui	—	360	34	394
Ms. Li Yan	—	352	34	386
	—	3,236	130	3,366
Non-executive director:				
Mr. Wang Chuanwu	—	368	—	368
	—	3,604	130	3,734

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

9 Five highest paid employees

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

	2019 RMB'000	2018 RMB'000
Salaries, allowances and benefits in kind	1,223	1,329
Pension scheme contributions	67	101
	1,290	1,430

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

	Number of employees	
	2019	2018
Nil to HK$1,000,000	2	3

10 Income tax

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands and accordingly is not subject to income tax.

Huanan Education Group Limited, the Company's directly held subsidiary, was incorporated in the British Virgin Islands as an exempted company with limited liability under the BVI Companies Act and accordingly is not subject to income tax.

China Kepei Education (Hong Kong) Limited, a subsidiary incorporated in Hong Kong, is subject to income tax at the rate of 16.5% on the taxable profits for the year ended 31 December 2019, based on the existing legislation, interpretations and practices in respect thereof.

10 Income tax (continued)

According to the Implementation Rules, private schools, whether requiring reasonable returns or not, may enjoy preferential tax treatments. Private schools of which the sponsors do not require reasonable returns are eligible to enjoy the same preferential tax treatment as public schools. As a result, private schools providing academic qualification education services are eligible to enjoy the income tax exemption treatment if the sponsors of such schools do not require reasonable returns.

The sponsor of Guangdong Polytechnic College does not require reasonable returns and therefore Guangdong Polytechnic College has applied the corporate income tax exemption treatment since its establishment in accordance with the historical tax returns filed with the relevant tax authorities.

The sponsor of Zhaoqing Science and Technology Secondary Vocational School requires reasonable returns. The Implementation Rules provide that the relevant authorities under the State Council may introduce preferential tax treatments and related policies applicable to private schools requiring reasonable returns. During the year, no separate policies, regulations or rules have been introduced by the authorities in this regard. In accordance with the historical tax returns filed with the relevant tax authorities, Zhaoqing Science and Technology Secondary Vocational School has applied the preferential tax treatments since its establishment.

As a result, no income tax expense was recognised for the PRC Schools during the year.

Pursuant to the PRC Corporate Income Tax Law and the respective regulations, the Group's non-school subsidiaries which operate in Mainland China are generally subject to Corporate Income Tax ("CIT") at a rate of 25% on their taxable income.

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

	2019 **RMB'000**	2018 RMB'000
Current — Hong Kong	**155**	—
— Mainland China	**1,781**	—
Total tax charge for the year	**1,936**	—

10 Income tax (continued)

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

	2019		2018	
	RMB'000	%	RMB'000	%
Profit before tax	458,210		341,956	
Tax at the statutory tax rate	114,553	25.0	85,489	25.0
Lower tax rates on losses arising elsewhere	(236)	(0.1)	1,404	0.4
Profits attributable to a joint venture	(56)	—	(8)	—
Losses attributable to an equity method investment	126	—	—	—
Income not subject to tax	(111,737)	(24.4)	(88,497)	(25.9)
Expenses not deductible for tax	371	0.1	—	—
Tax losses utilised from previous periods	(1,180)	(0.2)	—	—
Tax losses not recognised	121	—	1,612	0.5
Temporary differences not recognised	(26)	—	—	—
Tax charge at the Group's effective rate	1,936	0.4	—	—

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.

As 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 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. As at 31 December 2019, the aggregate amounts of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB1,470,470,000 at 31 December 2019 (2018: RMB1,066,658,000).

10 Income tax (continued)

The Group had tax losses arising in Mainland China of RMB18,177,000 (2018: RMB20,811,000), 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.

11 Dividends

	2019 RMB'000	2018 RMB'000
2018 final dividend declared — HK$0.10 per ordinary share	175,824	—

A final dividend of HK$0.10 per share in respect of the year ended 31 December 2019 has been proposed by the board of directors and is subject to approval by the shareholders at the forthcoming annual general meeting of the Company (2018: HK$0.10 per share).The final dividend of the year ended 31 December 2018 was approved by the shareholders at the annual general meeting of the Company on 3 June 2019.

12 Earnings per share attributable to ordinary equity holders of the parent

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent of RMB456,274,000 (2018: RMB341,956,000), and the weighted average number of 1,967,808,222 ordinary shares in issued during the year ended 31 December 2019, as adjusted to reflect the share split and capitalisation issue during the year (2018: 1,500,000,000 ordinary shares, as adjusted to reflect the share split and capitalisation issue which were deemed to have been issued throughout the year).

As of 1 January 2018, the Company had 1,000 ordinary shares in issue.

On 10 January 2019, the authorised share capital of the Company was subdivided from US$50,000 divided into 5,000,000 shares of US$0.01 each to US$50,000 divided into 5,000,000,000 shares of US$0.00001 each. Therefore, the number of ordinary shares in issue became 1,000,000 (the "Share Split") (note 26). On the same day, 1,499,000,000 ordinary shares were allotted and issued by way of capitalisation (the "Capitalisation Issue") (note 26).

On 25 January 2019, the Company was listed on the Main Board of the Stock Exchange (the "Listing") by way of issuing 353,334,000 new ordinary shares (note 26). Simultaneously, upon completion of the IPO, the whole principal amount under the convertible redeemable bond was mandatorily and automatically converted into 146,666,667 ordinary shares of the Company (note 24).

12 Earnings per share attributable to ordinary equity holders of the parent (continued)

On 15 February 2019, the over-allotment option was partially exercised and the Company allotted and issued 798,000 additional shares, which were initially available on 22 February 2019 (the "Over-allotment") (note 26).

The calculation of the diluted earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, adjusted to reflect the fair value change and interest on the convertible redeemable bond, where applicable. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at nil consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

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

	2019 RMB'000	2018 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	456,274	341,956
Add: Interest on the convertible redeemable bond	—	3,300
Add: Fair value loss on the convertible redeemable bond	—	2,700
Profit attributable to ordinary equity holders of the parent, used in the diluted earnings per share calculation	456,274	347,956

12 Earnings per share attributable to ordinary equity holders of the parent (continued)

	Number of shares	
	2019	2018
Shares		
Number of issued shares on 1 January	**1,000**	1,000
Effect of Share Split on 10 January 2019	**999,000**	999,000
Effect of Capitalisation Issue on 10 January 2019	**1,499,000,000**	1,499,000,000
Effect of conversion of the convertible redeemable bond on 25 January 2019	**137,022,831**	—
Effect of the IPO (excluding shares issued under the over-allotment option) on 25 January 2019	**330,101,079**	—
Effect of the Over-allotment on 22 February 2019	**684,312**	—
Weighted average number of ordinary shares in issue during the year for the purpose of the basic earnings per share calculation	**1,967,808,222**	1,500,000,000
Effect of dilution — weighted average number of ordinary shares		
The convertible redeemable bond	**—**	80,003,942
	1,967,808,222	1,580,003,942
Earnings per share attributable to ordinary equity holders of the parent		
Basic	**RMB0.23**	RMB0.23
Diluted	**RMB0.23**	RMB0.22

13 Property, plant and equipment

	Property and buildings RMB'000	Electronic devices RMB'000	Motor vehicles RMB'000	Furniture and fixtures RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2019						
At 31 December 2018 and at 1 January 2019:						
Cost	1,210,163	180,545	13,324	106,267	27,836	1,538,135
Accumulated depreciation	(109,782)	(91,616)	(9,656)	(52,701)	—	(263,755)
Net carrying amount	1,100,381	88,929	3,668	53,566	27,836	1,274,380
At 1 January 2019, net of accumulated depreciation	1,100,381	88,929	3,668	53,566	27,836	1,274,380
Additions	35,406	36,028	1,473	13,848	128,224	214,979
Disposals	—	(50)	—	(36)	—	(86)
Transfers	34,705	—	—	—	(34,705)	—
Depreciation provided during the year (note 6)	(32,676)	(20,728)	(1,344)	(11,933)	—	(66,681)
At 31 December 2019, net of accumulated depreciation	1,137,816	104,179	3,797	55,445	121,355	1,422,592
At 31 December 2019:						
Cost	1,280,274	215,049	14,797	118,923	121,355	1,750,398
Accumulated depreciation	(142,458)	(110,870)	(11,000)	(63,478)	—	(327,806)
Net carrying amount	1,137,816	104,179	3,797	55,445	121,355	1,422,592

13 Property, plant and equipment (continued)

	Property and buildings RMB'000	Electronic devices RMB'000	Motor vehicles RMB'000	Furniture and fixtures RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2018						
At 31 December 2017 and at 1 January 2018:						
Cost	934,487	156,581	13,260	76,504	27,566	1,208,398
Accumulated depreciation	(81,858)	(73,645)	(7,902)	(43,475)	—	(206,880)
Net carrying amount	852,629	82,936	5,358	33,029	27,566	1,001,518
At 1 January 2018, net of accumulated depreciation	852,629	82,936	5,358	33,029	27,566	1,001,518
Additions	892	24,463	64	29,763	275,054	330,236
Disposals	—	(58)	—	—	—	(58)
Transfers	274,784	—	—	—	(274,784)	—
Depreciation provided during the year (note 6)	(27,924)	(18,412)	(1,754)	(9,226)	—	(57,316)
At 31 December 2018, net of accumulated depreciation	1,100,381	88,929	3,668	53,566	27,836	1,274,380
At 31 December 2018:						
Cost	1,210,163	180,545	13,324	106,267	27,836	1,538,135
Accumulated depreciation	(109,782)	(91,616)	(9,656)	(52,701)	—	(263,755)
Net carrying amount	1,100,381	88,929	3,668	53,566	27,836	1,274,380

The Group's buildings are situated in Mainland China.

13 Property, plant and equipment (continued)

As at 31 December 2019, certificates of ownership in respect of certain buildings of the Group located in Guangdong Province, the PRC, with a total net carrying amount of approximately RMB521,024,000 (2018: RMB634,163,000), have not yet been issued by the relevant PRC authorities. As at 31 December 2019, the Directors were still in the process of obtaining these certificates. In the opinion of the Directors, there is no major barrier for the Group to obtain the property ownership certificates.

As at 31 December 2019, the gross carrying amount of any fully depreciated property, plant and equipment that is still in use is RMB102,748,000 (2018: RMB86,861,000).

14 Leases

The Group as a lessee

The Group has lease contracts for property and buildings used in its operations. Lump sum payments were made upfront to acquire the leased land from the owners with lease periods of 42 to 50 years, and no ongoing payments will be made under the terms of these land leases. Leases of property and buildings generally have lease terms between 5 and 6 years. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group.

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

	RMB'000
Carrying amount at 1 January 2018	158,504
Addition	48,451
Recognised in profit or loss during the year	(4,257)
Carrying amount at 31 December 2018	202,698

(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	Property and buildings RMB'000	Total RMB'000
As at 1 January 2019	202,698	5,682	208,380
Addition	—	11,378	11,378
Early termination	—	(5,682)	(5,682)
Depreciation charge	(4,594)	(1,509)	(6,103)
As at 31 December 2019	198,104	9,869	207,973

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:

	2019 Lease liabilities RMB'000
Carrying amount at 1 January	5,682
New leases	11,378
Early termination	(5,682)
Accretion of interest recognised during the year	478
Payments	(1,291)
Carrying amount at 31 December	10,565
Analysed into:	
Current portion	1,526
Non-current portion	9,039

The maturity analysis of lease liabilities (2018: Nil) is disclosed in note 34 to the financial statements.

(d) The amounts recognised in profit or loss in relation to leases are as follows:

	2019 RMB'000
Interest on lease liabilities	478
Depreciation charge of right-of-use assets	1,509
Expense relating to short-term leases and other leases with remaining lease terms ended on or before 31 December 2019	123
Total amount recognised in profit or loss	2,110

(e) The total cash outflow for leases are disclosed in notes 28(c) to the financial statements.

14 Leases (continued)

The Group as a lessor

The Group leases its properties under operating lease arrangements. The terms of the leases generally require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions. Rental income recognised by the Group during the year was RMB17,125,000 (2018: RMB16,830,000), details of which are included in note 5 to the financial statements.

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

	2019	2018
	RMB'000	RMB'000
Within one year	**10,621**	12,531
After one year but within two years	**6,816**	11,625
After two years but within three years	**3,823**	7,162
After three years but within four years	**638**	3,608
After four years but within five years	**378**	76
After five years	**577**	195
	22,853	35,197

15 Investment in a joint venture

	2019 RMB'000	2018 RMB'000
Share of net assets	2,170	1,948

Particulars of the joint venture are as follows:

Name	Particulars of issued shares held	Place of registration and business	Issued ordinary/ registered share capital	Percentage of ownership interest attributable to the Group (%)	Principal activity
Research Institute of Intelligent Manufacturing (Zhaoqing Gaoyao) Co., Ltd.	Ordinary shares	PRC/Mainland China	RMB5,000,000	49	Research of intelligent manufacturing technology

The Group's interest in the joint venture is held through a wholly-owned subsidiary in Mainland China.

According to the articles of association,all the decisions shall be made with the unanimous consent of the shareholders. Consequently, the Group regards Research Institute of Intelligent Manufacturing (Zhaoqing Gaoyao) Co., Ltd. as a joint venture.

The following table illustrates the financial information of the Group's joint venture that is not individually material:

	2019 RMB'000	2018 RMB'000
Share of the joint venture's profit for the year	222	33
Share of the joint venture's total comprehensive income for the year	222	33
Carrying amount of the Group's investment in the joint venture	2,170	1,948

16 Equity method investment

	2019 RMB'000	2018 RMB'000
Share of net assets	**141,695**	—

Particulars of the equity method investment are as follows:

Name	Particulars of issued shares held	Place of registration and business	Issued/registered share capital	Percentage of ownership interest attributable to the Group (%)	Principal activity
Huaibei Kepei Education Investment Development Company Limited	Ordinary shares	PRC/Mainland China	RMB316,000,000	45	Provision of advisory service

The Group's shareholdings in the equity method investment are held through a wholly-owned subsidiary of the Company.

16 Equity method investment (continued)

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

	2019 RMB'000
Current assets	128,580
Non-current assets	260,007
Current liabilities	73,710
Net assets	314,877
Reconciliation to the Group's interest in the equity method investment:	
Proportion of the Group's ownership	45%
Group's share of net assets of the equity method investment	141,695
Carrying amount of the investment	141,695
Revenue	–
Loss for the year	1,123
Total comprehensive loss for the year	1,123

17 Equity investments designated at fair value through other comprehensive income

	2019 RMB'000	2018 RMB'000
An equity investment designated at fair value through other comprehensive income		
Listed equity investment, at fair value	62,653	—

In 2019, the Group acquired two listed equity investments in the open market. The fair value gain relating to these investments accumulated in the fair value reserve as at 31 December 2019 amounted to RMB28,767,000.

The above equity investments were irrevocably designated at fair value through other comprehensive income as the Group considers these investments to be strategic in nature.

In 2019, the Group sold all its equity interests in a listed equity investment as this investment no longer coincided with the Group's investment strategy. The fair value on the date of sale was RMB22,726,000 and the accumulated gain recognised in other comprehensive income of RMB4,569,000 was transferred to retained profits.

18 Trade receivables

	2019 RMB'000	2018 RMB'000
Tuition fees and boarding fees receivables	34,800	23,957
Provision for expected credit losses	(5,142)	(1,307)
	29,658	22,650

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 due from students who have applied for deferred payments 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 the senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of individual students, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

18 Trade receivables (continued)

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 1 year	20,249	19,030
1 to 2 years	6,089	2,572
2 to 3 years	2,305	883
Over 3 years	1,015	165
	29,658	22,650

The movements in the allowance for expected credit losses on trade receivables are as follows:

	2019 RMB'000	2018 RMB'000
At beginning of year	1,307	621
Provision for expected credit losses (note 6)	4,737	1,287
Amount written off as uncollectible	(902)	(601)
At end of year	5,142	1,307

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

(i) Increase in the loss allowance of RMB4,737,000 as a result of an increase in trade receivables of Category 2, 3 and 4 (2018: increase in the loss allowance of RMB1,287,000 as a result of an increase in trade receivables of Category 4); and

(ii) Increase in the loss allowance of RMB902,000 (2018: RMB601,000) as a result of the write-off of certain trade receivables.

18 Trade receivables (continued)

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various student segments with similar loss patterns (i.e., by geographical region, customer type and rating, and coverage by letters of credit or other forms of credit insurance). 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. Generally, trade receivables are written off after one year of the graduation of the specific students and are not subject to enforcement activity.

The Group applies the simplified approach to provide for expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. The Group overall considers the credit risk and days past due of the trade receivables to measure the expected credit losses. During the year, the expected losses rate for students are determined as follows:

	Expected credit loss rate %	2019 Gross carrying amount RMB'000	2019 Expected credit losses RMB'000	2018 Gross carrying amount RMB'000	2018 Expected credit losses RMB'000
Category 1	0	**24,435**	**—**	21,997	—
Category 2	25	**4,299**	**1,072**	64	16
Category 3	50	**1,921**	**961**	524	262
Category 4	75	**4,145**	**3,109**	1,372	1,029
		34,800	**5,142**	23,957	1,307

There was no change in the ECL rates during the year mainly because no significant changes in the historical default rates of trade receivables, economic conditions and performance and behaviour of the students were noted, based on which the ECL rates are determined.

19 Prepayments, other receivables and other assets

	2019 RMB'000	2018 RMB'000
Prepaid land lease payments (current portion)	—	4,594
Prepaid expenses	4,328	2,168
Prepaid listing expenses	—	11,024
Deposits	8,656	3,000
Other receivables	16,497	4,358
	29,481	25,144
Provision for expected credit losses	—	—
	29,481	25,144

Deposits and other receivables mainly represent deposits with suppliers. Where applicable, an impairment analysis is performed at each reporting date by considering the probability of default of comparable companies with published credit ratings. In the situation where no comparable companies with credit ratings can be identified, expected credit losses are estimated by applying a loss rate approach with reference to the historical loss record of the Group. The financial assets included in the above balances were categorised in stage 1 at the end of the reporting period. In calculating the expected credit loss rate, the Group considers the historical loss rate and adjusts for forward-looking macroeconomic data.

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.

20 Financial assets at fair value through profit or loss

	Notes	2019 RMB'000	2018 RMB'000
Other unlisted investments, at fair value			
Non-current	(a)	**50,136**	—
Current	(b)	**271,966**	246,106
		322,102	246,106

(a) The unlisted investment as at 31 December 2019 was a fund of RMB50,136,000 issued by an oversea fund company. The product was denominated in USD. There was no given yield rate for the product. The return on the product is not guaranteed, and hence its contractual cash flows do not qualify for solely payments of principal and interest. Therefore, it was mandatorily classified as a financial asset at fair value through profit or loss as its contractual cash flows are not solely payments of principal and interest.

(b) The unlisted investments as at 31 December 2019 included wealth management products of RMB271,966,000 issued by banks in Mainland China. They were denominated in RMB and have maturity within six months and expected coupon rates ranging from 2.70% to 3.60% per annum. The wealth management products were low risk principal guaranteed type products. The return on the wealth management products is not guaranteed, and hence their contractual cash flows do not qualify for solely payments of principal and interest. Therefore, they were mandatorily classified as financial assets at fair value through profit or loss as their contractual cash flows are not solely payments of principal and interest.

None of these investments are past due.

21 Cash and cash equivalents

	2019 RMB'000	2018 RMB'000
Cash and bank balances	535,623	432,921
Time deposits	576,126	—
Cash and cash equivalents	1,111,749	432,921
Denominated in:		
RMB	488,112	264,012
HK$	21,665	634
US$	601,972	168,275

At the end of the reporting period, the cash and bank balances of the Group denominated in RMB amounted to RMB488,112,000 (2018: RMB264,012,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods within 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 are deposited with creditworthy banks with no recent history of default.

22 Other payables and accruals

	2019 RMB'000	2018 RMB'000
Payables for salaries	**18,382**	18,552
Payables for social insurance and housing fund	**25,582**	22,050
Payables for scholarships	**10,719**	6,534
Payables for cooperative education fees	**1,360**	1,650
Payables for purchase of property, plant and equipment	**5,050**	5,957
Miscellaneous expenses received from students*	**29,013**	27,027
Other tax payable	**5,550**	2,867
Accrued listing expenses	**—**	16,774
Accrued interests	**—**	3,300
Others	**10,275**	10,932
	105,931	115,643

* The amount represents the miscellaneous expenses received from students which will be paid out on behalf of students.

Other payables and accruals are non-interest-bearing and expected to be settled within one year.

23 Interest-bearing bank loans

	31 December 2019			31 December 2018		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loans — secured			—	4.75	2019	10,000
Non-current						
Bank loans — secured	5.39	2024~2028	100,000	5.39	2024~2028	100,000
			100,000			110,000

	2019 RMB'000	2018 RMB'000
Analysed into:		
Bank loans repayable:		
Within one year	—	10,000
In the second to fifth years, inclusive	9,376	—
Beyond five years	90,624	100,000
	100,000	110,000

Note:

The bank loans are also guaranteed by certain related parties at no cost. The guarantee amounts provided by the related parties as at 31 December 2019 and 2018 are as follows:

	2019 RMB'000	2018 RMB'000
Mr. Ye Nianqiao, Ms. Shu Liping, Mr. Ye Nianjiu, Ms. Chen Xinni, Jiangxi Hong Zhou Vocational College and Jiangxi Kepei Investment Company Limited	—	10,000
Mr. Ye Nianqiao, Ms. Shu Liping, Zhaoqing Qiaoli Investment Company Limited, Mr. Ye Nianjiu, Mr. Ye Xun and Zhaoqing Kepei	100,000	100,000
	100,000	110,000

24 Convertible redeemable bond

On 30 April 2018, the Company entered into a convertible redeemable bond subscription agreement (the "Convertible Redeemable Bond Subscription Agreement") with Skyline Miracle Limited (the "Pre-IPO Investor"), Mr. Ye Nianqiao, Orchid Asia VII, L. P. and Orchid Asia VII Co-Investment Limited, which are independent third parties, pursuant to which the Company issued a convertible redeemable bond (the "Convertible Redeemable Bond") with a principal amount of RMB330,000,000 convertible into ordinary shares of the Company to Skyline Miracle Limited. Immediately prior to the initial listing of the shares of the Company on the Stock Exchange, the whole principal amount under the Convertible Redeemable Bond shall be mandatorily and automatically converted into ordinary shares of the Company.

The principal terms of the Convertible Redeemable Bond are set out below:

Interest	The Convertible Redeemable Bond bears interest on its outstanding principal amount from and including 1 November 2018 at the rate of 6% per annum
Maturity date	30 April 2020, unless such date is extended to 30 April 2022 at the bondholder's discretion
Automatic conversion	Immediately prior to the Listing, the whole principal amount under the Convertible Redeemable Bond shall be mandatorily and automatically converted into ordinary shares of the Company. The number of conversion shares to be issued to the Pre-IPO Investor will be determined according to the formula set forth below: A/B x C Where: A = RMB330,000,000 B = RMB4,500,000,000, being the agreed valuation of the Company C = Shares expected to be in issue immediately upon the issue of the conversion shares to the Pre-IPO Investor and the Listing (which will not take into account the number of shares to be issued pursuant to the over-allotment option)
Direct shareholding in the Company upon completion of the global offering (assuming the over-allotment option is not exercised)	7.33%

24 Convertible redeemable bond (continued)

The principal terms of the Convertible Redeemable Bond are set out below: (continued)

Repurchase of the Convertible Redeemable Bond	(i) the Company has not submitted the listing application by 31 December 2018; (ii) the Stock Exchange rejects or returns the listing application of the Company; (iii) the Company withdraws the listing application; (iv) the Company fails to take all reasonable actions to resubmit the listing application within 2 months following the lapse of the listing application and if the failure is based on assessment of the Company with a reasonable basis that it would be impracticable to resubmit within such 2 months' period or continued to pursue the Listing; (v) the Company fails to take all reasonable actions to resubmit the listing application within 2 months following the lapse of the listing application and if the failure is not based on assessment of the Company with a reasonable basis that it would be impracticable to resubmit within such 2 months' period or continued to pursue the Listing; (vi) the Listing is not completed on or prior to 31 days prior to the maturity date. the Pre-IPO Investor shall have the right, at any time after the first occurrence of any of the events, to require the Company or Mr. Ye Nianqiao to early redeem or repurchase the Convertible Redeemable Bond at RMB330,000,000 plus interest accrued at 15% per annum from 1 May 2018 (in the case of event (i), (iii) or (v) above) or 1 November 2018 (in the case of event (ii), (iv) or (vi) above) until the date of redemption or repurchase, but in the case where the Pre-IPO Investor only exercises such right on a day which is after 31 days from the date of occurrence, interest from the period from the 32th day until the date of redemption or repurchase will be accrued on the basis of 6% per annum. The above right of the Pre-IPO Investor to requisite a redemption or repurchase will terminate upon the Pre-IPO Investor ceasing to hold the Convertible Redeemable Bond which will occur immediately prior to the Listing.
Guarantors	Mr. Ye Nianqiao is a party to the Convertible Redeemable Bond Subscription Agreement to guarantee the performance by the Company of its obligations under the Convertible Redeemable Bond Subscription Agreement. Orchid Asia VII, L. P. and Orchid Asia VII Co-Investment Limited are parties to the Convertible Redeemable Bond Subscription Agreement to, on a joint and several basis, guarantee the performance of the Pre-IPO Investor of its obligations under the Convertible Redeemable Bond Subscription Agreement.

24 Convertible redeemable bond (continued)

The terms of the Convertible Redeemable Bond allow conversion into a fixed percentage of outstanding shares of the Company at the time of the conversion, so that the absolute number of shares to be issued is not fixed and is not known until conversion occurs. The Group's directors are of view that such a conversion option cannot normally be classified as equity, because the Company's capital structure could change in ways that put the convertible redeemable bond holder into a better economic position relative to other shareholders.

The Convertible Redeemable Bond was designated as a financial liability at fair value through profit or loss on initial recognition. At the end of the reporting period subsequent to initial recognition, the Convertible Redeemable Bond is measured at fair value, with changes in fair value arising on remeasurement recognised directly in profit or loss in the period in which they arise.

On 25 January 2019, the Company was listed on the Main Board of the Stock Exchange and made an offering of 353,334,000 ordinary shares (excluding any ordinary shares issued pursuant to the exercise of the over-allotment option) at a price of HK$2.48 per share. Upon completion of the initial public offering on 25 January 2019, the whole principal amount under the Convertible Redeemable Bond was mandatorily and automatically converted into ordinary shares of the Company. The number of conversion shares issued to the Pre-IPO Investor was 146,666,667.

25 Deferred income

	2019 RMB'000	2018 RMB'000
Government grants		
At beginning of year	4,777	5,585
Charged to profit or loss	(808)	(808)
At end of year	3,969	4,777
Current	808	808
Non-current	3,161	3,969
	3,969	4,777

These government grants are related to the subsidies received from the local government for the purpose of compensating the operating expenses arising from the teaching activities of the Group's schools and expenditures on teaching facilities. Upon completion of the operating activities and the related projects, the grants related to the expense items would be recognised as other income directly in profit or loss and the grants related to an asset would be released to profit or loss over the expected useful life of the relevant asset.

26 Share capital

	2019 RMB'000	2018 RMB'000
Authorised:		
5,000,000,000 ordinary shares of a par value of US$0.00001 each as at 31 December 2019 (2018: 5,000,000 ordinary shares of a par value of US$0.01 each)	**333**	333
Issued and fully paid:		
2,000,798,667 shares as at 31 December 2019 (2018: 1,000 ordinary shares)	**136**	—

On 10 January 2019, pursuant to the written resolution of the shareholders of the Company, the authorised share capital of the Company was subdivided from US$50,000 divided into 5,000,000 shares of US$0.01 each to US$50,000 divided into 5,000,000,000 shares of US$0.00001 each. Therefore, the number of shares in issue became 1,000,000 before the Capitalisation Issue.

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

	Notes	Number of shares in issue	Issued capital RMB'000
Before the Capitalisation Issue		1,000,000	—
Capitalisation Issue	(a)	1,499,000,000	102
Conversion of the Convertible Redeemable Bond	(b)	146,666,667	10
Global offering (excluding shares issued under the over-allotment option)	(b)	353,334,000	24
Over-allotment	(c)	798,000	—
As at 31 December 2019		2,000,798,667	136

(a) On 10 January 2019, pursuant to the written resolution of the shareholders of the Company, the Directors were authorised to capitalise the amount of US$14,990 of the Company to pay up in full at par 1,499,000,000 shares for allotment and issue to the persons whose names appear on the register of members of the Company of the date of the written resolution (or as they may direct) on a pro rata basis.

26 Share capital (continued)

(b) On 25 January 2019, the Company was listed on the Main Board of the Stock Exchange with the stock code 1890 and made an offering of 353,334,000 ordinary shares (excluding any ordinary shares issued pursuant to the exercise of the over-allotment option) at a price of HK$2.48 per share.

Upon completion of the initial public offering, the whole principal amount under the convertible redeemable bond was mandatorily and automatically converted into 146,666,667 ordinary shares of the Company.

(c) On 15 February 2019, the over-allotment option was partially exercised and the Company allotted and issued 798,000 additional shares, representing approximately 0.23% of the total number of the offer shares initially available under the global offering, at HK$2.48 per share on 22 February 2019.

27 Reserves

The amounts of the Group's reserves and the movements therein for the year are presented in the consolidated statement of changes in equity of the financial statements.

(a) Capital reserve — premium

The application of the share premium account is governed by the Companies Law of the Cayman Islands. Under the constitutional documents and the Companies Law of the Cayman Islands, the share premium is distributable as dividend on the condition that the Company is able to pay its debts when they fall due in the ordinary course of business at the time the proposed dividend is to be paid.

(b) Capital reserve — others

The capital reserve of the Group represents the capital contribution from the then equity holders of the Group's subsidiaries. The additions during the year represent the injection of additional paid-up capital by the then equity holders on the Group's subsidiaries.

27 Reserves (continued)

(c) Statutory and other surplus reserves

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

(i) In accordance with the Company Law of the PRC, certain subsidiaries of the Group which are domestic enterprises are required to allocate 10% of their profit after tax, as determined in accordance with the relevant PRC accounting standards, to their respective statutory surplus reserves until the reserves reach 50% of their respective registered capital. Subject to certain restrictions set out in the Company Law of the PRC, part of the statutory surplus reserve may be converted to registered 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 a private school which requires reasonable returns, it is required to appropriate to the development fund of not less than 25% of the annual net income of the relevant school as determined in accordance with generally accepted accounting principles in the PRC, while in the case of a private school that does not require reasonable returns, the appropriation amount is at least 25% of the annual net income or the annual increase in the net assets of the school. The development fund is for the construction or maintenance of the school, or procurement or upgrading of educational equipment.

28 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 RMB11,378,000 and RMB11,378,000, respectively, in respect of lease arrangements for property and buildings (2018: Nil).

(b) Changes in liabilities arising from financing activities

2019

	Lease liabilities RMB'000	Convertible redeemable bond RMB'000	Total RMB'000
At 31 December 2018	—	332,700	332,700
Effect of adoption of HKFRS 16	5,682	—	5,682
At 1 January 2019 (restated)	5,682	332,700	338,382
Conversion of the convertible redeemable bond	—	(318,759)	(318,759)
Fair value adjustment	—	(13,941)	(13,941)
New leases	11,378	—	11,378
Early termination	(5,682)	—	(5,682)
Interest expense	478	—	478
Payments	(1,291)	—	(1,291)
At 31 December 2019	10,565	—	10,565

28 Notes to the consolidated statement of cash flows (continued)

(b) Changes in liabilities arising from financing activities (continued)

2018

	Convertible redeemable bond RMB'000
At 1 January 2018	—
Changes from financing cash flows	330,000
Fair value adjustment	2,700
At 31 December 2018	332,700

(c) Total cash outflow for leases

The total cash outflow for leases included in the statement of cash flows is as follows:

	2019 RMB'000
Within financing activities	**(1,291)**

29 Contingent liabilities

As at 31 December 2019, the Group did not have any significant contingent liabilities, guarantees or any litigations or claims of material importance, pending or threatened (2018: Nil).

30 Commitments

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

	2019 RMB'000	2018 RMB'000
Contracted, but not provided for:		
Buildings	**49,441**	19,490

At the end of the reporting period, the Group did not have significant capital commitments that are authorised but not contracted for.

(b) Operating lease commitments as at 31 December 2018

The Group leased certain of its office properties under operating lease arrangements. Leases were negotiated for terms of five years.

At 31 December 2018, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2018 RMB'000
Within one year	1,509
In the second to fifth years, inclusive	4,905
	6,414

31 Related party transactions

Compensation of key management personnel of the Group:

	2019 RMB'000	2018 RMB'000
Salaries, allowances and benefits in kind	7,879	7,054
Pension scheme contributions	514	512
	8,393	7,566

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

32 Financial instruments by category

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

2019

Financial assets

	Financial assets at fair value through profit or loss — Mandatorily designated as such RMB'000	Financial assets at fair value through OCI RMB'000	Financial assets at amortised cost RMB'000	Total RMB'000
Trade receivables	—	—	29,658	29,658
Equity investment at fair value through other comprehensive income	—	62,653	—	62,653
Financial assets included in prepayments, other receivables and other assets	—	—	25,153	25,153
Financial assets at fair value through profit or loss	322,102	—	—	322,102
Cash and cash equivalents	—	—	1,111,749	1,111,749
	322,102	62,653	1,166,560	1,551,315

32 Financial instruments by category (continued)

2019 (continued)

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Financial liabilities included in other payables and accruals	**16,592**
Interest-bearing bank loans	**100,000**
Lease liabilities	**10,565**
	127,157

2018

Financial assets

	Financial assets at fair value through profit or loss — Mandatorily designated as such RMB'000	Financial assets at amortised cost RMB'000	Total RMB'000
Trade receivables	—	22,650	22,650
Financial assets included in prepayments, other receivables and other assets	—	7,358	7,358
Financial assets at fair value through profit or loss	246,106	—	246,106
Cash and cash equivalents	—	432,921	432,921
	246,106	462,929	709,035

32 Financial instruments by category (continued)

2018 (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
Financial liabilities included in other payables and accruals	—	27,681	27,681
Interest-bearing bank loans	—	110,000	110,000
Convertible redeemable bond	332,700	—	332,700
	332,700	137,681	470,381

33 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:

Management has assessed that the fair values of trade receivables, cash and cash equivalents, financial assets included in prepayments, other receivables and other assets, financial assets measured at fair value, financial liabilities included in other payables and accruals, the current portion of interest-bearing bank loans and lease liabilities approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

33 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 loans 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 loans as at 31 December 2019 were assessed to be insignificant.

The fair values of listed equity investments and a fund are based on quoted market prices.

The Group invests in unlisted investments, which represent wealth management products issued by banks. The Group has estimated the fair value of these unlisted investments by using a discounted cash flow valuation model based on the market interest rates of instruments with similar terms and risks.

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 investments (note 20)	Discounted cash flow method	Interest return rate	Wealth management product: 2019: 2.70%–3.60% (2018: 2.75%–3.7%)	2019: 100 basis point increase/decrease in interest return rate would result in increase/decrease in fair value by RMB348,000. (2018: 100 basis point increase/decrease in interest return rate would result in increase/decrease in fair value by RMB469,000).

33 Fair value and fair value hierarchy of financial instruments (continued)

Fair value hierarchy

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

Assets measured at fair value:

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	62,653	—	—	62,653
Financial assets at fair value through profit or loss	50,136	—	271,966	322,102
	112,789	—	271,966	384,755

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
Financial assets at fair value through profit or loss	—	—	246,106	246,106

33 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 were as follows:

Unlisted investments — wealth management

	2019 RMB'000	2018 RMB'000
At 1 January	246,106	78,500
Total gains recognised in the statement of profit or loss included in other income and gains	1,044	1,389
Purchases	1,173,527	244,717
Disposals	(1,148,711)	(78,500)
At 31 December	271,966	246,106

Liabilities for which fair values are disclosed:

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
Interest-bearing bank loans	—	100,000	—	100,000

33 Fair value and fair value hierarchy of financial instruments (continued)

Fair value hierarchy (continued)

Liabilities for which fair values are disclosed: (continued)

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 loans	—	100,000	—	100,000

Liabilities measured at fair value:

As at 31 December 2018

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Convertible Redeemable Bond	—	—	332,700	332,700

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

33 Fair value and fair value hierarchy of financial instruments (continued)

Fair value hierarchy (continued)

Liabilities measured at fair value: (continued)

The movements in fair value measurements within Level 3 during the year were as follows:

	2019 RMB'000	2018 RMB'000
At 1 January	**332,700**	—
Proceeds from issue of the Convertible Redeemable Bond	**—**	330,000
Fair value adjustment	**(13,941)**	2,700
Conversion of the Convertible Redeemable Bond	**(318,759)**	—
At 31 December	**—**	332,700

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).

34 Financial risk management objectives and policies

The Group's principal financial instruments comprise bank loans and lease liabilities, cash and cash equivalents, equity investments and wealth management products. The main purpose of the financial instruments is to raise finance for the Group's operation. The Group has various other financial assets and liabilities such as trade receivables and other payables and accruals, which arise directly from its operations.

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

34 Financial risk management objectives and policies (continued)

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from the proceeds from IPO and the Convertible Redeemable Bond denominated in HKD and USD, respectively.

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

	Increase/ (decrease) %	Increase/ (decrease) in profit before tax RMB'000	Increase/ (decrease) in equity* RMB'000
2019			
If the RMB weakens against the HKD	5%	4,216	4,216
If the RMB strengthens against the HKD	(5%)	(4,216)	(4,216)
If the RMB weakens against the USD	5%	32,606	32,606
If the RMB strengthens against the USD	(5%)	(32,606)	(32,606)
2018			
If the RMB weakens against the USD	5%	16,652	16,652
If the RMB strengthens against the USD	(5%)	(16,652)	(16,652)

* Excluding retained profits

34 Financial risk management objectives and policies (continued)

Credit risk

The Group is exposed to credit risk from cash and cash equivalents placed with banks, trade receivables and other receivables. Receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

Maximum exposure and year-end staging

The tables below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December.

The amounts presented are gross carrying amounts for financial assets.

As at 31 December 2019

	Notes	12-month ECLs	Lifetime ECLs	
			Simplified	
		Stage 1	approach	Total
		RMB'000	RMB'000	RMB'000
Trade receivables	(a)	—	34,800	34,800
Financial assets included in prepayments, other receivables and other assets	(b)	25,153	—	25,153
Cash and cash equivalents — not yet past due	(c)	1,111,749	—	1,111,749
		1,136,902	34,800	1,171,702

34 Financial risk management objectives and policies (continued)

Credit risk (continued)

Maximum exposure and year-end staging (continued)

As at 31 December 2018

	Notes	12-month ECLs	Lifetime ECLs	
		Stage 1	Simplified approach	Total
		RMB'000	RMB'000	RMB'000
Trade receivables	(a)	—	23,957	23,957
Financial assets included in prepayments, other receivables and other assets	(b)	7,358	—	7,358
Cash and cash equivalents — not yet past due	(c)	432,921	—	432,921
		440,279	23,957	464,236

(a) The Group's trade receivables are due from a number of individual students. Credit quality of each student is assessed and outstanding receivables are regularly monitored. For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 18 to the financial statements.

(b) The credit quality of the financial assets included in prepayments, other receivables and other assets is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

(c) As disclosed in note 21 to the financial statements, most of the bank balances are deposited with creditworthy banks with no recent history of default. The expected credit loss is close to zero.

34 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 internally generated cash flows from operation, bank loans and lease liabilities. 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, is as follows:

2019	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Lease liabilities	—	514	1,541	9,652	525	12,232
Interest-bearing bank loans	—	1,362	4,117	31,047	97,968	134,494
Financial liabilities included in other payables and accruals	16,592	—	—	—	—	16,592
	16,592	1,876	5,658	40,699	98,493	163,318

2018	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Interest-bearing bank loans	—	11,382	4,117	21,874	112,620	149,993
Financial liabilities included in other payables and accruals	27,681	—	—	—	—	27,681
Convertible redeemable bond	330,000	—	—	—	—	330,000
	357,681	11,382	4,117	21,874	112,620	507,674

34 Financial risk management objectives and policies (continued)

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group's policy is to maintain a strong capital base so as to maintain the confidence of creditors and the market and to sustain future development of business.

The directors of the Company review the capital structure on a continuous basis taking into account the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the raising of new debts as well as the redemption of the existing debts. The Group's overall strategy remained unchanged during the year.

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 period are as follows:

	2019 RMB'000	2018 RMB'000
Total liabilities	633,205	897,684
Total assets	3,423,118	2,330,249
Debt-to-asset ratios	18%	39%

35 Events after the reporting period

Subsequent to the end of the reporting period, there was an outbreak of the Corona Virus Disease (COVID-19) across China. The Group had 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 action plans for students during the closure period, including implementing on-line modules and remote website learning activities.

In view of the alternative action plans described above, the Directors 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 report. The Directors will remain alert to the development of the pandemic and take additional measures as appropriate.

36 Comparative amounts

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

37 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		
Investment in a subsidiary	1	—
Financial assets at fair value through profit or loss	50,136	—
Total non-current assets	50,137	—
CURRENT ASSETS		
Prepayments, other receivables and other assets	19	11,024
Financial assets at fair value through profit or loss	—	165,547
Amounts due from subsidiaries	776,463	2,669
Cash and cash equivalents	26,906	168,780
Total current assets	803,388	348,020

37 Statement of financial position of the company (continued)

	2019 RMB'000	2018 RMB'000
CURRENT LIABILITIES		
Other payables and accruals	125	17,485
Amount due to a subsidiary	855	3,120
Convertible redeemable bond	—	332,700
Total current liabilities	980	353,305
NET CURRENT ASSETS/(LIABILITIES)	802,408	(5,285)
TOTAL ASSETS LESS CURRENT LIABILITIES	852,545	(5,285)
Net assets/(liabilities)	852,545	(5,285)
EQUITY/(DEFICIENCY IN EQUITY)		
Share capital	136	—
Reserves (note)	852,409	(5,285)
Total equity/(deficiency in equity)	852,545	(5,285)

37 Statement of financial position of the company (continued)

Note:

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

	Capital reserve — share premium RMB'000	Capital reserve — other RMB'000	Accumulated losses RMB'000	Total RMB'000
Balance at 1 January 2018	—	—	(3,329)	(3,329)
Loss for the year	—	—	(1,956)	(1,956)
Total comprehensive loss for the year	—	—	(1,956)	(1,956)
At 31 December 2018 and 1 January 2019	—	—	(5,285)	(5,285)
Loss for the year	—	—	(14,477)	(14,477)
Total comprehensive loss for the year	—	—	(14,477)	(14,477)
Injection from the shareholders	—	102	—	102
Capitalisation issue of shares	(102)	—	—	(102)
Conversion of the convertible redeemable bond	318,749	—	—	318,749
Issue of shares for the IPO	758,720	—	—	758,720
Issuance of shares under the over-allotment option	1,693	—	—	1,693
Share issue expenses	(31,167)	—	—	(31,167)
Final 2018 dividend declared	(175,824)	—	—	(175,824)
At 31 December 2019	872,069	102	(19,762)	852,409

38 Approval of the financial statements

The financial statements were approved and authorised for issue by the board of directors on 27 March 2020.

China Kepei Education Group Limited
中國科培教育集團有限公司