VIRSCEND EDUCATION COMPANY LIMITED
成實外教育有限公司

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 1565

A **PROFOUND** Chinese Foundation,
A **PANORAMIC** Global Outlook,
An **INNOVATIVE FUTURE**

ANNUAL REPORT
2020

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COMPANY PROFILE

The Group is a leading provider of pre-school to grade 12 and university private education services. Through our schools, we provide education services to students in every age group from kindergarten through university. As at 31 December 2020, we had enrollment of an aggregate number of approximately 58,245 students, with 40,688 students enrolled in our K-12 schools and 17,557 students enrolled in the university, and we employed an aggregate of approximately 4,067 teachers in China. In addition, the Group operates the Virscend University located in Irvine, California, the United States. In March 2021, Virscend University received "Candidacy" status from WASC and expect to receive full accreditation in September 2022. Virscend University currently offers MBA program and has graduated 20 students since 2019.

We currently operate twenty-five schools in seven cities in Sichuan Province, namely Chengdu City, Panzhihua City, Zigong City, Ya'an City, Deyang City, Yi'bin City and Dazhou City. Through these schools, we offer formal education with comprehensive education programs from kindergarten through university. We are one of the few private education companies in Southwest China that offer complete K-12 and university education. This allows us to attract students at an early age and create a stable student pipeline for our schools at each grade within the K-12 system. The Group aspires to provide a pathway to first-tier universities in China and reputable colleges and universities abroad for interested students. For the Gaokao administered in 2018, 2019 and 2020, approximately 94.7%, 95.1% and 96.6% of the Group's graduating high school students (from high schools opened before 2017) who participated in such examinations achieved scores that allowed them to apply to and be accepted by first-tier universities in China, including Peking University, Tsinghua University, Fudan University, Zhejiang University and Shanghai Jiaotong University, among others. In addition, in 2019 and 2020, 81 and 87 of our graduating high school students were recommended for admission into first-tier universities without taking the Gaokao. In particular, since the inception of our new schools opened in 2017, the students therein who participated in 2020 Gaokao for the first time achieved exceptional results.

In 2020, two high school graduates were admitted into Ivy League Schools in the United States. In 2019 and 2020, 95 and 87 of our students were admitted into the top 100 universities in the 2020 QS World University Rankings respectively.

The University currently offers 29 bachelor programs and 21 college programs. In 2020, according to Wu Shulian's "China Independent College Rankings", the University ranked 19th among all 255 independent colleges and second among independent colleges specializing in literature. The employment quality of our undergraduates and the rate of our undergraduates' pursuing further study both ranked third among all 255 independent colleges. In 2020, Airuishen alumni network "China Independent College Rankings", the University ranked first among independent college specialing language. We have opened Yibin campus of Chengdu Institute Sichuan International Studies University (CISISU Yibin Campus) in September 2020 under the asset-light model.

Through over 20 years of operating private schools in Sichuan Province, 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 education industry in China.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Ms. Wang Xiaoying *(Chairwoman of the Board)*
Mr. Yan Yude *(Chief Executive Officer)*
Mr. Ye Jiayu
Mr. Deng Bangkai

Independent Non-executive Directors

Mr. Sit Chiu Wing
Mr. Chan Kim Sun
Mr. Wen Ruizheng

AUDIT COMMITTEE

Mr. Chan Kim Sun *(Chairman)*
Mr. Sit Chiu Wing
Mr. Wen Ruizheng

REMUNERATION COMMITTEE

Mr. Sit Chiu Wing *(Chairman)*
Ms. Wang Xiaoying
Mr. Wen Ruizheng

NOMINATION COMMITTEE

Mr. Sit Chiu Wing *(Chairman)*
Mr. Yan Yude
Mr. Wen Ruizheng

AUTHORISED REPRESENTATIVES

Ms. Wang Xiaoying
Mr. Deng Bangkai

COMPANY SECRETARY

Ms. Ng Sau Mei

LEGAL ADVISORS

As to Hong Kong law:
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The Landmark
15 Queen's Road Central
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As to Cayman Islands law:
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Cayman Islands

AUDITOR

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

CORPORATE INFORMATION

REGISTERED OFFICE

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Cayman Islands

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

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Chengdu
The PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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CAYMAN ISLANDS SHARE REGISTRAR AND TRANSFER OFFICE

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Cayman Islands

HONG KONG SHARE REGISTRAR

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Wanchai
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PRINCIPAL BANK

Industrial and Commercial Bank of China

INVESTOR RELATIONS

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COMPANY'S WEBSITE

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STOCK CODE

1565

DATE OF LISTING

15 January 2016

A summary of the results and of the assets and liabilities of the Group for the last five financial years, as extracted from published audited financial statements, is set out below:

FIVE YEARS COMPARISON OF KEY FINANCIAL FIGURES

Result of operation	For the year ended 31 December				
	2016 RMB'000	2017 RMB'000	2018 RMB'000	2019 RMB'000	**2020** **RMB'000**
Revenue	827,205	952,767	1,167,954	1,493,032	**1,844,845**
Gross profit	391,190	454,065	501,274	596,722	**663,184**
Profit for the year	302,161	314,865	363,161	408,055	**219,803**
Adjusted net profit (note)	259,234	339,624	355,875	420,201	**365,152**
Adjusted net profit attributable to owners of the parent (note)	302,306	306,374	356,371	409,286	**370,820**
Basic earning per share (RMB)	0.10	0.10	0.12	0.13	**0.07**

Note: The adjustment represented 1) exchange gains or loss, 2) one-off settlement payment arising from converting the University from independent college to a private higher education institution, 3) amortization of intangible assets arising from the acquisition of school and 4) additional expenses arising from the adoption of IFRS16.

Financial ratio	For the year ended 31 December				
	2016	2017	2018	2019	**2020**
Gross profit margin (%)	47.3%	47.7%	42.9%	40.0%	**35.9%**
Net profit margin (%)	36.5%	33.0%	31.1%	27.3%	**11.9%**
Adjusted net profit margin (%)	31.3%	35.6%	30.5%	28.1%	**19.8%**

FINANCIAL HIGHLIGHTS

Assets and liabilities	As at 31 December				
	2016 RMB'000	2017 RMB'000	2018 RMB'000	2019 RMB'000	**2020 RMB'000**
Non-current assets	3,107,630	4,050,114	4,005,904	5,395,136	**6,712,764**
Current assets	1,093,616	340,354	929,532	934,815	**873,983**
Current liabilities	1,553,049	1,380,950	1,485,759	2,234,213	**3,129,198**
Net current liabilities	(459,433)	(1,040,596)	(556,227)	(1,299,398)	**(2,255,215)**
Total assets less current liabilities	2,648,197	3,009,518	3,449,677	4,095,738	**4,457,549**
Non-current liabilities	101,626	329,377	616,744	1,341,671	**1,685,495**
Total equity	2,546,571	2,680,141	2,832,933	2,754,067	**2,772,054**
Property, plant and equipment	2,518,179	3,249,970	3,543,997	4,121,145	**4,509,076**
Cash and cash equivalents	564,196	294,107	639,392	394,386	**773,832**
Contract liabilities/Deferred revenue	480,200	585,982	712,163	861,780	**1,062,362**
Interest-bearing bank and other borrowings	994,284	919,037	1,082,000	1,944,903	**3,150,808**

Financial ratio	As at/for the year ended 31 December				
	2016	2017	2018	2019	**2020**
Current ratio	0.70	0.25	0.63	0.42	**0.28**
Gearing ratio (note)	39.0%	34.3%	38.2%	70.6%	**113.4%**

Note: Gearing ratio equals total debt divided by total equity as of the end of the year. Total debt means all interest-bearing bank borrowings.

Cash flows	For the year ended 31 December				
	2016 RMB'000	2017 RMB'000	2018 RMB'000	2019 RMB'000	**2020 RMB'000**
Net cash from operating activities	458,873	521,616	712,627	915,718	**820,965**

CHAIRWOMAN'S STATEMENT

Dear Shareholders,

On behalf of the Board, I hereby present the annual report of the Group for the year ended 31 December 2020.

RESULTS AND DIVIDENDS

The Group's audited adjusted net profit attributable to owners of the parent for the year ended 31 December 2020 was RMB370.8 million, representing an decrease of 9.4% compared with the results for the previous year. Basic and diluted earnings per share for the year ended 31 December 2020 were RMB0.07.

The Board has resolved to recommend the payment of a final dividend of HK2.5 cents per share for the year ended 31 December 2020.

BUSINESS HIGHLIGHTS

Fundamental Education

Through over 20 years of operating private schools in Sichuan Province, the Group has established a strong reputation and believes that the schools are highly recognizable in China, particularly Chengdu, Sichuan Province and are often viewed by students and their parents as a pathway to first-tier universities in China and reputable colleges and universities abroad. As at 31 December 2020, the total K-12 and university student enrollment of schools operated by the Group increased to approximately 58,245, with an increase of 13.9% in the total student enrollment compared to that of previous year.

CHAIRWOMAN'S STATEMENT

The Group strives to provide continuous high-quality education services to students and cultivate all-rounded students who possess global perspective and practical knowledge. For Gaokao administered in 2020, more than previous year the Group's graduating high school students achieved scores that allowed them to apply to and be accepted by first-tier universities in China. Especially in 2020 amongst our high school graduates, 55 students were admitted into Peking University and Tsinghua University, 2 students were admitted into American Ivy League Schools, and moreover and 87 students were admitted into the top 100 universities in the 2020 QS World University Rankings. This year, furthermore, 6 of the Group's high school students won the gold medal in five academic contests and 3 students was elected into the national physics, chemistry and information science contest team.

Higher education

In 2020 Wu Shulian's "China Independent College Rankings", Chengdu Institute Sichuan International Studies University ranked 19th among all 255 independent colleges and 2nd among independent colleges specializing in literature. The employment quality of our undergraduates ranked 3rd nationwide, and the rate of our undergraduates' pursuing further study ranked 3rd in the country.

PROSPECTS

As a pioneer in the private education industry in Sichuan Province, the Group has accumulated abundant experience in operating private schools, which positions us well to capitalise on the growing opportunities in the PRC private education sector.

The Group intends to leverage its reputation to expand its school network in Southwest China and increase the tuition in all of the Group's schools gradually. In order to solidify and strengthen its market-leading position in the region, the Group plans to expand its existing business by collaborating with third-party business partners and establish new schools. And leveraging the branding premium and quality education service, the Group will maintain its leading position as to tuition fee pricing in each local market and intend to increase such fee. The Group added 16 schools (by category of school) in Sichuan in September 2020, increasing our total capacity by more than 20,000 students. And the Group expects to add 13 schools (by category) of which four are for-profit high schools (by category of school) in Sichuan in September 2021.

Moreover, the Group expects to achieve steady growth by providing high class international education programs and non-formal education services in the future. The Group expects to launch more comprehensive overseas study related value-added service and further extend its customer basis into high-school students from schools not within the Group since 2021. Besides, the Group will continue providing education management and consultancy services to K-12 schools, kindergartens and other education institutions.

APPRECIATION

On behalf of the Board, I would like to thank all our Shareholders and stakeholders for their continued trust and confidence. I would also like to extend our sincere gratitude to the management and the staff to carry 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 Shareholders.

Wang Xiaoying
Chairwoman
Hong Kong, 30 March 2021

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

The PRC formal education industry primarily consists of fundamental education and higher education. The PRC fundamental education market can be further divided into four phases: pre-school, primary school, middle school and high school. Among the four phases of fundamental education, primary school and middle school constitute the nine-year compulsory education, while pre-school and high school constitute the non-compulsory education.

The Group aims to provide high quality fundamental education programs to students and is well recognized by parents and students in academic excellence. Majority of our students are from middle class families who pursuit high quality educational resources. Meanwhile, the society's increasing awareness of the importance of education resulted in the growing demand for high-quality private fundamental education service. With the accelerated income and wealth, the middle class families can afford higher expenditure on high-quality educational activities. Looking forward, the market trend in both revenue and student enrollment for private fundamental education in China will continue to grow. In order to capture the future growth and increase our market share, the Group will focus on continuously enhancing our competitiveness, providing more flexible and diversified curriculum to our students and improving our quality of private education.

The Group will continue to focus on higher education and grasp the opportunity brought by the Belt and Road Initiative and the opening-up strategy of the PRC to cultivate foreign languages talents who are application-oriented with distinctive international features to serve Sichuan province and the Southwest China. As our country has promoted the conversion of independent colleges, based on the principle of "conversion as many as possible and as soon as possible", the Group believes that the policy will influence and bring benefit to the further expansion of our universities.

BUSINESS OVERVIEW

In 2020, the Group established six new schools in Chengdu City and Yibin City, Sichuan Province, the PRC. As at 31 December 2020, the Group operated 43 schools in seven cities in Sichuan Province, China, Hong Kong SAR and Irvine, the United States. Those 43 schools are categorized based on the table disclosed on page 20 of this report. Through these schools, we offer formal education with comprehensive education programs from kindergarten through university.

Besides, the Group offered school management services to three government owned public K-12 schools and one private K-12 school in Chengdu City and Chongqing City, the PRC, respectively.

Student Placement

For Gaokao administered in 2020 (the "2020 Gaokao"), approximately 96.6% of the Group's graduating high school students (from high schools opened before 2017) who participated in the 2020 Gaokao achieved scores that allowed them to apply for and be accepted by first-tier universities in China. 55 of our graduating high school students were admitted into Peking University and Tsinghua University (2019: 38) and 87 of our graduating high school students were recommended for admission into first-tier universities without taking the Gaokao (2019: 81).

In particular, since the inception of our new schools opened in 2017, the students therein who participated in 2020 Gaokao for the first time achieved exceptional results. For a school opened in 2017 in south Sichuan, only 11% of the middle schools graduates admitted to that high school achieved high scores in the high school entrance examination, yet when these students participated in 2020 Gaokao, they attained a university admission rate of 63%. For another school opened in 2017 in Chengdu, 52% of the graduates achieved scores that allowed them to apply to and be accepted by first-tier universities in China while only 36% of them achieved high scores in the high school entrance examination. The overall Gaokao results of the given school ranked No.1 as to Liberal Arts major in the district of Chengdu city and one graduate in Liberal Arts major ranked No.1 in the district of Chengdu city.

For students who are interested in attending colleges and universities overseas, the Group established international programs at various schools under which PRC/overseas standard high-school curriculum, overseas standardized college entrance examinations, language testing examinations or United States University Advanced Placement ("AP") course are offered to them. Such programs allow students to take overseas high-school curriculum taught by foreign teachers as well as PRC high-school curriculum taught by PRC teachers. In 2020, two high school graduates were admitted into Ivy League Schools in the United States. In 2019 and 2020, 95 and 87 of students were admitted into the top 100 universities in the 2020 QS World University Rankings respectively.

Besides, in 2020, 57 students won first prize in national academic contests including mathmatics, physics, chemistry, biology and information science. 12 of our students were elected into the Sichuan provincial contests teams. Furthermore, 6 of our students won the gold medal in five academic contests and 3 students were elected into the national physics, chemistry, and information science contest team.

Higher Education

The University currently offers 29 bachelor programs and 21 college programs, including 3 bachelor programs namely Malay Language Studies, Leisure Sports, Art of Broadcast Hosting and 4 college programs namely Business Japanese, Han Language Studies, Flight Attendant Specialty and Civil Aviation Safety, all of which are newly approved by the Ministry of Education of the PRC and the Education Department of Sichuan Province. In 2020, according to Wu Shulian's "China Independent College Rankings", the University ranked 19th among all 255 independent colleges and second among independent colleges specializing in literature. The employment quality of our undergraduates and the rate of our undergraduates' pursuing further study both ranked third among all 255 independent colleges. In 2020, Airuishen alumni network "China Independent College Rankings", the University ranked first among independent college specialing language.

We have opened Yibin campus of Chengdu Institute Sichuan International Studies University (CISISU Yibin Campus) in September 2020 under the asset-light model. The campus occupies around 500 mu with total floor area of over 300,000 square meters to accommodate approximately 12,000 students (Note). All land, buildings, and major facilities were invested by a third party.

The conversion of our University into a private higher education institution, progressed actively during the Reporting Period. The conversion has been approved by the Sichuan Provincial People's Government and has been submitted to the Ministry of Education for approval. The University will no longer pay any cooperative education fees to Sichuan International Studies University from 2021 academic year onwards, therefore reduce costs and expenses, and further enhance the profitability of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

As at 31 December 2020, the Group's total student enrolment was 58,245, with 40,688 students enrolled in the K-12 schools, 17,557 students enrolled in the Chengdu Institute Sichuan International Studies University and 6,501 students enrolled in our network schools.

Note: The phase I construction work of Yibing Campus accommodating approximately 8,000 students has been completed and put in use since September 2020. Phase II construction work is expected to be completed within 2022.

Revenue

During the Reporting Period, the Group has witnessed growth of the schools operated by the Group in terms of revenue. Revenue increased from RMB1,493.0 million for the year ended 31 December 2019 to RMB1,844.8 million for the year ended 31 December 2020. The Group generated its revenue from (i) student fees and (ii) management and consultation services provided to an associate school and three government owned public schools. Student fees are typically comprised of tuition fees, boarding fees, overseas studies consulting fees, and tuition fees remained the major revenue, accounted for approximately 81.8% of the total revenue of the Company for the Reporting Period.

The following table sets forth the breakdown of the revenue of the Group:

	Year ended 31 December 2020 RMB'000	Year ended 31 December 2019 RMB'000	Change RMB'000	Percentage Change
Tuition fees	**1,508,483**	1,291,289	+217,194	+16.8%
Boarding fees	**53,334**	51,573	+1,761	+3.4%
School canteen operations	**265,401**	144,313	+121,088	+83.9%
Management and consultation services	**4,903**	5,857	(954)	(16.3%)
Early child and after-class training tuition fees	**7,783**	—	+7,783	+100.0%
Overseas studies consulting fees	**4,941**	—	+4,941	+100.0%
Total	**1,844,845**	1,493,032	+351,813	+23.6%

The following table sets forth the revenue generated by each of the categories of the schools:

	Year ended 31 December 2020 RMB'000	Year ended 31 December 2019 RMB'000	Change RMB'000	Percentage Change
High school – domestic program	**394,968**	310,290	+84,678	+27.3%
High school – international program	**43,014**	40,723	+2,291	+5.6%
Middle school	**481,516**	432,209	+49,307	+11.4%
Primary school	**341,526**	269,441	+72,085	+26.8%
Kindergarten	**10,228**	15,473	(5,245)	(33.9%)
University	**237,231**	223,153	+14,078	+6.3%
Total tuition fees	**1,508,483**	1,291,289	+217,194	+16.8%

The increase of the total revenue of the Group was mainly due to the increase of the Group's student enrollment and school canteen operations revenue.

The following table sets forth the gross and average tuition fees of each of the categories of the schools operated by the Group:

	School Year			
Categories of the schools	**2020/2021 Gross Tuition Fees RMB'000**	**2020/2021 Average Tuition Fees RMB**	2019/2020 Gross Tuition Fees RMB'000	2019/2020 Average Tuition Fees RMB
High school – domestic program	**442,987**	**35,584**	373,960	35,909
High school – international program	**42,803**	**85,095**	41,868	97,206
Middle school	**525,981**	**34,071**	452,879	34,400
Primary School	**410,740**	**35,580**	297,175	35,748
Kindergarten	**17,498**	**33,977**	10,264	33,282
University	**248,662**	**14,165**	228,898	13,501

Note: Average tuition fees are calculated as the gross tuition fees (excluding boarding fees) a particular school received for a given school year divided by the total number of students enrolled at such school for the same school year. For the purpose of this calculation, unlike revenue, which is determined after deducting scholarships and refunds, gross tuition fees do not take into account the scholarships granted or refunds made by the schools to their students for the relevant school year.

MANAGEMENT DISCUSSION AND ANALYSIS

Student Enrollment

The table below sets forth information relating to the student enrollment for each of the categories:

	As at 31 December 2020	As at 31 December 2019	Change	Percentage Change
High school students – domestic program	**12,472**	11,834	+638	+5.4%
High school students – international program	**503**	482	+21	+4.4%
Middle school students	**15,416**	13,126	+2,290	+17.4%
Primary school students	**11,591**	8,312	+3,279	+39.4%
Kindergarten students	**706**	517	+189	+36.6%
K-12 students	**40,688**	34,271	+6,417	+18.7%
University students	**17,557**	16,888	+669	+4.0%
Total number of students	**58,245**	51,159	+7,086	+13.9%

As at 31 December 2020, the aggregate number of students enrolled at the schools of the Group increased to 58,245 from 51,159 as at 31 December 2019. The increase in the aggregate number of students enrolled was attributable to increase in number of students of certain schools opened since September 2017 which have gained better recognition in the neighborhood through three years of operation.

Teachers

	As at 31 December 2020	As at 31 December 2019
Total number of teachers	**4,067**	3,350

The Group believes the quality of education provided is strongly tied to the quality of its teachers. The Group considers that teachers who are capable of and are dedicated to teaching will be instrumental in shaping the learning habits of students, which will be crucial to the Group's success and educational philosophy. The Group seeks to hire teachers who (i) demonstrate outstanding teaching track records; (ii) hold necessary academic credentials (i.e. diplomas); (iii) are passionate about education and improving students' academic performance and overall well being; (iv) demonstrate competence in their subject areas; (v) possess strong communication and interpersonal skills; and (vi) are able to effectively use a variety of teaching tools and methods tailored to their students.

As at 31 December 2020, the Group had 4,067 teachers, of which approximately 95.1% hold a bachelor's degree or above, and approximately 28.6% hold a master's degree or above. Most of our teachers are full-time teachers. The Group also values the recognition bestowed upon teachers who have achieved teaching excellence. As at 31 December 2020, approximately 15.5% of our teachers held the advanced teaching qualification, and approximately 62 of our teachers were recognized as exceptional teachers. The Group offers mandatory and continuing training courses and seminars to our teachers and offers mandatory professional teaching technique training courses for newly hired teachers.

MANAGEMENT DISCUSSION AND ANALYSIS

Future Development

The Group is optimistic about the strong demand for high-quality private education in Southwest China backed by the strong brand reputation and recognition of our schools. In order to solidify and strengthen its market-leading position in the region, the Group intends to achieve future growth by means of multiple expansion strategies which include asset-light expansions and increase in the capacity of existing schools and tuition fees. Specifically, the Group plans to undertake the following strategies:

i) Establishment of new K-12 schools (primarily under asset-light model) by collaborating with third-party business partners;

ii) Increasing of utilization rate of our existing school network and tuition fee;

iii) Establishment of international education programs within our schools and provide overseas studies consulting services;

iv) Provision of non-formal education services:

   a) Provide educational management and consultation services to K-12 schools and pre-schools; and

   b) Collaborate with certain commercial property owners to establish one-stop comprehensive education program.

(i) Establishing of new K-12 schools (primarily under asset-light model) by collaborating with third-party business partners

The Group commenced operation of one new campus in Chengdu, two new campuses in Yibin, and one new campus in Deyang, Sichuan Province in September 2020, namely the Xinjin Campus, Yibin Campus, CISISU Yibin Campus and Deyang Campus. The following sets forth a summary of the estimated student capacity of the new school campuses that will be opened in September 2021 and beyond:

School campus	Commencement of school campus	Cooperation term	Estimated student capacity
Fundamental education			
Jinniu Campus	September 2021	long term	2,600
Luzhou Campus	September 2021	long term	6,480
TianFu Lushan Campus	September 2021	long term	3,960
TianFu Huahai Campus	September 2021	long term	2,970
Renshou Campus	September 2021	long term	4,680
Meishan Chongli Campus	Beyond 2021	long term	4,050
Guiyang Campus	Beyond 2021	long term	3,870
Total			28,610

Currently, the Group is in process of negotiating with third parties to establish new asset-light school campus in two cities in Sichuan province and one new school campus in Guizhou province.

MANAGEMENT DISCUSSION AND ANALYSIS

(ii) Increase in utilization rate of our existing school network and tuition fee

School Utilization

Utilization rate is calculated as the number of students enrolled divided by the estimated capacity for a given school. For our boarding schools, the estimated capacity for students is calculated based on the number of beds available in student dormitories. For our kindergarten, the estimated capacity for students is calculated based on the number of beds used for naps in the schools. For non-boarding schools, the estimated capacity is calculated based on the number of classrooms multiplied by maximum number of students per classroom as allowed under relevant rules and regulation.

	As at 31 December 2020	As at 31 December 2019
Total number of students enrolled	**58,245**	49,459
Total student capacity	**94,580**	70,620
Overall utilization rate	**61.6%**	70.0%

The overall utilization rate decreased from 70.0% as at 31 December 2019 to 61.6% as at 31 December 2020. The decrease in overall utilization rate is mainly attributable to increase in total student capacity derived from our new campuses opened in September 2020.

Tuition Fee

On 15 May 2020, The Education Department of Sichuan Province and two other departments issued the "Notice on Improving the Price Management of Private Higher Education Institution and Strengthening Operational and Post-operational Oversight in our Province" (《關於完善我省民辦高校價格管理方式加強事中事後監督的通知》) (the "Notice"), which sets out opinions and requirements in five major aspects, namely 1) pricing of tuition fee and related fees based on market prices; 2) independent pricing by private higher education institution; 3) administration of tuition and related fees; 4) independent pricing requirments; 5) strengthening operational and post-operational oversight. The Notice has come into force and private higher education institution is permitted to adjust the tuition fee and related fees since September 2020. Based on the new policies, the tuition fees for new undergraduate and colleges of University increased from RMB14,000 and RMB12,000 in 2019/2020 school year to RMB17,000 and RMB15,000 in 2020/2021 school year respectively.

Most of our prestigious high schools established before 2017 have submitted the application for registered as for-profit organizations and therefore have the discretionary right in determining the tuition fee once the registration has been approved by the government.

(iii) Establishment of international education programs within our schools and provide overseas studies consulting services

In July 2019, the Group and Canon Park Consultancy Limited ("CPC") which is ultimately owned by North London Collegiate School entered into an "Educational Consultancy Services Agreement". Pursuant to the agreement, CPC began to provide IB and other international education program and related education consultancy service to the Group.

In addition to our traditional K12 programs, the Group also established the international department. Since 2019, the international department started to manage programs with elite international partners, offering A-level courses, Advanced Placement and Monash University Foundational Programs. In both of 2020 Yixiao Ranking List "Best International Second Schools" and 2020 KingLead Ranking List "China International School Competitiveness Ranking (Undergraduate UK)", International Department of Chengdu Foreign Languages School is ranked first in Sichuan Province.

In 2020, we expanded our educational product layout. In addition to the traditional Anglo-American international program, we were also expanding our international education program in Europe and Asia. At the same time, we also built matrix academic expansion projects and social practice projects based on the school curriculum.

The international department also expanded its business by offering overseas study consultancy services to our own students since later 2019 and recorded revenue of RMB4.9 million in 2020. The Group also expected to launch more comprehensive overseas study related value added service in 2021.

(iv) a. Education management and consultation service

Since 2019, the Group entered into school management cooperation agreements with three government owned K-12 public schools and one K-12 private school to provide education management and consultation services including, among others, education quality control, curriculum development, daily operation, teachers recruitment and training, branding, teaching methodology support and campus design.

In 2020, the Group started to provide education management and consultancy services to two kindergartens. The Group also provided aforementioned services to three new kindergartens since September 2021 and at least one kindergarten since September 2022.

MANAGEMENT DISCUSSION AND ANALYSIS

(iv) b. One stop comprehensive education program

The Group has been cooperating with certain commercial property owners to establish one-stop comprehensive education program in commercial complex with a floor area of approximately 5,000 to 10,000 square meters where various types of tailor-made education services will be offered to both the parents and their kids simultaneously. At the same time it provides curriculum and management output services for institutions and individuals who intend to investing in the education program. The high-quality education courses independently developed and iterated by the Group offered include, among others, Chinese traditional culture, STEAM (Science, Technology, Engineer, Arts and Mathematics), after-school English tutoring and sports, etc. The daily management of enrollment, recruitment, teaching and research of all educational projects implements the operation mode of unified scheduling of the complex but relatively independently operation of sub-projects.

The Group had added six new schools in its PRC school network in 2020/2021 school year, namely Xinjin Chengdu Foreign Languages School, Primary School Attached to Chengdu Foreign Languages School (Yibin Campus), Yibin Cuiping District Chengdu Foreign Languages School, Chengdu Foreign Languages High School of Yibin, Chengdu Institute Sichuan International Studies University (Yibin Campus), and Deyang Chengdu Foreign Language School. For illustration purpose, the school which provides multi-phases education programs is counted according to the number of the category of such education phases. For example, Chengdu Foreign Languages School which provides middle and high school education phases is counted as one middle school and one high school, respectively. The following table shows a summary of the number of our schools by category as of the dates indicated:

Category of schools	**Schools established as at 31 December 2020**	Schools established as at 31 December 2019
High school	**10**	9
Middle school	**12**	8
Primary school	**12**	6
Kindergarten*	**4**	2
University**	**3**	2
Schools providing non-formal education services	**2**	0
	43	27

* Four kindergartens include two self-owned kindergartens and two kindergartens to which we offer comprehensive education management and consultation service.

** Three category of schools include the University, CISISU Yibin Campus and Virscend University.

Impact of COVID-19 epidemic

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

In view of the implementation of the above mentioned action plans, the management has assessed and concluded that there was no significant impact on the financial position of the Group for the Reporting Period. But COVID-19 epidemic has brought negative impact on performance of the Group in 2020, which mainly due to fixed costs such as labor costs, facility costs and depreciation and amortization expense occurred without revenue to cover during suspension operation period. The amount is disclosed in section "Adjusted net profit attributable to owners of the parent".

We will continue to assess the impact of the COVID-19 epidemic on the Group's business operations and financial performance and keep continuous attention on the risks and uncertainties relative to COVID-19 epidemic.

Risk Management

The Group is exposed to various risks in the operations of the Group's business and the Group believes that risk management is important to the Group's 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 fees, the potential expansion of the Group into other regions in Southwest 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 fair value interest rate risk relates primarily to its fixed-rate bank borrowing and other borrowing. The Group is also exposed to cash flow interest rate risk through the impact of rate changes on interest bearing financial assets and liabilities, mainly bank balances and bank and other borrowing which carry interest at prevailing market interest rates. It is the Group's policy to keep certain borrowings at floating rates of interest so as to minimize the fair value interest rate risk. The Group currently does not use any derivative contracts to hedge its exposure to interest rate risk. However, the Directors will consider hedging significant interest rate risk should the need arise.

MANAGEMENT DISCUSSION AND ANALYSIS

Liquidity Risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank 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 Group's tuition fees, and to enter into cooperative business relationships with third parties to establish new schools;

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

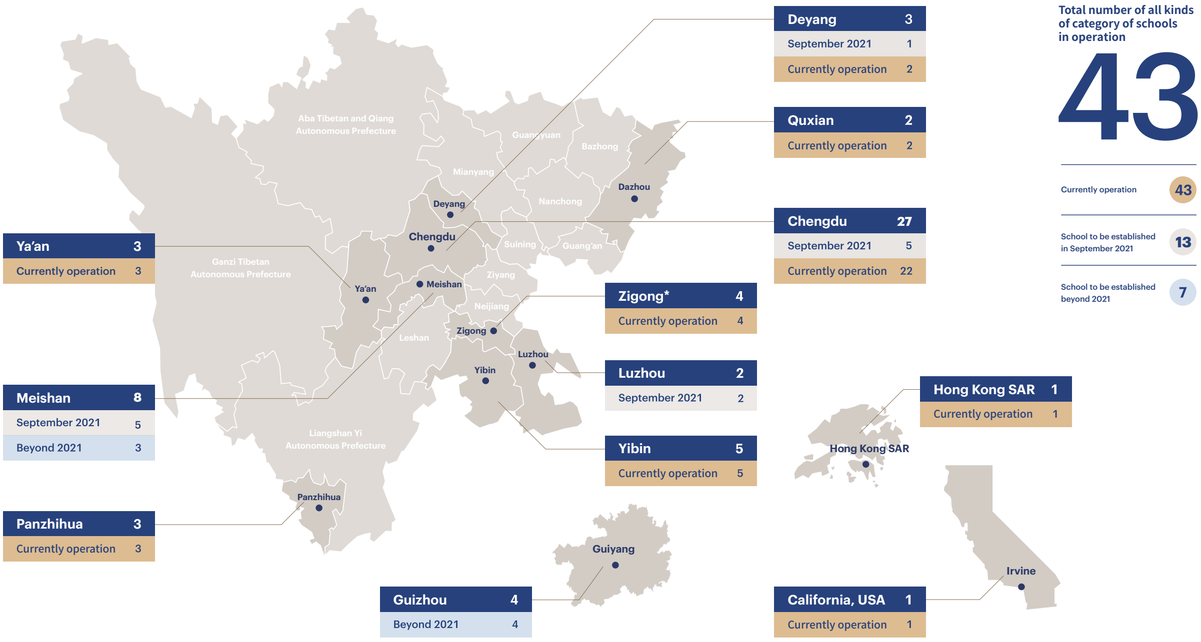
Environment, Health and Safety

The businesses of the Group are not in violation of the applicable PRC environmental laws and regulations in any material aspects.

The Group is dedicated to protecting the health and safety of the students. The Group has on-site medical staff or health care personnel at each of the schools the Group operates to handle routine medical situations involving students. In certain serious and medical emergency 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 management of the Company are aware, the Group has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Group. During the Reporting Period, there was no material breach of or non-compliance with the applicable laws and regulations by the Group.

OUR SCHOOL NETWORK



* On 7 August 2020, the Group entered into a cooperation termination agreement with counter parties in respect of Chengdu Foreign Languages School of Zigong, Zigong High School and Kindergarten of Zigong (collectively, the "Zigong Schools") pursuant to which all parties agreed to terminate the cooperation and the Group transferred its all sponsor interest in Zigong Schools to an independent third party. Till the date of this report, the approval from the relevant authorities for the transfer of schools sponsor to a third party has yet to be obtained pending the discussion with relevant local government authorities with regard to the Group's future involvement as to Zigong Schools' business activities such as students recruitment, school operation model and etc.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

Revenue, which is also the Group's turnover, represents the value of services rendered, after deducting scholarships granted and refunds made to its students during the Reporting Period. Revenue of the Group is primarily derived from tuition fees, boarding fees, school canteen services fees and overseas studies consulting fees the Group's schools collected from students, as well as management service fees and consultation service fees received by the Group respectively from an associated school and three government owned schools during the Reporting Period.

Revenue increased by RMB351.8 million, or 23.6%, from RMB1,493.0 million for the year ended 31 December 2019 to RMB1,844.8 million for the Reporting Period. This increase was primarily attributed to: (1) the result of revenue from tuition fees increased by RMB217.2 million, or 16.8%, from RMB1,291.3 million for the year ended 31 December 2019 to RMB1,508.5 million for the Reporting Period. The tuition fees the Group received increased mainly attributable to: (i) the increase in the number of students enrolled in 2020/2021 school year; (ii) consolidation of tuition fees with amount of RMB38.3 million from Gaoxin Campus since September 2020. For more information on student enrolment and school utilization, please refer to the section headed "Business Overview" above. The revenue from school canteen operations increased by approximately RMB121.1 million for the Reporting Period, primarily as a result of consolidation of such revenue since 2019. The revenue for overseas studies consulting fees increased by RMB4.9 million for the Reporting Period, primarily as a result of value-added services provided to the high school students who participated in the international program started since 2019.

Cost of Sales

Cost of sales primarily consists of staff costs, depreciation and amortization, cost of co-operative education, utilities, cost of repairs, office expense, student subsidies and other costs.

Cost of sales increased by RMB285.4 million, or 31.8%, from RMB896.3 million for the year ended 31 December 2019 to RMB1,181.7 million for the Reporting Period. This increase was primarily the result of (i) an increase in staff costs, material consumption, depreciation and amortization; (ii) cost of sales with amount of RMB32.8 million from Gaoxin Campus has been consolidated since September 2020.

Staff costs increased by RMB66.5 million, or 14.8%, from RMB449.4 million for the year ended 31 December 2019 to RMB515.9 million for the Reporting Period, was attributable to (i) the number of Group's teachers increased by 717, from 3,350 in the 2019/2020 school year to 4,067 in the 2020/2021 school year; (ii) staff costs of RMB8.5 million from Gaoxin Campus has been consolidated since September 2020.

Material consumption costs increased by approximately RMB113.3 million as a result of all schools except the University started to operate canteens by themselves as mentioned in the section "Business Overview" above.

Depreciation and amortization increased by RMB48.0 million, or 30.6%, from RMB157.1 million for the year ended 31 December 2019 to RMB205.1 million for the Reporting Period, mainly as a result of: (i) amortization of RMB7.3 million charged to intangible assets which recognized in the consolidation of Gaoxin Campus; (ii) depreciation and amortization amounted to RMB14.0 million in 2020 charged to properties purchased close to the year end of 2019 while no depreciation and amortization charged in 2019; (iii) amortization of leasehold improvements to certain campuses; (iv) capital expenditure in 2020 on upgrading the existing school premises, purchasing educational facilities and equipment for the Group's schools.

Gross Profit and Gross Profit Margin

Gross profit totally increased by RMB66.5 million, or 11.1%, from RMB596.7 million for the year ended 31 December 2019 to RMB663.2 million for the Reporting Period, which was in line with the growth of the Group's business.

	Year ended 31 December	
Gross profit of the Group	**2020 RMB'000**	2019 RMB'000
Revenue	**1,844,845**	1,493,032
Costs of sales	**1,181,661**	896,310
Gross profit	**663,184**	596,722
Gross profit margin	**35.9%**	40.0%

Gross profit margin of the Group decreased to 35.9% for the Reporting Period from 40.0% for the year ended 31 December 2019 mainly due to gross loss amounted to RMB12.0 million from providing school canteen service effected by COVID-19.

Research and Development Costs

Research and development costs increased by RMB0.7 million, or 3.6%, from RMB19.5 million for the year ended 31 December 2019 to RMB20.2 million for the Reporting Period, mainly as academic center carried out much more series of work such as development of school-based curriculum, dual-language immersion curriculum, proprietary pre-school courses, proprietary international integrated courses and etc. as a result of increased new schools.

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 RMB15.5 million, or 242.2%, from RMB6.4 million for the year ended 31 December 2019 to RMB21.9 million for the Reporting Period. The increase of selling and distribution expenses was primarily due to more advertising expenses incurred for student recruitment promotion for all new schools opened in recent years.

MANAGEMENT DISCUSSION AND ANALYSIS

Administrative Expenses

Administrative expenses primarily consist of the salaries and other benefits paid for general and administrative staff, one-off settlement payment arising from commencement of conversion of the university, legislation, audit and evaluation consultation service fees, office-related expenses, depreciation of office buildings and equipment, travel expenses and other expenses. Administrative expenses increased by RMB173.7 million, or 147.5%, from RMB117.8 million for the year ended 31 December 2019 to RMB291.5 million for the Reporting Period, primarily attributed to (i) the payment of RMB125.0 million settlement fee to Sichuan International Studies University in relation to for converting the University from an independent college to a private higher education institution; and (ii) additional administrative staff recruited by schools given the opening of new schools in 2020.

Other Income and Gains

Other income and gains primarily consist of foreign exchange gain, bank interest income, other interest income and rental income from leasing certain of the Group's properties to independent third parties. Other income and gains increased by RMB31.4 million, by 61.1%, from 51.4 million for the year ended 31 December 2019 to RMB82.8 million for the Reporting Period. The increase was primarily attributable to the gain of RMB32.2 million from revaluing 20% sponsor's interests of Gaoxin Campus immediately before acquisition of the remaining 80% school sponsor interest which took place on 15 August 2020.

Other Expenses

Other expenses consist primarily of impairment loss of investment in an associate, foreign exchange loss, and disposal of various fixed assets. Other expense increased by RMB4.6 million from RMB8.7 million for the year ended 31 December 2019 to RMB13.3 million for the Reporting Period. Such increase was primarily due to the increase in recognized impairment loss of the carrying amount of investment in an associate.

Finance costs

Finance costs primarily consist of the interest expenses for bank and other borrowings. Finance costs increased by RMB87.2 million, or 110.5%, from RMB78.9 million for the year ended 31 December 2019 to RMB166.1 million for the Reporting Period, mainly attributable to the growth of bank and other borrowings due to capital expenditure as detailed in the section "Capital Expenditure" on page 28 of this report.

Adjusted net profit attributable to owners of the parent

Adjusted net profit attributable to owners of the parent was derived from attributable to owners of the parent after adjusting those items, which is not indicative of the Group's operating performance. This is not an IFRSs measure. The Group has presented 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 attributable to owners of the parent to adjusted net profit attributable to owners of the parent for both financial years:

	For the year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Net profit attributable to owners of the parent	**225,471**	397,140
Adjustments for:		
Additional expenses arising from the adoption of IFRS 16 (Note 1)	**17,136**	11,799
Amortisation of intangible assets arising from the acquisition of school	**7,278**	—
Foreign exchange gain/loss	**(4,065)**	347
One-off settlement payment arising from converting the University from independent college to a private higher education institution	**125,000**	—
Adjusted net profit attributable to owners of the parent	**370,820**	409,286

Note 1: The adjustment represented the difference of (a) the actual rental expenses payable before the application of IFRS16, and (b) the total of depreciation of right-of-use assets and the interest portion of lease liabilities charged to profit or loss less the finance income on refundable rental deposits paid credited to profit or loss arising from the adoption of IFRS16.

MANAGEMENT DISCUSSION AND ANALYSIS

Capital Expenditure

Capital expenditure decreased by RMB230.4 million, from RMB1,256.9 million for the year ended 31 December 2019 to RMB1,026.5 million for the Reporting Period, the capital expenditure for the Reporting Period consisted, among others, of (i) RMB632.5 million expenditure on campuses design, upgrading the existing schools premises, and purchasing educational facilities and equipment for the Group's schools; (ii) RMB154.0 million on construction expenditure on TianFu Lushan Campus which will commence since September 2021; (iii) RMB240.0 million on purchasing 80% sponsors' interests of Gaoxin Campus. For more details of transaction, please refer to the Group's interim report issued on 28 August 2020.

Capital Commitments

The Group had the following capital commitments as at the end of each of the following reporting periods:

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Contracted, but not provided for:		
Land and buildings, equipment	**170,956**	71,512
Capital contributions payable to an associate	**—**	6,900
	170,956	78,412

Gearing Ratio

The gearing ratio of the Group, which was calculated as total bank and other borrowings divided by total equity as at the end of the relevant financial year, increased from approximately 70.6% as at 31 December 2019 to approximately 113.4% as at 31 December 2020, primarily due to the increase in the Group's bank and other borrowings in relation to increase in capital expenditure in 2020.

Contingent Liabilities

As at 31 December 2020, the Group had no material contingent liabilities.

Pledge of Assets

As at 31 December 2020, RMB56,150,000 (2019: Nil) were paid to third party leasing companies as pledged deposits for certain borrowings, which will be repaid after settling those borrowings in 5 years.

Human Resources

As at 31 December 2020, the Group had 6,164 employees (31 December 2019: 4,853 employees).

The remuneration policy and package of the Group's employees are periodically reviewed in accordance with industry practice and results performance of the Group. The Group provides external and internal training programs to its employees. The Group also 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 2020 was approximately RMB623.3 million (2019: RMB546.3 million).

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Ms. Wang Xiaoying (王小英), aged 58, was appointed as the Chairwoman of the Board and an executive Director on 31 August 2015. Ms. Wang has more than 20 years of experience in business management and is responsible for the overall management and strategic development of the Group. Ms. Wang has been a director of certain of the PRC Operating Entities since Ms. Wang joined the Group in April 2004. Ms. Wang has been responsible for the overall business strategy and development and management of the PRC Operating Entities in her capacity serving as the general manager of the education sector of Sichuan Derui since January 2008. In August 1999, Ms. Wang joined Sichuan Derui as the vice general manager responsible for general administration. In January 2008, Ms. Wang was then re-designated as the general manager of Sichuan Derui in charge of the education sector and has since been responsible for the overall management and strategic development of the PRC Operating Entities. Ms. Wang is the spouse of Mr. Yan Yude, the chief executive officer and an executive Director of the Company and one of the Controlling Shareholders.

Mr. Ye Jiayu (葉家郁), aged 61, was appointed as an executive Director on 31 August 2015. Mr. Ye has more than 22 years of experience in business management and is responsible for the campus safety management of all schools operated by the Group. Mr. Ye is also a supervisor of Tibet Huatai. Mr. Ye joined the Group as a director of certain of the PRC Operating Entities since September 2000. Since January 1993, Mr. Ye has joined Sichuan Derui and currently serves as an executive director of Sichuan Derui and is responsible for the overall management of Sichuan Derui. Mr. Ye obtained his diploma in mechanics from Sichuan Radio and TV University* (四川廣播電視大學) in the PRC in August 1985.

Mr. Yan Yude (嚴玉德), aged 59, was appointed as a Director on 13 March 2015, was designated as an executive Director on 31 August 2015, and appointed as the chief executive officer of the Company with effect from 15 November 2018. Mr. Yan is also one of the Controlling Shareholders and a director of certain of the subsidiaries of the Group. Mr. Yan has over 20 years of experience in education management and is responsible for the overall strategic development of the Group. Mr. Yan has been a director of the PRC Operating Entities since September 2000. In January 1993, Mr. Yan made the investment in Sichuan Derui and remained as the controlling shareholder of Sichuan Derui since then. Mr. Yan joined Sichuan Derui in 1993 after he invested into Sichuan Derui and was involved in the overall management and strategic development of Sichuan Derui. Mr. Yan obtained his graduation certificate for postgraduate studies in criminology from the Sichuan University* (四川 大學) in the PRC in July 1999. Mr. Yan is the husband of Ms. Wang Xiaoying, an executive Director.

Mr. Deng Bangkai (鄧幫凱), aged 39, was appointed as the executive Director and chief operating officer on 15 November 2018. Mr. Deng has more than 14 years of experience in accounting, financial management, corporate governance, and capital market transactions. Mr. Deng is currently responsible for the daily operations, business development, external investment, financing, M&A, and investor relations of the Group. Mr. Deng started his career in Ernst & Young Hua Ming LLP Shenzhen Office in August 2005. During this period, Mr. Deng had participated in the Ernst & Young Global Exchange Program where he was exchanged to work for Ernst & Young UK from September 2010 to March 2012. In July 2017, Mr. Deng was appointed as Partner of Ernst & Young. Mr. Deng obtained his bachelor degree in computer science from Shanghai University of Electric Power in the PRC in June 2003 and his master of science degree with commendation in management science from University of Hertfordshire in Great Britain in October 2004. Mr. Deng is a member of the Hong Kong Institute of Certified Public Accountants and a member of The Chinese Institute of Certified Public Accountants.

Independent Non-executive Directors.

Mr. Sit Chiu Wing (薛超穎), aged 70, was appointed as an independent non-executive Director on 28 December 2015 and is responsible for providing independent opinion and judgement to the Board. Prior to joining the Group, in December 1981, Mr. Sit joined and worked at the Marketing Department of Shaws Brothers (Hong Kong) Company Limited (邵氏兄弟(香港)有限公司). Mr. Sit has been appointed as the honorary president of Hong Kong Quanzhou Associations Limited since March 2001. Mr. Sit graduated from the Fujian Normal University* (福建師範大學) of the PRC with a bachelor's degree in history in July 1976.

Mr. Chan Kim Sun (陳劍燊), aged 39, was appointed as an independent non-executive Director on 28 December 2015 and is responsible for providing independent opinion and judgement to the Board. Prior to joining the Group, between October 2004 to March 2010, Mr. Chan joined HLB Hodgson Impey Cheng Limited with his latest position as an audit manager. From August 2011 to September 2014, Mr. Chan served as finance controller and from September 2012 to September 2014 as company secretary of China Infrastructure Investment Limited, the shares of which are listed on the Stock Exchange (stock code: 600). Mr. Chan is currently a non-practicing member of the Hong Kong Institute of Certified Public Accountants and is a fellow of the Association of Chartered Certified Accountants. Mr. Chan graduated from the Hong Kong University of Science and Technology with a bachelor's degree in business administration majoring in accounting and finance in June 2003. Since April 2018, Mr. Chan has been an independent non-executive director of Vision International Holdings Limited, the shares of which are listed on GEM of the Stock Exchange (stock code: 8107). Since February 2021, Mr. Chan has been an independent non-executive director of Hong Kong Resources Holdings Company Limited, the shares of which are listed on the Stock Exchange (stock code: 2882). Since January 2019, Mr. Chan has been the company secretary of WMCH Global Investment Limited, the shares of which are listed on GEM of the Stock Exchange (stock code: 8208).

Mr. Wen Ruizheng (溫瑞征), aged 76, was appointed as an independent non-executive Director on 15 November 2018 and is responsible for providing independent opinion and judgement to the Board. Prior to joining the Group, Mr. Wen has over 50 years of experience in education industry. Mr. Wen has excellent ability and abundant work experience in education management. Mr. Wen served as the secretary of the principal and the director of Students Affairs Office at Chengdu Experimental Foreign Language School (成都市實驗外國語學校) (formally known as Chengdu Xixiang Road Middle School* (成都市西鄉路中學) and Chengdu No.48 Middle School (成都市四十八中)) from February 1965 to August 1984. He served as the vice principal and principal of Chengdu Experimental Foreign Languages School (成都市實驗外國語學校) from August 1984 to August 1987 and from August 1987 to July 2014, respectively. Mr. Wen obtained his junior college diploma in political science from the Party College of Chengdu Municipal Party Committee* (中共成都市委黨校) in July 1987. He obtained the qualification of senior teacher of middle school in Sichuan Province* (四川省中學高級教師). He also obtained various honorary titles from relevant government authorities, including, among others, the "Excellent Principal in Chengdu City"* (成都市優秀校長) and the "Excellent Educator in Chengdu City"* (成都市優秀教育工作者).

DIRECTORS AND SENIOR MANAGEMENT

Senior Management

Mr. Gu Daili (古代禮), aged 48, joined the Group in November 2018 and was appointed as a vice president of the Company on 21 November 2018. Mr. Gu is primarily responsible for supervising overall performance of teaching quality of all schools operated by the Group. Prior to joining the Group, Mr. Gu has over 25 years of experience in education. Mr. Gu has excellent teaching ability and abundant work experience in education management. Mr. Gu served successively as teacher, dean of students affairs and principal at Ningnan County Liucheng Middle School* (寧南縣六城中學) from July 1992 to November 1997, from November 1997 to September 1998 and from September 1998 to April 2003. He served as the principal of Ningnan County national middle school* (寧南縣民族中學) and Ningnan County Middle School* (寧南縣初級中學) from April 2003 to April 2005 and from April 2005 to August 2009. He served as deputy director and director of Ningnan County Education Bureau* (寧南縣教育局) from August 2009 to March 2012 and from March 2012 to May 2015 respectively. During the same period, he was also the principal at Ningnan High School* (寧南中學) and dean of education supervision department of Ningnan county government. He served as director of Ningnan County Bureau of Education, Science, Technology and Intellectual property* (寧南縣教育和科學技術知識產權局) and dean of education supervision department of Ningnan county government from May 2015 to November 2016. He served as the municipal propaganda minister and standing committee member of Ningnan County Committee of the Communist Party of China* (中共寧南縣委) from November 2016 to November 2018. Besides, he served as chairman of social science union of Ningnan County from November 2016 to November 2018. Mr. Gu obtained his diploma in teaching from Mianning Normal School* (冕寧師範學校) in July 1992. He received bachelor degree in administration management from the Party College of Sichuan Provincial Party Committee* (中共四川省委黨校) in December 2002.

Dr. Yan Hongjia (嚴弘佳), aged 34, was appointed as a vice president of the Company on 21 November 2018. Dr. Yan is primarily in charge of the international business and preschool business departments of the company. At the same time, she provides guidance for the company's business development, mergers & acquisitions and comprehensive education solutions tailored for the customers. Prior to joining the Group, Dr. Yan served as an instructor in York University and a center manager engaged in establishment of data consulting center of York University. Dr. Yan had participated in providing consultation services to fortune 500 companies for many times. During the working period, Dr. Yan accumulated rich experience in teaching and research, and got familiar with international education system.

Dr. Yan graduated from Hong Kong Baptist University with a bachelor of Statistics and Operations Research degree in 2009, and subsequently obtained her master degree in Operations Research and Business Statistics from Hong Kong Baptist University in 2010. Dr. Yan obtained her doctor degree in Statistics from York University where she was granted a full scholarship, and published academic papers and research reports in world's top academic journals when pursuing her doctor degree. Dr. Yan also serves as an associate researcher of Chengdu Institute Sichuan International Studies University, a guest professor of Southwestern University of Finance and Economics, a committee member of Sichuan Youth Federation, a member of Sichuan Youth Entrepreneurs Association.

Dr. Yan is the daughter of Mr. Yan Yude, the executive Director and chief executive officer of the Company.

Mr. Li Jun (李俊), aged 34, was appointed as financial controller of the Company on 21 November 2018. Mr. Li is responsible for financial management and providing financial analysis for investment and mergers and acquisition of the Group to the Board. Mr. Li started his career in Ernst & Young Hua Ming LLP Chengdu Office in October 2012 and subsequently resigned in August 2018, where his last position was audit manager. Mr. Li received bachelor degree in Medicine from Anhui Medical University* (安徽醫科大學) in June 2009, and master degree in Economics from Southwestern University of Finance and Economic* (西南財經大學) in June 2012. He is a non-practising member of The Chinese Institute of Certificated Public Accountants.

* *for identification purpose only*

REPORT OF DIRECTORS

The Board is pleased to present its report together with the audited consolidated financial statements of the Group for the Reporting Period.

GLOBAL OFFERING

The Company was incorporated on 13 March 2015 as an exempted company with limited liability under the laws of the Cayman Islands. The Company's shares were listed on the Main Board of the Stock Exchange on 15 January 2016.

PRINCIPAL ACTIVITIES

The Company is the leading provider of K-12 and university private education services in Southwest China. Analysis of the principal activities of the Group during the year ended 31 December 2020 is set out in note 1 to the financial statements.

SUBSIDIARIES

Details of the principal subsidiaries of the Company as at 31 December 2020 are set out in note 1 to the financial statements.

RESULTS

The results of the Group for the year ended 31 December 2020 are set out in the consolidated statement of profit or loss on page 94 of this annual report.

BUSINESS REVIEW

A review of the business of the Group during the year ended 31 December 2020 and analysis by using financial key performance indicators, the Company's environmental policies and performance and a discussion on the Group's future business development are contained in the Management Discussion and Analysis on pages 10 to 29 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 32 to the financial statements and in the section headed "Management Discussion and Analysis" of this annual report. The relevant risk management and control measures are set out in the paragraph headed "Risk Management and Internal Controls" in the corporate governance report.

ENVIRONMENT, HEALTH AND SAFETY

The businesses of the Group are not in violation of the applicable PRC environmental laws and regulations in any material aspects.

The Group is dedicated to protecting the health and safety of the students. The Group has on-site medical staff or health care personnel at each of the schools the Group operates to handle routine medical situations involving students. In certain serious and medical emergency 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 management of the Company are aware, the Group has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Group. During the Reporting Period, there was no material breach of or non-compliance with the applicable laws and regulations by the Group.

FINAL DIVIDENDS

The Board recommended the payment of a final dividend of HK2.5 cents per share for the year ended 31 December 2020. The final dividend is subject to the approval of the shareholders of the Company (the "**Shareholders**") at the forthcoming annual general meeting of the Company to be held on 18 June 2021 (the "**AGM**") and the final dividend will be payable on or around 30 September 2021 to the Shareholders whose names appear on the register of members of the Company on 30 June 2021.

There is no arrangement that a Shareholder has waived or agreed to waive any dividend.

DIVIDEND POLICY

When determining distribution of dividends, the Board adopted such policy to share the profits of the Company with the Shareholders, while preserving sufficient reserves for the Company's future development.

The Company shall assess its dividend policy and distribution in any given year based on its financial condition, the current economic environment and expectations of future macroeconomic environment and business performance. The Board must take into account the following factors before any declaration of distribution or dividend recommendation:

- The actual and expected financial results of the Company;
- Retained earnings and distributable reserves of the Company and its subsidiaries;
- Expected working capital requirements, capital expenditure requirements and future expansion plans of the Group;
- Liquidity position of the Group;
- Any legal restrictions and restrictions under the financing agreements of the Company, including any financing agreements that may be entered into by the Company in the future; and
- Other factors that the Board considers relevant.

The Company's payment of dividends is also subject to applicable laws and regulations, including the Cayman Islands Laws and the Articles of Association. The Board will review this dividend policy from time to time and does not guarantee that any particular amount of dividend will be paid in any given period.

REPORT OF DIRECTORS

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 15 June 2021 to 18 June 2021, both days inclusive, in order to determine the identity of the Shareholders who are entitled to attend the AGM to be held on 18 June 2021, during which period no share transfers will be registered. To be eligible to attend the AGM, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 11 June 2021.

The register of members of the Company will also be closed from 25 June 2021 to 30 June 2021, both days inclusive, in order to determine the entitlement of the Shareholders to receive the final dividend, during which period no share transfers will be registered. To qualify for the final dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 24 June 2021.

FINANCIAL SUMMARY

A summary of the Group's results, assets and liabilities for the last five financial years is set out in the section headed "Financial Highlights" on pages 5 to 6 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 2020, the Group's customers primarily consist of the Group's students and their parents. 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 2020, the Group's five largest suppliers accounted for 52.9% of the Group's total purchases and the Group's single largest supplier accounted for 32.5% of the Group's total purchases.

For the year ended 31 December 2020, 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 of the Company) had any interest in the Group's five largest 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 year ended 31 December 2020, 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 year ended 31 December 2020 are set out in note 13 to the financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year ended 31 December 2020 are set out in note 24 to the financial statements.

RESERVES

Details of movements in the reserves of the Group and the Company during the year ended 31 December 2020 are set out in the consolidated statement of changes in equity on page 98 of this annual report and note 25 to the financial statements.

CHARITABLE DONATIONS

During the Reporting Period, no charitable donations have been made by the Group.

DISTRIBUTABLE RESERVES

As at 31 December 2020, the Company's reserve available for distribution was nil (as at 31 December 2019: nil).

INTEREST BEARING BANK BORROWINGS

Particulars of interest-bearing bank borrowings of the Group as at 31 December 2020 are set out in note 22 to the financial statements.

REPORT OF DIRECTORS

DIRECTORS

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

Executive Directors:

Ms. Wang Xiaoying (Chairwoman of the Board)
Mr. Ye Jiayu
Mr. Yan Yude
Mr. Deng Bangkai

Independent Non-executive Directors:

Mr. Sit Chiu Wing
Mr. Chan Kim Sun
Mr. Wen Ruizheng

In accordance with article 84 of the Articles of Association, one-third of the Directors shall retire from office by rotation at each annual general meeting of the Company and shall then be eligible for re-election. Accordingly, Ms. Wang Xiaoying, Mr. Deng Bangkai and Mr. Chan Kim Sun shall retire by rotation, and being eligible, have offered themselves for re-election at the AGM.

Details of the Directors to be re-elected at the AGM are set out in the circular to the Shareholders dated 29 April 2021.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and senior management of the Company are set out on pages 30 to 33 of this annual report.

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received an annual confirmation of independence pursuant to rule 3.13 of the Listing Rules from each of the independent non-executive Directors and the Company considers such Directors to be independent throughout the year ended 31 December 2020 and remain so as of the date of this annual report.

DIRECTORS' SERVICE CONTRACTS AND LETTERS OF APPOINTMENT

Each of Ms. Wang Xiaoying, Mr. Ye Jiayu, Mr. Yan Yude and Mr. Deng Bangkai, being the executive Directors, has entered into a service contract with the Company for an initial fixed term of three years commencing from the Listing Date, Listing Date, Listing Date and 15 November 2018, respectively, and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other, which notice shall not expire until the end of the fixed term.

Each of Mr. Sit Chiu Wing, Mr. Chan Kim Sun and Mr. Wen Ruizheng, being the independent non-executive Directors, has entered into a letter of appointment with the Company for an initial fixed term of one year commencing from the Listing Date, Listing Date and 15 November 2018, respectively, and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other, which notice shall not expire until the end of the fixed term.

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

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

Save as disclosed in the section headed "Non-exempt Continuing Connected Transaction" and otherwise disclosed in this annual report, no Directors or their connected entity (within the meaning in section 486 of the Companies Ordinance) had a material interest, either directly or indirectly, in any transaction, arrangement or contract of significance to the business of the Group to which the Company, or any of its subsidiaries or fellow subsidiaries was a party during the year ended 31 December 2020.

Apart from the contract relating to the reorganization of the Group in relation to the Listing and save as disclosed in the section headed "Non-exempt Continuing Connected Transaction" and otherwise disclosed in this annual report, none of the Controlling Shareholders or any of their connected entity (within the meaning of section 486 of the Companies Ordinance) had a material interest, either directly or indirectly, in any transaction, arrangement or contract of significance to the business of the Group to which the Company, or any of its subsidiaries or fellow subsidiaries was a party during the year ended 31 December 2020.

No contract of significance for the provision of services to the Company or any of its subsidiaries or fellow subsidiaries by the Controlling Shareholders or any of their subsidiaries was entered into during the year ended 31 December 2020.

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 year ended 31 December 2020.

EMOLUMENT POLICY

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

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

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

REPORT OF DIRECTORS

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

As at 31 December 2020, the interests and short positions of the Directors and the chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have taken under such provisions of the SFO), or which were recorded in the register required to be kept by the Company pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code as set out in Appendix 10 of the Listing Rules were as follows:

Name	Capacity/Nature of Interest	Number of Shares	Long/short position	Approximate Percentage of Shareholding in the Company (%)
Mr. Yan Yude[1]	Interest in a controlled corporation Interest of spouse	1,376,103,045	Long position	44.55
Ms. Wang Xiaoying[2]	Interest of spouse Interest in a controlled corporation	1,376,103,045	Long position	44.55
Mr. Deng Bangkai	Beneficial owner	270,000	Long position	0.01

Notes:

(1) Mr. Yan Yude is the sole shareholder and sole director of Virscend Holdings and he is therefore deemed to be interested in 1,308,603,045 Shares held by Virscend Holdings. Mr. Yan Yude is also the husband of Ms. Wang Xiaoying and is therefore deemed to be interested in 67,500,000 Shares held by Ms. Wang Xiaoying through Smart Ally.

(2) Ms. Wang Xiaoying is the sole shareholder and director of Smart Ally and she is therefore deemed to be interested in 67,500,000 Shares held by Smart Ally. Ms. Wang Xiaoying is also the wife of Mr. Yan Yude and is therefore deemed to be interested in 1,308,603,045 Shares indirectly held by Mr. Yan Yude through Virscend Holdings.

Save as disclosed above, as at 31 December 2020, 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 by the Company 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 disclosed in the section headed "Share Option Scheme" of 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 2020, to the best knowledge of the Directors, the following persons (other than being a Director or chief executive of the Company) had interests or short positions in the Shares or underlying Shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Name	Capacity/Nature of Interest	Number of Shares	Long/short position	Approximate Percentage of Shareholding in the Company (%)
Virscend Holdings	Beneficial owner	1,308,603,045	Long position	42.37
Mr. Yan Yude[(1)]	Interest in a controlled corporation and interest of spouse	1,376,103,045	Long position	44.55
Ms. Wang Xiaoying[(2)]	Interest of spouse and interest in a controlled corporation	1,376,103,045	Long position	44.55
Bank of China Limited	Security interest	458,876,100	Long position	14.86
Happy Venus Limited[(3)]	Beneficial owner	180,544,129	Long position	5.85
Ms. Yan Hongjia[(3)]	Interest in a controlled corporation	180,544,129	Long position	5.85
The Bank of New York Mellon Corporation	Interest in a controlled corporation	278,553,700 274,910,000	Long position Lending pool	9.02 8.90
Invesco Canada Ltd.	Investment manager	247,334,000	Long position	8.01

REPORT OF DIRECTORS

Notes:

(1) Mr. Yan Yude is the sole shareholder and sole director of Virscend Holdings and he is therefore deemed to be interested in the 1,308,603,045 Shares held by Virscend Holdings. Mr. Yan Yude is the husband of Ms. Wang Xiaoying and is therefore deemed to be interested in the 67,500,000 Shares indirectly held by Ms. Wang Xiaoying through Smart Ally.

(2) Ms. Wang Xiaoying is the sole shareholder of Smart Ally and she is therefore deemed to be interested in the 67,500,000 Shares held by Smart Ally. Ms. Wang Xiaoying is the wife of Mr. Yan Yude and she is therefore deemed to be interested in the 1,308,603,045 Shares indirectly held by Mr. Yan Yude through Virscend Holdings.

(3) Ms. Yan Hongjia is the sole shareholder and sole director of Happy Venus Limtied and she is therefore deemed to be interested in the Shares held by Happy Venus Limited.

Save as disclosed above, as at 31 December 2020, 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 the Share Option Scheme on 28 December 2015 ("**Adoption Date**") for the purpose of giving the eligible persons an opportunity to have a personal stake in the Company and help motivate them to optimize their future contributions to the Group and/or to reward them for their past contributions, to attract and retain or otherwise maintain on-going relationships with such eligible persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group, and additionally in the case of executives (as defined below), to enable the Group to attract and retain individuals with experience and ability and/or to reward them for their past contributions.

Eligible persons include (a) any executive director of, manager of, or other employee holding an executive, managerial, supervisory or similar position in any member of our Group ("**Executive**"), any proposed employee, any full-time or part-time employee, or a person for the time being seconded to work full-time or part-time for any member of our Group ("**Employee**"); (b) a director or proposed director (including an independent non-executive director) of any member of our Group; (c) a direct or indirect shareholder of any member of our Group; (d) a supplier of goods or services to any member of our Group; (e) a customer, consultant, business or joint venture partner, franchisee, contractor, agent or representative of any member of our Group; (f) a person or entity that provides design, research, development or other support or any advisory, consultancy, professional or other services to any member of our Group; and (g) an associate of any of the persons referred to in paragraphs (a) to (f) above.

The maximum number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of the Group shall not in aggregate exceed 10% of the Shares in issue as at the Listing Date, which is 300,000,000 Shares excluding Shares which may fall to be issued upon the exercise of the over-allotment option granted by the Company, representing approximately 9.71% of the issued shares as at the date of this annual report.

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

The Board shall be entitled at any time within 10 years from the Adoption Date to offer the grant of an option to any eligible person as the Board may in its absolute discretion select to subscribe at the subscription price for such number of Shares as the Board may (subject to the terms of the Share Option Scheme) determine (provided the same shall be a board lot for dealing in the Shares on the Stock Exchange or an integral multiple thereof). Subject to such terms and conditions as the Board may determine (including such terms and conditions in relation to their vesting, exercise or otherwise), there is no minimum period for which an option must be held before it can be exercised and no performance target which need to be achieved by the grantee before the Option can be exercised.

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

The subscription price in respect of any particular option shall be such price as the Board may in its absolute discretion determine at the time of grant of the relevant option (and shall be stated in the letter containing the offer of the grant of the option) but the subscription price shall not be less than whichever is the highest of: (a) the nominal value of the Share; (b) the closing price of the Share as stated in the Stock Exchange's daily quotations sheet on the offer date; and (c) the average closing price of the Share as stated in the Stock Exchange's daily quotations sheets for the 5 business days (as defined in the Listing Rules) immediately preceding the offer date.

The Share Option Scheme shall be valid and effective for a period of 10 years from the date on which it becomes unconditional, after which no further options will be granted or offered but the provisions of the Share Option Scheme shall remain in force and effect in all other respects. All options granted prior to such expiry and not then exercised shall continue to be valid and exercisable subject to and in accordance with the Share Option Scheme. The remaining life of the Share Option Scheme is around 4 years and 9 months.

Since the Adoption Date, no options under the Share Option Scheme have been granted, exercised, lapsed or cancelled.

REPORT OF DIRECTORS

EQUITY LINKED AGREEMENTS

Save as disclosed in the section headed "Share Option Scheme" of this annual report, during the year ended 31 December 2020, neither the Company nor any of its subsidiaries had entered into (i) any agreement that will or may result in the Company issuing Shares; or (ii) any agreement requiring the Company to enter into any agreement specified in (i).

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended 31 December 2020, 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.

NON-COMPETITION UNDERTAKING

As of 31 December 2020, the Controlling Shareholders do not have any other interest in any business that may, directly or indirectly, compete with the business of the Group.

Under the Structured Contracts, Mr. Yan Yude has provided certain non-competition undertaking in favor of the Company. For details of the Non-Competition Undertaking, please refer to the Prospectus.

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

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

DIRECTORS' INTEREST IN COMPETING BUSINESS

Save as disclosed in this annual report, during the year ended 31 December 2020, none of the Directors or their respective associates had engaged in or had any interest in any business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group.

NON EXEMPT CONTINUING CONNECTED TRANSACTIONS AND CONNECTED TRANSACTION

During the year, the Group conducted certain transactions with connected persons which constituted continuing connected transactions for the Group under the Listing rules. Details of those continuing connected transactions which are subject to the reporting requirements pursuant to Chapter 14A of the Listing Rule are summarised below:

Continuing connected transactions

(1) Property Lease Agreements

On 1 March 2018, Chengdu Foreign Languages School, a consolidated affiliated entity of the Group entered into a new lease agreement ("**New Lease Agreement**") with Sichuan Derui, pursuant to which Sichuan Derui agreed to lease certain properties to Chengdu Foreign Languages School for its middle school operation. The properties therein had been acquired by the Group in 2019 and the New Lease Agreement has accordingly ceased.

Reference is made to the Prospectus in relation to the respective lease agreements entered into between each of Chengdu Foreign Languages School and Primary School Attached to the Chengdu Foreign Languages School and Sichuan Derui on 7 September 2015 (collectively, the "**Previous Lease Agreements**"). Upon expiration of the Previous Lease Agreements, on 7 September 2018, each of Chengdu Foreign Languages School and Primary School Attached to the Chengdu Foreign Languages School entered into a new lease agreement with Sichuan Derui, respectively, to renew the Previous Lease Agreements (collectively, the "**2018 Lease Agreements**").

As the 2018 Lease Agreements had expired in September 2020, in order to extend the lease terms therein, on 31 August 2020, Chengdu Foreign Languages School, and Primary School Attached to the Chengdu Foreign Languages School entered into a lease agreement with Sichuan Derui (the "**Transitional Lease Agreement**") in order to renew and use a total of 29 properties subject to the same terms as 2018 Lease Agreements free-of rent for a period of 5 months ended 31 January 2021.

For details of renewal of lease agreements supplemented with property management service, please refer to section "Important events since the year end" on Page 71 or the Company's announcements dated 29 January 2021 and 5 February 2021.

REPORT OF DIRECTORS

The table below sets out the details regarding the 2018 Lease Agreements and the Transitional Lease Agreements (together, "**Property Leases Agreements**"):

	Lessees	Lessor	Duration of the Lease	Description and use of the property leased	Annual amount paid for the year ended 31 December 2020 RMB'000
2018 Lease Agreement I	Chengdu Foreign Languages School	Sichuan Derui	For a period of two years commencing on 7 September 2018, with option to renew exercisable by Chengdu Foreign Languages School at any time during the term of the lease by written notice	14 properties comprising various buildings used primarily as teaching complex, dormitory and canteen with total gross floor area of approximately 100,031.00 sq.m.	5,065
2018 Lease Agreement II	Primary School Attached to the Chengdu Foreign Languages School	Sichuan Derui	For a period of two years commencing on 7 September 2018, with option to renew exercisable by the Primary School Attached to the Chengdu Foreign Languages School at any time during the term of the lease by written notice	Nine properties comprising various buildings used as teaching complex dormitory and canteen with total gross floor area of approximately 34,316.12 sq.m.	1,759

	Lessees	Lessor	Duration of the Lease	Description and use of the property leased	Annual amount paid for the year ended 31 December 2020 RMB'000
Transitional Lease Agreement	Chengdu Foreign Languages School and Primary School Attached to the Chengdu Foreign Languages School	Sichuan Derui	For a period of five months commencing from 1 September 2020 to 31 January 2021	(1) 20 properties of a total gross floor area of approximately 145,184.25 square metres located at Xipu Town, Chengdu City, Sichuan Province, the PRC, which intend to be primarily used as teaching complex, dormitory and canteen of the middle school operation; and (2) 9 properties of a total gross floor area of approximately 45,703.60 square metres located at Xipu Town, Chengdu City, Sichuan Province, the PRC, which intend to be primarily used as teaching complex, dormitory and canteen of the primary school operation.	0

REPORT OF DIRECTORS

The rental payable per annum for each of the 2018 Lease Agreements was arrived at after arm's length negotiation between the Group and Sichuan Derui with reference to the historical rents paid for the relevant properties pursuant to the Previous Lease Agreements and the prevailing market conditions and the rental levels of similar properties in the vicinity of the leased premises. Each of the relevant PRC Operating Entities may renew the respective Property Lease Agreements at any time during the lease term of the respective Property Lease Agreements for another three years on the same terms as the Property Lease Agreements. Each of the relevant PRC Operating Entities may unilaterally terminate the respective Property Lease Agreements during the lease term. In addition, pursuant to the Property Lease Agreements, Sichuan Derui agreed that Sichuan Derui shall not transfer any of the properties under the Property Lease Agreements unless with the prior written consent of the relevant PRC Operating Entities, provided also that the relevant PRC Operating Entities are satisfied with the performance of Sichuan Derui under the Property Lease Agreements and the new lessor has the ability to satisfy the obligations under the Property Lease Agreements and guarantees that the new lease agreement will be on the same terms and conditions with the Property Lease Agreements. Furthermore, each of the relevant PRC Operating Entities has been granted a right of first refusal to acquire the properties at fair market value if the lessor intends to transfer any property under the Property Lease Agreements.

The rental for Transitional Lease Agreement was determined on a rent-free basis, taken into account the impact of COVID-19 and time required for the parties to confirm and negotiate on rental for the additional properties of a total gross floor area of approximately 56,540.73 square metres to be included.

Mr. Yan Yude is a Director and a Controlling Shareholder, and therefore a connected person of the Company under Rule 14A.07(1) of the Listing Rules. Sichuan Derui is owned as to 69.44% by Mr. Yan Yude and hence an associate of Mr. Yan Yude and a connected person of the Company.

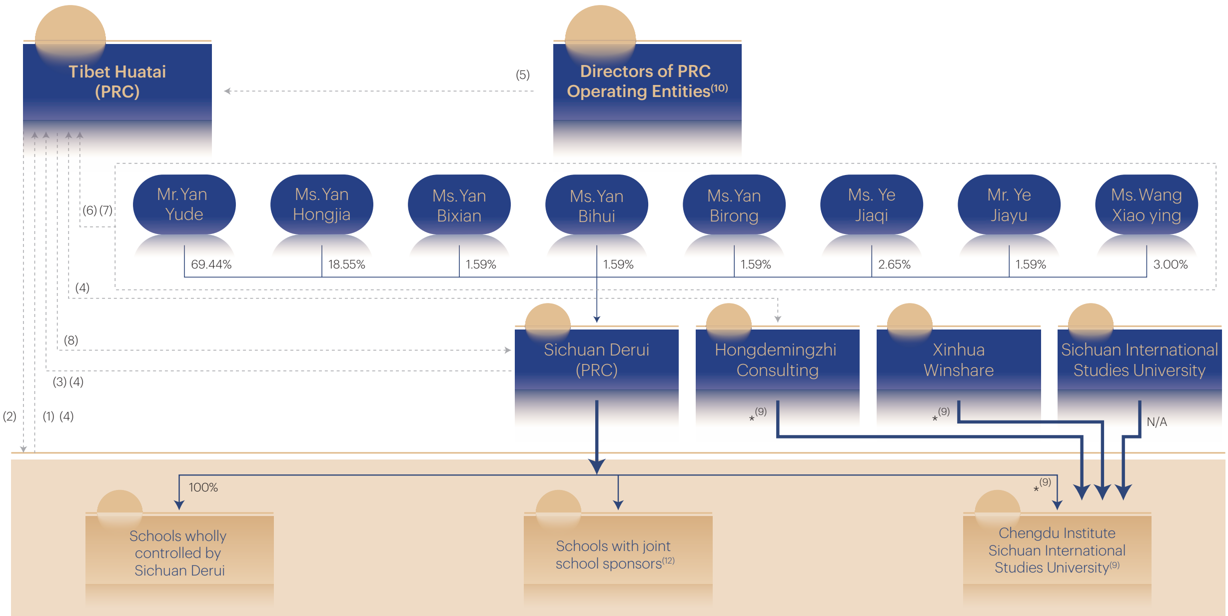
(2) Structured Contracts

A. Overview

The Group currently conducts its private education business through the PRC Operating Entities in the PRC as PRC laws and regulations generally prohibit or restrict foreign ownership in the private education industry in the PRC. PRC laws and regulations currently prohibit foreign ownership of primary and middle schools in the PRC and restrict the operation of preschools, high schools and higher education institutions to Sino- foreign ownership, in addition to imposing qualification requirements on the foreign owners. The Company does not hold any equity interest in the PRC Operating Entities. The Structured Contracts, through which the Company obtains control over and derives the economic benefits from the PRC Operating Entities, have been narrowly tailored to achieve the Group's business purpose and minimize the potential conflict with relevant PRC laws and regulations.

To comply with the above mentioned PRC laws and regulations, at the same time, advancing the Group's access to the international capital markets and effectively control of all of the operations, Tibet Huatai entered into various agreements that constitute the Structured Contracts with, among others, the PRC Operating Entities, under which all economic benefits arising from the business of the PRC Operating Entities are transferred to Tibet Huatai by means of services fees payable by the PRC Operating Entities to Tibet Huatai (subject to approval under PRC laws and regulations).

The following simplified diagram illustrates the flow of economic benefits from the PRC Operating Entities to the Group stipulated under the Structured Contracts as at the date of this annual report:



* *For identification purpose only*

REPORT OF DIRECTORS

Notes:

1. Payment of service fees.

2. Provision of exclusive technical and management consultancy services.

3. Exclusive call option to acquire all or part of the school sponsor's interest of Sichuan Derui in the PRC Operating Entities.

4. Entrustment of school sponsors' rights in the PRC Operating Entities by the relevant school sponsors including school sponsors' powers of attorney.

5. Entrustment of directors' rights in the PRC Operating Entities by directors of the PRC Operating Entities appointed by the relevant school sponsors including director's powers of attorney.

6. Spouse undertakings by the respective spouse of the Registered Shareholders, who are shareholders of Sichuan Derui.

7. Pledge of equity interest by the Registered Shareholders of their equity interest in Sichuan Derui.

8. Provision of loans by Tibet Huatai to Sichuan Derui which will be directly settled by Tibet Huatai as capital contribution of the PRC Operating Entities on behalf of Sichuan Derui.

9. The school sponsor's interest in the University is currently owned as to 75.7% by Sichuan Derui, 24.30% by Xinhua Winshare, each as a school sponsor, and Sichuan International Studies University is named as a school sponsor, entitled to the rights stipulated under the articles of the University and the relevant PRC laws, and returns under the 2009 University Agreement. Xinhua Winshare is a company listed on the Main Board of the Stock Exchange (stock code: 0811), and as it has a substantial interest in the University, it is a connected person of the Group.

. All of the rights and liabilities attached to 23.83% school sponsor's interest held by Hongdemingzhi Consulting in Chengdu Institute Sichuan International Studies University was assigned to Sichuan Derui pursuant to an agreement dated 26 March 2011. On 15 November 2016, Sichuan Derui and Xinhua Winshare entered into the school sponsor's interest transfer agreement, pursuant to which Xinhua Winshare agreed to sell and Sichuan Derui agreed to purchase 24.30% of the school sponsor's interest in Chengdu Institute Sichuan International Studies University. Although as at the date of this report, the approval from the relevant authorities for the transfer of school sponsor interest from Xinhua Winshare to Sichuan Derui is still pending, both parties agreed that Sichuan Derui was entitled to the 24.30% school sponsor's interest in Chengdu Institute Sichuan International Studies University originally held by Xinhua Winshare upon entering into the transfer agreement.

10. Directors of the PRC Operating Entities as appointed by Sichuan Derui, Hongdemingzhi Consulting and the Primary School.

11. Schools which are wholly owned by Sichuan Derui are as follow:

Year of establishment:	School
Before 2017	Chengdu Foreign Languages School Chengdu Experimental Foreign Languages School Primary School Attached to Chengdu Foreign Languages School Chengdu Foreign Languages Kindergarten
2017	Panzhihua School Primary School Attached to Chengdu Experimental Foreign Languages School
2018	Quxian High School Chengdu Experimental Foreign Languages School of Quxian
2019	Chengdu Experimental Foreign Languages School of Ya'an Xichen Campus Ya'an High School Yibin High School Yibin Primary School Chengdu Foreign Languages School of Yibin
2020	Gaoxin Campus

12. Schools with joint school sponsors include the following:

Year of establishment	School	School sponsors' interest
Before 2017	Western Campus*	Owned as to 60% by Sichuan Derui, 40% by an independent third party
2017	Chengdu Foreign Languages School of Zigong**	Owned as to 57% by Sichuan Derui, 43% by Zigong Purun Technology Co., Ltd, an independent third party.
	Zigong High School**	Owned as to 47% by Sichuan Derui, 23% by Zigong Purun Holdings Group Co. Ltd, 20% by Zigong Purun Technology Co., Ltd, and 10% by Chengdu Yirui. Purun Holding, Zigong Purun Education and Chengdu Yirui are independent third parties.
	Kindergarten of Zigong**	Owned as to 47% by Sichuan Derui, 23% by Purun Holding, 20% by Zigong Purun Education and 10% by Chengdu Yirui. Purun Holding, Zigong Purun Education and Chengdu Yirui are independent third parties.
	Wulongshan School	Owned as to 85% by Sichuan Derui, 15% by an independent third party
	Wulongshan High School	Owned as to 45% by Sichuan Derui, 55% by two independent third parties
	Meinian Campus	Owned as to 53% by Sichuan Derui, 47% by independent third parties
2020	Chengdu Foreign Languages School of Deyang	Owned as to 40% by Sichuan Derui, 60% by an independent third party
	Chengdu Foreign Languages School of Xinjin	Owned as to 97% by Sichuan Derui, 3% by an independent third party

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

14. " ——— " denotes direct legal and beneficial ownership in the equity interest.

15. " ▬▬▬ " denotes school sponsor's interest.

16. " ·········· " denotes Structured Contracts.

17. " — · · — " denotes the PRC Operating Entities.

* During the year, pursuant to the school establishment supplemented agreement, 40% equity interest was offered as consideration to an independent third party in exchange for acquiring right-of-use assets of certain properties in the Western Campus.

** On 7 August 2020, the Group entered into a cooperation termination agreement with counter parties in respect of Chengdu Foreign Languages School of Zigong, Zigong High School and Kindergarten of Zigong (collectively, the "Zigong Schools") pursuant to which all parties agreed to terminate the cooperation and the Group transferred its all sponsor interest in Zigong Schools to an independent third party. Till the date of this report, the approval from the relevant authorities for the transfer of schools sponsor to a third party has yet to be obtained pending the discussion with relevant local government authorities with regard to the Group's future involvement as to Zigong Schools' business activities such as students recruitment, school operation model and etc.

REPORT OF DIRECTORS

B. Summary of the Material Terms of the Structured Contracts

(1) Business Cooperation Agreements

Pursuant to the Business Cooperation Agreements, Tibet Huatai shall provide technical service, management support and consulting service necessary for the private education business, and in return, the PRC Operating Entities shall make payments pursuant to the Structured Contracts. To ensure the due performance of the Structured Contracts, each of the PRC Operating Entities agreed to comply, and procure any of its subsidiaries to comply with, and Sichuan Derui and the Registered Shareholders agreed to procure the PRC Operating Entities to comply with the obligations as prescribed under in the Business Cooperation Agreements.

In order to prevent the leakage of assets and values of the consolidated affiliated entities, the Registered Shareholders, Sichuan Derui, Hongdemingzhi Consulting, the Primary School and each of the PRC Operating Entities have undertaken that, without prior written consent of Tibet Huatai or its designated party, Sichuan Derui, he/she/it shall not conduct or cause to conduct any activity or transaction which may have actual impact (i) on the assets, business, staff, obligations, rights or operations of the PRC Operating Entities or (ii) on the ability of Sichuan Derui, the Registered Shareholders and each of the PRC Operating Entities to perform the obligations under the Structured Contracts.

Furthermore, each of Sichuan Derui and the Registered Shareholders undertakes to Tibet Huatai that, unless with the prior written consent of Tibet Huatai, Sichuan Derui and the Registered Shareholders (severally or jointly) shall not (i) directly or indirectly engage, participate in, conduct, acquire or hold any business or activities which compete or may potentially compete with any of the PRC Operating Entities or its subsidiaries (the "**Competing Business**"), (ii) use information obtained from any of the PRC Operating Entities or its subsidiaries for the Competing Business, and (iii) obtain any benefit from any Competing Business. Each of Sichuan Derui and the Registered Shareholders further consent and agree that, in the event that Sichuan Derui and the Registered Shareholders (severally or jointly) directly or indirectly engage, participate in or conduct any Competing Business, Tibet Huatai and/or other entities as designated by us shall be granted an option to require the entity engaging in the Competing Business to enter into an arrangement similar to that of the Structured Contracts. If Tibet Huatai does not exercise such option, Sichuan Derui and the Registered Shareholders shall cease operation of the Competing Business within a reasonable time.

(2) Exclusive Technical Service and Management Consultancy Agreements

Pursuant to the Exclusive Technical Service and Management Consultancy Agreements, Tibet Huatai agreed to provide exclusive technical services to the PRC Operating Entities. Furthermore, Tibet Huatai agreed to provide exclusive management consultancy services to the PRC Operating Entities.

In consideration of the technical and management consultancy services provided by Tibet Huatai, each of the PRC Operating Entities (except for Chengdu Foreign Languages School of Zigong, Zigong High School, Kindergarten of Zigong, Chengdu Experimental Foreign Languages School of Wulongshan, Wulongshan Campus, Chengdu Foreign Languages School of Deyang, Chengdu Foreign Languages School of Xinjin and Meinian Campus) agreed to pay Tibet Huatai a service fee equal to all of their respective amount of net profit (after deducting all 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)); Chengdu Foreign Languages School of Zigong, Zigong High School, Kindergarten of Zigong, Chengdu Experimental Foreign Languages School of Wulongshan, Wulongshan Campus, Chengdu Foreign Languages School of Deyang, Chengdu Foreign Languages School of Xinjin and Meinian Campus agreed to pay Tibet Huatai a service fee equal to the net profit attributable to Sichuan Derui's school sponsor interest (after deducting all costs, expenses, taxes, losses from the previous year (if required by the law) and legally compulsory development fund of the school (if required by the law)). The compulsory development fund is included as statutory surplus reserve at the Group's level and retained at schools' level. Tibet Huatai 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 Operating Entities, provided that any adjusted amount shall not exceed the amount mentioned above. The PRC Operating Entities do not have any right to make any such adjustment.

Pursuant to the Exclusive Technical Service and Management Consultancy Agreements, unless otherwise prescribed under the PRC laws and regulations, Tibet Huatai 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 Huatai to the PRC Operating Entities, and any intellectual property in the products developed, including any other rights derived thereunder, in the course of performance of obligations under the Exclusive Technical Service and Management Consultancy Agreements and/or any other agreements entered into between Tibet Huatai and other parties.

REPORT OF DIRECTORS

(3) Exclusive Call Option Agreements

Under the Exclusive Call Option Agreements, Sichuan Derui has irrevocably granted Tibet Huatai or its designated purchaser the right to purchase all or part of the school sponsor's interest of Sichuan Derui in the PRC Operating Entities (the "**Equity Call Option**"). The purchase price payable by Tibet Huatai in respect of the transfer of such school sponsor's interest upon exercise of the Equity Call Option shall be the lowest price permitted under the PRC laws and regulations. Tibet Huatai or its designated purchaser shall have the right to purchase such proportion of the school sponsor's interest of the PRC Operating Entities as it decides at any time.

In the event that PRC laws and regulations allow Tibet Huatai or us to directly hold all or part of the equity interest in the PRC Operating Entities and operate private education business in the PRC, Tibet Huatai shall issue the notice of exercise of the Equity Call Option as soon as practicable, and the percentage of 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 Huatai or us under PRC laws and regulations.

(4) School Sponsors' and Directors' Rights Entrustment Agreements

Pursuant to the School Sponsors' and Directors' Rights Entrustment Agreements, each of Sichuan Derui, Hongdemingzhi Consulting and the Primary School (as school sponsor of the Kindergarten) has irrevocably authorised and entrusted Tibet Huatai to exercise all its rights as school sponsor of each of the PRC Operating Entities to the extent permitted by the PRC laws. Pursuant to the School Sponsors' and Directors' Rights Entrustment Agreement, each of the directors nominated by Sichuan Derui has irrevocably authorised and entrusted Tibet Huatai to exercise all his/her rights as directors of the PRC Operating Entities as appointed by Sichuan Derui, Hongdemingzhi Consulting or the Primary School (as applicable) and to the extent permitted by the PRC laws.

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

(5) School Sponsors' Powers of Attorney

Pursuant to the School Sponsors' Powers of Attorney executed by each of Sichuan Derui, Hongdemingzhi Consulting and the Primary School in favor of Tibet Huatai, each of Sichuan Derui, Hongdemingzhi Consulting and the Primary School (as school sponsor of the Kindergarten) authorised and appointed Tibet Huatai, the sole director of which is Mr. Yi Yu (who is not a director of any of the PRC Operating Entities and does not give rise to any conflicts of interest), as its agent to act on its behalf to exercise or delegate the exercise of all its rights as school sponsor of each of the PRC Operating Entities.

Tibet Huatai shall have the right to further delegate the rights so delegated to directors of Tibet Huatai or other designated person. Tibet Huatai confirms that it will not delegate any of these rights to anyone whose interest would potentially conflict with those of the Company. Sichuan Derui irrevocably agreed that the authorization appointment in the School Sponsor's Powers of Attorney shall not be invalid, prejudiced or otherwise adversely affected by reason of Sichuan Derui's subdivision, merger, winding up, consolidation, liquidation or other similar events. The School Sponsor's Power of Attorney shall constitute a part and incorporate terms of the School Sponsors' and Directors' Rights Entrustment Agreement.

(6) Directors' Powers of Attorney

Pursuant to the Directors' Powers of Attorney executed by each of the Appointees in favor of Tibet Huatai, each of the Appointees authorised and appointed Tibet Huatai, the sole director of which is Mr. Yi Yu (who is not a director of any of the PRC Operating Entities and does not give rise to any conflicts of interest), as his/her agent to act on his/her behalf to exercise or delegate the exercise of all his/her rights as directors of the PRC Operating Entities.

Tibet Huatai shall have the right to further delegate the rights so delegated to directors of Tibet Huatai or other designated person. Tibet Huatai confirms that it will not delegate any of these rights to anyone whose interest would potentially conflict with those of the Company. Each of the Appointees irrevocably agreed that the authorization appointment in the Directors' Powers of Attorney shall not be invalid, prejudiced or otherwise adversely affected by reason of his/her loss of or restriction on capacity, death or other similar events. The Directors' Power of Attorney shall constitute a part and incorporate terms of the School Sponsors' and Directors' Rights Entrustment Agreement.

(7) Spouse Undertakings

Pursuant to the Spouse Undertakings, the respective spouse of each of the Registered Shareholders (if any) has irrevocably undertaken that:

(a) the spouse has full knowledge of and has consented to the entering into of the Structured Contracts by the relevant Registered Shareholder, and in particular, the arrangement as set out in the Structured Contracts in relation to the restrictions imposed on the equity interest in Sichuan Derui, pledge or transfer the equity interest in Sichuan Derui, or the disposal of the equity interest in Sichuan Derui in any other forms;

(b) the spouse has not, is not and shall not in the future participate in the operation, management, liquidation, dissolution and other matters in relation to Sichuan Derui and the PRC Operating Entities (except for Mr. Yan Yude and Ms. Wang Xiaoying);

(c) the spouse authorizes the respective Registered Shareholder and/or his/her authorised person to execute all necessary documents and perform all necessary procedures from time to time for and on behalf of the spouse in relation to the spouse's equity interest in Sichuan Derui in order to safeguard the interest of Tibet Huatai 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 death, loss of or restriction on capacity of the spouse, divorce or other similar events; and

(e) all undertakings, confirmations, consents and authorizations under the Spouse Undertakings shall continue to be valid and binding until otherwise terminated by both Tibet Huatai and the spouse in writing.

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

(8) Equity Pledge Agreements

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

Pursuant to the Equity Pledge Agreements, without the prior written consent of Tibet Huatai, the Registered Shareholders shall not transfer the equity interest or create further pledge or encumbrance over the pledged equity interest. Any unauthorised transfer shall be invalid, and the proceeds of any transfer of the equity interest shall be first used in the payment of the Secured Indebtedness or deposited to such third party as agreed to by Tibet Huatai. 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 Agreements. The pledge under the Equity Pledge Agreement was registered with the relevant Administration of Industry and Commerce of the PRC on 18 September 2015 and became effective on the same date.

Under the Structured Contracts, there is no equity pledge arrangement between the Company and Sichuan Derui over the school sponsor's interest in the PRC Operating Entities held by Sichuan Derui. As advised by the PRC Legal Advisors, if the Company were to make an equity pledge arrangement with Sichuan Derui where Sichuan Derui pledges its school sponsor's interest in each of the PRC Operating Entities in favor of us, such arrangement would be unenforceable under PRC laws and regulations given that school sponsor's interests in schools are not pledgeable under PRC laws and any equity pledge arrangements with respect to School Sponsor's interests in schools cannot be registered with the relevant PRC regulatory authorities.

(9) Loan Agreements

Pursuant to the Loan Agreements, Tibet Huatai agreed to provide interest-free loans to Sichuan Derui in accordance with the PRC laws and regulations and Sichuan Derui agreed to utilize the proceeds of such loans to contribute as capital of the PRC Operating Entities in its capacity as school sponsor of the schools operated by the Group in accordance with our instructions. Both parties agree that all such capital contribution will be directly settled by Tibet Huatai on behalf of Sichuan Derui.

The term of the Loan Agreements shall continue until all school sponsor's interest of the PRC Operating Entities are transferred to Tibet Huatai 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 Agreements will be for an infinite term until termination at the sole discretion of Tibet Huatai.

C. Business Activities of PRC Operating Entities

The consolidated affiliated entities of the Group include the PRC Operating Entities and their respective school sponsors and other investment holding companies which were consolidated to the Group by virtue of the Structured Contracts, as amended from time to time. The PRC Operating Entities consist of (i) Chengdu Foreign Languages School, Chengdu Experimental Foreign Languages School, Chengdu Experimental Foreign Languages School (Western Campus), the University, the Primary School attached to Chengdu Foreign Languages School, and Kindergarten of the Primary School attached to Chengdu Jinniu District Foreign Languages School, (ii) schools established in 2017, namely, Chengdu Foreign Languages School of Panzhihua, Primary School Attached to Chengdu Experimental Foreign Languages School, Chengdu Foreign Languages School of Zigong, Kindergarten of Zigong, Zigong High School, Wulongshan High School, Wulongshan School and Meinian Campus, (iii) schools established in 2018, namely, Chengdu Experimental Foreign Languages School of Quxian, and Quxian High School, (iv) schools established in 2019, namely, Chengdu Experimental Foreign Languages School of Ya'an and Ya'an High School, Xinchen Campus and the Yibin Campus and (v) schools established in 2020, namely, Chengdu Foreign Languages School of Deyang, Chengdu Foreign Languages School of Xinjin. Their business activities are primarily to offer educational services to students of different age groups from kindergarten to the university. All of the school sponsors are investment holding companies.

D. Significance and financial contributions of PRC Operating Entities to the Group

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

	Significances and financial contribution to the Group					
	Revenue For the year ended 31 December		Net Profit* For the year ended 31 December		Total assets As at 31 December	
	2020	2019	2020	2019	2020	2019
PRC Operating Entities	99.7%	99.5%	98.2%	95.7%	87.6%	93.9%

* Before service fee charged under Structured Contracts

E. Revenue and assets involved in Structured Contracts

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

	Revenue RMB'000 For the year ended 31 December 2020	Assets RMB'000 As at 31 December 2020
PRC Operating Entities	1,839,521	6,642,480

F. Regulatory Framework

The Group currently conducts its private education business through the PRC Operating Entities in the PRC as PRC laws and regulations generally prohibit or restrict foreign ownership in the private education industry in the PRC. PRC laws and regulations currently prohibit foreign ownership of primary and middle schools in the PRC and restrict the operation of preschools, high schools and higher education institutions to Sino- foreign ownership, in addition to imposing qualification requirements on the foreign owners. The Company does not hold any equity interest in the PRC Operating Entities. The Structured Contracts, through which the Company obtains control over and derive the economic benefits from the PRC Operating Entities, have been narrowly tailored to achieve the Group's business purpose and minimize the potential conflict with relevant PRC laws and regulations.

1. Primary School and Middle School Education

Pursuant to the Implementation Opinions on Encouraging and Guiding Private Fund's Entry into the Education Sector and Promoting Healthy Development of Private Education (關於鼓勵和引導民間資金進入教育領域促進民辦教育健康發展的實施意見) promulgated by the Ministry of Education of the PRC ("**MOE**") on 18 June 2012 ("**Implementation Opinions**"), foreign-invested companies that engage in educational activities in the PRC should comply with the Foreign Investment Catalog. Under the <Special Management Measures for Foreign Investment Access (Negative List) (2019 version)> (外商投資准入特別管理措施(負面清單) (2019年版)) promulgated by the National Development and Reform Commission ("**NDRC**") and the Ministry of Commerce of the PRC ("**MOFCOM**") on June 30, 2019 and became effective from July 30, 2019, primary schools and middle schools offering compulsory education for students from grade one to nine fall within the "prohibited" category. As a result of the prohibition on foreign ownership, foreign investors (including individuals, companies, partnerships, educational institution and any other entities) are prohibited from owning primary schools or middle schools in the PRC, whether through direct investments or through wholly-owned subsidiaries in the PRC. Therefore, the Company does not hold any direct equity interest in any of Chengdu Foreign Languages School, Chengdu Experimental Foreign Languages School, Chengdu Experimental Foreign Languages School (Western Campus) and the Primary School, Primary School attached to Chengdu Foreign Languages School,Chengdu Experimental Foreign Languages School of Xindu Wulongshan,Meinian Campus, Chengdu Foreign Languages School of Zigong, Chengdu Foreign Languages School of Panzhihua,Chengdu Experimental Foreign Languages School of Quxian, Chengdu Experimental Foreign Languages School of Ya'an, Xinchen Yuanzhu Campus Chengdu Foreign Languages School of Deyang, Chengdu Foreign Languages School of Xinjin, each of which offers either primary school or middle school education, and controls each of them through the Structured Contracts.

2. Preschool, High School and Higher Education

Pursuant to the <Special Management Measures for Foreign Investment Access (Negative List) (2019 version)> (外商投資准入特別管理措施(負面清單) (2019年版)) promulgated by the National Development and Reform Commission ("**NDRC**") and the Ministry of Commerce of the PRC ("**MOFCOM**") on June 30, 2019 and became effective from July 30,2019, and the Sino- Foreign Regulation, the foreign investor in a Sino-foreign joint venture school offering preschool, high school and higher education must be a foreign education institution with relevant qualification and high quality of education ("**Qualification Requirement**"), hold less than 50% of the capital in a Sino-foreign education institute ("**Foreign Ownership Restriction**") and the domestic party shall play a dominant role ("**Foreign Control Restriction**"), meaning (a) the principal or other chief executive officer of the schools shall be a PRC national (with which the Group had fully complied); and (b) the representative of the domestic party shall account for no less than half of the total members of the board of directors, the executive council or the joint administration committee of the Sino-foreign cooperative educational institution.

In relation to the interpretation of Sino-foreign cooperation, if the Company were to apply for any of the schools operated by the Group to be reorganized as a Sino-foreign joint venture private school for PRC students at a preschool, high school and schools offering higher education ("**Sino-Foreign Joint Venture Private School**"), in addition to the Qualification Requirements and the Foreign Ownership Restriction, pursuant to the Implementation Opinions, the establishment of these schools is subject to approval of education authorities at the provincial or national level.

The PRC Legal Advisors have advised that as at the date of this annual report, it is currently uncertain as to what specific criteria must be met by a foreign investor (such as length of experience and form and extent of ownership in the foreign jurisdiction) in order to demonstrate to the relevant educational authority that it meets the Qualification Requirement.

As advised by the PRC Legal Advisors, the Sichuan governmental authority has not promulgated any implementing measures or specific guidance in respect of the Qualification Requirement as at 31 December 2020 and up to the date of this annual report.

Given that as at 31 December 2020 and up to the date of this annual report, as advised by the PRC Legal Advisors, there is no implementing measures or specific guidance in respect of the Qualification Requirement, it is therefore not practicable for us to seek to apply to reorganize any of the PRC Operating Entities as a Sino-Foreign Joint Venture Private School or convert any of the Kindergarten or the University into a Sino-Foreign Joint Venture Private School.

3. Plan to Comply with the Qualification Requirement

The Company has adopted a specific plan and taken the following concrete steps which the Company reasonably believes are meaningful endeavors to demonstrate compliance with the Qualification Requirement.

As of 31 December, 2020, the Company has taken the following steps to implement the Group's plan.

The California Bureau for Private Postsecondary Education ("**BPPE**") has approved Virscend University to grant two degree programs, Bachelor of Science in Business Administration(BS) and Master of Business Administration (MBA) programs on November 18, 2016. The University, named Virscend University, has graduated 20 MBA students since its opening. Virscend University is in the process of gaining accreditation from WSCUC, the most prestigious accreditation body in higher education of West region of the United States. The University received Eligibility Status from WSCUC on June 3, 2019 and Candidacy for Accreditation on March 3, 2021, which means that the institution met or has a plan to meet all of the standards at a substatial level of compliance for accreditation. The Company has a total expenditure of USD 353,636 in 2020 in connection with the Group's plan for the year of 2020 and up to the date of this annual report.

4. Regulation Updates

(i) Impact of the "Implementing Regulations of the Law of the People's Republic of China on the Promotion of Privately-run Schools (Revised Draft)" ("**Revised Implementing Regulations**")

In April 2018, the MOE issued a consultation draft of the Revised Implementing Regulations to seek public opinions. The MOE's consultation draft further promoted the development of private education. It stipulates that private school should enjoy the same rights or preferential policies as public schools, including tax preferential treatment and other preferential policies, and stipulates the implementation of minimum registered capital requirement for schools providing higher education as well as other academies, and preferential treatment for such private institutions by way of land allocation.

On 10 August 2018, the Ministry of Justice of the PRC ("**MOJ**") issued a draft for approval of the Revised Implementing Regulations ("**MOJ Draft**") to seek public opinion. The MOJ Draft contains more provisions on the operation and management of private schools, including: (i) educational conglomerates are prohibited to take control of non-profit private schools through mergers and acquisitions, franchise chains, and control agreements: (ii) private schools shall conduct connected transactions in an open, reasonable and fair manner. A disclosure mechanism should be established for such transactions.

REPORT OF DIRECTORS

According to the opinions of the Company's PRC legal advisor, the potential impact of the MOJ Draft is as follows:

Chengdu Institute Sichuan International Studies University may need to raise its registered capital to RMB200 million. According to our current understanding and interpretation of the MOJ Draft, should we comply to the "Implementation Regulations for the Categorization and Registration of Private Schools in Sichuan Province ("**Sichuan Implementation Regulations**")", Chengdu Institute Sichuan International Studies University would be registered as a for-profit private school. We may have to increase its registered capital to not less than RMB200 million. As at the date of this annual report, the registered capital of Chengdu Institute Sichuan International Studies University is RMB98,408,800.

The impact of the MOJ Draft on the existing primary and junior high schools in the education stage within the Group to only set up as non-profit schools is not clear. According to the MOJ Draft, a legal entity sponsoring or controlling certain schools may not take control of non-profit private schools through mergers and acquisition, franchise chains, and structured contracts. The structural contracts involving the primary and junior high schools within the Group were signed and executed before the issuance of the MOJ Draft. Comments should have been submitted by 10 September 2018 and are now overdue. However, it did not provide a timetable for promulgating the Revised implementing Regulations. As at the date of this annual report, the updated version of the Revised implementing Regulations has not yet been promulgated. There are uncertainties about the form and content of the Revised Implementing Regulations which is subject to further update. We will pay close attention to the MOJ Draft and consult with our PRC legal advisor on the progress of the promulgation of the Revised Implementing Regulations.

(ii) Impact of the "Law of the People's Republic of China on Foreign Investment"

On 15 March 2019, the "Law of the People's Republic of China on Foreign Investment" ("**Foreign Investment Law**") was passed and promulgated by the National People's Congress, and will be effective from 1 January 2020. The Foreign Investment Law defines foreign investment as an investment activity conducted directly or indirectly by a foreign investor, and enumerates the situations that should be deemed as foreign investment. At the same time, the Foreign Investment Law stipulates that foreign investment activities are granted with the pre-establishment national treatment and shall follow the Negative List (as defined hereunder) management system. Foreign investors shall not invest in areas that are prohibited in the Negative List for the Access of Foreign Investment ("**Negative List**"). Foreign investors shall meet the conditions stipulated in the Negative List in order to invest into the areas that are categorized by the Negative List as restricted category. Foreign investors shall follow the same principle as domestic investment in order to invest in areas that are not on the Negative List. There are no provisions in the Foreign Investment Law that explicitly mention the "actual control" or the "contractual arrangements". Nevertheless, further laws and regulations on the above-mentioned are not ruled out. Therefore, there are still uncertainties on whether the structure under the contractual arrangements will be included in the scope of foreign investment supervision in the future, and on the supervision framework if it is included in the scope of supervision. As at the date of this annual report, the Company's operations have not been affected by the Foreign Investment Law. The Company will closely monitor the development of the Foreign Investment Law and the related laws and regulations.

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(iii) Impact of the "Implementation Plan for Accelerating the Conversion of Independent Colleges"

In May 2020, the Ministry of Education issued the "Implementation Plan for Accelerating the Conversion of Independent Colleges" (關於加快推進獨立學院轉設工作的實施方案), which provided that independent colleges are required to develop a work plan for the conversion by the end of 2020, while promoting a number of independent colleges to achieve the conversion. In the plan, it is particularly specified that for those independent colleges having an established school operation agreement, a clear delineation of rights and obligations between the school operation entities, the school operation conditions to meet the undergraduate universities establishment standards, they are permitted to convert into an independently organized private undergraduate universities.

Given that as at 31 December 2020 and up to the date of this annual report, as advised by the PRC Legal Advisors, completion of conversion of the University controlled through the Structured Contracts will benefit to the operation of the University on recruitment, project application and academic specialties. The implementation plan encourages the local government in the University's neighborhood to give policies support on subsidies per student, financial incentives and subsidies, interest deduction against loans, talent introduction, purchasing services, the supply of land, tax credit, financial support and etc.

(iv) Impact of the decision on the revision of the "Law of the People's Republic of China on the Promotion of Private Education"

On 7 November 2016, the decision on the revision of the "Law of the People's Republic of China on the Promotion of Private Education" ("**Decision**") was passed by and promulgated by the National People's Congress, and has become effective since 1 September 2017. The Decision made certain amendments on the "Law of the People's Republic of China on the Promotion of Private Education". According to the Decision, the school sponsors of private schools can choose to set up non-profit or for-profit private schools, but schools offering compulsory education can only be established as non-profit private schools.

The Sichuan Implementation Regulations was promulgated by the Education Department of Sichuan Province and four other relevant government authorities on 2 May 2018 and has become effective since 1 June 2018, establishing certain framework procedures for the transformation of existing private school in Sichuan Province into for-profit private schools or non-profit private schools.

To the best knowledge of the Company, there is uncertainty on the interpretation and application of the Decision, especially having considered that no detailed regulations and rules were enacted for the financial liquidation, property ownership division and tax payment in relation to the transformation of schools into for-profit private schools under the Sichuan Implementation Regulation as at the date of this annual report, which can affect or may affect the entire industry or several of our schools. Hence, as at the date of this annual report, we were unable to measure the impact of the implementation of the Decision on the business operation of our Group.

(v) Impact of the "Opinions of the Central Committee of the Communist Party of China on the Deepening Reform and Standardization of Preschool Education"

On 7 November 2018, the "Opinions of the Central Committee of the Communist Party of China on the Deepening Reform and Standardization of Preschool Education" was issued by the Central Committee of the Communist Party of China. Certain Opinions on the deepening reform and standardization of preschool education were put forward, including: (i) private capital shall not control non-profit kindergartens or kindergartens run by state-owned assets or collective assets through mergers and acquisitions, entrusted operations, franchise chains, use of variable interest entities, and agreement control; (ii) for-profit kindergartens participating in mergers and acquisitions, franchise agreement and chain operations shall report the agreements signed with relevant enterprises interested therein to the education department that are at or above the county level for publication to the public; (iii) private kindergartens are not allowed to be listed separately or as part of the listed assets. A listed company may not invest in a for-profit kindergarten through financing in the stock market, and may not purchase assets of the for-profit kindergartens by issue of shares or cash payment; and (iv) encouraging social force to operate kindergartens. The government has increased support, guiding social forces to operate more inclusive kindergartens. Before the end of June 2019, all provinces, including autonomous regions and municipalities directly under the Central Government, should further improve the recognition standards, subsidy standards and support policies for inclusive kindergartens private schools (普惠性民辦園). The development of inclusive private kindergartens is supported by among others, purchased of services, comprehensive awards, rent reduction, stationed public teachers, teachers training and guidance on teaching and research. The number of enrollment capacity in inclusive kindergartens and the quality of the inclusive kindergartens are the important indicators for incentives subsidies and support.

REPORT OF DIRECTORS

On 9 January 2020, the "Identification and management measures of inclusive private kindergartens in Sichuan Province"(四川省普惠性民辦幼兒園認定和管理辦法) was issued by the Education Department of Sichuan Province and two other relevant government authorities and has become effective since 10 February 2020, establishing identification procedures for inclusive private kindergartens, support policy and management measures.

After consulting our PRC legal advisor, we are of view that with experiences in managing and operating kindergartens over the past years, the Group is able to participate in the development of kindergarten business by delivering services and explore such participation in teachers training services market.

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

The Structured Contracts are used to enable the Group to consolidate the financial results of the PRC Operating Entities which engage in the operation of kindergarten, primary school, middle schools, high schools and university where the PRC laws and regulations currently prohibit foreign ownership of primary and middle schools in the PRC and restrict operation of preschools, high schools and higher education institutions to Sino-foreign ownership, in addition to imposing Qualification Requirements on the foreign owners and withholding government approval in respect of Sino-foreign ownership.

The PRC government may find that the Structured Contracts do not comply with applicable PRC laws and regulations, which may subject us to severe penalties and the Group's business may be materially and adversely affected. The Board emphasizes that the Draft Foreign Investment Law proposing sweeping changes to the PRC foreign investment regulatory regime, which would likely to have a significant impact on businesses operated in the PRC by foreign invested enterprises primarily through contractual arrangements. Furthermore, the Group relies on the Structured Contracts to obtain control over and derive the economic benefits from the PRC Operating Entities, which may not be as effective in providing operational control as direct ownership. The registered owners of the PRC Operating Entities may have conflicts of interest with the Group or there is deterioration of relations, which may materially and adversely affect the Group's business and financial condition. The Group's execution on the option to acquire school sponsor's interest of the PRC Operating Entities may be subject to certain limitations and the Company may incur substantial costs and expend significant resources to enforce the Structured Contracts if any of the PRC Operating Entities fails to perform its obligations thereunder. The Structured Contracts may be subject to scrutiny of PRC tax authorities and additional tax may be imposed, which may materially and adversely affect the Group's results of operation and value of the investment by the Shareholders or potential investors of the Company. Certain terms of the Structured Contracts may not be enforceable under PRC laws. The PRC Operating Entities may be subject to limitations on their ability to operate private education or make payments to related parties. The Company relies on dividend and other payments from Tibet Huatai to pay dividends and other cash distributions to the Shareholders. If any of the PRC Operating Entities or Sichuan Derui becomes subject to winding up or liquidation proceedings, the Company may lose the ability to enjoy certain important assets, which could negatively impact the Group's business and materially and adversely affect the Group's ability to generate revenue. For more details, please refer to the section headed "Risk Factors — Risks relating to our Structured Contracts" in the Prospects.

The Group has adopted the following measures to ensure the effective operation of the Group with the implementation of the Structured Contracts and the Group's 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 the annual and interim reports regarding the Qualification Requirement and the Group's status of compliance with the Draft Foreign Investment Law and its accompanying explanatory notes as stipulated under the section headed "Structured Contracts — Background of the Structured Contracts" and the latest development of the Draft Foreign Investment Law and its accompanying explanatory notes as disclosed under the section headed "Structured Contracts — Development in the PRC Legislation on Foreign Investment" of the Prospectus, including the latest relevant regulatory development as well as the Group's plan and progress in acquiring the relevant experience to meet the Qualification Requirement; and

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

For the year ended 31 December 2020, the Board has reviewed the overall performance of the Structured Contracts and believed that the Group has complied with the Structured Contracts in all material respects.

We have been advised by our PRC Legal Advisors that the Structured Contracts do not violate the relevant PRC regulations.

In addition, notwithstanding that the executive Directors, Mr. Yan Yude, Ms. Wang Xiaoying and Mr. Ye Jiayu, are also the Registered Shareholders, the Company believes that the Directors are able to perform their roles in the Group independently and the Group is capable of managing its business independently after the Listing under the following measures:

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

REPORT OF DIRECTORS

(b) each of the Directors is aware of his fiduciary duties as a Director which requires, among 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 the announcements, circulars, annual and interim reports of the Company 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.

During the Reporting Period, the Group completed the establishment of Chengdu Experimental Foreign Languages School of Ya'an and Ya'an High School, Xinchen Yuanzhu Campus. All of them entered into the structured contracts, with Tibet Huatai, upon their establishment, the framework of which is a reproduction of the existing arrangements of the Structured Contracts as disclosed in the Prospectus. As such, each of these schools is a consolidated affiliated entity of the Company.

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 — Operation of the Structured Contracts — Termination of the Structured Contracts" of the Prospectus. In the event that the PRC regulatory environment changes and all of the Qualification Requirement, the Foreign Ownership Restriction and the Foreign Control Restriction are removed (and assuming there are no other changes in the relevant PRC laws and regulations), Tibet Huatai will exercise the Equity Call Option in full to unwind the contractual arrangements so that the Company will be able to directly operate the schools without using the Structured Contracts.

(3) Confirmation of independent non-executive Directors

The independent non-executive Directors have reviewed the aforesaid Property Lease Agreements and Structured Contracts (collectively, the "**Continuing Connected Transactions**") and confirmed that, during the Reporting Period:

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

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

(4) Confirmation of auditor of the Company

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 transaction, 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. 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;

c. nothing has come to their attention that causes them to believe that dividends or other distributions have been made by Chengdu Foreign Languages School, Chengdu Experimental Foreign Languages School, Chengdu Experimental Foreign Languages School (Western Campus), Chengdu Institute Sichuan International Studies University, Primary School attached to Chengdu Foreign Languages School and Kindergarten of the Primary School Attached to Chengdu Jinniu District Foreign Languages School, Chengdu Experimental Foreign Languages School of Xindu Wulongshang Wulongshan, Campus of Chengdu Experimental Foreign Languages School and Gaoxin Meinian Campus of Primary School Attached to Chengdu Foreign Languages School, Chengdu Experimental Foreign Languages School of Quxian, Virscend High School of Quxian, Virscend High School of Ya'an, Chengud Experimental Foreign Languages School of Ya'an, Primary school Attached to Chengdu Foreign Languages School (Xichen Campus), Virscend High School of Yibin, Chengdu Foreign Languages School, Gaoxin Campus, Chengdu Foreign Languages School of Deyang and Chengdu Foreign Languages School of Xinjin, Chengdu High-tech Zone Jiayingtai Culture and Art Training School, Chengdu Jiataihua Education Training School ("**PRC Operating Entities**") to the holders of their school sponsor's interests which are not otherwise subsequently assigned or transferred to the Group; and

REPORT OF DIRECTORS

d. with respect to the aggregate amount of the continuing connected transactions, i.e. leasing of properties from Sichuan Derui, nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions have exceeded the annual cap as set by the Company.

Ernst & Young has issued a letter containing their findings and conclusions in respect of the Continuing Connected Transactions in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

RELATED PARTY TRANSACTIONS

Details of the related party transactions entered into by the Group during the year ended 31 December 2020 are set out in note 33 to the financial statements.

SIGNIFICANT LEGAL PROCEEDINGS

During the year ended 31 December 2020, the Company was not engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatening against the Company.

COMPLIANCE WITH LAWS AND REGULATIONS

During the year ended 31 December 2020 and up to the date of this annual report, the Group has complied with the relevant laws and regulations that have a significant impact on the Company.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is committed to minimizing the impact on the environment from our business activities. In accordance with Rule 13.91 and Appendix 27 to the Listing Rules, the Company's Environmental, Social and Governance Report will be available on its website within three months from the publication of this annual report.

PERMITTED INDEMNITY PROVISION

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

IMPORTANT EVENTS SINCE THE YEAR END

On 29 January 2021, Chengdu Foreign Languages School and Primary School Attached to the Chengdu Foreign Languages School, each a consolidated affiliated entity of the Group, entered into the 2021 Lease and Property Management Service Agreement with Sichuan Derui, a connected person of the Company, in relation to the use of a total of 29 properties and property management service from 29 January 2021 to 31 December 2023.

For more details of the transaction, please refer to the Company's announcements dated 29 January 2021 and 5 February 2021.

AUDIT COMMITTEE

The audit committee of the Company (the "**Audit Committee**") has reviewed the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters. The Audit Committee, together with the Board and external auditor, has reviewed the Group's audited consolidated financial statements for the year ended 31 December 2020.

CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 73 to 87 of this annual report.

SUFFICIENCY OF PUBLIC FLOAT

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

AUDITOR

Ernst & Young was appointed as the auditor for the year ended 31 December 2020. The accompanying financial statements prepared in accordance with IFRSs have been audited by Ernst and Young.

Ernst & Young shall retire at the AGM and, being eligible, will offer itself for re-appointment. A resolution for the re-appointment of Ernst & Young as auditor will be proposed at the AGM.

REPORT OF DIRECTORS

RECOMMENDATION TO CONSULT PROFESSIONAL TAX ADVICE

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

On behalf of the Board
Wang Xiaoying
Chairwoman

Hong Kong, 30 March 2021

The Board is pleased to present this Corporate Governance Report in the Company's annual report for the year ended 31 December 2020.

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 year ended 31 December 2020. The Company will continue to review and monitor its corporate governance practices to ensure compliance with the CG Code.

THE BOARD

Responsibilities

The Board is responsible for the overall leadership of the Group, oversees the Group's strategic decisions and monitors business and performance. The Board has delegated the authority and responsibility for day-to-day management and operation of the Group to the senior management of the Group. To oversee particular aspects of the Company's affairs, the Board has established three Board committees including the Audit Committee, the remuneration committee (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 four executive Directors and three independent non-executive Directors as follows:

Executive Directors:

Ms. Wang Xiaoying
Mr. Ye Jiayu
Mr. Yan Yude
Mr. Deng Bangkai

CORPORATE GOVERNANCE REPORT

Independent Non-executive Directors:

Mr. Sit Chiu Wing
Mr. Chan Kim Sun
Mr. Wen Ruizheng

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

During the year ended 31 December 2020, 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 possesses appropriate professional qualifications or accounting or related financial management expertise.

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

The Company believes that the diversity of Board members will be immensely beneficial for the enhancement of the Company's performance. Therefore, the Company has adopted a Board diversity policy to ensure that the Company will, when determining the composition of the Board, consider Board diversity in terms of, among other things, age, cultural and educational background, professional experience, skills and knowledge. All Board appointments will be based on merits, and candidates will be considered against objective criteria with reference to the Company's business model and specific needs, including but not limited to gender, race, language, cultural background, educational background, industry experience and professional experience, having due regard for the benefits of diversity of the Board.

As each of the independent non-executive Directors has confirmed his/her independence pursuant to rule 3.13 of the Listing Rules, the Company considers all of them to be independent parties.

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

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

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

Induction and Continuous Professional Development

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

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

The record of professional training received by the Directors during the year ended 31 December 2020 is as follows:

Name of Directors	Nature of Continuous Professional Development Programmes
Executive Directors	
Ms. Wang Xiaoying	A/B/C/D
Mr. Ye Jiayu	A/C/D
Mr. Yan Yude	A/B/C/D
Mr. Deng Bangkai	A/B/C/D
Independent Non-Executive Directors	
Mr. Sit Chiu Wing	A/C/D
Mr. Chan Kim Sun	A/C/D
Mr. Wen Ruizheng	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

CORPORATE GOVERNANCE REPORT

Chairwoman 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.

The Chairwoman of the Board and the chief executive officer of the Company (the "**Chief Executive Officer**") are currently two separate positions held by Ms. Wang Xiaoying and Mr. Yan Yude, respectively, with clear distinction in responsibilities. The Chairwoman of the Board is responsible for providing strategic advice and guidance on the business development of the Group, while the Chief Executive Officer is responsible for the day-to-day operations of the Group.

Appointment and Re-election of Directors

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

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

Board Meetings

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

For other Board and Board Committee meetings, reasonable notice is generally given. The agenda and accompanying board papers are 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 of the Company with copies circulated to all Directors for information and records.

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

During the year ended 31 December 2020, four Board meetings, one annual general meeting and one extraordinary general meeting were held and the attendance of each Director at the meetings is set out in the table below:

	Attendance/Number of meetings	
Directors	Board Meeting	General Meeting
Ms. Wang Xiaoying	4/4	2/2
Mr. Ye Jiayu	4/4	2/2
Mr. Yan Yude	4/4	2/2
Mr. Deng Bangkai	4/4	2/2
Mr. Sit Chiu Wing	4/4	2/2
Mr. Chan Kim Sun	4/4	2/2
Mr. Wen Ruizheng	4/4	2/2

Model Code for Securities Transactions

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as its own code of conduct regarding Directors' securities transactions during the year ended 31 December 2020. Having made specific enquiries of all the Directors, each of the Directors has confirmed that he/she has complied with the Model Code during the year ended 31 December 2020.

At the same time, during the year ended 31 December 2020, 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 REPORT

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, namely Mr. Chan Kim Sun (chairman), Mr. Sit Chiu Wing and Mr. Wen Ruizheng, all of them are independent non-executive Directors.

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, its 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 year ended 31 December 2020, the Audit Committee held two meetings. The attendance record of the meetings is set out in the table below:

Name of Committee Member	Attendance/ Number of meetings
Mr. Chan Kim Sun	2/2
Mr. Sit Chiu Wing	2/2
Mr. Wen Ruizheng	2/2

During the year ended 31 December 2020, the Audit Committee reviewed the annual results and reports for the year ended 31 December 2019 and the interim results and report for the six months ended 30 June 2020, the accounting principles and practices adopted by the Company, 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 2020 have been reviewed by the Audit Committee on 30 March 2021.

Nomination Committee

The Nomination Committee currently comprises three members, including two independent non-executive Directors namely Mr. Sit Chiu Wing (chairman) and Mr. Wen Ruizheng and one executive Director namely Mr. Yan Yude.

The principal duties of the Nomination Committee include the following:

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

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

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

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

5. to review the board diversity policy.

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

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

CORPORATE GOVERNANCE REPORT

Board Composition

Age	35-40	55-60	61-65	>70
	2	2	1	2

Assuming directorship of other listed companies simultaneously (number of companies)	0	1
	6	1

Number of years as Director of the Company	2-3	>5
	2	5

Gender	Male	Female
	6	1

Race	Chinese	Non-Chinese
	7	0

Skills and Experience of the Directors

	Administration, knowledge leadership and strategic	Professional knowledge of the capital market	Experience in Mainland China market	Professional knowledge in legal/ regulatory and compliance/ risk management	Professional knowledge in accounting/ financial management
Executive Directors					
Wang Xiaoying	√	√	√	√	√
Ye Jiayu	√	√	√	√	√
Yan Yude	√	√	√	√	√
Deng Bangkai	√	√	√	√	√
Independent Non-executive Directors					
Sit Chiu Wing	√	√			
Chan Kim Sun	√	√		√	√
Wen Ruizheng	√		√	√	
Proportion (proportion to the total number of Directors)	100%	86%	71%	86%	71%

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.

During the year ended 31 December 2020, the Nomination Committee held two meetings to review the nomination procedures and the composition. The attendance record of the meeting is set out in the table below:

Name of Committee Member	Attendance/ Number of meetings
Mr. Sit Chiu Wing	2/2
Mr. Wen Ruizheng	2/2
Mr. Yan Yude	2/2

During the year ended 31 December 2020, the Nomination Committee reviewed the structure, size and composition of the Board.

CORPORATE GOVERNANCE REPORT

Remuneration Committee

The Remuneration Committee comprises three members, including two independent non-executive Directors namely Mr. Sit Chiu Wing (chairman) and Mr. Wen Ruizheng, and one executive Director namely Ms. Wang Xiaoying.

The principal duties of the Remuneration Committee include the following:

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

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

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

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

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

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

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

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

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

During the year ended 31 December 2020, the Remuneration Committee held two meetings. The attendance record of the meeting is set out in the table below:

Name of Committee Member	Attendance/ Number of meetings
Mr. Sit Chiu Wing	2/2
Mr. Wen Ruizheng	2/2
Ms. Wang Xiaoying	2/2

During the year ended 31 December 2020, the Remuneration Committee 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.

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 30 to 33 of this annual report, for the year ended 31 December 2020 are set out below:

Remuneration band	Number of individual
RMB0 to RMB1 million	9
RMB1 million to RMB1.5 million	1

DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING IN RESPECT OF FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements for the year ended 31 December 2020 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 88 to 93 of this annual report.

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board acknowledges that it is its responsibility to ensure that the Company establishes and maintains sound risk management and internal control systems within the Group and to review the effectiveness of the systems. Such systems are designed to manage and mitigate risks inherent in the Group's business faced by the Group to an acceptable level, but not eliminating the risk of failure to achieve business objectives, and can only provide reasonable assurance against material misstatement, loss or fraud.

The Board has entrusted the Audit Committee with the responsibility to oversee the risk management and internal control systems of the Group on an on-going basis and to review the effectiveness of the systems annually. The review covered all material controls, including financial, operational and compliance controls.

CORPORATE GOVERNANCE REPORT

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 is 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.

On the basis of the aforesaid, the Audit Committee was not aware of any significant issues that would have an adverse impact on the effectiveness and adequacy of the risk management and internal controls of the Company.

CORPORATE GOVERNANCE REPORT

AUDITOR'S REMUNERATION

The remuneration for the audit and non-audit services provided by the auditor to the Group during the year ended 31 December 2020 was approximately as follows:

Type of Services	Amount (RMB)
Audit services	3,002,000
Non-audit services related to IFRS 16 implementation service	138,000
Total	3,140,000

COMPANY SECRETARY

Ms. Ng Sau Mei (an associate director of the listing services department of TMF Hong Kong Limited, a company engaged in the business of providing corporate services) is the company secretary of the Company and 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. Her primary contact person at the Company is Mr. Deng Bangkai, the Chief Operating Officer and an executive Director.

During the year ended 31 December 2020, Ms. Ng Sau Mei has undertaken not less than 15 hours of relevant professional training respectively in compliance with rule 3.29 of the Listing Rules.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

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

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

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

SHAREHOLDERS' RIGHTS

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

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

CONVENING OF EXTRAORDINARY GENERAL MEETING AND PUTTING FORWARD PROPOSALS

Shareholders may put forward proposals for consideration at a general meeting of the Company according to the Articles of Association. Any one or more members holding as at date of deposit of the requisition not less than one-tenth of the paid-up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or company secretary of the Company, to require an extraordinary general meeting of the Company to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

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

ENQUIRIES TO THE BOARD

Shareholders who intend to put forward their enquiries about the Company to the Board could send their enquiries to the company secretary of the Company at 31/F, Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong (email address: ir@virscendeducation.com).

CHANGE IN CONSTITUTIONAL DOCUMENTS

The Company has adopted the amended and restated memorandum and articles of association of the Company on 28 December 2015, with effect from the same date and the Listing Date, respectively. There was no change in the memorandum and articles of association of the Company during the year ended 31 December 2020.

INDEPENDENT AUDITOR'S REPORT

Ernst & Young
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To the shareholders of Virscend Education Company Limited
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Virscend Education Company Limited (the "Company") and its subsidiaries (the "Group") set out on pages 94 to 185, which comprise the consolidated statement of financial position as at 31 December 2020, 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 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

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

Key audit matter	How our audit addressed the key audit matter
Preferential tax treatment	
According to the Implementation Rules for the Law for Promoting Private Education, private schools for which the school sponsors do not require reasonable returns are eligible to enjoy the same preferential tax treatments as public schools. The preferential tax treatment policies applicable to private schools requiring reasonable returns are to be separately formulated by the relevant authorities under the State Council. There were significant judgements involved in management's analysis and 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 private schools. The Group's disclosures about the preferential tax treatment are included in notes 3 and 10 to the financial statements.	The audit procedures included the following: — discussing with management to evaluate their interpretation of the tax laws and their assessment of the tax obligations of the schools operated by the Group for the current year; — evaluating management's assessment on the application of preferential tax or applicable tax rates to the respective schools; — examining the historical tax returns filed to the relevant tax authorities and the tax compliance confirmations obtained therefrom, where appropriate; — discussing with the Group's PRC legal advisors about the tax position taken by the schools particularly in respect of the eligibility of the preferential tax treatment under the relevant tax rules and regulations; — assessing 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 date of this report; and — involving our internal tax specialist to assist us to assess the uncertainty regarding the preferential tax treatments enjoyed by the schools.

INDEPENDENT AUDITOR'S REPORT

Key audit matter	How our audit addressed the key audit matter
Investment in an associate	
The Group held a 26.64% equity interest in Beijing Oriental Babycare Consulting Company Limited ("Oriental Babycare") which was accounted for as an associate. As at 31 December 2020, the net carrying value of the associate was RMB44.54 million after providing an accumulated impairment loss of RMB26.53 million. Investment in an associate was identified as a key audit matter due to the complexity of the impairment assessment and significant management judgements and estimations involved in the assessment process. In performing the impairment assessment, management used various assumptions in respect of cash flow forecasts, associated growth rates and the discount rate. Details of the investment in Oriental Babycare are set out in notes 3 and 15 to the consolidated financial statements.	Our audit procedures, among others, included the evaluation of the Company's policies and procedures to identify impairment indicators for potential impairment of investments in associates. We also assessed the determination of value-in-use of the associate with the assistance of our valuation specialists, which included: • reviewing the valuation methodologies used by management in conducting the impairment assessment at the year end; and • reviewing the assumptions used by management in the valuation models and testing the integrity of the inputs used in these models. We focused on the sensitivity of the inputs and evaluated whether a reasonably possible change in assumptions could cause the carrying amount to exceed the recoverable amount. We also assessed the historical accuracy of management's estimates, and the disclosures in the consolidated financial statements regarding the impairment assessment.

Key audit matter	How our audit addressed the key audit matter
Revenue recognition	
The existence and completeness of revenue are of high inherent risk because large volumes of tuition, school canteen operation and boarding fee transactions are processed manually. Moreover, all the schools implemented tuition and boarding fee refund policies and the refunds are also processed manually. In addition, tuition and boarding fees paid in advance at the beginning of each academic year are recognised proportionately over the fiscal year. Accordingly, revenue may be recorded in the incorrect period between the academic year and the fiscal year. The Group's disclosures about revenue recognition are included in note 5 to the financial statements.	We tested the controls designed and applied by the Group over the collection and process of refunds of tuition and boarding fees and the controls over the calculation of the contract liabilities and the corresponding amount of revenue. On a sampling basis, we tested the collection of tuition fees, observed the attendance and checked the identities of students to verify the existence of revenue. Furthermore, we recalculated and checked the correctness of the amounts of contract liabilities and revenue recognised.

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. The Company's Annual Report is expected to be made available to us after the date of this auditor's report.

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. When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the Audit Committee.

INDEPENDENT AUDITOR'S REPORT

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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 *Law Kwok Kee*.

Ernst & Young
Certified Public Accountants
Hong Kong

30 March 2021

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
REVENUE	5	**1,844,845**	1,493,032
Cost of sales		**(1,181,661)**	(896,310)
Gross profit		**663,184**	596,722
Other income and gains	5	**82,819**	51,401
Research and development costs	6	**(20,222)**	(19,520)
Selling and distribution expenses		**(21,850)**	(6,431)
Administrative expenses		**(291,533)**	(117,718)
Impairment losses on financial assets	6	**(765)**	(2,426)
Other expenses		**(13,321)**	(8,736)
Finance costs	7	**(166,114)**	(78,961)
Share of profits and losses of associates		**(2,597)**	(2,400)
PROFIT BEFORE TAX	6	**229,601**	411,931
Income tax expense	10	**(9,798)**	(3,876)
PROFIT FOR THE YEAR		**219,803**	408,055
Attributable to:			
Owners of the parent	12	**225,471**	397,140
Non-controlling interests		**(5,668)**	10,915
		219,803	408,055
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic			
– For profit for the year	12	**RMB0.07**	RMB0.13
Diluted			
– For profit for the year	12	**RMB0.07**	RMB0.13

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2020

	2020 **RMB'000**	2019 RMB'000
PROFIT FOR THE YEAR	**219,803**	408,055
OTHER COMPREHENSIVE INCOME		
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:		
Exchange differences:		
Exchange differences on translation of foreign operations	**39**	(51)
Net other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods	**39**	(51)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX	**39**	(51)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**219,842**	408,004
Attributable to:		
Owners of the parent	**225,491**	397,137
Non-controlling interests	**(5,649)**	10,867
	219,842	408,004

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**4,509,076**	4,121,145
Right-of-use assets	14(b)	**1,208,263**	1,118,059
Other intangible assets	18	**154,475**	2,908
Investments in associates	15	**44,539**	50,465
Goodwill	17	**104,298**	—
Other non-current assets	16	**692,113**	102,559
Total non-current assets		**6,712,764**	5,395,136
CURRENT ASSETS			
Inventories		**297**	193
Prepayments, other receivables and other assets	19	**82,613**	517,870
Amounts due from related parties	32	**17,241**	10,946
Time deposits	20	**—**	11,420
Cash and cash equivalents	20	**773,832**	394,386
Total current assets		**873,983**	934,815
CURRENT LIABILITIES			
Trade payables	21	**80,055**	38,861
Other payables and accruals	22	**224,015**	355,592
Interest-bearing bank and other borrowings	24	**1,690,467**	923,000
Lease liabilities	14(c)	**19,268**	14,991
Tax payable		**32,147**	26,902
Contract liabilities	23	**1,058,302**	861,780
Deferred income	25	**3,285**	2,168
Amounts due to related parties	32	**21,659**	10,919
Total current liabilities		**3,129,198**	2,234,213
NET CURRENT LIABILITIES		**(2,253,619)**	(1,299,398)
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,457,549**	4,095,738

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,457,549**	4,095,738
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	24	**1,460,341**	1,021,903
Lease liabilities	14(c)	**215,893**	202,009
Deferred income	25	**5,201**	9,593
Contract Liability	23	**4,060**	—
Amounts due to a related party	32	**—**	108,166
Total non-current liabilities		**1,685,495**	1,341,671
Net assets		**2,772,054**	2,754,067
EQUITY			
Equity attributable to owners of the parent			
Share capital	26	**26,051**	26,051
Reserves		**2,699,600**	2,703,615
		2,725,651	2,729,666
Non-controlling interests		**46,403**	24,401
Total equity		**2,772,054**	2,754,067

Wang Xiaoying
Director

Ye Jiayu
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2020

		Attributable to owners of the parent							
	Note	Share capital RMB'000 Note 26	Capital reserve RMB'000 Note 27(a)	Statutory surplus reserves RMB'000 Note 27(b)	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 31 December 2018 and 1 January 2019		26,051	1,647,021*	393,184*	(57)*	743,613*	2,809,812	23,121	2,832,933
Profit for the year		–	–	–	–	397,140	397,140	10,915	408,055
Other comprehensive loss for the year:									
Exchange differences on translation of foreign operations		–	–	–	(3)	–	(3)	(48)	(51)
Total comprehensive income for the year		–	–	–	(3)	397,140	397,137	10,867	408,004
Contribution from non-controlling interests		–	–	–	–	–	–	–	–
Transfer from retained profits		–	–	90,861	–	(90,861)	–	–	–
Acquisition of interests from a non-controlling shareholder		–	(257,413)	–	–	–	(257,413)	(9,587)	(267,000)
2018 final dividend declared and 2019 interim dividend declared		–	(198,063)	–	–	(21,807)	(219,870)	–	(219,870)
At 31 December 2019		26,051	1,191,545*	484,045*	(60)*	1,028,085*	2,729,666	24,401	2,754,067
Profit for the year		–	–	–	–	225,471	225,471	(5,668)	219,803
Other comprehensive income for the year:		–	–	–	–	–	–	–	–
Exchange differences on translation of foreign operations		–	–	–	20	–	20	19	39
Total comprehensive income for the year		–	–	–	20	225,471	225,471	(5,649)	219,842
Transfer from retained profits		–	–	107,203	–	(107,203)	–	–	–
Addition to non-controlling interests		–	–	–	–	–	–	35,591	35,591
Disposal of subsidiaries		–	15,915	(4,918)	–	(10,997)	–	(7,940)	(7,940)
Acquisition of subsidiaries under common control		–	(9,883)	–	–	–	(9,883)	–	(9,883)
2019 final dividend declared and 2020 interim dividend declared	11	–	(219,623)	–	–	–	(219,623)	–	(219,623)
At 31 December 2020		26,051	977,954*	586,330*	(40)*	1,135,356*	2,725,651	46,403	2,772,054

* These reserve accounts comprise the consolidated reserves of RMB2,699,600,000 (2019: RMB2,703,615,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax	6	**229,601**	411,931
Adjustments for:			
Finance costs	7	**166,114**	78,961
Share of profits and losses of associates		**2,597**	2,400
Impairment of an investment in an associate	6	**11,958**	5,953
Impairment losses on financial assets, net	6	**765**	2,426
Bank Interest income	5	**(2,612)**	(2,654)
Other interest income	5	**(32,736)**	(27,213)
(Gain)/loss on disposal of items of property, plant and equipment	6	**(41)**	360
Government grants released	5	**(3,715)**	(5,289)
Depreciation	6	**170,435**	133,771
Amortisation of intangible assets	6	**8,108**	665
Depreciation of right-of-use assets/recognition of prepaid land lease payments	6	**30,786**	25,777
Fair value gain of an investment in an associate	28	**(31,800)**	—
Gain on disposal of subsidiaries	6	**(1,444)**	—
		548,016	627,088
Increase in inventories		**(92)**	(193)
Decrease in prepayments, other receivables and other assets		**29,035**	25,074
Increase in trade payables		**41,194**	33,139
Increase in other payables and accruals		**43,666**	1,504
Increase in amounts due to related parties		**7,022**	80,785
Increase in contract liabilities		**153,820**	149,617
Cash generated from operations		**822,661**	917,014
Interest received		**2,612**	2,654
Income tax paid		**(4,308)**	(3,949)
Net cash flows from operating activities		**820,965**	915,718

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2020

	Notes	**2020 RMB'000**	2019 RMB'000
Net cash flows from operating activities		**820,965**	915,718
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of items of property, plant and equipment		**(866,499)**	(827,377)
Addition to right-of-use assets		**(40,000)**	(96,000)
Addition to other intangible assets		**(675)**	(1,326)
Acquisition of assets and liabilities through acquisition of a subsidiary		**—**	(475,633)
Acquisition of subsidiaries	28	**(214,533)**	—
Disposal of subsidiaries	29	**(19,267)**	—
Proceeds from disposal of items of property, plant and equipment		**574**	27
Receipt of government grants for property, plant and equipment		**1,624**	6,233
Decrease in time deposits with original maturity of over three months		**11,420**	41,152
Loans to third parties		**(869,085)**	(386,000)
Repayment of loans from third parties		**831,669**	310,774
Loans to an associate	15	**(12,154)**	—
Interest received		**41,400**	14,350
Net cash flows used in investing activities		**(1,135,526)**	(1,413,800)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		**1,086,710**	1,079,000
Repayments of bank loans		**(697,000)**	(480,000)
New other loans		**866,945**	291,600
Repayments of other loans		**(50,750)**	(27,697)
Acquisition of non-controlling interests		**—**	(267,000)
Addition to non-controlling interests		**8,253**	—
Increase in long-term pledged deposits		**(43,247)**	—
Dividends paid		**(214,981)**	(222,986)
Principal portion of lease payments		**—**	(2,883)
Interest paid		**(172,741)**	(116,907)
Proceeds of a loan from a related party		**16,832**	—
Repayment of a loan from a related party		**(108,166)**	—
Net cash flows from financing activities		**693,968**	253,127

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**379,407**	(244,955)
Cash and cash equivalents at beginning of year		**394,386**	639,392
Effect of foreign exchange rate changes, net	20	**39**	(51)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**773,832**	394,386
Cash and cash equivalents as stated in the statement of cash flows		**773,832**	394,386

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

1. CORPORATE AND GROUP INFORMATION

Virscend Education Company Limited (the "Company") was incorporated in the Cayman Islands on 13 March 2015 as an exempted company with limited liability under the Companies Law (2013 Revision) of the Cayman Islands. The address of the registered office of the Company is Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The shares of the Company were listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 15 January 2016 (the "Listing Date").

The principal activity of the Company is investment holding. The Company and its subsidiaries (collectively referred to as the "Group") are principally engaged in providing private education services in the People's Republic of China (the "PRC"). There has been no significant change in the Group's principal activities during the year.

In the opinion of the directors of the Company, as of the date of this report, Mr. Yan Yude and Virscend Holdings Company Limited, which was incorporated in the British Virgin Islands (the "BVI") and wholly owned by Mr. Yan Yude, are the Company's controlling shareholders.

Information about subsidiaries

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

Name	Date and place of incorporation/ establishment and place of business	Issued ordinary/ registered share capital	Percentage of equity interests attributable to the Company		Principal activities
			Direct	Indirect	
Virscend Investment Holding Company Limited	20 March 2015, BVI	USD50,000	100%	–	Investment holding
Wah Tai (HK) Investment Limited	8 September 2014, Hong Kong	HKD10,000	–	100%	Investment holding
Tibet Huatai Education Management Consulting Co., Ltd. 西藏華泰教育管理有限公司 ("Tibet Huatai")	22 August 2015, the PRC	RMB300,000,000	–	100% [(c)]	Provision of education services
Chengdu Institute Sichuan International Studies University 四川外國語大學成都學院 ("The University") (Note (a))	10 January 2001, the PRC	RMB98,408,800	–	(Note (a)/(d))	Provision of university education services
Chengdu Foreign Languages School 成都外國語學校	14 January 2000, the PRC	RMB52,000,000	–	100% [(d)]	Provision of high and middle school education services

1. CORPORATE AND GROUP INFORMATION – *CONTINUED*

Information about subsidiaries – *CONTINUED*

Name	Date and place of incorporation/ establishment and place of business	Issued ordinary/ registered share capital	Percentage of equity interests attributable to the Company Direct	Indirect	Principal activities
Chengdu Experimental Foreign Languages School 成都市實驗外國語學校	12 October 2001, the PRC	RMB132,100,000	–	100%(d)	Provision of high and middle school education services
Chengdu Experimental Foreign Languages School (Western Campus) 成都市實驗外國語學校(西區)	4 June 2003, the PRC	RMB1,000,000	–	100%(d)	Provision of high and middle school education services
Primary School Attached to Chengdu Foreign Languages School 成都外國語學校附屬小學("Primary School")	23 May 2003, the PRC	RMB1,000,000	–	100%(d)	Provision of elementary school education services
Kindergarten of the Primary School attached to Chengdu Jinniu District Foreign Languages School 成都市金牛區成外附小幼稚園 ("Kindergarten")	2 July 2007, the PRC	RMB1,000,000	–	100%(d)	Provision of kindergarten education services
USA Wahtai Educational Consulting Services Inc.	2 November 2015, the United States of America (the "USA")	USD100,000	–	51%	Consulting services
Chengdu Derui Huatai Trading Co., Ltd. 成都德瑞華泰商貿有限公司	20 October 2015, the PRC	RMB100,000	–	100%(e)	Trading
Chengdu Tianfu New Area Derui Huatai Education Management Co., Ltd. 成都天府新區德瑞華泰教育管理有限公司	8 June 2016, the PRC	HKD700,000,000	–	100%(c)	Provision of education services
Chengdu Foreign Languages School of Panzhihua 攀枝花市成都外國語學校	17 May 2017, the PRC	RMB3,000,000	–	100%(d)	Provision of high and middle school education services

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

1. CORPORATE AND GROUP INFORMATION – *CONTINUED*

Information about subsidiaries – *CONTINUED*

Name	Date and place of incorporation/ establishment and place of business	Issued ordinary/ registered share capital	Percentage of equity interests attributable to the Company Direct	Indirect	Principal activities
Primary School Attached to Chengdu Experimental Foreign Languages School 成都市實驗外國語學校附屬小學	1 June 2017, the PRC	RMB2,000,000	–	100%[(d)]	Provision of elementary school education services
Chengdu Experimental Foreign Languages School of Xindu Wulongshan 成都實外新都五龍山學校(Note (b))	31 May 2017, the PRC	RMB1,000,000	–	(Note (b)/(d))	Provision of elementary and middle school education services
Wulongshan Campus of Chengdu Experimental Foreign Languages School 成都市實驗外國語學校五龍山校區	31 May 2017, the PRC	RMB3,000,000	–	45%*[(d)]	Provision of high school education services
Gaoxin Meinian Campus of Primary School Attached to Chengdu Foreign Languages School (Meinian Campus) 成都外國語學校附屬小學高新美年校區 (美年校區) (Note (b))	13 June 2017, the PRC	RMB5,000,000	–	(Note (b)/(d))	Provision of elementary school education services
Chengdu Experimental Foreign Languages School of Quxian 渠縣成都市實驗外國語學校	12 March 2018, the PRC	RMB1,000,000	–	100%[(d)]	Provision of middle school education services
Virscend High School of Quxian 渠縣成實外高級中學有限公司	5 September 2018, the PRC	RMB1,000,000	–	100%[(d)]	Provision of high school education services
Chengdu Experimental Foreign Languages School of Ya'an 雅安市雨城區成實外學校	24 April 2019, the PRC	RMB 1,000,000	–	100%[(d)]	Provision of middle school education services
Virscend High School of Ya'an 雅安市成實外高級中學有限公司	25 April 2019, the PRC	RMB 1,000,000	–	100%[(d)]	Provision of high school education services

1. CORPORATE AND GROUP INFORMATION – *CONTINUED*

Information about subsidiaries – *CONTINUED*

Name	Date and place of incorporation/ establishment and place of business	Issued ordinary/ registered share capital	Percentage of equity interests attributable to the Company		Principal activities
			Direct	Indirect	
Primary school Attached to Chengdu Foreign Languages School (Xichen Campus) 成都市金牛區成外附小西宸學校	15 July 2019, the PRC	RMB1,000,000	–	100%[(d)]	Provision of elementary school education services
Chengdu Foreign Languages High School of Yibin 宜賓市成外高級中學有限公司	6 June 2019, the PRC	RMB1,000,000	–	95%[(d)]	Provision of high school education services
Chengdu Foreign Languages School of Yibin 宜賓市翠屏區成外學校	6 June 2019, the PRC	RMB1,000,000	–	95%[(d)]	Provision of middle school education services
Primary school of Chengdu Foreign Languages School of Yibin 宜賓市翠屏區成外附屬小學	25 December, 2019, the PRC	RMB1,000,000	–	95%[(d)]	Provision of elementary school education services
Sichuan Hongdemingzhi Education Consulting Co., Ltd 四川弘德明知教育資產有限公司	14 November, 2005, the PRC	RMB60,000,000	–	100%[(d)]	Provision of education investing and management services
Yanqiang Education Consulting Co., Ltd 成都嚴強教育諮詢有限公司	28 February 2011, the PRC	RMB93,000,000	–	100%[(d)]	Provision of education consulting services
Wah Tai Han Education Company Limited 華泰鑫瀚教育有限公司	9 January 2020, the PRC	HKD100,000	51%	–	Provision of education services

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

1. CORPORATE AND GROUP INFORMATION – *CONTINUED*

Information about subsidiaries – *CONTINUED*

Name	Date and place of incorporation/ establishment and place of business	Issued ordinary/ registered share capital	Percentage of equity interests attributable to the Company Direct	Indirect	Principal activities
Chengdu Foreign Language School Gaoxin Campus成都外國語學校高新校區	9 June 2017, the PRC	RMB3,000,000		100%[(d)]	Provision of high school education services
Chengdu Foreign Languages School of Xinjin 成都市新津區成外學校	18 June 2020, the PRC	RMB1,200,000		100%[(d)]	Provision of primary and middle school education services
Chengdu Jiaying Wentai Education Consulting Co., Ltd.成都嘉盈文泰教育諮詢有限公司	15 January 2019, the PRC	RMB2,000,000		100%[(d)]	Provision of education consulting services
Chengdu Fanmao Education Consulting Co., Ltd.成都繁懋教育諮詢有限公司	3 February 2020, the PRC	RMB1,000,000		100%[(d)]	Provision of education consulting services
Chengdu Jiaying Ruitai Education Consulting Co., Ltd成都嘉盈瑞泰教育諮詢有限公司	22 February 2019, the PRC	RMB2,000,000		100%[(d)]	Provision of education consulting services
Chengdu High-tech Zone Jiayingtai Culture and Art Training School 成都高新區嘉盈泰文化藝術培訓學校	11 August 2020, the PRC	RMB300,000		53%[(d)]	Provision of early child and after-class training service
Chengdu Jiataihua Education Consulting Co., Ltd.成都嘉泰華教育諮詢有限公司	10 January 2019, the PRC	RMB2,000,000		100%[(d)]	Provision of education consulting services
Chengdu Jiataihua Education Training School 成都嘉泰華教育培訓學校	11November 2020, the PRC	RMB300,000		100%[(d)]	Provision of education consulting services

1. CORPORATE AND GROUP INFORMATION – *CONTINUED*

Information about subsidiaries – *CONTINUED*

Notes:

(a) On 15 November 2016, Sichuan Derui Enterprise Development Co., Ltd. ("Sichuan Derui") and Xinhua Winshare Publishing and Media Co., Ltd. ("Xinhua Winshare") 新華文軒出版傳媒股份有限公司 entered into the School Sponsor's Interest Transfer Agreement, pursuant to which Xinhua Winshare agreed to sell and Sichuan Derui agreed to purchase 24.30% of the school sponsor's interest in The University at a cash consideration of RMB260,250,000. On 25 November 2016, the Group paid the consideration of RMB260,250,000 to Sichuan Derui to acquire the control of 24.30% of the school sponsor's interest in The University.

The transfer of the sponsor's interest mentioned above was in progress as at the date of approval of these consolidated financial statements.

(b) On 31 October 2018, Sichuan Derui and Chengdu Yirui Education Consulting Co., Ltd. ("Yirui") 成都益瑞教育諮詢有限公司 entered into the School Sponsor's Interest Transfer Agreement, pursuant to which Yirui agreed to sell and Sichuan Derui agreed to purchase 40% and 13% of the school sponsor's interests in the Chengdu Experimental Foreign Languages School of Xindu Wulongshan and Gaoxin Meinian Campus of Primary School Attached to Chengdu Foreign Languages School ("Meinian Campus"), respectively at a cash consideration of RMB256,375,000. On 31 August 2019, the Group paid the consideration of RMB256,375,000 to Yirui to acquire the control of 40% and13% of the school sponsor's interests in the above schools.

After the transactions, the Group shared 85% and 53% of interests in Chengdu Experimental Foreign Languages School of Xindu Wulongshan and Gaoxin Meinian Campus of Primary School Attached to Chengdu Foreign Languages School ("Meinian Campus"), respectively.

The transfer of the sponsor's interests mentioned above was in progress as at the date of approval of these consolidated financial statements.

(c) Registered as a wholly-foreign-owned Enterprise under PRC law.

(d) Accounted for as subsidiaries by virtue of the Group's control over them.

(e) Indirectly held through a wholly-foreign-owned Enterprise of the Company.

* The school is accounted for as a subsidiary of the Group based on the factors explained in note 3 to the financial statements even though the Group only has equity interests of 45% in the school.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with IFRSs, which comprise all standards and interpretations issued by IASB and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements have been prepared under the historical cost convention. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Going concern

The Group had net current liabilities of approximately RMB1,771,502,000 as at 31 December 2020. The directors of the Company have considered the following factors:

– the Group's expected cash inflows from operating activities in 2021; and

– the directors of the Company are confident that bank borrowings, which will expire during the next 12 months, could be renewed upon expiration based on the Group's past experience and credit standing.

The directors of the Company believe that the Group has adequate resources to continue operation for the foreseeable future of not less than 12 months from the end of the reporting period. The directors of the Company are therefore of the opinion that it is appropriate to adopt the going concern basis in preparing the consolidated financial statements.

Basis of consolidation

These consolidated financial statements include the financial statements of the Group for the year ended 31 December 2020. 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.

2.1 BASIS OF PREPARATION – *CONTINUED*

Basis of consolidation – *CONTINUED*

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

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

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the *Conceptual Framework for Financial Reporting 2018* and the following revised IFRSs for the first time for the current year's financial statements.

Amendments to IFRS 3	*Definition of a Business*
Amendments to IFRS 9, IAS 39 and IFRS 7	*Interest Rate Benchmark Reform*
Amendments to IAS 1 and IAS 8	*Definition of Material*

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES – *CONTINUED*

The nature and the impact of the *Conceptual Framework for Financial Reporting 2018* and the revised IFRSs are described below:

(a) *Conceptual Framework for Financial Reporting 2018* (the "Conceptual Framework") sets out a comprehensive set of concepts for financial reporting and standard setting, and provides guidance for preparers of financial statements in developing consistent accounting policies and assistance to all parties to understand and interpret the standards.The Conceptual Framework includes new chapters on measurement and reporting financial performance, new guidance on the derecognition of assets and liabilities, and updated definitions and recognition criteria for assets and liabilities. It also clarifies the roles of stewardship, prudence and measurement uncertainty in financial reporting. The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The Conceptual Framework did not have any significant impact on the financial position and performance of the Group.

(b) Amendments to IFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group has applied the amendments prospectively to transactions or other events that occurred on or after 1 January 2020. The amendments did not have any impact on the financial position and performance of the Group.

(c) Amendments to IFRS 9, IAS 39 and IFRS 7 address issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative risk-free rate ("RFR"). The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the introduction of the alternative RFR. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments did not have any impact on the financial position and performance of the Group as the Group does not have any interest rate hedging relationships.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES – *CONTINUED*

(d) Amendments to IAS 1 and IAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information, or both. The amendments did not have any significant impact on the financial position and performance of the Group.

2.3 ISSUED BUT NOT YET EFFECTIVE IFRSS

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

Amendments to IFRS 3	*Reference to the Conceptual Framework*[2]
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	*Interest Rate Benchmark Reform - Phase 2*[1]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Venture*[4]
IFRS 17	*Insurance Contracts*[3]
Amendments to IFRS 17	*Insurance Contracts*[3,5]
Amendments to IAS 1	*Classification of Liabilities as Current or Non-current*[3],
Amendments to IAS 1	*Disclosure of Accounting Policies*[3]
Amendments to IAS 8	*Difinition of Accounting Estimates*[3]
Amendments to IAS 16	*Property, Plant and Equipment: Proceeds before Intended Use*[2]
Amendments to IAS 37	*Onerous Contracts - Cost of Fulfilling a Contract2*
Annual Improvements to IFRS Standards 2018-2020	Amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41[2]
Amendment to IFRS16	*Covid-19-Related Rent Concessions*[6]

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

2.3 ISSUED BUT NOT YET EFFECTIVE IFRSS – *CONTINUED*

1 Effective for annual periods beginning on or after 1 January 2021

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

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

4 No mandatory effective date yet determined but available for adoption

5 As a consequence of the amendments to IFRS 17 issued in June 2020, IFRS 4 was amended to extend the temporary exemption that permits insurers to apply IAS 39 rather than IFRS 9 for annual periods beginning before 1 January 2023

6 Effective for annual periods beginning on or after 1 June 2020

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

Amendments to IFRS 3 are intended to replace a reference to the previous *Framework for the Preparation and Presentation of Financial Statements* with a reference to the *Conceptual Framework for Financial Reporting* issued in March 2018 without significantly changing its requirements. The amendments also add to IFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 if they were incurred separately rather than assumed in a business combination, an entity applying IFRS 3 should refer to IAS 37 or IFRIC 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group expects to adopt the amendments prospectively from 1 January 2022. Since the amendments apply prospectively to business combinations for which the acquisition date is on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 address issues not dealt with in the previous amendments which affect financial reporting when an existing interest rate benchmark is replaced with an alternative RFR. The Phase 2 amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change. In addition, the amendments permit changes required by the interest rate benchmark reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of IFRS 9 to measure and recognise hedge ineffectiveness. The amendments also provide a temporary relief to entities from having to meet the separately identifiable requirement when an RFR is designated as a risk component. The relief allows an entity, upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months. Furthermore, the amendments require an entity to disclose additional information to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy. The amendments are effective for annual periods beginning on or after 1 January 2021 and shall be applied retrospectively, but entities are not required to restate the comparative information. The amendments are not expected to have any significant impact on the Group's financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE IFRSS – *CONTINUED*

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

Amendments to IAS 1 clarify the requirements for classifying liabilities as current or non-current. The amendments specify that if an entity's right to defer settlement of a liability is subject to the entity complying with specified conditions, the entity has a right to defer settlement of the liability at the end of the reporting period if it complies with those conditions at that date. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability. The amendments also clarify the situations that are considered a settlement of a liability. The amendments are effective for annual periods beginning on or after 1 January 2023 and shall be applied retrospectively. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items, in profit or loss. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied retrospectively only to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IAS 37 clarify that for the purpose of assessing whether a contract is onerous under IAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied to contracts for which an entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments. Earlier application is permitted. Any cumulative effect of initially applying the amendments shall be recognised as an adjustment to the opening equity at the date of initial application without restating the comparative information. The amendments are not expected to have any significant impact on the Group's financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE IFRSS – *CONTINUED*

Annual Improvements to IFRSs Standards 2018-2020 sets out amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41. Details of the amendments that are expected to be applicable to the Group are as follows:

IFRS 9 *Financial Instruments*: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual periods beginning on or after 1 January 2022. Earlier application is permitted. The amendment is not expected to have a significant impact on the Group's financial statements.

IFRS 16 *Leases*: removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying IFRS 16. This removes potential confusion regarding the treatment of lease incentives when applying IFRS 16.

Amendment to IFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective for annual periods beginning on or after 1 June 2020 with earlier application permitted. The amendments are not expected to have any impact on the financial position and performance of the Group as the Group has no lease concession affected by COVID-19.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates

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.

The Group's investments in associates 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.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *CONTINUED*

Investments in associates – *CONTINUED*

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 is classified as held for sale, it is accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Business combinations and goodwill

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

The Group determines that it has acquired a business when the acquired set of activities and assets includes an input and a substantive process that together significantly contribute to the ability to create outputs.

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *CONTINUED*

Business combinations and goodwill – *CONTINUED*

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

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

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

Fair value measurement

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *CONTINUED*

Fair value measurement – *CONTINUED*

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

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

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

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

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

Impairment of non-financial assets

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *CONTINUED*

Related parties

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

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

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

(ii) has significant influence over the Group; or

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

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

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

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

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

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

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

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

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

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

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. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with IFRS 5. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

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	1.8% to 18.0%
Leasehold improvements	5.0% to 20.0%
Computer equipment	1.5% to 30.0%
Furniture and fixtures	1.5% to 32.0%
Motor vehicles	4.5% to 24.0%

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

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in 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*

Intangible assets (other than goodwill)

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

Software

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

Favourable rental contract

A Favourable rental contract is the right appraised from the acquisition of the Chengdu Foreign Language School Gaoxin Campus ("Gaoxin Campus") that the school can get the favourable term to rent the campus.

It is amortised on the straight-line basis over its estimated useful life of 17 years by reference to the contractual terms as stipulated in the cooperation arrangements.

Others

Others including student base and non-compete agreement are the right appraised from the acquisition of Gaoxin Campus that the school possess stable income from the students with fixed enrolment term and teachers with fixed term who are not permitted to work elsewhere and generate stable benefit in the foreseeable future. They are amortised on the straight-line basis over their estimated useful lives between 3 and 7 years by reference to the contractual terms as stipulated in the cooperation arrangements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *CONTINUED*

Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

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

(a) Right-of-use assets

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

Leasehold land	20 to 40 years
Buildings and other premises	3 to 20 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 lease. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *CONTINUED*

Leases – *CONTINUED*

Group as a lessee – CONTINUED

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

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). 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.

Sale and leaseback

When a sale and leaseback transaction results in a finance lease, the transaction in substance is a mean whereby the lessor provides finance to the lessee, with the asset as security. The previous carrying value of the asset is left unchanged, with the sales proceeds being shown as a liability. The credit or balance is recorded as other borrowings on the consolidated statement of financial position.

Group as a lessor

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *CONTINUED*

Investments and other financial assets

Initial recognition and measurement

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

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

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

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

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

Subsequent measurement

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

Financial assets at amortised cost (debt instruments)

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *CONTINUED*

Derecognition of financial assets

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *CONTINUED*

Impairment of financial assets

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

General approach

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *CONTINUED*

Impairment of financial assets – *CONTINUED*

Simplified approach

For trade receivables that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as loans and borrowings, or payables 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 trade and other payables and accruals, an amount due to the ultimate holding company, sales and lease back borrowings and interest-bearing bank borrowings.

Subsequent measurement

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

Financial liabilities at amortised cost (loans and borrowings)

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

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

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.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

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 and associates, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

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

The carrying amount of deferred tax assets is reviewed 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *CONTINUED*

Income tax – *CONTINUED*

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, for 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 or deducted from the carrying amount of the asset and released to the statement of profit or loss by way of a reduced depreciation charge.

Revenue recognition

Revenue from contracts with customers

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

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *CONTINUED*

Revenue recognition – *CONTINUED*

Revenue from contracts with customers – CONTINUED

When the contract contains a financing component which provides the customer with a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group with a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in IFRS 15.

Service income includes tuition fees, school canteen operation fees, boarding fees and university application tutoring and early child and after-class training service fees from colleges, elementary schools, middle schools and high schools of the Group and tuition fees from preschool services.

Tuition fees, school canteen operation fees, university application tutoring and early child and after-class training service fees and respective boarding fees are recognised proportionately over the relevant period of the applicable program. The portion of tuition, school canteen operation, and boarding payments received from students but not earned is recorded as contract liabilities and is reflected as a current liability as such amounts represent revenue that the Group expects to earn within one year. The portion of unearned international education related services that are normally expected to earn in three years is reflected as a non-current liability. The academic year of the Group's schools is generally from September to June of the following year.

Management and consultation services fees from customers for the provision of education management and consulting service are recognised when the related services are provided.

Revenue from other sources

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.

Other income

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *CONTINUED*

Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

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.

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.

Where funds have been borrowed generally, and used for the purpose of obtaining qualifying assets, a capitalisation rate of 5.98% has been applied to the expenditure on the individual assets.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *CONTINUED*

Foreign currencies

These financial statements are presented in RMB, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional 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).

The functional currencies of certain overseas subsidiaries are currencies other than the RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into RMB at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into RMB at the weighted average exchange rates for the year.

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

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements

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

Contractual arrangements

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

The Group exercises control over these subsidiaries and enjoys all economic benefits of these certain subsidiaries through the structured contracts.

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

De facto control over subsidiaries in which the Group holds less than a majority of equity interests

The Company's directors and the Group's management are of the opinion that the Group has rights to variable returns from its involvement with a school and has the ability to affect the returns through its power over the school although the Group holds less than 50% of its equity interest, after considering that the Company is entitled to nominate more than two-thirds of the board members of the school and, therefore, has the ability to affect the returns from the school.

Income tax

Significant judgement is required in interpreting the relevant tax rules and regulation so as to determine whether the Group is subject to corporate income tax. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Group to change its judgement regarding the adequacy of the tax liabilities and such changes to tax liabilities will impact tax expense in the period that such determination is made. Further details of current tax are set out in note 10 to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES – *CONTINUED*

Judgements – *CONTINUED*

Significant judgement in determining the lease term of contracts with renewal options

The Group has several lease contracts that include extension options. The Group applies judgement in evaluating whether or not to exercise the option to renew the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew the lease (e.g., construction of significant leasehold improvements or significant customisation to the leased asset).

The Group includes the renewal period as part of the lease term for leases of buildings and other premises due to the significance of these assets to its operations. These leases have a short non-cancellable period (i.e., three years) and there will be a significant negative effect on operation if a replacement is not readily available. In addition, the renewal options for leases of buildings and other premises with longer non-cancellable periods (i.e., 20 years) are not included as part of the lease term as they are not reasonably certain to be exercised.

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 financial assets

The Group estimates a provision rate to calculate ECLs for financial assets. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating, and coverage by letters of credit and other forms of credit insurance).

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

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of a customer's actual default in the future. The information about the ECLs on the Group's financial assets is disclosed in note 19 to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES – *CONTINUED*

Estimation uncertainty – *CONTINUED*

Leases – Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in a lease, and therefore, it uses an incremental borrowing rate ("IBR") to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group "would have to pay", which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when it needs to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets, including right-of-use assets, at the end of the 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 to sell and its value-in-use. The calculation of the fair value less costs to sell 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.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value-in-use of the cash-generating units to which the goodwill is allocated. Estimating the value-in-use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2020 was RMB104,298,000 (2019: Nil). Further details are given in note 17.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES – *CONTINUED*

Estimation uncertainty – *CONTINUED*

Impairment of investments in associates

The Group assesses whether there are any indicators of impairment for investments in associates at the end of each reporting period. Investments in associates are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of investments in associates 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 investments in associates. When value-in-use calculations are undertaken, the Group must estimate the expected future cash flows from investments in associates and choose a suitable discount rate in order to calculate the present value of those cash flows. Further details are given in note 15.

Depreciation and amortisation

The Group calculates the depreciation of items of property, plant and equipment and amortisation of intangible assets on the straight line basis over their estimated useful life's and after taking into account their estimated residual value, estimated useful lives, commencing from the date on which the items of property, plant and equipment and intangible assets are placed into use. The estimated useful lives reflect the directors' estimate of the period that the Group intends to derive future economic benefits from the use of the Group's items of property, plant and equipment or intangible assets.

4. OPERATING SEGMENT INFORMATION

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

IFRS 8 *Operating Segments* requires operating segments to be identified on the basis of internal reporting about components of the Group that are regularly reviewed by the chief operating decision-maker in order to allocate resources to segments and to assess their performance. The information reported to the directors of the Company, who are the chief operating decision-makers, for the purposes 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 all of its long-term assets/capital expenditure were located/incurred in the PRC. Accordingly, no geographical segment information is presented.

Information about major customers

No sales 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:

	Notes	2020 RMB'000	2019 RMB'000
Revenue from contracts with customers (Note (i))			
Tuition fees		**1,508,483**	1,291,289
School canteen operation fees		**265,401**	144,313
Boarding fees		**53,334**	51,573
International education related service and early child and after-class training service fees		**12,724**	—
Management and consultation service fees		**4,903**	5,857
		1,844,845	1,493,032
Other income and gains			
Bank interest income	6	**2,612**	2,654
Other interest income	6	**32,736**	27,213
Foreign exchange difference, net	6	**4,065**	—
Government grants			
– related to assets		**3,715**	5,289
– related to income		**2,702**	5,348
Rental income		**837**	2,311
Gain on remeasurement of the previously held interest in an associate		**31,800**	—
Gain on disposal of subsidiaries	29	**1,444**	—
Others		**2,908**	8,586
		82,819	51,401

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

5. REVENUE, OTHER INCOME AND GAINS – *CONTINUED*

(i) Revenue from contracts with customers

(a) Disaggregated revenue information

	2020 RMB'000	2019 RMB'000
Timing of revenue recognition		
Tuition fees recognised over time	**1,508,483**	1,291,289
School canteen operation fees recognised over time	**265,401**	144,313
Boarding fees recognised over time	**53,334**	51,573
International education related service fees and early child and after-class training service fees recognised over time	**12,724**	—
Management and consultation service fees recognised over time*	**4,903**	5,857
	1,844,845	1,493,032

The Group's tuition, school canteen operation and boarding service contracts can be terminated anytime, by paying 20% tuition fees as a penalty after the registration date. Tuition, school canteen operation, boarding fees and international education related service fees and early child and after-class training service fees are determined and paid by the students before rendering the services while the ancillary services are charged based on students' usage at a fixed rate.

* The amount represented the management and consultation services related to the whole-year school management service provided to public schools in 2020.

5. REVENUE, OTHER INCOME AND GAINS – *CONTINUED*

(i) Revenue from contracts with customers – *CONTINUED*

(a) Disaggregated revenue information – CONTINUED

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period:

	2020 **RMB'000**	2019 RMB'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Tuition fees	**745,647**	681,976
School canteen operation fees	**74,889**	—
Boarding fees	**32,234**	30,187
	852,770	712,163

(b) Performance obligations

The amounts of transaction prices allocated to the remaining performance obligations as at 31 December are as follows:

	2020 **RMB'000**	2019 RMB'000
Amounts expected to be recognised as revenue:		
Within one year	**1,058,301**	861,780
After one year	**4,060**	—
	1,062,361	861,780

The contracts for tuition, canteen operation and boarding services are for periods of one year or less. The amounts of transaction prices allocated to the remaining performance obligations which are expected to be recognised as revenue after one year relate to international education related services, of which the performance obligations normally are to be satisfied within three years.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

6. PROFIT BEFORE TAX

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

	Notes	2020 RMB'000	2019 RMB'000
Cost of services provided*		**495,581**	336,508
Research and development costs**		**20,222**	19,520
Employee benefit expense (excluding directors' and chief executive's remuneration):			
Wages, salaries and other allowances		**500,448**	391,939
Pension scheme contributions (defined contribution scheme)		**48,950**	54,077
Converting the University from independent college to a private higher education institution		**125,000**	—
Depreciation of property, plant and equipment	13	**170,435**	133,771
Amortisation of intangible assets	18	**8,108**	665
Depreciation of right-of-use assets	14(c)	**30,786**	25,777
Impairment of an investment in an associate***	15	**11,958**	5,953
Impairment of financial assets included in prepayments, other receivables and other assets	17	**765**	2,426
Lease payments not included in the measurement of lease liabilities	14(c)	**27,006**	21,735
Auditor's remuneration			
– audit service		**3,002**	2,594
– non-audit service		**138**	130
Bank interest income	5	**(2,612)**	(2,654)
Other interest income	5	**(32,736)**	(27,213)
Foreign exchange difference, net****		**(4,065)**	347
Fair value gain of an investment in an associate		**(31,800)**	—
Gain on disposal of subsidiaries	29	**(1,444)**	—
(Gain)/loss on disposal of items of property, plant and equipment		**(41)**	360

* Cost of services provided represents "Cost of sales" in the consolidated statement of profit or loss excluding research and development costs, employee benefit expense, depreciation of property, plant and equipment, amortisation of intangible assets, and depreciation of right-of-use assets.

** Comparative and current year amount of research and development costs were separated out from costs of sales in the consolidated statement of comprehensive income.

*** Impairment of an investment in an associate for the year is included in "Other expenses" in the consolidated statement of profit or loss.

**** Foreign exchange difference included in "other (income)/expenses" in the consolidated statement of profit or loss is generated from the translation of the Hong Kong dollar bank deposits resulting from the fluctuation of the exchange rate between Renminbi and the Hong Kong dollar.

7. FINANCE COSTS

An analysis of finance costs from continuing operations is as follows:

	Note	**2020 RMB'000**	2019 RMB'000
Interest on bank and other borrowings		**178,476**	91,822
Interest on lease liabilities	14(b)	**12,623**	12,085
Less: Interest capitalised		**(24,985)**	(24,946)
		166,114	78,961

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:

	2020 RMB'000	2019 RMB'000
Salaries, allowances and benefits in kind	**5,701**	4,021
Pension scheme contributions	**54**	10
	5,755	4,031

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2020 RMB'000	2019 RMB'000
Mr. Sit Chiu Wing	**107**	105
Mr. Chan Kim Sun	**107**	105
Mr. Wen Ruizheng	**84**	84
	298	294

There were no other emoluments payable to the independent non-executive directors during the year (2019: Nil).

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2020

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION – *CONTINUED*

(b) Executive directors and the chief executive

2020	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
Executive directors:			
Ms. Wang Xiaoying	893	—	893
Mr. Ye Jiayu	893	—	893
Mr. Deng Bangkai	1,164	8	1,172
Executive director and the chief executive:			
Mr. Yan Yude	893	—	893
	3,843	8	3,851

2019	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
Executive directors:			
Ms. Wang Xiaoying	878	—	878
Mr. Ye Jiayu	878	—	878
Mr. Deng Bangkai	1,091	10	1,101
Executive director and the chief executive:			
Mr. Yan Yude	878	—	878
	3,725	10	3,735

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 of the Group during the year include 4 directors (2019: 4), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining 1 (2019: 1) highest paid employee who is neither a director nor chief executive of the Group are as follows:

	2020 RMB'000	2019 RMB'000
Salaries, allowances and benefits in kind	600	600
Pension scheme contributions	16	48
	616	648

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

	2020	2019
Nil to RMB1,000,000	1	1

During the year, no highest paid employees waived or agreed to waive any remuneration and no remuneration was paid by the Group to any of the five highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office.

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.

Pursuant to the rules and regulations of the British Virgin Islands, the Group is not subject to any tax in the British Virgin Islands.

Hong Kong profits tax has not been provided as the Group did not derive any assessable profits in Hong Kong during the year.

According to the Implementation Rules for the Law for Promoting Private Education and the Proposed Amendments on the Implementation Rules for the Law for Promoting Private Education, private schools for which the school sponsors do not require reasonable returns and non-profit private schools are eligible to enjoy the same preferential tax treatments as public schools. The preferential tax treatment policies applicable to private schools either requiring reasonable returns or which are run for profit are to be separately formulated by the relevant authorities under the State Council.

Based on the historical tax returns filed to the relevant tax authorities and the confirmations obtained previously from the local tax bureaus and local offices of the State Administration of Taxation, certain schools within the Group were exempted from corporate income tax in 2020 and 2019.

10. INCOME TAX – *CONTINUED*

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates. The income tax expenses of the Group for the year are analysed as follows:

	2020 RMB'000	2019 RMB'000
Current – PRC		
Charge for the year	9,762	6,232
Under-provision/(over-provision) in prior years	36	(2,356)
Total tax charge for the year	9,798	3,876

A reconciliation of the tax expense applicable to profit before tax at the statutory rates for the countries 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 rates, are as follows:

	2020 RMB'000	%	2019 RMB'000	%
Profit before tax	229,601		411,931	
Tax at the statutory tax rate	57,400	25.0	102,983	25.0
Lower tax rate(s) for specific provinces or enacted by local authority	(3,506)	(1.5)	(10,783)	(2.6)
Expenses not deductible for tax	5,753	2.5	4,056	1.0
Adjust Adjustments in respect of current tax of previous periods	36	0.0	(2,356)	(0.6)
Tax losses utilised from previous periods	(1,426)	(0.6)	(3,121)	(0.8)
Profits and losses attributable to joint ventures and associates	275	0.1	417	0.1
Tax losses not recognised	30,035	13.0	1,543	0.4
Income not subject to tax	(78,769)	(34.3)	(88,863)	(21.6)
Tax charge at the Group's effective rate	9,798	4.3	3,876	0.9

10. INCOME TAX – *CONTINUED*

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.

Deferred tax assets have not been recognised in respect of the losses amounting to RMB152,574,000 as at 31 December 2020 (31 December 2019: RMB22,671,000) as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the taxable losses can be utilised.

As at 31 December 2020, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, the Group's fund will be retained in Mainland China for the expansion of the Group's operation, so it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB1,313,440,000 as at 31 December 2020 (31 December 2019: RMB1,090,628,000).

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

11. DIVIDENDS

	2020 RMB'000	2019 RMB'000
Final of 2019 – HK4.0 cents (2018: HK4.0 cents) per ordinary share	**112,480**	111,195
Interim of 2020 – HK4.0 cents (2019: HK4.0 cents) per ordinary share	**107,143**	111,529
	219,623	222,724

A final dividend of HK4.0 cents per share in respect of the year ended 31 December 2019 proposed by the Board has been approved by the shareholders at the annual general meeting of the Company in April 2020. Out of the total dividend amount of RMB112,480,000, RMB112,480,000 has been paid by 30 November 2020.

An interim dividend of HK4.0 cents per share in respect of the period ended 30 June 2020 proposed by the Board has been approved by the shareholders on 2 September 2020. Out of the total dividend amount of RMB107,143,000, RMB92,080,000 has been paid by 31 December 2020.

A final dividend of HK2.5 cents per share in respect of the year ended 31 December 2020 has been proposed by Board and is subject to the approval by the shareholders at the forthcoming annual general meeting of the Company.

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

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 3,088,761,000 (2018: 3,088,761,000) in issue during the year.

There were no potentially dilutive ordinary shares in issue during the years ended 31 December 2020 and 2019, and therefore, the diluted earnings per share amounts were equivalent to the basic earnings per share amounts.

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

	2020	2019
Earnings		
Profit attributable to ordinary equity holders of the parent (RMB'000)	**225,471**	397,140
Shares		
Weighted average number of ordinary shares in issue	**3,088,761,000**	3,088,761,000
Basic and diluted earnings per share (expressed in RMB per share)	**0.07**	0.13

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

13. PROPERTY, PLANT AND EQUIPMENT

	Property and buildings RMB'000	Leasehold improvements RMB'000	Motor vehicles RMB'000	Furniture and fixtures RMB'000	Electronic devices RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2020							
At 1 January 2020							
Cost	3,353,182	543,687	18,899	131,996	377,430	416,767	4,841,961
Accumulated depreciation	(313,679)	(109,394)	(13,477)	(64,058)	(220,208)	–	(720,816)
Net carrying amount	3,039,503	434,293	5,422	67,938	157,222	416,767	4,121,145
At 1 January 2020, net of accumulated depreciation	3,039,503	434,293	5,422	67,938	157,222	416,767	4,121,145
Additions	138,137	156,515	2,897	13,905	23,173	255,504	590,131
Acquisition of subsidiaries (note 28)	3,050	7,585	355	3,373	7,840	–	22,203
Disposal of subsidiaries	(4,497)	(34,083)	(389)	(3,087)	(10,945)	–	(53,001)
Disposals	–	–	(468)	(39)	(460)	–	(967)
Depreciation provided during the year (note 6)	(83,472)	(42,973)	(1,402)	(16,174)	(26,414)	–	(170,435)
Transfer from construction in progress	–	23,959	–	–	–	(23,959)	–
At 31 December 2020, net of accumulated depreciation	3,092,721	545,296	6,415	65,916	150,416	648,312	4,509,076
At 31 December 2020:							
Cost	3,486,684	698,324	21,366	148,483	398,536	648,313	5,401,706
Accumulated depreciation	(397,417)	(150,042)	(14,876)	(82,112)	(248,183)	–	(892,630)
Net carrying amount	3,089,267	548,282	6,490	66,371	150,353	648,313	4,509,076

At 31 December 2020, properties amounting to RMB298,300,000 for which the Group was in the process of obtaining the land and building certificates.

13. PROPERTY, PLANT AND EQUIPMENT – *CONTINUED*

	Property and buildings RMB'000	Leasehold improvements RMB'000	Motor vehicles RMB'000	Furniture and fixtures RMB'000	Electronic devices RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2019							
At 1 January 2019:							
Cost	3,053,818	300,570	17,544	103,091	328,019	328,000	4,131,042
Accumulated depreciation	(248,285)	(87,635)	(11,970)	(43,663)	(195,492)	–	(587,045)
Net carrying amount	2,805,533	212,935	5,574	59,428	132,527	328,000	3,543,997
At 1 January 2019, net of accumulated depreciation	2,805,533	212,935	5,574	59,428	132,527	328,000	3,543,997
Additions	299,364	243,117	1,387	28,911	49,760	88,767	711,306
Disposals	–	–	(32)	(6)	(349)	–	(387)
Depreciation provided during the year (note 6)	(65,394)	(21,759)	(1,507)	(20,395)	(24,716)	–	(133,771)
At 31 December 2019, net of accumulated depreciation	3,039,503	434,293	5,422	67,938	157,222	416,767	4,121,145
At 31 December 2019							
Cost	3,353,182	543,687	18,899	131,996	377,430	416,767	4,841,961
Accumulated depreciation	(313,679)	(109,394)	(13,477)	(64,058)	(220,208)	–	(720,816)
Net carrying amount	3,039,503	434,293	5,422	67,938	157,222	416,767	4,121,145

At 31 December 2019, properties amounting to RMB298,300,000 for which the Group was in process of obtaining the land and building certificates.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2020

14. LEASES

The Group as a lessee

The Group has lease contracts for school campuses and offices and other equipment used in its operations. Lump sum payments were made upfront to acquire the leased land from the owners with lease periods of 30 to 40 years, and no ongoing payments will be made under the terms of these land leases. Leases of school campuses and offices generally have lease terms between 3 and 20 years. Other equipment generally has lease terms of 12 months or less and/or is individually of low value.

Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group. There are several lease contracts that include extension and termination options and variable lease payments, which are further discussed below.

(a) Right-of-use assets

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

	Leasehold land RMB'000	Buildings and other premises RMB'000	Total RMB'000
As at 1 January 2019	381,494	207,607	589,101
Additions	545,596	9,140	554,736
Depreciation charge	(11,035)	(14,742)	(25,777)
As at 31 December 2019 and 1 January 2020	916,055	202,005	1,118,060
Additions	—	134,613	134,613
Depreciation charge	(28,071)	(16,339)	(44,410)
As at 31 December 2020	887,984	320,279	1,208,263

14. LEASES – *CONTINUED*

(b) Lease liabilities

The carrying amount of lease liabilities and the movements during the year are as follows:

	2020 RMB'000	2019 RMB'000
Carrying amount at 1 January	**217,000**	210,743
New leases	**16,048**	9,140
Accretion of interest recognised during the year	**12,623**	12,085
Payments	**(10,510)**	(14,968)
Carrying amount at 31 December	**235,161**	217,000
Analysed into:		
Current	**19,268**	14,991
Non-current	**215,893**	202,009

The maturity analysis of lease liabilities is disclosed in note 36 to the financial statements.

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

	Note	2020 RMB'000	2019 RMB'000
Interest on lease liabilities		**12,623**	12,085
Depreciation charge of right-of-use assets	6	**30,786**	25,777
Expense relating to short-term leases and other leases with remaining lease terms ended on or before 31 December 2019 (included in cost of sales)		**1,832**	1,508
Expense relating to leases of low-value assets (included in administrative expenses)		**3,068**	694
Variable lease payments not included in the measurement of lease liabilities (included in cost of sales)		**22,106**	19,533
Total amount recognised in profit or loss		**84,039**	59,597

14. LEASES – *CONTINUED*

(d) Extension and termination options

The Group has several lease contracts that include extension and termination options. These options are negotiated by management to provide flexibility in managing the leased-asset portfolio and they are aligned with the Group's business needs.

(e) Variable lease payments

The Group has lease contracts for buildings that contain variable payments. The variable payments were based on a fixed percentage of profit before tax or turnover of the relevant schools. The amounts of variable lease payments recognised in profit or loss for the current year were RMB28,251,000.

The Group as a lessor

The Group leases its property, plant and equipment under operating lease arrangements in Mainland China. The non-cancellable periods of these leases were generally one year. Rental income recognised by the Group during the year was RMB837,000 (2019: RMB2,311,000), details of which are included in note 5 to the financial statements. The relevant assets subject to these leases cannot be separated from owned assets held and used by the lessor.

15. INVESTMENTS IN ASSOCIATES

	2020 RMB'000	2019 RMB'000
Share of net assets	31,721	36,444
Goodwill on acquisition	27,195	27,195
	58,916	63,639
Provision for impairment	(25,132)	(13,174)
Loans to an associate	12,154	—
Impairment allowance	(1,399)	—
	44,539	50,465

The loans to an associate included in investments in associates are unsecured, interest-free and are not expected to be repaid in one year. There was no recent history of default and past due amounts for loans to an associate.

An impairment analysis of loans to associate is performed at each reporting date by considering the probability of default of comparable companies with an estimated credit rate. The credit rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate. As at 31 December 2020, the credit rate applied was 11.51% and an impairment allowance of RMB1,399,000 was provided.

15. INVESTMENTS IN ASSOCIATES – *CONTINUED*

Particulars of the material associate is as follows:

Name	Particulars of issued shares held	Place of incorporation/ registration and business	Percentage of ownership interest attributable to the Group	Principal activities
Oriental Babycare	Ordinary shares	Beijing	26.64	Provision of early years education services

The Group's shareholdings in the associate comprise equity shares held by the Company.

Oriental Babycare, which is considered a material associate of the Group, is a strategic partner of the Group engaged in the early years education services and is accounted for using the equity method.

As Oriental Babycare continued in making loss in 2019 and 2020, the Group performed impairment tests on this investment. As at 31 December 2020, the recoverable amount of this investment valued using the discounted future cash flow method was approximately RMB33,833,000 (2019: RMB48,326,000) and therefore, an impairment loss of RMB11,958,000 (2019: RMB5,953,000) was provided for. The pre-tax discount rate applied in the valuation is 18% (2019:16%). The impairment of this investment is included in other expenses in the consolidated statement of profit or loss.

15. INVESTMENTS IN ASSOCIATES – *CONTINUED*

The following table illustrates the summarised financial information in respect of Oriental Babycare adjusted for any differences in accounting policies and reconciled to the carrying amount in the consolidated financial statements:

	2020 RMB'000	2019 RMB'000
Current assets	**5,085**	35,583
Non-current assets, excluding goodwill	**165,675**	152,173
Goodwill on acquisition of the associate	**7,746**	47,368
Current liabilities	**(51,690)**	(71,859)
Net assets	**126,816**	163,265
Net assets, excluding goodwill	**119,070**	115,897

	2020 RMB'000	2019 RMB'000
Reconciliation to the Group's interest in the associate:		
Proportion of the Group's ownership	**26.64%**	29.60%
Group's share of net assets of the associate, excluding goodwill	**31,720**	34,305
Goodwill on acquisition (less cumulative impairment)	**2,064**	14,021
Carrying amount of the investment	**33,784**	48,326

	2020 RMB'000	2019 RMB'000
Revenue	**32,378**	62,054
Loss after tax	**(8,730)**	(2,896)
Total comprehensive loss	**(8,730)**	(2,896)

15. INVESTMENTS IN ASSOCIATES – *CONTINUED*

The following table illustrates the aggregate financial information of the Group's associates that are not individually material:

	2020 RMB'000	2019 RMB'000
Share of the associates' profit for the year	—	1,040
Share of the associates' total comprehensive income	—	1,040
Aggregate carrying amount of the Group's investments in the associates	—	2,139

16. OTHER NON-CURRENT ASSETS

	Notes	2020 RMB'000	2019 RMB'000
Advance payment for construction	(i)	358,789	98,306
Advance payment for equipment	(ii)	45,344	4,253
Long-term pledged deposits (note 24)	(iii)	43,247	—
Long-term receivables	(iv)	246,525	—
Impairment allowance		(1,792)	—
		692,113	102,559

(i) The consideration of RMB358,789,000 (2019: RMB98,306,000) has been paid for the construction of school campuses which are under construction and have not been completed or accepted by the Group as of 31 December 2020.

(ii) The consideration of RMB45,344,000 (2019: RMB4,253,000) has been paid for the purchase of equipment which has not been delivered to or accepted by the Group as of 31 December 2020.

(iii) The carrying amount of RMB43,247,000 were long-term pledged deposits for obtaining other borrowings (note 24) from third party financing companies. The deposits will be repaid after full settlement of the relevant borrowings in 3 to 5 years.

(iv) The consideration of RMB215,000,000 was a loan to a non-controlling shareholder of Deyang Chengdu Foreign Language School, a subsidiary of the Group, which bore interest at 6% per annum. The loan was secured by the shares of the school, and will be due in July 2022.

The consideration of RMB16,025,000 was a loan to a cooperative partner of an associate, which bore interest at 8% per annum. The loan is secured by a private property of the partner, and will be due in May 2025.

The consideration of RMB11,500,000 was a loan to a related party of a non-controlling shareholder of Deyang Chengdu Foreign Language School, a subsidiary of the Group, which was non-interest-bearing and unsecured and will be due in November 2022.

16. OTHER NON-CURRENT ASSETS – *CONTINUED*

An impairment analysis of long-term receivables is performed at each reporting date by considering the probability of default of comparable companies with an estimated credit rate. The credit rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate. As at 31 December 2020, the loss rate applied was 0.77% and the impairment allowance was RMB1,792,000.

17. GOODWILL

	RMB'000
Cost at 1 January 2020, net of accumulated impairment	—
Acquisition of a subsidiary (note 28)	104,298
Impairment during the year	—
Cost and net carrying amount at 31 December 2020	104,298
At 31 December 2020:	
Cost	104,298
Accumulated impairment	—
Net carrying amount	104,298

Impairment testing of goodwill

Goodwill acquired through business combination is allocated to the Gaoxin Campus cash-generating unit ("Gaoxin Campus CGU") unit for impairment testing.

The recoverable amount of the Gaoxin Campus CGU has been determined based on a value-in-use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The pre-tax discount rate applied to the cash flow projections was 19% and cash flows beyond the five-year period were extrapolated using a growth rate of 3%.

The carrying amount of goodwill allocated to the Gaoxin Campus CGU at the end of reporting period was RMB104,298,000.

17. GOODWILL – *CONTINUED*

Impairment testing of goodwill – *CONTINUED*

Assumptions were used in the value-in-use calculation of the Gaoxin Campus CGU for 31 December 2020. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted revenue – The budgeted revenue is based on the historical data and management's expectation on the future market.

Budgeted earnings before interest and taxes ("EBIT") – The basis used to determine the value assigned to the budgeted EBIT is the average EBIT achieved in the period/year immediately before the budget year, increased for expected efficiency improvements, and expected market development.

Discount rate – The discount rate used is before tax and reflects specific risks relating to the relevant unit, and is determined using the capital asset pricing model with reference to the beta coefficient and debt ratio of certain public listed companies conducting business in the PRC education industry.

Long term growth rate – The long term growth rate of 3% is based on the historical data and management's expectation on the future market.

The values assigned to the key assumptions on the market development of the cash-generating unit and discount rate are consistent with external information sources.

18. OTHER INTANGIBLE ASSETS

	Software RMB'000	Favourable rental contract RMB'000	Others RMB'000	Total RMB'000
Cost at 1 January 2020, net of accumulated amortisation	2,908	—	—	2,908
Additions	675	—	—	675
Acquisition of a subsidiary (note 28)	—	98,000	61,000	159,000
Amortisation provided during the year	(831)	(1,922)	(5,355)	(8,108)
At 31 December 2020	2,752	96,078	55,645	154,475
At 31 December 2020:				
Cost	4,786	98,000	61,000	163,786
Accumulated amortisation	(2,034)	(1,922)	(5,355)	(9,311)
Net carrying amount	2,752	96,078	55,645	154,475

18. OTHER INTANGIBLE ASSETS – *CONTINUED*

	Software RMB'000	Total RMB'000
At 1 January 2019		
Cost	2,788	2,788
Accumulated amortisation	(539)	(539)
Net carrying amount	2,249	2,249
Cost at 1 January 2019, net of accumulated amortisation	2,249	2,249
Additions – internal development	1,324	1,324
Amortisation provided during the year	(665)	(665)
At 31 December 2019	2,908	2,908
At 31 December 2019 and at 1 January 2020:		
Cost	4,111	4,111
Accumulated amortisation	(1,203)	(1,203)
Net carrying amount	2,908	2,908

19. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

Included in prepayments, other receivables and other assets as at 31 December 2020 are accrued interest of loans to third parties of RMB13,260,000, which were settled in January 2021.

Included in prepayments, other receivables and other assets as at 31 December 2019 is a loan to a third party of RMB171,600,000, which bore interest at 14.4% per annum and was unsecured. The loan was settled in December 2020.

In addition, there were loans to a constructor and a cooperative partner of a school amounting to RMB55,109,000 and RMB18,886,000 as at 31 December 2019, which bore interest at 5% and 6% per annum respectively and were unsecured. The loans were settled in May and August 2020, respectively.

An impairment analysis of financial assets included in prepayments, other receivables and other assets is performed at each reporting date by considering the probability of default of comparable companies with an estimated credit rate. The credit rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate. As at 31 December 2020, the credit rate applied was nil as there were no default and past due amounts in the balance and the relevant impairment allowance was assessed to be minimal. As at 31 December 2019, the credit rate applied was 0.85%.

20. CASH AND CASH EQUIVALENTS

	2020 RMB'000	2019 RMB'000
Cash and bank balances	**773,832**	394,386
Time deposits	**—**	11,420
	773,832	405,806
Less: Time deposits with original maturity of over three months	**—**	(11,420)
Cash and cash equivalents	**773,832**	394,386

At the end of the reporting period, the cash and bank balances of the Group denominated in RMB amounted to RMB774,145,000 (2019: RMB394,386,000).The RMB is not freely convertible into other currencies, however, under Mainland China Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

21. TRADE PAYABLES

An ageing analysis of the trade and bills payables as at the end of the reporting period, based on the invoice date, is as follows:

	2020 RMB'000	2019 RMB'000
Within 1 year	**80,055**	38,861

Trade payables of RMB80,055,000 (2019: 38,861,000) are due to canteen suppliers and property management companies and are repayable within 90 days.

The trade payables are non-interest-bearing and are normally settled on 90-day terms.

22. OTHER PAYABLES AND ACCRUALS

	2020 RMB'000	2019 RMB'000
Payables for purchase of fixed assets and construction	**79,462**	259,054
Other payables	**78,793**	49,599
Rental fees payable	**20,661**	23,193
Accruals	**29,245**	17,990
Dividends payable	**10,398**	5,756
Interest payable	**5,456**	—
	224,015	355,592

Other payables are non-interest-bearing and have an average term of six months.

23. CONTRACT LIABILITIES

Details of contract liabilities are as follows:

	31 December 2020 RMB'000	31 December 2019 RMB'000
Tuition fees	**902,171**	754,647
School canteen operation fees	**104,472**	74,899
Boarding fees	**38,468**	32,234
International education related service fees and early child and after-class training service fees	**17,251**	—
	1,062,362	861,780
Current	**1,058,302**	861,780
Non-current*	**4,060**	—
	1,062,362	861,780

Contract liabilities include short-term advances received from students in relation to the service not yet provided and the portion of university tutoring services that will be provided after one year. The Group receives tuition and boarding fees from students in advance prior to the beginning of each academic year and receives international education related service fees and early child and after-class training service fees before rendering the services. The Group receives school canteen operation fees from students in advance prior to the beginning of each academic year or each semester. Tuition fees, boarding fees, school canteen operation fees and international education related service fees and early child and after-class training service fees are recognised proportionately over the relevant period of the respective program.

* The amounts represent university application tutoring fees received in advance from students to which the services will be provided after one year.

24. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2020			2019		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loans – unsecured	—		—	5.22	2020	93,000
Bank loans – secured	5.22-5.93	2021	729,000	5.22-5.93	2020	586,000
Current portion of long term bank loans – secured	5.64-7.13	2021	690,620	5.64-7.13	2020	204,000
Other loans – secured	4.53-7.90	2021	270,847	8.10	2020	40,000
			1,690,467			923,000
Non-current						
Bank loans – secured	4.45-7	2033	651,090	5.64-7.13	2033	798,000
Other loan – secured	4.53-7.90	2025	809,251	8.10	2024	223,903
			1,460,341			1,021,903
			3,150,808			1,944,903

24. INTEREST-BEARING BANK AND OTHER BORROWINGS – *CONTINUED*

	2020 RMB'000	2019 RMB'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	**1,419,620**	883,000
In the second year	**120,740**	490,000
In the third to fifth years, inclusive	**447,550**	55,000
Beyond five years	**82,800**	253,000
	2,070,710	1,681,000
Other borrowings repayable (note 16):		
Within one year or on demand	**270,847**	40,000
In the second year	**227,279**	48,102
In the third to fifth years, inclusive	**581,972**	175,801
	1,080,098	263,903
	3,150,808	1,944,903

Certain of the Group's bank borrowings amounting to RMB2,070,710,000 (2019: RMB1,588,000,000) as at 31 December 2020 were secured by assets or guaranteed by Sichuan Derui, Sichuan Xinxing Derui, Mr. Ye Jiayu, Mr. Yan Yude and Ms. Wang Xiaoying and Ms. Yan Hongjia.

Besides, bank borrowings amounting to RMB310,780,000 out of RMB2,070,710,000 were also secured by mortgages over buildings situated in Chengdu, owned by a related party. Bank borrowings amounting to RMB250,000,000 out of RMB2,070,710,000 were pledged by 100% equity interests of a related party (note 33(c)).

Other borrowings are related to loans borrowed from third party leasing companies under sale and leaseback arrangements for certain property, plant and equipment of the Group with a total amount of RMB1,134,808,000. The other borrowings have maturities from 1 to 5 years and are guaranteed by Mr. Yan Yude, Ms. Wang Xiaoying and Ms. Yan Hongjia (note 33(c)) and long-term pledged deposits (note 16).

25. DEFERRED INCOME

	2020 RMB'000	2019 RMB'000
At beginning of year	**11,761**	10,817
Amounts received	**1,624**	10,104
Disposal of subsidiaries	**(1,184)**	—
Charged to profit or loss	**(3,715)**	(9,160)
At end of year	**8,486**	11,761
Current	**3,285**	2,168
Non-current	**5,201**	9,593
	8,486	11,761

The grants are related to the subsidies received from the government for the purpose of compensating for the expenses arising from operating activities and improvement of teaching facilities on certain special projects. 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 the statement of profit or loss and the grants related to assets would be released to the statement of profit or loss over the expected useful life of the relevant asset.

26. SHARE CAPITAL

Shares	2020 RMB'000	2019 RMB'000
Issued and fully paid:		
3,088,761,000 (2019: 3,088,761,000) ordinary shares of HK1.0 cents each	**26,051**	26,051

A summary of movements in the Company's share capital is as follows:

	Number of shares in issue	Share capital RMB'000
At 1 January 2019	3,088,761,000	26,051
At 31 December 2019 and 1 January 2020	**3,088,761,000**	**26,051**
At 31 December 2020	**3,088,761,000**	**26,051**

27. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 98 of the financial statements.

(a) Capital reserve

The capital reserve of the Group represents the capital contribution from its then sponsors of the subsidiaries and deemed acquisition of a non-controlling interest held by persons other than the controlling shareholders.

(b) Statutory surplus reserves

Pursuant to the relevant laws in the PRC, the Company's subsidiaries in the PRC shall make appropriations from after-tax profit to non-distributable reserve funds as determined by the boards of directors of the relevant PRC subsidiaries. These reserves include (i) the general reserve of the limited liability companies and (ii) the development fund of schools.

i) In accordance with the Company Law of the PRC, certain subsidiaries of the Group which are domestic enterprises are required to allocate 10% of their profit after tax, as determined in accordance with the relevant PRC accounting standards, to their respective statutory surplus reserves until the reserves reach 50% of their respective registered capital. Subject to certain restrictions set out in the Company Law of the PRC, part of the statutory surplus reserves may be converted to share capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital.

ii) According to the relevant PRC laws and regulations, private schools that require reasonable returns are required to appropriate to the development fund not less than 25% of their net income as determined in accordance with generally accepted accounting principles in the PRC. Private schools that do not require reasonable returns, are required to appropriate to the development fund not less than 25% of their annual increase of net assets as determined in accordance with generally accepted accounting principles in the PRC. The development fund is for the construction or maintenance of the schools or the procurement or upgrades of educational equipment.

28. BUSINESS COMBINATION

(a) On 15 August 2020, the Group acquired a 80% interest in Chengdu Foreign Language School Gaoxin Campus from an independent third party. Before the acquisition, Gaoxin Campus is an associate of the Group in which it held a 20% interest. Gaoxin Campus is engaged in providing high school education services. The acquisition was made as part of the Group's strategy to expand its market share of high school education in Chengdu, the Sichuan Province. The purchase consideration for the acquisition was in the form of cash, with RMB240,000,000 paid at the acquisition date.

The fair values of the identifiable assets and liabilities of Gaoxin Campus as at the date of acquisition were as follows:

	Fair value recognised on acquisition RMB'000
Other Intangible assets	159,000
Property, plant and equipment	21,280
Cash and bank balances	15,630
Other receivables	47,462
Prepayments and other receivables	1,652
Inventory	12
Advance from customers	(75,112)
Payroll payable	(194)
Other payables	(102)
Total identifiable net assets at fair value	169,628
Goodwill on acquisition	104,298
Fair value of previously held equity interest re-measured as at the date of acquisition	(33,926)
Satisfied by cash	240,000

28. BUSINESS COMBINATION – *CONTINUED*

An analysis of the cash flows in respect of the acquisition of a subsidiary is as follows:

	Fair value recognised on acquisition RMB'000
Cash consideration	(240,000)
Cash and bank balances acquired	15,630
Net outflow of cash and cash equivalents included in cash flows from investing activities	(224,370)

Since the acquisition, Gaoxin Campus contributed RMB38,295,000 to the Group's revenue and RMB4,287,000 to the consolidated profit for the year ended 31 December 2020.

Had the combination taken place at the beginning of the year, the revenue from continuing operations of the Group and the profit of the Group for the year would have been RMB1,883,559,000 and RMB229,535,000, respectively.

(b) On 1 January 2020, the Group acquired a 100% interest in Chengdu Jiaying Wentai Education Consulting Co., Ltd. ("Wentai"), Chengdu Jiaying Ruitai Education Consulting Co., Ltd. ("Ruitai"), and Chengdu Jiataihua Education Consulting Co., Ltd. ("Jiataihua") from a fellow subsidiary of the ultimate controller. Weitai and Ruitai are engaged in providing early child and after-class training services to pre-school children while Jiataihua is engaged in providing international education related service and international program for high school students. The acquisition was made as part of the Group's strategy to expand its service lines. Wentai, Ruitai and jiataihua were at negative net asset positions. The purchase consideration for the acquisition was nil at the acquisition date.

28. BUSINESS COMBINATION – *CONTINUED*

The fair values of the identifiable assets and liabilities of Wentai, Ruitai and jiataihua in total as at the date of acquisition were as follows:

	Fair value recognised on acquisition RMB'000
Property, plant and equipment	923
Cash and bank balances	9,837
Prepayments and other receivables	6,130
Other payables	(26,773)
Total identifiable net assets at fair value	(9,883)
Debit in reserve	9,883
Satisfied by cash	—

An analysis of the cash flows in respect of the acquisition of the subsidiaries is as follows:

	RMB'000
Cash consideration	—
Cash and bank balances acquired	9,837
Net inflow of cash and cash equivalents included in cash flows from investing activities	9,837

Since the acquisition, the three companies have contributed RMB13,416,000 to the Group's revenue and a loss of RMB3,486,000 to the consolidated profit for the year ended 31 December 2020.

29. DISPOSAL OF SUBSIDIARIES

On 7 August 2020, the Group entered into an agreement with cooperative partners of schools to dispose of its equity interests in three schools.

	2020 RMB'000
Net assets disposed of:	
Property, plant and equipment	53,001
Cash and bank balances	32,242
Prepayments and other receivables	2,100
Advance from customers	(28,351)
Deferred income	(1,184)
Accruals and other payables	(38,337)
Non-controlling interests	(7,940)
Gain on disposal of subsidiaries	1,444
Satisfied by:	
cash	12,975

An analysis of the net outflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	2020 RMB'000
Cash consideration	12,975
Cash and bank balances disposed of	(32,242)
Net outflow of cash and cash equivalents in respect of the disposal of subsidiaries	(19,267)

30. 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 RMB16,048,000 and RMB16,048,000 respectively, in respect of lease arrangements for school campuses (2019: RMB9,140,000 and RMB9,140,000 respectively).

During the year, the Group had acquired right-of-use assets from a third party company. The consideration for the acquisition consisted of a 40% equity interest in a subsidiary of the Group amounting to RMB27,338,000 and a prepaid balance of RMB51,227,000.

(b) Changes in liabilities arising from financing activities

2020

	Bank and other loans RMB'000	**Lease liabilities RMB'000**	**Other payables and accruals RMB'000**
At 1 January 2020	**1,944,903**	**217,000**	**5,756**
Changes from financing cash flows	**1,205,905**	**(10,510)**	**(214,981)**
New lease	**—**	**16,048**	**—**
Interest expense	**—**	**12,623**	**—**
Dividend proposed	**—**	**—**	**219,623**
At 31 December 2020	**3,150,808**	**235,161**	**10,398**

2019

	Bank and other loans RMB'000	Lease liabilities RMB'000	Other payables and accruals RMB'000
At 1 January 2019	1,082,000	210,743	8,872
Changes from financing cash flows	862,903	(14,968)	(222,986)
New leases	—	9,140	—
Interest expense	—	12,085	—
Dividend proposed	—	—	219,870
At 31 December 2019	1,944,903	217,000	5,756

30. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS – *CONTINUED*

(c) Total cash outflow for leases

The total cash outflow for leases included in the statement of cash flows is as follows:

	2020 RMB'000	2019 RMB'000
Within operating activities	**29,538**	9,008
Within investing activities	**40,000**	96,000
Within financing activities	**10,510**	14,968
	80,048	119,976

31. CONTINGENT LIABILITIES

As at 31 December 2020 and 2019, the Group did not have any significant contingent liabilities.

32. COMMITMENTS

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

	2020 RMB'000	2019 RMB'000
Contracted, but not provided for:		
Buildings, equipment	**170,956**	71,512
Capital contributions payable to an associate	**—**	6,900
	170,956	78,412

33. RELATED PARTY TRANSACTIONS

(a) Names and relationships of related parties

Name	Relationship
Mr. Yan Yude	Director of the Company
Ms. Wang Xiaoying	Spouse of Mr. Yan Yude
Ms. Xie Suhua	Mother of Mr. Yan Yude
Sichuan Derui	A company controlled by Mr. Yan Yude
Chengdu Tianren Hotel Co. Ltd ("Tianren Hotel")	A company controlled by Ms. Xie Suhua, mother of Mr. Yan Yude
Chengdu Tianren Property Development Co., Ltd. ("Tianren Property")	A company controlled by Mr. Yan Yude's relatives
USA Tianren Hotel Management Inc., ("USA Tianren Hotel")	A company controlled by Ms. Xie Suhua, mother of Mr. Yan Yude
Virscend Holdings Company Limited ("Virscend Holdings")	A company controlled by Mr. Yan Yude
Oriental Babycare	An associate

As disclosed in the consolidated statement of financial position, the Group had outstanding balances due to related parties at 31 December 2019 and 2020.

(b) Outstanding balances with related parties

Amounts due from related parties

	Note	2020 RMB'000	2019 RMB'000
Oriental Babycare		—	5,147
Sichuan Derui	(i)	15,560	—
Others		1,681	5,799
		17,241	10,946

(i) The consideration of RMB15,500,000 was prepaid to Sichuan Derui for providing lease and property management service to two schools of the Group.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2020

33. RELATED PARTY TRANSACTIONS – *CONTINUED*

(b) Outstanding balances with related parties – *CONTINUED*

Amounts due to related parties

	2020 RMB'000	2019 RMB'000
Sichuan Derui	—	4,395
USA Tianren Hotel	3,522	5,129
Mr. Yan Yude	1,305	1,395
Virscend Holdings	16,832	108,166
	21,659	119,085

The amounts due from/due to related parties are unsecured and interest-free.

(c) Other related party transactions

1) During the year, the Group entered into the following transactions with its related parties:

	Nature of transaction	2020 RMB'000	2019 RMB'000
Sichuan Derui	Purchases of property, plant and equipment and leasehold land	—	394,000
Sichuan Derui	Acquisition of a subsidiary	—	476,000
Gaoxin Campus*	Management services	1,320	3,808

* Gaoxin Campus became a subsidiary of the Company since 15 August 2020.

2) Certain of the Group's bank and other borrowings amounting to RMB2,070,710,000 and RMB1,080,098 respectively, at 31 December 2020 were secured by assets of related parties' and guaranteed by related parties: Sichuan Derui, Mr. Yan Yude, Ms.Yan Hongjia and Ms. Wang Xiaoying.

Besides, bank borrowings amounting to RMB310,780,000 out of RMB2,070,710,000 (note 24) were also secured by mortgages over buildings situated in Chengdu. and bank borrowings amounting to RMB250,000,000 out of RMB2,070,710,000 were pledged by 100% equity interests of Tianren Hotel.

Certain of the Group's bank and other borrowings amounting to RMB1,588,000,000 and RMB263,903,000 respectively, at 31 December 2019 were secured by assets of related parties' and guaranteed by related parties: Sichuan Derui, Mr. Yan Yude, Ms.Yan Hongjia and Ms. Wang Xiaoying.

33. RELATED PARTY TRANSACTIONS – *CONTINUED*

(d) Commitments with related party

The Group has rental contracts with Sichuan Derui. As at 31 December 2020, the Group had total lease liabilities with Sichuan Derui after considering the extension options that are expected to be exercised by the Group falling due as follows:

	2020 RMB'000	2019 RMB'000
Lease liabilities – current	**13,396**	10,156
Lease liabilities – non-current	**149,546**	149,091
	162,942	159,247

As at 31 December 2020, the Group's right-of-use assets relating to such rental contracts amounted to RMB138,836,000 (31 December 2019: 148,302,000).

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

	2020 RMB'000	2019 RMB'000
Salaries, allowances and benefits in kind	**5,701**	5,335
Pension scheme contributions	**54**	139
	5,755	5,474

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

The related party transactions in respect of item (d) above constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules and the Company has complied with the requirements in Chapter 14A of the Listing Rules.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2020

34. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments of the Group as at the end of the year are as follows:

2020

Financial assets

	Financial assets at amortised cost RMB'000
Financial assets included in other non-current assets	289,772
Financial assets included in prepayments, other receivables and other assets	29,805
Amounts due from related parties	1,681
Cash and cash equivalents	773,832
	1,095,090

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Amounts due to related parties	21,659
Trade payables	80,055
Financial liabilities included in other payables and accruals	182,503
Lease liabilities	235,161
Interest-bearing bank and other borrowings	3,150,808
	3,670,186

34. FINANCIAL INSTRUMENTS BY CATEGORY – *CONTINUED*

2019

Financial assets

	Financial assets at amortised cost RMB'000
Amounts due from related parties	10,946
Financial assets included in prepayments, other receivables and other assets	286,355
Time deposits	11,420
Cash and cash equivalents	394,398
	703,119

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Amounts due to related parties	119,085
Trade payables	38,861
Financial liabilities included in other payables and accruals	335,464
Lease liabilities	217,000
Interest-bearing bank and other borrowings	1,944,903
	2,655,313

35. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

	Carrying amounts		Fair values	
	2020	2019	**2020**	2019
	RMB'000	RMB'000	**RMB'000**	RMB'000
Financial liabilities				
Interest-bearing bank borrowings	**2,070,710**	1,681,000	**2,075,710**	1,719,362
Other borrowings	**1,080,098**	263,903	**1,100,569**	285,129
Due to a related party	**—**	108,166	**—**	108,166
	3,150,808	2,053,069	**3,176,279**	2,112,657

Management has assessed that the fair values of cash and cash equivalents, financial assets included in prepayments, other receivables and other assets and amounts due to related parties approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of the interest-bearing bank borrowings and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for interest-bearing bank borrowings as at 31 December 2020 and 2019 was assessed to be insignificant.

Fair value hierarchy

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

Assets measured at fair value:

There was no financial asset measured at fair value as at 31 December 2020 and 31 December 2019.

Assets for which fair values are disclosed:

There was no financial asset for which fair value is disclosed as at 31 December 2019.

35. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS – *CONTINUED*

Fair value hierarchy – *CONTINUED*

Assets for which fair values are disclosed: – CONTINUED

As at 31 December 2020

	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
Other non-current assets	—	286,355		286,355

Liabilities measured at fair values :

There were no financial liabilities measured at fair value as at 31 December 2020 and 31 December 2019.

Liabilities for which fair values are disclosed :

As at 31 December 2020

	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 borrowings	—	2,075,710		2,075,710
Other borrowings	—	1,100,569		1,100,569
	—	3,176,279		3,176,279

NOTES TO THE FINANCIAL STATEMENTS

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35. 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 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 borrowings	—	1,719,362	—	1,719,362
Other borrowings	—	285,129	—	285,129
Due to a related party	—	108,166	—	108,166
	—	2,112,657	—	2,112,657

During the year ended 31 December 2020, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2019: Nil).

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank loans, cash and cash equivalents and time deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as other receivables, amounts due to related parties and other payables and accruals, which arise directly from its operations.

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

Interest rate risk

The Group's fair value interest rate risk relates primarily to its fixed-rate bank borrowings. The Group is also exposed to cash flow interest rate risk through the impact of rate changes on interest-bearing financial assets and liabilities, mainly bank balances and bank borrowings (note 24) which carry interest at prevailing market interest rates. It is the Group's policy to keep certain borrowings at floating rates of interest so as to minimise the fair value interest rate risk. The Group currently does not use any derivative contracts to hedge its exposure to interest rate risk. However, the directors of the Company will consider hedging significant interest rate risk should the need arise.

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – *CONTINUED*

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for variable rate bank borrowings at the end of each reporting period and it is assumed that the amount of liabilities outstanding at the end of each period was outstanding for the whole year. A 50 basis points increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of a reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's post-tax profit for the years ended 31 December 2020 and 2019 would decrease/increase by RMB618,000 and RMB320,000 respectively. This is mainly attributable to the Group's exposure to interest rates of its bank borrowings and other borrowings.

In management's opinion, the sensitivity analysis is unrepresentative of the inherent interest rate risk as the year-end exposure at the end of the year does not reflect the exposure during the respective years.

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from the proceeds denominated in HKD from the IPO and over-allotment option. The forward contracts must be in the same currency as the hedged item. It is the Group's policy not to enter into forward contracts until a firm commitment is in place.

It is the Group's policy to negotiate the terms of the hedge derivatives to match the terms of the hedged item to maximise hedge effectiveness.

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, with all other variables held constant, of the Group's profit before tax (due to changes in the fair values of monetary assets and liabilities) and the Group's equity (due to changes in the fair value of forward currency contracts).

	Increase/ (decrease) in HKD/RMB rate %	Increase/ (decrease) in profit before tax RMB'000
2020		
If the RMB weakens against the Hong Kong dollar	**5**	**618**
If the RMB strengthens against the Hong Kong dollar	**5**	**(618)**
2019		
If the RMB weakens against the Hong Kong dollar	5	320
If the RMB strengthens against the Hong Kong dollar	5	(320)

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – *CONTINUED*

Credit risk

Maximum exposure and year-end staging

The tables below show the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December.

The amounts presented are gross carrying amounts for financial assets.

As at 31 December 2020

	12-month ECLs	Lifetime ECLs			
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	Total RMB'000
Financial assets included in prepayments, other receivables and other assets	—	—	—	—	—
– Normal*	29,805	—	—	—	29,805
Financial assets included in other non-current assets					
– Normal*	289,772				289,772
Cash and cash equivalents	773,832	—	—	—	773,832
Due from related parties	1,681	—	—	—	1,681
	1,095,090	—	—	—	1,095,090

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – *CONTINUED*

Credit risk – *CONTINUED*

Maximum exposure and year-end staging – CONTINUED

As at 31 December 2019

	12-month ECLs		Lifetime ECLs		
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	Total RMB'000
Financial assets included in prepayments, other receivables and other assets					
– Normal*	55,486	—	—	—	55,486
– Doubtful*	—	230,869	—	—	230,869
Time deposits	11,420	—	—	—	11,420
Cash and cash equivalents	394,398	—	—	—	394,398
Due from related parties	10,946	—	—	—	10,946
	472,250	230,869	—	—	703,119

* 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".

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty, by geographical region and by product type. There are no significant concentrations of credit risk within the Group.

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36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – *CONTINUED*

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans, lease liabilities (2019: finance leases) and other interest-bearing loans. 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 year, based on the contractual undiscounted payments, was as follows:

	2020					
	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	—	8,485	8,924	70,297	225,410	313,116
Interest-bearing bank and other borrowings (excluding lease liabilities)	—	473,934	1,366,925	1,363,173	173,556	3,377,588
Trade payables	—	80,055	—	—	—	80,055
Amounts due to related parties	—	—	21,659	—	—	21,659
Financial liabilities included in other payables and accruals	182,503	—	—	—	—	182,503
	182,503	562,474	1,397,508	1,433,470	398,966	3,974,921

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – *CONTINUED*

Liquidity risk – *CONTINUED*

	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	—	6,405	7,179	66,870	269,307	349,761
Interest-bearing bank and other borrowings (excluding lease liabilities)	—	233,922	756,870	921,212	257,337	2,169,341
Trade payables	—	38,861	—	—	—	38,861
Amounts due to related parties	—	—	10,919	112,871	—	123,790
Financial liabilities included in other payables and accruals	335,464	—	—	—	—	335,464
	335,464	279,188	774,968	1,100,953	526,644	3,017,217

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the reporting period.

The debt-to-asset ratio as at the end of the reporting period is as follows:

	2020 RMB'000	2019 RMB'000
Total liabilities	**4,814,693**	3,575,884
Total assets	**7,586,747**	6,329,951
Debt-to-asset ratio	**63%**	56%

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

37. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified, to conform with the current year's presentation and disclosures. The Directors consider that such presentation would provide a more direct comparison to better reflect the financial performance and position of the Group.

38. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2020 RMB'000	2019 RMB'000
NON-CURRENT ASSETS		
Property, plant and equipment	**21**	42
Right-of-use assets	**622**	2,114
Investments in subsidiaries	**307**	307
Total non-current assets	**950**	2,463
CURRENT ASSETS		
Cash and cash equivalents	**8,522**	6,470
Prepayments and other receivables	**1,443**	3,666
Due from subsidiaries	**807,156**	1,181,468
Total current assets	**817,121**	1,191,604
CURRENT LIABILITIES		
Other payables	**—**	17
Lease liabilities	**658**	84
Dividend payable	**10,398**	5,756
Due to subsidiaries	**16,630**	17,088
Amount due to a related party	**16,832**	1,784
Total current liabilities	**44,518**	24,729
NET CURRENT ASSETS	**772,603**	1,166,875
TOTAL ASSETS LESS CURRENT LIABILITIES	**773,553**	1,169,338
Amount due to a related party	**—**	108,166
Lease liability	**—**	2,090
Total non-current liabilities	**—**	110,256
Net assets	**773,553**	1,059,082
Share capital	**26,051**	26,051
Reserves (note)	**747,502**	1,033,031
Total equity	**773,553**	1,059,082

38. STATEMENT OF FINANCIAL POSITION OF THE COMPANY – *CONTINUED*

Note:

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

	Capital reserve RMB'000	Retained profits/ (Accumulated losses) RMB'000	Total RMB'000
At 1 January 2019	1,231,094	1,834	1,232,928
Total comprehensive income for the year	—	19,973	19,973
2018 final dividend declared	(86,534)	(21,807)	(108,341)
2019 interim dividend declared	(111,529)	—	(111,529)
At 31 December 2019 and 1 January 2020	**1,033,031**	**—**	**1,033,031**
Total comprehensive loss for the year	**—**	**(65,906)**	**(65,906)**
2019 final dividend declared	**(112,480)**	**—**	**(112,480)**
2020 interim dividend declared	**(107,143)**	**—**	**(107,143)**
At 31 December 2020	**813,408**	**(65,906)**	**747,502**

39. EVENTS AFTER THE REPORTING PERIOD

On 29 January 2021, Chengdu Foreign Languages School and Primary School Attached to the Chengdu Foreign Languages School, which were two subsidiaries of the Group, entered into the 2021 Lease and Property Management Service Agreement with Sichuan Derui, a connected person of the Company, in relation to the use a total of 29 properties and property management service provided by Sichuan Derui from 29 January 2021 to 31 December 2023.

For the period from 29 January 2021 to 31 December 2021, an annual rent and property management fee of RMB40,400,000 and RMB13,600,000 is payable by Chengdu Foreign Languages School and Primary School Attached to the Chengdu Foreign Languages School, respectively.

For the period from 1 January 2022 to 31 December 2022, an annual rent and property management fee of RMB41,612,000 and RMB14,008,000 is payable by Chengdu Foreign Languages School and Primary School Attached to the Chengdu Foreign Languages School, respectively.

For the period from 1 January 2023 to 31 December 2023, an annual rent and property management fee of RMB42,861,000 and RMB14,429,000 is payable by Chengdu Foreign Languages School and Primary School Attached to the Chengdu Foreign Languages School, respectively.

40. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 30 March 2021.

DEFINITIONS

"Articles of Association" or "Articles"	the articles of association of the Company as amended, supplemented or otherwise modified from time to time
"associate(s)"	has the meaning ascribed thereto in the Listing Rules
"Board"	the board of Directors
"Business Cooperation Agreements"	the business cooperation agreements entered into by and among Tibet Huatai, Sichuan Derui, the PRC Operating Entities and the Registered Shareholders
"Chengdu Experimental Foreign Languages School"	Chengdu Experimental Foreign Languages School* (成都市實驗外國語學校), a private middle and high school established under the laws of the PRC, where the school sponsor's interest is wholly-owned by Sichuan Derui, and a consolidated affiliated entity of the Company
"Chengdu Experimental Foreign Languages School (Western Campus)"	Chengdu Experimental Foreign Languages School (Western Campus)* (成都市實驗外國語學校(西區)), a private middle and high school established under the laws of the PRC, where the school sponsor's interest is wholly-owned by Sichuan Derui, and a consolidated affiliated entity of the Company
"Chengdu Experimental Foreign Languages School of Quxian"	Chengdu Experimental Foreign Languages School of Quxian* (渠縣成都市實驗外國語學校),a private middle school established under the laws of the PRC, where the school sponsor's interest is wholly-owned by Sichuan Derui, and a consolidated affiliated entity of the Company
"Chengdu Experimental Foreign Languages School of Ya'an"	Chengdu Experimental Foreign Languages School of Ya'an* (雅安市雨城區成實外學校), a private primary and middle school established under the laws of the PRC, where the school sponsor's interest is wholly-owned by Sichuan Derui, and a consolidated affiliated entity of the Company
"Chengdu Foreign Languages Kindergarten" or "Kindergarten"	Kindergarten of the Primary School attached to Chengdu Jinniu District Foreign Languages School* (成都市金牛區成外附小幼稚園), a private kindergarten school established under the laws of the PRC, where the school sponsor's interest is wholly-owned by the Primary School, and a consolidated affiliated entity of the Company
"Chengdu Foreign Languages School"	Chengdu Foreign Languages School* (成都外國語學校), a private school established under the laws of the PRC, where the school sponsor's interest is wholly-owned by Sichuan Derui, and a consolidated affiliated entity of the Company
"Chengdu Foreign Languages School of Deyang"	Chengdu Foreign Languages School of Deyang* (德陽成都外國語學校), a private primary and middle school established under the laws of the PRC and a consolidated affiliated entity of the Company, where the school sponsor's interest is owned as to 40% by Sichuan Derui, 60% by an independent third party

"Chengdu Foreign Languages School of Panzhihua" or "Panzhihua School"	Chengdu Foreign Languages School of Panzhihua* (攀枝花市成都外國語學校), a private middle and high school established under the laws of the PRC, where the school sponsor's interest is wholly-owned by Sichuan Derui, and a consolidated affiliated entity of the Company
"Chengdu Foreign Languages School of Xinjin	Chengdu Foreign Languages School of Xinjin* (成都市新津區成外學校), a private primary and middle school under the laws of the PRC and a consolidated affiliated entity of the Company, where the school sponsor's interest is owned as to 97% by Sichuan Derui, 3% by an independent third party
"Chengdu Foreign Languages School of Yibin"	Chengdu Foreign Languages School of Yibin* (宜賓市翠屏區成外學校), a private middle school established under the laws of the PRC and a consolidated affiliated entity of the Company, where the school sponsor's interest is wholly owned by Sichuan Derui
"Chengdu Foreign Languages School private of Zigong"	Chengdu Foreign Languages School of Zigong* (自貢成都外國語學校), a primary and middle school established under the laws of the PRC and a consolidated affiliated entity of the Company, where the school sponsor's interest is owned as to 57% by Sichuan Derui, 43% by an independent third party
"Chengdu Institute Sichuan International Studies University" or "University"	Chengdu Institute Sichuan International Studies University* (四川外國語大學成都學院), a private university established under the laws of the PRC and a consolidated affiliated entity of the Company, where the school sponsor's interest is owned as to 75.7% by Sichuan Derui, and 24.3% by Xinhua Winshare, each a school sponsor. Sichuan International Studies University* (四川外國語大學) is named as a school sponsor entitled to the rights stipulated under the articles of the University and the relevant PRC laws
"Company"	Virscend Education Company Limited, a company incorporated in the Cayman Islands whose shares are listed on the Stock Exchange (Stock Code: 1565)
"Companies Ordinance"	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented, or otherwise modified from time to time
"connected person(s)"	has the meaning ascribed thereto in the Listing Rules
"Controlling Shareholder(s)"	has the meaning ascribed to it in the Listing Rules and unless the context requires otherwise, refers to the controlling shareholders of the Company, namely Mr. Yan Yude and Virscend Holdings
"Corporate Governance Code"	Corporate Governance Code and Corporate Governance Report or "CG Code" contained in Appendix 14 to the Listing Rules

DEFINITIONS

"Director(s)"	the director(s) of the Company
"Draft Foreign Investment Law"	the draft version of the Foreign Investment Law* (中華人民共和國外國投資法(草案徵求意見稿)) issued by MOFCOM on 19 January 2015 for public consultation
"Directors' Powers of Attorney"	the school director's power of attorney entered into by each of the directors of each PRC operating Entities in favor of Tibet Huatai
"Equity Pledge Agreements"	the equity pledge agreements entered into by and among the Registered Shareholders, Sichuan Derui and Tibet Huata
"Exclusive Call Option Agreements"	the exclusive call option agreements entered into by and among Sichuan Derui, the PRC Operating Entities and Tibet Huatai
"Exclusive Technical Service and Management Consultancy Agreements"	the exclusive technical service and management consultancy agreements entered into by and among Tibet Huatai and the PRC Operating Entities
"Foreign Investment Catalog"	the Guidance Catalog of Industries for Foreign Investment(《外商投資產業指導目錄(2015)》), which was promulgated jointly by the MOFCOM and the National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會) on 10 March 2015 and became effective from 10 April 2015 and is amended from time to time
"Gaokao"	also known as the National Higher Education Entrance Examinations, an academic examination held annually in the PRC
"Gaoxin Compus"	Chengdu Foreign Languages School Gaoxin Campus (成都外國語學校高新校區), a private high school established under the law of the PRC and a Consolidated affiliated entity of the Company, where the sponsors' interest is wholly-owned by Sichuan Derui since September 2020
"Group", "we", "our" or "us"	the Company and its subsidiaries
"HK$" or "HKD"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	The Hong Kong Special Administrative Region of the PRC
"Hongdemingzhi Consulting"	Sichuan Hongdemingzhi Education Consulting Co., Ltd. (四川弘德明知教育諮詢有限公司) (previously known as Sichuan Hongming Property Co., Ltd.) (四川弘明置業有限公司), a limited company established under the laws of the PRC with limited liability and a wholly-owned subsidiary of the Company
"Kindergarten of Zigong"	Kindergarten of the Primary School Attached to Chengdu Foreign Languages School of Zigong (自貢成外附小幼稚園有限公司), a private kindergarten school established under the laws of the PRC and a consolidated affiliated entity of the Company, where the school sponsor's interest is owned as to 47% by Sichuan Derui, 53% by independent third parties
"K-12"	preschool to grade twelve, also known as "fundamental education"

"Listing"	the listing of Shares on the Main Board of the Stock Exchange
"Listing Date"	15 January 2016, being the date on which the Shares of the Company are listed on the Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Loan Agreements"	the loan agreements entered into by and among Tibet Huatai, Sichuan Derui and the PRC Operating Entities
"Meinian Campus"	Primary School Attached to Chengdu Foreign Languages School- Meinian Campus* (成都外國語學校附屬小學高新美年校區), a private primary school established under the laws of the PRC and a consolidated affiliated entity of the Company, where the school sponsor's interest is owned as to 53% by Sichuan Derui, 47% by independent third parties
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules
"PRC" or "China"	The People's Republic of China
"PRC Legal Advisors"	Jingtian & Gongcheng, the legal advisors of the Company as to the PRC laws
"PRC Operating Entities"	consolidated affiliated entities of the Company, namely, (i) Chengdu Foreign Languages School, Chengdu Experimental Foreign Languages School, Chengdu Experimental Foreign Languages School (Western Campus), the University, the Primary School and the Kindergarten, (ii) schools were established in 2017, namely, the Panzhihua School, the Wulongshan School, the Wulongshan High School, Kindergarten of Zigong, the Chengdu Foreign Languages School of Zigong, the Zigong High School, the Meinian Campus and the Primary School Attached to Chengdu Experimental Foreign Languages School, (iii) schools established in 2018, namely, the Quxian High School and Chengdu Experimental Foreign Languages School of Quxian, (iv) schools established in 2019, namely, the Xichen Campus, the Yibin High School, the Ya'an High School, Chengdu Experimental Foreign Languages School of Ya'an, Chengdu Foreign Languages School of Yibin, and Yibin Primary School and (v) schools established in 2020, namely, Chengdu Foreign Languages School of Deyang, Chengdu Foreign Languages School of Xinjin
"Primary School Attached to Chengdu Foreign Languages School" or "Primary School"	Primary School attached to Chengdu Foreign Languages School* (成都外國語學校附屬小學), a private primary school established under the laws of the PRC, where the school sponsor's interest is wholly-owned by Sichuan Derui, and a consolidated affiliated entity of the Company

DEFINITIONS

"Primary School Attached to Chengdu Experimental Foreign Languages School"	Primary School Attached to Chengdu Experimental Foreign Languages School* (成都市實驗外國語學校附屬小學), a private primary school established under the laws of the PRC, where the school sponsor's interest is wholly-owned by Sichuan Derui, and a consolidated affiliated entity of the Company
"Prospectus"	the prospectus of the Company dated 31 December 2015
"Quxian High School"	Virscend High School of Quxian* (渠縣成實外高級中學有限公司), a private high school established under the laws of the PRC and a consolidated affiliated entity of the Company, where the school sponsor's interest is wholly-owned by Sichuan Derui, and a consolidated affiliated entity of the Company
"Registered Shareholders"	the shareholders of Sichuan Derui, namely Mr. Yan Yude, Ms. Yan Hongjia, Ms. Wang Xiaoying, Ms. Ye Jiaqi, Mr. Ye Jiayu, Ms. Yan Bixian, Ms. Yan Birong and Ms. Yan Bihui
"Reporting Period"	the year ended 31 December 2020
"RMB"	Renminbi, the lawful currency of the PRC
"School Sponsors' and Directors' Entrustment Agreements"	the school sponsors' and directors' rights entrustment agreements entered Rights into by and among the respective school sponsors, the PRC Operating Entities, the relevant directors appointed by the school sponsors and Tibet Huatai
"School Sponsors' Powers of Attorney"	the school sponsor's power of attorney entered into by the schoolsponsors in favor of Tibet Huatai
"SFO"	Securities and Futures Ordinance
"Share(s)"	share(s) of HK1.0 cent each in the share capital of the Company
"Shareholder(s)"	shareholder(s) of the Company
"Share Option Scheme"	the share option scheme adopted by the Company on 28 December 2015
"Sichuan Derui"	Sichuan Derui Enterprise Development Co., Ltd.* (四川德瑞企業發展有限公司) (previously known as Sichuan Province Derui Enterprise Development Company* (四川省德瑞企業發展總公司)), a company established under the laws of the PRC, which is owned as to 69.44% by Mr. Yan Yude, 18.55% by Ms. Yan Hongjia, 3.00% by Ms. Wang Xiaoying, 2.65% by Ms. Ye Jiaqi, 1.59% by Mr. Ye Jiayu, 1.59% by Ms. Yan Bixian, 1.59% by Ms. Yan Birong and 1.59% by Ms. Yan Bihui

"Smart Ally"	Smart Ally International Limited, a Company incorporated in the BVI with limited liability on 12 May 2015 and wholly-owned by Ms. Wang Xiaoying, the spouse of Mr. Yan Yude and the step-mother of Ms. Yan Hongjia
"Southwest China"	comprises Sichuan, Guizhou and Yunnan Provinces and Chongqing Municipality
"Spouse Undertakings"	the spouse undertakings entered into by each of the respective spouse of the Registered Shareholders
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subsidiary(ies)"	has the meanings ascribed to it in the Listing Rules. For the avoidance of doubt, the Subsidiaries included PRC Operating Entities in the Prospectus
"Substantial Shareholder"	has the meaning ascribed thereto in the Listing Rules
"Structured Contracts"	collectively, the Business Cooperation Agreements, the Exclusive Technical Service and Management Consultancy Agreements, the Exclusive Call Option Agreements, the Equity Pledge Agreement, the School Sponsors' and Directors' Rights Entrustment Agreements, the School Sponsors' Powers of Attorneys, the Directors' Powers of Attorneys, the Loan Agreements and the Spouse Undertakings
"Tibet Huatai"	Tibet Huatai Education Management Consulting Co., Ltd.* (西藏華泰教育管理有限公司), a wholly-foreign owned enterprise established under the laws of PRC and a wholly-owned subsidiary of the Company
"U.S. dollar(s)" or "US$" or "USD"	United States dollars, the lawful currency of the United States of America "Virscend Holdings" Virscend Holdings Company Limited, a company incorporated in the British Virgin Islands with limited liability on 20 March 2015 and wholly- owned by Mr. Yan Yude, an executive Director and one of the Controlling Shareholders
"Wah Tai"	Wah Tai (HK) Investment Limited (香港華泰投資有限公司), a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of the Company
"Wahtai (US)"	USA Wahtai Educational Consulting Services Inc., a company incorporated in the State of California, the United States, with limited liability and owned as to 51% by Wah Tai and 49% by two independent third parties
"Wulongshan High School"	Wulongshan Campus of Chengdu Experimental Foreign Languages School* (成都市實驗外國語學校五龍山校區), a private high school established under the laws of the PRC and a consolidated affiliated entity of the Company, where the school sponsor's interest is owned as to 45% by Sichuan Derui, 55% by two independent third parties

DEFINITIONS

"Wulongshan School"	Chengdu Experimental Foreign Languages School of Xindu Wulongshan* (成都實外新都五龍山學校), a private primary and middle school established under the laws of the PRC and a consolidated affiliated entity of the Company, where the school sponsor's interest is owned as to 85% by Sichuan Derui, 15% by an independent third party
"Xichen Campus" or "Longfor Xichen Yuanzhu Campus"	Primary school Attached to Chengdu Foreign Languages School (Xichen Campus)* (成都市金牛區成外附小西宸學校), a private primary school established under the laws of the PRC and a consolidated affiliated entity of the Company, where the school sponsor's interest is wholly owned by Sichuan Derui
"Xinhua Winshare"	Xinhua Winshare Publishing and Media Co., Ltd.* (新華文軒出版傳媒股份有限公司) (previously known as Sichuan Xinhua Winshare Chainstore Co., Ltd.* (四川新華文軒連鎖股份有限公司)), a joint stock limited company established under the laws of the PRC with limited liability whose shares are listed on the Stock Exchange (stock code: 0811)
"Ya'an High School"	Virscend High School of Ya'an* (雅安市成實外高級中學有限公司), a private high school established under the laws of the PRC, where the school sponsor's interest is wholly-owned by Sichuan Derui, and a consolidated affiliated entity of the Company
"Yibin High School"	Chengdu Foreign Languages High School of Yibin* (宜賓市成外高級中學有限公司), a private high school established under the laws of the PRC and a consolidated affiliated entity of the Company, where the school sponsor's interest is wholly owned by Sichuan Derui
"Yibin Primary School"	Primary School Attached to Chengdu Foreign Languages School of Yibin* (宜賓市翠屏區成外附屬小學), a private primary school established under the laws of the PRC and a consolidated affiliated entity of the Company, where the school sponsor's interest is wholly owned by Sichuan Derui
"Zigong High School"	Chengdu Foreign Languages High School of Zigong* (自貢成外高級中學有限公司), a private high school established under the laws of the PRC and a consolidated affiliated entity of the Company, where the school sponsor's interest is owned as to 47% by Sichuan Derui, 53% by independent third parties
%	per cent

* *For identification purpose only*