CHINA XINHUA EDUCATION GROUP LIMITED
中國新華教育集團有限公司

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

Stock Code 股份代號 : 02779

ANNUAL REPORT 2018 年報

CONTENTS

CORPORATION INFORMATION

BOARD OF DIRECTORS

Non-executive Director

Mr. Wu Junbao (吳俊保) *(Chairman)*

Executive Directors

Mr. Zhang Ming (張明) *(effective from 31 October 2018)*
Mr. Lu Zhen (陸真)
Mr. Wang Yongkai (王永凱)

Independent Non-executive Directors

Ms. Zhang Kejun (張可君)
Mr. Yang Zhanjun
Mr. Chau Kwok Keung (鄒國強)

AUDIT COMMITTEE

Mr. Chau Kwok Keung (鄒國強) *(Chairman)*
Mr. Wu Junbao (吳俊保)
Ms. Zhang Kejun (張可君)

REMUNERATION COMMITTEE

Ms. Zhang Kejun (張可君) *(Chairman)*
Mr. Wu Junbao (吳俊保)
Mr. Yang Zhanjun

NOMINATION COMMITTEE

Mr. Wu Junbao (吳俊保) *(Chairman)*
Ms. Zhang Kejun (張可君)
Mr. Yang Zhanjun

COMPANY SECRETARY

Mr. Wong Yu Kit (黃儒傑) *(effective from 26 July 2018)*

AUTHORISED REPRESENTATIVES

Mr. Wang Yongkai (王永凱)
Mr. Wong Yu Kit (黃儒傑) *(effective from 26 July 2018)*

COMPLIANCE ADVISOR

Guotai Junan Capital Limited

REGISTERED OFFICE

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

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Heifei City, Anhui Province, PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Wan Chai
Hong Kong

LEGAL ADVISORS AS TO HONG KONG LAW

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The Landmark
15 Queen's Road Central
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AUDITORS

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Central, Hong Kong

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited

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

PRINCIPAL BANKERS

Agricultural Bank of China
Hefei Science and Technology Rural Commercial Bank
Huishang Bank
Hangzhou Bank

COMPANY WEBSITE

http://www.chinaxhedu.com

STOCK CODE

02779

FINANCIAL HIGHLIGHTS

FOUR-YEAR COMPARISON OF KEY FINANCIAL FIGURES

Results of operation

	For the year ended 31 December,			
	2018	2017	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**386,127**	337,958	303,262	281,646
Gross profit	**230,402**	192,477	179,230	157,795
Profit before taxation	**257,992**	174,041	174,982	151,019
Profit for the year	**256,010**	171,958	172,548	149,971

Assets and liabilities

	For the year ended 31 December,			
	2018	2017	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Current assets	**1,935,216**	541,038	468,150	403,723
Current liabilities	**318,767**	326,170	268,628	348,582
Net current assets	**1,616,449**	214,868	199,522	55,141
Total non-current assets	**768,085**	785,560	567,470	539,777
Total equity	**2,384,534**	999,925	766,614	594,662

Financial ratio

	For the year ended 31 December,			
	2018	2017	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Net profit margin (%)	**66.3%**	50.9%	56.9%	53.2%
Current ratio	**6.1**	1.7	1.7	1.2
Return on equity	**15.1%**	19.5%	25.4%	28.9%
Return on assets	**12.7%**	14.6%	17.4%	16.2%

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the Board of Directors of China Xinhua Education Group Limited, I am pleased to present the annual results of the Company and its subsidiaries for the year ended 31 December 2018.

OVERVIEW OF THE GROUP

China Xinhua Education is the largest private higher education provider in the Yangtze River Delta, as measured by the number of full-time student enrollment of the higher education programs. As at 31 December 2018, the Group invested in and operated three educational institutions, namely, (i) Xinhua University, a private formal university; (ii)Xinhua School, a private secondary vocational school; and (iii) School of Clinical Medicine, a university jointly operated by the Group and Anhui Medical University.

The educational mission of the Group is "to serve our country through education" (興教報國). We are committed to providing applied science education to students and seeks to cultivate high quality talents with applicable skills, potential for future development and an ability and willingness to keep learning. On 26 March 2018, China Xinhua Education was successfully listed on the Main Board of the Stock Exchange, entering the international capital market, marking a new chapter of development and bringing about new momentum for future development.

During the Reporting Period, the Group reported the revenue of RMB386.1 million, representing a year-on-year increase of 14.2%, and the profit for the year of RMB256.0 million, representing a year-on-year increase of 48.9%. The Board of Directors recommended the payment of a final dividend of RMB4.77 cents per Share for the year ended 31 December 2018.

REVIEW OF RESULTS

As at 31 December 2018, the total number of students enrolled in Xinhua University, Xinhua School and the School of Clinical Medicine were 28,911, 5,270 and 575, respectively. The total students enrolled in the schools we operated increased from 33,685 as at 31 December 2017 to 34,756 as at 31 December 2018. The revenue of the Group has increased from RMB337.9 million for the year ended 31 December 2017 to RMB386.1 million for the year ended 31 December 2018, while the profit for the year increased from RMB171.9 million for the year ended 31 December 2017 to RMB256.0 million for the year ended 31 December 2018.

FUTURE PROSPECTS

With the strong economic development in China and growth in the disposable income of Chinese residents, the demand for higher education has increased rapidly. Meanwhile, the PRC government has promulgated a series of policies and documents to promote the integration of education and industrial needs, encouraging the cultivation of applied talents, and the establishment of a diversified pattern of education and school operation.

Looking into the future, the Group will take successful listing as an opportunity and tap the market potential and opportunities in the higher education industry in China. Based on the rich experience accumulated in the education industry, the Group will continue to foster high-end applied talents, grasp the policy opportunities, strengthen the integration of education and industrial needs, and enhance school-enterprise cooperation. The Group will further expand its school network and student enrollment through the acquisition of high-quality undergraduate and vocational (junior college) schools. At the same time, the Group will continue to upgrade the management of its existing educational institutions and provide the students with quality logistics services and educational support to enhance their competitiveness in the labour market.

On behalf of the Board of Directors, I would like to take this opportunity to express my gratitude to our students, their parents, all shareholders and staff who have always supported the development of our Group. Our staff will continue to pursue excellence and progress, insist on carrying out the educational mission of “to serve our country through education”, foster high-quality talents and create greater value for shareholders with more excellent results.

Wu Junbao
Chairman

Hong Kong
26 March 2019

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW

Since its listing on 26 March 2018, the Group became the first higher education group in the Yangtze River Delta whose Shares are listed on the Stock Exchange. We are the largest private higher education provider in the Yangtze River Delta, as measured by the full-time student enrollment of our higher education programs. As at 31 December 2018, we invested in and operated three educational institutions, namely, (i) Xinhua University, a private formal university; (ii) Xinhua School, a private secondary vocational school; and (iii) School of Clinical Medicine, a university jointly operated by the Group and Anhui Medical University.

We are committed to providing high-quality education to our students, including both formal university education and vocational education in a wide selection of fields in applied sciences. We have designed comprehensive and diversified curriculums. The operation results for the year ended 31 December 2018 were recognised on net basis in other income as disclosed in note 5 to the consolidated financial statements. We adjust our major offerings from time to time based on our extensive and ongoing market research and with reference to employers' preferences and labor market demands. In 2018, we started to offer 15 new majors that meet the needs of the industry, including, among others, the emerging undergraduate majors such as urban rail transit operation and management, logistics service and management, data science and big data technology, and health service and management. We continue to optimizing our educational environment by improving our tangible and intangible infrastructure, and working closely with our enterprise partners, in order to help our students acquire useful skills and seek suitable employment opportunities. Our graduate employment rate is relatively higher than the average graduate employment rate in Anhui province, which, in turn, will help us further enhance our reputation, raise our profile in the industry and attract more talented students.

Our Schools

Xinhua University

Founded in 2000, Xinhua University is a formal university-level higher education institution, who provides undergraduate program education, junior college program education and continuing education focusing on applied sciences. As at 31 December 2018, Xinhua University provided 82 majors to its full-time students through 11 schools, including 60 undergraduate majors and 22 junior college majors. In addition, Xinhua University also provides the continuing education program to its students. As at 31 December 2018, 22,881 full-time students enrolled in our undergraduate programs and junior college programs, and 6,030 students enrolled in our continuing education programs. Xinhua University ranks first among the private formal higher education institutions in the Yangtze River Delta, as measured by student enrollment. Xinhua University strives to enhance its education quality and continuously increase input in intangible infrastructure in order to bring Xinhua University to a new level.

Xinhua School

As a secondary vocational school, Xinhua School provides general secondary vocational program, undergraduate oriented secondary vocational education program, and five-year junior college oriented secondary vocational education program. All students of Xinhua School are enrolled as full-time students. As at 31 December 2018, Xinhua School offered 16 majors to 5,270 full-time students, and won 560 national, provincial and municipal awards, becoming one of the first batch of colleges which was conferred with the "model school of school-enterprise cooperation" by the Anhui Education Department.

School of Clinical Medicine

Pursuant to the agreement with Anhui Medical University, we are entitled to the tuition fees relating to those students admitted in School of Clinical Medicine in the 2018-2019 school year and thereafter, and are responsible for the operations of the new campus. The operation results for the year ended 31 December 2018 were recognised on net basis in other income as disclosed in note 5 to the consolidated financial statements. For the 2018-2019 school year, the threshold score of the science programs in the School of Clinical Medicine ranked first among similar colleges in Anhui Province, and the student enrollment rate of the School of Clinical Medicine hit a record high of 96%, ranking first among similar colleges in Anhui Province. We are currently negotiating with the relevant authorities on the land arrangement for the new campus of the School of Clinical Medicine. We plan to build the new campus in phases. It is expected that the first phase of the campus will be completed and put into use in 2020, which will be able to accommodate 5,000 students. We are actively formulating a development plan for the School of Clinical Medicine and are using our best efforts to complete the transfer of the school sponsor's interest in the School of Clinical Medicine with the support of Anhui Medical University and the relevant government authorities.

Student enrollment	As at 31 December 2018	As at 31 December 2017
Xinhua University		
Full time students	**22,881**	22,664
Continuing education program (part time)	**6,030**	5,663
Subtotal	**28,911**	28,327
Xinhua School		
Full time students	**5,270**[(1)]	5,358
School of Clinical Medicine		
Full time students	**575**	–
Total:	**34,756**	33,685

Note:

(1) The decrease in the number of students enrolled in Xinhua School as at 31 December 2018 was because the number of the graduating students of Xinhua School in 2018 was more than the number of the students enrolled in the 2018-2019 school year.

Tuition fees and boarding fees

	Tuition fees (RMB)		Boarding fees (RMB)	
	2018-2019 school year	2017-2018 school year	**2018-2019 school year**	2017-2018 school year
Xinhua University				
Four-year undergraduate program	**16,500-25,000**	15,100-25,000	**1,500-2,000**	1,300-1,500
Three-year junior college program	**10,700-21,000**	10,700-21,000	**1,500-2,000**	1,300-1,500
Continuing education program	**2,400-9,900**	1,200-8,900	**1,500-2,000**	1,300-1,500
Xinhua School				
General secondary vocational program	**5,200-10,400**	5,200-7,600	**1,500**	1,200
Undergraduate oriented secondary vocational program	**10,400**	8,000	**1,500**	1,200
Five-year junior college oriented secondary vocational program	**10,400**	8,000	**1,500**	1,200
School of Clinical Medicine				
Four-year undergraduate program	**13,200-15,900**	–	**1,000**	–
Five-year undergraduate program	**15,900**	–	**1,000**	–

BUSINESS AND OPERATION UPDATES

Significant improvement in the performance of Xinhua University

Student enrollment for the 2018-2019 school year. The new student enrollment rate of undergraduates presented a year-on-year increase of 1.32%, ranking top among the private higher education institutions in Anhui province.

School-enterprise cooperation. For the first time, Xinhua University established a collaborative innovation center and a school-enterprise cooperation office with military academies. As at 31 December 2018, nine industry-academics-research collaborative innovation projects* (產學研協同創新項目) and industry-academics-research collaborative education projects* (產學研協同育人項目) of Xinhua University were approved by the Ministry of Education of the PRC. As at 31 December 2018, Xinhua University has jointly built 29 school-enterprise cooperation bases, carried out 28 horizontal research projects, and developed 36 relevant curriculums.

Teacher development. Xinhua University continued to hire highly-educated talents. As at 31 December 2018, 72.76% of our teachers have master's degree or above, and 18.37% of our teachers have obtained professional titles of deputy senior level or above.

Teachers' academic research. 114 provincial level teaching and research projects have been approved, 102 of our teachers have won awards in various competitions, and 197 patents have been obtained by Xinhua University as at 31 December 2018.

Development of our major offerings. Two majors of Xinhua University were rated as excellent in the provincial evaluation, ranking first among all the non-medical colleges in Anhui province. Two new majors, namely, data science and big data technology, and health service and management, were introduced by Xinhua University to its students during the year ended 31 December 2018.

Talent training. The students of Xinhua University have won 386 awards in national and provincial competition as at 31 December 2018.

Graduate employment. The initial graduate employment rate of Xinhua University has reached 93.48%, increasing by 2.65% from last year. The number of students admitted to graduate schools increased by 20.3% comparing to last year.

Internationalization. 38 foreign students from seven countries and regions were admitted into Xinhua University, which is a significant breakthrough as there were no foreign students studying in the Xinhua University for the year ended 31 December 2017.

Honor received by our school. Xinhua University was awarded as the "popular private universities among students" in the seventh annual meeting of Chinese educators, and ranked 11th in the ranking of academic research competitiveness of private universities in China in 2018. Xinhua University's student-related services have been commended for 14 times at national and provincial levels, the brand image of Xinhua University was thereby highlighted.

Solid progress in the operation of School of Clinical Medicine

The Group has started operating the School of Clinical Medicine since 2018. The first batch of students enrolled in the School of Clinical Medicine in September 2018. In line with the Group's strategy of operating the School of Clinical Medicine, the Group has diversified the major offerings of the School of Clinical Medicine by adjusting the curriculums and obtaining approvals from authorities for the new majors.

Improvements in the comprehensive strength of Xinhua School

Since March 2018, Xinhua School has been authorized by the authorities to increase its tuition fees without obtaining prior approval from Hefei Price Bureau, the PRC.

Xinhua School has invested more resources in student recruitment, and the number of students enrolled in the 2018-2019 school year presents a year-on-year increase of 38.9%.

A total of 560 national, provincial and municipal awards were won by Xinhua School in the year ended 31 December 2018. Xinhua School ranked first among secondary vocational schools in Anhui province in terms of the total number of awards won.

Ten new and old majors were approved or restored in Xinhua School, and three featured majors were jointly built by Xinhua School and cooperative enterprises under the school-enterprise cooperation programs. Two new majors, namely, the three-year urban rail transit operation and management program, and the five-year logistics service and management program, has been recently offered to our students since 2018. Xinhua School has also cooperated with several enterprises to carry out a new cooperation model for three of our majors, including, among others, mechanical and electrical technology application for unmanned aerial vehicle, in which the cooperative enterprises and our school agreed to jointly build work stimulation workshop, share training staff and jointly manage the students. Xinhua School is one of the first batch of colleges which was conferred with the "model school of school-enterprise cooperation" in Anhui province in 2018, thereby highlighting our brand image.

FUTURE PROSPECTS

The Group has always been aiming to cultivate high-quality application-oriented talents with solid academic ability, innovative spirit, international vision and development potential. In 2015, three ministerial departments of the PRC government, namely the Ministry of Education, the National Development and Reform Commission and the Ministry of Finance, jointly issued the Guidance on Transforming Certain Local Ordinary Undergraduate Colleges and Universities into Application-Oriented Colleges and Universities* (《關於引導部分地方普通本科高校向應用型轉變的指導意見》), as a result of which, the training mode of industry-education integration and school-enterprise cooperation with an aim to foster application-oriented talents has been widely recognized and has become a social consensus. In September 2018, Chairman Xi stressed at the national education conference that the education to serve economic and social development should be further enhanced, with emphasis on cultivating innovative, inter-disciplinary and application-oriented talents. Recently, the PRC government has promulgated a series of policies and documents, including the national plan for the reform and implementation of vocational education, China's education modernization in 2035, and the plan for accelerating the implementation of education modernization (2018-2022), with an aim to promote the integration of industry and education, encourage the cultivation of application-oriented talents, and build a diversified pattern of education.

The Group will, based on its rich experience in the education industry and its position to cultivate high-end application-oriented talents, seize the policy opportunities, strengthen the integration of industry and education and school-enterprise cooperation, and further expand the Group's school network and student enrollment by acquiring high-quality undergraduate colleges and vocational (junior college) schools.

External growth: actively seek appropriate acquisition and investment opportunities

Going forward, we will primarily focus on acquiring or investing in the undergraduate colleges and universities (including private universities and independent college in various provinces) capable of awarding bachelor's degree and having tremendous development potential, as well as excellent private junior colleges and higher vocational schools.

Upon completion of acquisition or investment, the Group will optimize the operations of the school acquired/invested by virtue of its successful school running experience and education expertise.

Endogenous growth: optimize tuition fee pricing, increase revenue, and expand sources of income

The Group has established a good reputation of being able to provide high-quality education. As such, the Group's optimizing of tuition fee pricing will not affect the school's capability of maintaining and expanding student enrolment.

Both Xinhua University and Xinhua School are no longer required to apply for approval from the relevant government authorities any increase of its tuition fee, as long as such increase is filed with the relevant government authorities. As such, we have more flexibility in adjusting our tuition fee, which may lead to an increase in our revenue in the future.

We will continue to provide our students with quality logistics service, and further develop our student training courses to enhance our students' competitiveness in the labour market.

RESULTS OF OPERATIONS

The following table sets forth a summary, for the periods indicated, of our consolidated results of operations.

	Year ended 31 December,	
	2018	2017
	(RMB'000)	(RMB'000)
Revenue	**386,127**	337,958
Cost of sales	**(155,725)**	(145,481)
Gross profit	**230,402**	192,477
Other income	**91,758**	53,796
Selling and distribution costs	**(6,196)**	(5,375)
Administrative expenses	**(57,887)**	(66,857)
Profit from operations	**258,077**	174,041
Finance costs	**(85)**	–
Profit before taxation	**257,992**	174,041
Income tax	**(1,982)**	(2,083)
Profit for the year	**256,010**	171,958

Revenue

Revenue consists of the tuition fees and boarding fees the Group received from its students.

The table below presents a summary of the amount of revenue generated from tuition fees and boarding fees charged by our schools for the periods indicated:

	Year ended 31 December,	
	2018	2017
	(RMB'000)	(RMB'000)
Tuition fees		
Xinhua University	**308,364**	271,849
Xinhua School	**33,171**	29,034
Total tuition fees	**341,535**	300,883
Boarding fees		
Xinhua University	**39,979**	32,389
Xinhua School	**4,613**	4,686
Total boarding fees	**44,592**	37,075
Total	**386,127**	337,958

The Group's revenue increased by 14.2% from RMB338.0 million for the year ended 31 December 2017 to RMB386.1 million for the year ended 31 December 2018. This increase was primarily due to an increase in tuition fees from RMB300.9 million for the year ended 31 December 2017 to RMB341.5 million for the year ended 31 December 2018, representing a year-on-year increase of 13.5%. This is primarily attributable to the increase in the Group's student enrollment and average tuition fees.

Other Income

Other income primarily consists of rental and property management income, service income, net realised and unrealised gains on financial assets measured at FVPL and interest income.

The table below summarizes the amount of other income for the periods indicated:

	Year ended 31 December,	
	2018	2017
	(RMB'000)	(RMB'000)
Rental and property management income	25,436	21,311
Service income	25,957	14,931
Government grants	7,262	6,193
Available-for-sale financial assets:		
reclassification from equity on disposal	–	9,262
Net realised and unrealised gains on financial assets measured		
at fair value through profit or loss	16,470	–
Interest income on financial assets measured at amortised cost	17,300	756
Loss on operation of the School of Clinical Medicine	(2,695)	–
Others	2,028	1,343
Total	91,758	53,796

Other income increased by 70.6% from RMB53.8 million for the year ended 31 December 2017 to RMB91.8 million for the year ended 31 December 2018, primarily due to an increase in service income for training and examination provided to other independent third parties, as a result of the improvement of our school management, and an increase in interest income and net realised and unrealised gains on financial assets measured at FVPL.

Cost of Sales

Cost of sales primarily consists of salaries and benefits paid to our teaching staff, depreciation and amortization, cost of education-related activities, cost of repairs and student-related costs.

Our cost of sales increased by 7.0% from RMB145.5 million for the year ended 31 December 2017 to RMB155.7 million for the year ended 31 December 2018, primarily due to an increase in the salary and benefits paid to our teaching staff and the increase in costs of education-related activities.

Gross Profit

Our gross profit increased by 19.7% from RMB192.5 million for the year ended 31 December 2017 to RMB230.4 million for the year ended 31 December 2018, which was in line with the growth of our business.

Selling and Distribution Costs

Selling and distribution costs primarily consist of student admission expenses, salaries and benefits paid to our sales staff, depreciation and amortization, and advertising expenses.

Selling and distribution costs increased by 14.8% from RMB5.4 million for the year ended 31 December 2017 to RMB6.2 million for the year ended 31 December 2018, primarily due to an increase in student admission expenses.

Administrative Expenses

Administrative expenses primarily consist of salaries and benefits paid to administrative staff, depreciation and amortization, and travel expenses.

Administrative expenses decreased by 13.5% from RMB66.9 million for the year ended 31 December 2017 to RMB57.9 million for the year ended 31 December 2018, primarily due to a decrease in listing expenses.

Finance Costs

Finance costs primarily consist of interest expense on bank loans.

The finance costs incurred for the year ended 31 December 2018 amounted to approximately RMB0.09 million (31 December 2017: nil).

Profit before Taxation

The Group recognized a profit of RMB258.0 million before income tax for the year ended 31 December 2018, compared to a profit of RMB174.0 million before income tax for the year ended 31 December 2017, representing a year-on-year increase of 48.3%, which is generally in line with the increase in gross profit.

Income Tax

The Group's income tax decreased by 4.8% from RMB2.1 million for the year ended 31 December 2017 to RMB2.0 million for the year ended 31 December 2018, which is in line with the taxable income of the Group.

Profit for the Year

As a result of the combined effects of the above income, costs and expenses, the Group recorded a profit for the period of RMB256.0 million for the year ended 31 December 2018, representing an increase of 48.8% as compared with RMB172.0 million for the year ended 31 December 2017.

FINANCIAL AND LIQUIDITY POSITION

Current Assets and Current Liabilities

The following table sets forth details of our current assets and current liabilities as at the dates indicated:

	As at 31 December,	
	2018	2017
	(RMB'000)	(RMB'000)
CURRENT ASSETS		
Trade receivables	**261**	201
Prepayments, deposits and other receivables	**13,042**	12,293
Available-for-sale financial assets	**–**	235,521
Financial assets measured at fair value through profit or loss	**60,242**	–
Cash and cash equivalents	**1,861,671**	293,023
TOTAL CURRENT ASSETS	**1,935,216**	541,038
CURRENT LIABILITIES		
Deferred revenue	**–**	191,773
Contract liabilities	**212,810**	–
Other payables	**101,018**	130,932
Amounts due to related parties	**–**	511
Deferred income	**1,510**	881
Current taxation	**3,429**	2,073
TOTAL CURRENT LIABILITIES	**318,767**	326,170
NET CURRENT ASSETS	**1,616,449**	214,868

Net Current Assets

As at 31 December 2018, the Group's net current assets recorded RMB1,616.4 million (31 December 2017: RMB214.9 million), which was primarily attributable to the net proceeds the Group received from the listing on the Stock Exchange and the increase in cash as a result of the growth of the Group's business.

Trade Receivables

Our trade receivables as at 31 December 2018 were RMB0.3 million. The following table sets forth the aging analysis of our trade receivables based on the transaction date as at the dates indicated:

	For the Year Ended 31 December,	
	2018	2017
	RMB'000	RMB'000
Within 1 year	**261**	201
More than 1 year but less than 2 years	**–**	–
	261	201

Our trade receivables remained stable as at 31 December 2018, due largely to the Group's strict control over its outstanding receivables.

Prepayments, Deposits and Other Receivables

Prepayments, deposits and other receivables mainly represented (i) the amounts due from third parties; and (ii) reimbursable advances to employees for business travel, training, procurement, student recruitment campaigns and other expenses to be incurred in the ordinary course of our business. Advances to employees were unsecured, interest-free and repayable on demand. All of the prepayments are expected to be settled or recognized as profit or loss within one year. The following table sets forth our prepayments, deposits and other receivables as at the dates indicated:

	For the Year Ended 31 December,	
	2018	2017
	RMB'000	RMB'000
Prepayments and deposits	**5,289**	1,129
Other receivables	**7,753**	11,164
	13,042	12,293

Our prepayments, deposits and other receivables increased from RMB12.3 million as at 31 December 2017 to RMB13.0 million as at 31 December 2018, primarily reflecting an increase of RMB4.2 million in prepayments and deposits as partially offset by a decrease of RMB3.4 million in other receivables, which was the combined result of increase in prepayments balance for equipment purchase and received balance due from the School of clinical Medicine and decrease in listing expenses that had been capitalized after the listing.

Financial Assets Measured at Fair Value Through Profit or Loss/Available-for-sale Financial Assets

Financial assets measured at fair value through profit or loss reflect investments we made in bank's wealth management products, which primarily represent short-term wealth management products with various investment interest issued by licensed commercial banks in the PRC. We made investments in these financial products primarily for the purpose of gaining higher short-term investment returns than the fixed rate returns from cash deposits at commercial banks. The following table sets forth our bank's wealth management products as at the dates indicated:

	For the Year Ended 31 December	
	2018	2017
	RMB'000	RMB'000
Bank's wealth management products	**60,242**	235,521

Our bank's wealth management products decreased by 74.4% from RMB235.5 million in 2017 to RMB60.2 million in 2018, primarily because of maturity of the bank's wealth management products before 31 December 2018.

Cash and Cash Equivalents

Our Group has maintained a relatively stable cash management strategy. Our cash and cash equivalents increased from RMB293.0 million as at 31 December 2017 to RMB1,861.7 million as at 31 December 2018.

Contract Liabilities

Our contract liabilities consists of tuition fees and boarding fees we typically collect from our students prior to the commencement of the upcoming school year or semester. It represents the tuition and boarding payments received from students but not earned. Our students are entitled, however, to a refund of a portion of their tuition and boarding payments pursuant to our refund policy if they withdraw from our schools. The following table sets forth the balance of our contract liabilities as at the dates indicated:

	Notes	**31 December 2018**	1 January 2018(i)	31 December 2017(i)
		RMB'000	RMB'000	RMB'000
Tuition fees	*(ii)*	**183,839**	165,174	–
Boarding fees	*(ii)*	**28,971**	26,599	–
		212,810	191,773	–

Notes:

(i) The Group has initially applied IFRS 15 using the cumulative effect method and adjusted the opening balance at 1 January 2018.

(ii) Upon the adoption of IFRS 15, these amounts were reclassified from deferred revenue to contract liabilities.

Contract liabilities increased by 10.9% from RMB191.8 million in 2017 to RMB212.8 million in 2018, primarily attributable to increased tuition fees and boarding fees we received for the 2018-2019 school year.

Other Payables

Our other payables primarily consist of (i) miscellaneous expenses received from students which will be paid out on behalf of students; (ii) accrued expenses; (iii) payables to suppliers primarily in connection with purchases of property, plant and equipment; (iv) accrued staff costs; (v) accrued listing expenses; and (vi) others. The following table sets forth our other payables as at the dates indicated:

	For the Year Ended 31 December,	
	2018	2017
	RMB'000	RMB'000
Miscellaneous expenses received from students	**27,467**	31,300
Accrued expenses	**7,203**	5,943
Payable to suppliers	**28,599**	29,173
Accrued staff costs	**16,542**	13,032
Accrued listing expenses	**–**	25,802
Others	**21,207**	25,682
Total	**101,018**	130,932

Other payables decreased by 22.8% from RMB130.9 million as at 31 December 2017 to RMB101.0 million as at 31 December 2018, primarily due to a decrease of RMB25.8 million in accrued listing expenses.

Deferred Income

Our deferred income primarily consists of government grants in connection with our research and teaching projects. Our deferred income as at 31 December 2018 was RMB1.5 million (31 December 2017: RMB1.4 million).

Working Capital and Source of Capital

The Group's cash is mainly used to satisfy the needs of working capital and purchase of property. During the year ended 31 December 2018, the Group has funded for operations primarily with cash generated from operations. The Board believes that the need for working capital can be met by the cash flow generated from operating activities, bank loans and other borrowings, and other funds raised at the capital market from time to time. As at 31 December 2018, the Group had cash and cash equivalents of RMB1,861.7 million (As at 31 December 2017: RMB293.0 million).

CAPITAL EXPENDITURES

Capital Expenditures

Capital expenditures primarily consist of the expenditures in the construction of teaching and office buildings and major repair and renovation of the buildings of the Group.

During the year ended 31 December 2018, the Group's capital expenditures were RMB44.5 million (for the year ended 31 December 2017: RMB258.3 million). The Group's capital expenditures for the year ended 31 December 2018 were primarily related to the construction of buildings and school facilities and the purchase of equipment and software. The Group has funded these capital expenditures primarily with cash generated from operations.

Capital Commitments

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

	As at 31 December 2018 RMB'000	As at 31 December 2017 RMB'000
Contracted for	**–**	15,261
Authorized but not contracted for	**615,212**	107,500
	615,212	122,761

INDEBTEDNESS AND CONTINGENT LIABILITIES

Bank Loans and Other Borrowings

The Group did not have any outstanding bank loans as at 31 December 2018 (31 December 2017:nil).

Contingent Liabilities and Guarantees

As at 31 December 2018, the Group did not have any unrecorded significant contingent liabilities, guarantees or any litigation against it.

KEY FINANCIAL RATIOS

	As at/for the year ended 31 December, 2018	2017
Current ratio(1)	**6.1**	1.7
Return on equity(2)	**15.1%**	19.5%
Return on assets(3)	**12.7%**	14.6%

Notes:

(1) Current ratio was calculated based on our total current assets divided by our total current liabilities as at the end of the year.

(2) Return on equity equals profit for the year divided by average total equity amounts as at the end of the year.

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

Current Ratio

Our current ratio increased from 1.7 as at 31 December 2017 to 6.1 as at 31 December 2018, primarily attributable to the net proceeds the Group received from the listing on the Stock Exchange.

Return on Assets and Return on Equity

Our return on assets ratio was 12.7% as at 31 December 2018, and return on equity ratio was 15.1% as at 31 December 2018. Both of the return ratios as at 31 December 2018 were lower than the return ratios as at 31 December 2017 primarily due to the increases in our average total assets and average total equity.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

During the year ended 31 December 2018, the Group has not conducted any off-balance sheet commitments and arrangements.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

Save as disclosed herein, there was no material acquisition and disposal of subsidiaries and associated companies by the Company during the period from the Listing Date to 31 December 2018.

SIGNIFICANT INVESTMENTS HELD BY THE GROUP

During the Reporting Period, there was no significant investment held by the Group.

FUTURE PLAN FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

Save as disclosed in the Prospectus date 14 March 2018, the announcement published on 3 February 2019 and this annual report, the Group did not have other plans for material investments and capital assets.

FOREIGN EXCHANGE RISK MANAGEMENT

The Group's functional currency is RMB, as most revenues and expenditures are denominated in RMB. As at 31 December 2018, balances of several banks were denominated in USD or HKD. So far, the Group has not yet entered into any financial instruments used for hedging purpose, and the management will continue paying attention to foreign exchange risk, and will consider hedging against significant foreign currency risks by using financial instruments when necessary.

PLEDGE OF ASSETS

As at 31 December 2018, the Group did not pledge any assets.

HUMAN RESOURCES

As at 31 December 2018, the Group had approximately 1,429 employees (31 December 2017: 1,281). In accordance with the applicable laws and regulations, the Group has attended the employee social security programs managed by local governments, including housing, retirement pension, medical insurance, maternity insurance and unemployment insurance. The Board believes that the Group is maintaining a favorable working relationship with our employees, and we have experienced no major labor disputes during the year ended 31 December 2018.

QUALITATIVE AND QUANTITATIVE DISCLOSURE ABOUT MARKET RISK

Credit Risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to our Group. Our Group's credit risk is primarily attributable to trade receivables and financial assets which comprise bank balances and investments in wealth management products.

In respect of trade receivables, the balances represent amounts related to students who have applied for the delayed payment of tuition fees and boarding fees. There is no fixed term for delayed payments. Our Group's students are required to pay tuition fees and boarding fees in advance for the upcoming school year or semester, which normally commences in September or February. Our Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that our Group's trade receivables relate to a large number of diversified students, there is no significant concentration of credit risk. Our Group does not hold any collateral or other credit enhancements over its trade receivable balances.

In respect of bank balances and investments in wealth management products, our Group transacts mainly with recognized and creditworthy banks, and the maximum exposure equal to the carrying amount of these financial assets.

Liquidity Risk

Liquidity risk is the risk that our Group will not be able to meet our financial obligations as they fall due.

Our Group's approach to managing liquidity is to ensure, as far as possible, that we will always have sufficient liquidity to meet our liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to our Group's reputation.

Our Group's policy is to regularly monitor current and expected liquidity requirements, and to ensure that we maintain sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following are the contractual maturities of our Group's financial liabilities at the end of the respective reporting period, which are based on contractual undiscounted cash flows and the earliest date our Group can be required to pay:

	As at 31 December 2018 Contractual undiscounted cash outflow			
	Within 1 year or on demand RMB'000	**More than 1 year but less than 5 years RMB'000**	**Total RMB'000**	**Carrying amount RMB'000**
Other payables	**101,018**	**–**	**101,018**	**101,018**
	101,018	**–**	**101,018**	**101,018**

	As at 31 December 2017 Contractual undiscounted cash outflow			
	Within 1 year or on demand RMB'000	More than 1 year but less than 5 years RMB'000	Total RMB'000	Carrying amount RMB'000
Other payables	130,932	–	130,932	130,932
Amounts due to related parties	511	–	511	511
	131,443	–	131,443	131,443

DIRECTORS AND SENIOR MANAGEMENT

BOARD OF DIRECTORS

Chairman and non-executive Director

Mr. Wu Junbao (吳俊保), aged 53, the founder of the Group, was appointed as the chairman and a non-executive Director of the Company on 27 October 2017.

Mr. Wu has more than 18 years of experience in education. The following table shows the key working experience of Mr. Wu:

Period	Company	Position
September 1999 to September 2017	Xinhua Group	General manager
September 1999 to present	Xinhua Group	Chairman and director
June 2000 to present	Xinhua University	Chairman and director

Mr. Wu obtained the qualification as a senior economist granted by the Personnel Bureau of Hefei City (合肥市人事局) in July 2004. He graduated from Anhui Institute of Business Administration (安徽工商管理學院) in Hefei City, Anhui Province, the PRC with a degree of master of business administration in December 2003.

Executive Directors

Mr. Zhang Ming (張明), aged 41, joined the Group in April 2018 and was appointed as an executive Director on 31 October 2018.

Mr. Zhang has 18 years of experience in education management. The following table shows the key working experience of Mr. Zhang:

Period	Company	Position
July 2000 to May 2010	Anhui Xinhua Group Investment Co., Ltd.	Executive deputy principal/principals of the Xinhua computer schools in Jiangxi, Henan and Anhui
May 2010 to April 2018	Anhui Xinhua Education Group Co., Ltd.* (安徽新華教育集團有限公司)	Vice president/executive vice president/president
April 2018 to present	Anhui Xinhua Investment Group Co., Ltd.* (安徽新華投資集團有限公司)	President

Mr. Zhang graduated from Anhui College of Mechanical and Electrical Engineering* (安徽機電學院, currently known as Anhui Polytechnic University (安徽工程大學)) in July 2000 with a bachelor's degree in textile engineering, and from University of Science and Technology of China (中國科學技術大學) in July 2011 with an executive master of business administration.

Mr. Lu Zhen (陸真), aged 43, joined the Group in October 2014 and was appointed as an executive Director of the Company on 27 October 2017. Mr. Lu has also been a director of Xinhua Group since October 2015 and the executive vice president of Xinhua Group since May 2017.

Mr. Lu has more than 8 years of experience in education. The following table shows the key working experience of Mr. Lu:

Period	Company	Position
July 1999 to February 2005	Hefei Meiling Co., Ltd.* (合肥美菱股份有限公司)	Business manager
February 2005 to February 2009	Hefei Meiling Home Appliances Industrial and Trading Company Limited* (合肥美菱家電工貿有限公司)	General manager for Anhui division
August 2009 to November 2011 and December 2013 to October 2014	Xinhua Education Group	Deputy head/marketing operation manager/general manager of computer business department
November 2011 to November 2013	Shandong Xinhua Computer College* (山東新華電腦學院)	Deputy principal/principal
October 2014 to present	Xinhua University	Deputy principal/executive director/executive deputy principal
March 2015 to present	Xinhua Group	Assistant to the president/director/vice president/executive vice president

Mr. Lu graduated from Zhengzhou Institute of Textile Industry* (鄭州紡織工學院, currently known as Zhongyuan University of Technology (中原工學院)) in Zhengzhou City, Henan Province, the PRC with a bachelor degree majoring in mechanical engineering in July 1999 and graduated from Nanjing University (南京大學) in Nanjing City, Jiangsu Province, the PRC with a degree of master of business administration in March 2009.

Mr. Wang Yongkai (王永凱), aged 61, joined the Group in March 2003 and was appointed as an executive Director of the Company on 27 October 2017. Mr. Wang has also been a director of Xinhua University since December 2004 and the executive president of Xinhua Group since June 2011.

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

Period	Company	Position
March 2003 to present	Xinhua Group	Chief financial officer/deputy general manager/director/executive president
December 2004 to present	Xinhua University	Director

Mr. Wang obtained the qualification as a senior economist granted by the Personnel Bureau of Hefei City in December 2008. He graduated from Hefei Rural Economic Management Cadre College* (合肥農村經濟管理幹部學院, currently known as Anhui Economic Management Cadre College* (安徽經濟管理幹部學院)) in Hefei City, Anhui Province, the PRC majoring in financial accounting and statistics in July 1989 and graduated from China Europe International Business School (中歐國際工商學院) in Shanghai, the PRC with a degree of master of business administration in October 2011.

Independent non-executive Directors

Ms. Zhang Kejun (張可君), aged 69, was appointed as an independent non-executive Director of our Company on 27 October 2017.

The following table shows the key working experience of Ms. Zhang:

Period	Company	Position
August 1976 to January 1980	Shanxi Yuanping Agriculture College* (山西原平農學院)	Teacher
January 1980 to December 1984	Heifei Supply and Marketing School* (合肥供銷學校)	Successively served as teacher, deputy principal, member of the Party Committee
December 1984 to August 1988	Education Department of Supply and Marketing Cooperative of Anhui Province* (安徽省供銷社教育處)	Department head
August 1988 to December 2002	Anhui Trade School* (安徽省貿易學校)	Principal; deputy secretary of Party Committee
December 2002 to June 2003	Anhui Finance and Trade School Heifei Vocational Technical Institute* (安徽財貿學院合肥職業技術學院)	Secretary of Party Committee
June 2003 to July 2005	Party Committee/Retire Department of Supply and Marketing Cooperative of Anhui Province* (安徽省供銷社機關黨委、離退休處)	Deputy secretary in charge* (專職副書記)/ Department head
December 2005 to October 2014	Xinhua University	Deputy secretary of Party Committee/deputy principal/director

Ms. Zhang graduated in April 1980 from Shanxi University (山西大學), the PRC, majoring in political science and graduated in June 1992 from the Party School of the Central Committee of Communist Party of China (中共中央黨校函授學院), the PRC, majoring in party and government administration (黨政管理) (a long distance learning course). Ms. Zhang obtained the qualification as a senior lecturer (secondary vocational school) (高級講師(中專教師系列)) from the committee for appraisal of senior lecturers for secondary vocational school of Anhui Province* (安徽省中等專業學校高級講師職務評審委員會), the PRC, in December 1994, and the qualification as associate professor (higher education) (思想政治副教授(高教系列)) from the committee for appraisal of teachers for higher education of Anhui Province* (安徽省高等學校教師職務評審委員會), the PRC, in November 2009.

Mr. Yang Zhanjun, aged 49, was appointed as an independent non-executive Director of the Company on 27 October 2017.

The following table shows the key working experience of Mr. Yang:

Period	Company	Position
March 2008 to December 2017	Keiser University	Associate dean of business/vice chancellor of international affairs
February 2018 to present	American Higher Education Alliance	Senior executive

Mr. Yang was awarded a degree of master of business administration from Florida International University in Miami, the U.S., in December 2002.

Mr. Chau Kwok Keung (鄒國強), aged 42, was appointed as an independent non-executive Director of the Company on 27 October 2017.

The following table shows the key working experience of Mr. Chau:

Period	Company	Position
January 2001 to June 2002	Andersen & Co.	Experienced staff accountant/senior consultant
June 2002 to August 2003	Shanghai Hawei New Material and Technology Co., Ltd.	Financial controller
August 2003 to April 2005	China South City Holdings Limited, a company whose shares are listed on the Stock Exchange (stock code: 1668)	Deputy group financial controller
October 2005 to October 2007	China. com Inc., a company whose shares are listed on the Stock Exchange (stock code: 8006)	Qualified accountant/chief financial officer/ company secretary/authorised representative
May 2010 to June 2013	RIB Software AG, a German software company whose shares are listed in Frankfurt Stock Exchange (stock code: RSTAG)	a member of supervisory board
May 2014 to present	Qingdao Port International Co., Ltd., a company whose shares are listed on the Stock Exchange (stock code: 6198)	Independent non-executive director, chairman of the audit committee
October 2015 to present	The9 Limited, whose shares are listed by way of American Depositary Shares on the NASDAQ (stock code: NCTY)	Independent director
November 2007 to present	Comtec Solar Systems Group Limited ("**Comtec**"), a company whose shares are listed on the Stock Exchange (stock code: 712)	Executive director, chief financial officer, company secretary, and directors of certain subsidiaries of Comtec

Mr. Chau was awarded a bachelor's degree in business administration from the Chinese University of Hong Kong in May 1998. Mr. Chau has been a member of the Association of Chartered Certified Accountants since June 2002, a member of Hong Kong Institute of Certified Public Accountants since July 2005 and a chartered financial analyst of CFA Institute since September 2003.

SENIOR MANAGEMENT

Mr. Huang Yuan (黃源), aged 55, joined the Group in January 2015. Mr. Huang has been the vice president of the Xinhua Group since January 2015, and the chairman of the board of supervisors of Xinhua University since March 2015.

Mr. Huang has more than 15 years of experience in education. The following table shows the key working experience of Mr. Huang:

Period	Company	Position
September 2002 to March 2004	Anhui Xinhua Real Estate Co., Ltd.* (安徽新華房地產有限公司)	Vice general manager and manager of procurement department
March 2004 to April 2008	Anhui New East Cuisine Education Institute	Principal
April 2008 to January 2015	Xinhua Education Group	Vice general manager
January 2015 to present	Xinhua Group	Vice president
March 2015 to present	Xinhua University	Chairman of the board of supervisors

Mr. Huang graduated from Renmin University of China (中國人民大學) in Beijing, the PRC with a degree of master of business administration in November 2008.

Mr. Ni Zheng (倪徵), aged 42, joined the Group in December 2012 and was appointed as the chief officer of international operations on 31 October 2017. Mr. Ni has also been the deputy principal of Xinhua University since July 2017.

Mr. Ni has more than 4 years of experience in education. The following table shows the key working experience of Mr. Ni:

Period	Company	Position
December 2012 to April 2016 and July 2017 to present	Xinhua University	Deputy principal
April 2016 to July 2017	Hefei Xinhua Experimental Middle School* (合肥新華實驗中學)	Chairman
August 2016 to January 2017	Anhui Youbangxue Education and Technology Company Limited* (安徽優邦學教育科技有限公司)	General manager
January 2017 to July 2017	Anhui Youbangxue Education and Technology Company Limited* (安徽優邦學教育科技有限公司)	Vice general manager, general manager of the business department No. 1 and the head of the branding operation department
July 2017 to present	Xinhua Group	General manager of the investment department and the head of the education development department

Mr. Ni graduated from Huainan Normal College* (淮南師範專科學校, currently known as Huainan Normal University (淮南師範學院)) in Huainan City, Anhui Province, the PRC majoring in Chinese language and literature in July 2000 and graduated from Guizhou University (貴州大學) in Guiyang City, Guizhou Province, the PRC with a degree of master of business administration in June 2017.

Ms. Wang Jihong (王繼紅) (also known as **Wang Ke (王可)**), aged 60, joined the Group in February 1998 and was appointed as the chief strategic officer of our Company on 31 October 2017. Ms. Wang has also been a council member of Xinhua School since June 2009 and deputy principal of Xinhua University since April 2016.

Ms. Wang has more than 15 years of experience in education. The following table shows the key working experience of Ms. Wang:

Period	Company	Position
August 2002 to June 2004 and March 2005 to present	Xinhua School	Assistant to principal/deputy principal/principal/council member
July 2004 to March 2005	Xinhua Group	Vice manager of human resource department
June 2014 to April 2016	Hefei Xinhua Experimental Middle School* (合肥新華實驗中學)	Principal/chairman
April 2016 to present	Xinhua University	Deputy principal

Ms. Wang obtained the qualification as a geological surveying engineer in June 2004 and was awarded the Outstanding Principal of Private Education in Anhui Province* (安徽省民辦教育優秀校長) jointly issued by the Private Education Professional Committee of Chinese Society for Taoxingzhi Studies* (中陶會民辦教育專業委員會) and the Education Society of Anhui Province* (安徽省教育學會) in October 2010. She was appointed as the vice president of Anhui Institute of Vocational and Adult Education, Vocational Branch* (安徽省職業與成人教育學會中職分會) in 2007 and as the vice president of Hefei Private Education Association* (合肥市民辦教育協會) in December 2013. She graduated from Anhui Open University (安徽廣播電視大學) in Hefei City, Anhui Province, the PRC majoring in basic management of Party and government cadres in July 1986.

REPORT OF THE DIRECTORS

The Board is pleased to present the report of the Directors together with the audited consolidated financial statements of the Group for the year ended 31 December 2018.

GLOBAL OFFERING

The Company was incorporated on 30 August 2017 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 26 March 2018.

PRINCIPAL ACTIVITIES

The Company is a leading private higher education provider in the Yangtze River Delta. Analysis of the principal activities of the Group during the year ended 31 December 2018 is set out in the note 1 to the consolidated financial statements.

BUSINESS REVIEW

A fair review of the business of the Group during the year ended 31 December 2018 as required by Schedule 5 to the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), including an analysis of the Group's financial performance, an indication of likely future developments in the Group's business and the Group's key relationships with its stakeholders who have a significant impact on the Group and on which the Group's success depends, is set out in the section headed "Chairman's Statement" on pages 4 to 5 and "Management Discussion and Analysis" on pages 6 to 22. These discussions form part of this report. Events affecting the Company that have occurred since the end of the financial year is set out in the section headed "Events after the reporting period" on page 164.

SUBSIDIARIES

Details of the principal subsidiaries of the Company as at 31 December 2018 are set out in note 14 to the consolidated financial statements.

RESULTS

The results of the Group for the year ended 31 December 2018 are set out in the consolidated statement of profit or loss on page 110 of this annual report.

FINAL DIVIDENDS

The Board recommended the payment of a final dividend of RMB4.77 cents per Share for the year ended 31 December 2018. There is no arrangement that a Shareholder has waived or agreed to waive any dividend.

The final dividend is declared in Renminbi and will be paid in Hong Kong dollars. The exchange rate adopted for conversion shall be the average of the central parity rate published by the People's Bank of China of the five business days prior to the declaration of the final dividend (HK$1.0 to RMB0.8538). Accordingly, the amount of the final dividend payable in Hong Kong dollars will be HK$5.59 cents per share. 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 Wednesday, 26 June 2019 (the "**AGM**") and the final dividend will be payable on or around Friday, 19 July 2019 to the Shareholders whose names appear on the register of members of the Company on Friday, 5 July 2019.

CLOSURE OF THE REGISTER OF MEMBERS

For Determining the Entitlement to Attend and Vote at the AGM

The register of members of the Company will be closed from Friday, 21 June 2019 to Wednesday, 26 June 2019, both days inclusive, in order to determine the identity of the Shareholders who are entitled to attend the AGM to be held on Wednesday, 26 June 2019, 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 Thursday, 20 June 2019.

For Determining the Entitlement to the Proposed Final Dividend

The register of members of the Company will also be closed from Wednesday, 3 July 2019 to Friday, 5 July 2019, 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 Tuesday, 2 July 2019.

PRINCIPAL RISK AND UNCERTAINTIES AND RISK MANAGEMENT

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

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

Credit Risk

The Group's credit risk is primarily attributable to trade receivables and financial assets which comprise bank balances and investments in wealth management products. Its management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

Liquidity Risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

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

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

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

- The Group has made arrangements with banks to ensure that it is able to obtain credits to support the business operation and expansion.

ENVIRONMENT, HEALTH AND SAFETY

The business of the Group is not in violation of the PRC environment laws and requisitions in any material aspects.

The Group is dedicated to protecting the health and safety of its students. Each of its schools has adopted and implemented student health and safety measures and procedures to protect its students from bodily harm and other health and safety risks. The Group provides routine medical services for the students and faculty by outsourcing such services to third party medical care providers. In the event of any serious and emergency medical situations, the Group will promptly send its students to local hospitals for treatment. With respect to school safety, the Group promotes the security of its schools by employing its own security personnel.

As at the date of this report, the Group did not experience any serious accident, medical situation or safety issue involving its students.

FINANCIAL SUMMARY

A summary of the Group's results, assets and liabilities for the last four financial years are set out on page 3 "Financial Highlights" of this annual report. This summary does not form part of the audited consolidated financial statements.

USE OF NET PROCEEDS FROM LISTING

Net proceeds from the Listing (after deducting underwriting fee and relevant expenses) amounted to approximately HK1,239.8 million (equivalent to approximately RMB1,038.0 million). As at 31 December 2018, a total amount of HK$36.7 million (equivalent to approximately RMB32.2 million) out of the net proceeds had been used by the Group according to the allocation set out in the Prospectus. The following sets forth a summary of the utilization of the net proceeds as at 31 December 2018:

Purpose	Percentage to total amount	Net proceeds HKD (million)	Utilized amount (as at 31 December 2018) HKD (million)	Unutilized amount (as at 31 December 2018) HKD (million)
Acquire other schools to expand our school network, acquire undergraduate colleges that can grant bachelor's degrees and entities that own educational assets or institutions	53.0	657.1	–	657.1
Improve our school facilities and educational equipment	35.0	433.9	36.7	397.2
Strengthen our market position and enhance our brand recognition	2.0	24.8	–	24.8
Fund our working capital and general corporate purposes	10.0	124.0	–	124.0
Total	100	1,239.8	36.7	1,203.1

MAJOR CUSTOMERS AND SUPPLIERS

The customers primarily consist of our students. The Group did not have any single customer who accounted for more than 10% of our revenue for the year ended 31 December 2018.

The Group's suppliers primarily consist of construction companies, textbook suppliers and utility suppliers. For the years ended 31 December 2018, purchases from the Group's five largest suppliers amounted to approximately RMB37.4 million (2017: RMB40.1 million), accounting for approximately 33.8% (2017: 35.9%) of the total purchases for the Reporting Period. For the same period, purchases from the Group's largest supplier amounted to approximately RMB11.8 million (2017: RMB12.8 million), accounting for approximately 10.7% (2017: 11.5%), of the total purchases for the relevant periods. None of the Directors, their respective close associates, or any Shareholder who, to the knowledge of the Directors, owns more than 5% of our issued capital, had any interest in any of the Group's five largest suppliers as at the date of this report.

RELATIONSHIP WITH EMPLOYEES, SUPPLIERS AND CUSTOMERS

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

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year ended 31 December 2018 are set out in note 11 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 22 to the consolidated financial statements.

RESERVES

Details of movements in the reserves of the Group and the Company during the year ended 31 December 2018 are set out in the consolidated statement of changes in equity on page 113 of this annual report and note 22 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

The Company's reserves available for distribution as at 31 December 2018 comprised the share premium and retained earnings of RMB1,033,901,000.

BANK LOANS AND OTHER BORROWINGS

The Group did not have any outstanding bank loans as at 31 December 2018.

DIRECTORS

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

Non-executive Director:

Mr. Wu Junbao *(Chairman of the Board)*

Executive Directors:

Mr. Zhang Ming *(appointed on 31 October 2018)*
Mr. Lu Zhen
Mr. Wang Yongkai
Ms. Wang Li *(resigned on 31 October 2018)*

Independent Non-executive Directors:

Ms. Zhang Kejun
Mr. Yang Zhanjun
Mr. Chau Kwok Keung

In accordance with article 83(3) of the Articles of Association, any Director appointed by the Board to fill a casual vacancy shall hold office only until the first general meeting of the Company after his appointment and shall then be eligible for re-election at such meeting. Accordingly, Mr. Zhang Ming shall hold office till the AGM and then be eligible for re-election at the AGM.

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 and shall then be eligible for re-election. Accordingly, Mr. Lu Zhen, Mr. Wang Yongkai and Mr. Yang Zhanjun shall retire by rotation, and being eligible, have offered themselves for re-election at the forthcoming AGM to be held in due course.

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

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and senior management of the Company are set out on pages 23 to 31 of this annual report.

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received an annual confirmation of independence pursuant to rule 3.13 of the Listing Rules from each of the independent non-executive Directors and the Company considers such Directors to be independent throughout the year ended 31 December 2018 and remain so as at the date of this annual report.

DIRECTORS' SERVICE CONTRACTS AND LETTERS OF APPOINTMENT

Each of Mr. Zhang Ming, Mr. Lu Zhen and Mr. Wang Yongkai, being the executive Directors of the Company, has entered into a service contract with the Company for an initial fixed term of three years commencing from 31 October 2018, the Listing Date and the Listing Date, 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 the non-executive Director and independent non-executive Directors has entered into an appointment letter with the Company for an initial fixed term of one year commencing from the Listing Date and will continue thereafter until terminated by not less than three months' notice in writing 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 or an appointment letter 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 Director or its connected entity (within the meaning of section 486 of the Companies Ordinance) had a material interest, either directly or indirectly, in any transaction, arrangement or contract of significance to the business of the Group to which the Company, or any of its subsidiaries or fellow subsidiaries was a party during the year ended 31 December 2018 and up to the date of this annual report.

Apart from the contract relating to the reorganization of the Group in relation to the Listing and save as disclosed in the section headed "Non-exempt Continuing Connected Transaction" and otherwise disclosed in this annual report, none of the Controlling Shareholder or any of its connected entity (within the meaning of section 486 of the Companies Ordinance) had a material interest, either directly or indirectly, in any transaction, arrangement or contract of significance to the business of the Group to which the Company, or any of its subsidiaries or fellow subsidiaries was a party during the year ended 31 December 2018 and up to the date of this annual report.

No contract of significance for the provision of services to the Company or any of its subsidiaries or fellow subsidiaries by the Controlling Shareholder of the Company or any of its subsidiaries was entered into during the year ended 31 December 2018 and up to the date of this annual report.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed for the year ended 31 December 2018 and up to the date of this annual report.

EMOLUMENT POLICY

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

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 page VI-21 of the Prospectus "Share Option Scheme".

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

RETIREMENT AND EMPLOYEE BENEFITS SCHEME

Details of the retirement and employee benefits scheme of the Company are set out in note 6 to the consolidated financial statements.

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

As at 31 December 2018, the interests and short positions of the Directors and the chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have taken under such provisions of the SFO), or which were recorded in the register required to be kept pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules were as follows:

Name	Capacity/nature of Interest	Number of shares	Long/short position	Approximate Percentage of Shareholding in the Company as at 31 December 2018 (%)
Mr. Wu Junbao[(1)]	Interest in a controlled corporation	1,148,491,879	Long position	71.40

Note:

(1) Mr. Wu Junbao is the sole shareholder of Wu Junbao Company Limited and he is therefore deemed to be interested in the Shares held by Wu Junbao Company Limited upon the Listing.

Save as disclosed above, as at 31 December 2018, none of the Directors or the chief executive of the Company had or was deemed to have any interest or short position in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) that was required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have taken under such provisions of the SFO), or required to be recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

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

As at 31 December 2018, 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 as at 31 December 2018 (%)
Wu Junbao Company Limited[1]	Beneficial owner	1,148,491,879	Long position	71.40
Mr. Wu Junbao[1]	Interest in a controlled corporation	1,148,491,879	Long position	71.40

Note:

(1) Mr. Wu Junbao is the sole shareholder of Wu Junbao Company Limited and he is therefore deemed to be interested in the Shares held by Wu Junbao Company Limited upon the Listing.

Save as disclosed above, as at 31 December 2018, the Directors and the chief executive of the Company were not aware of any persons (who were not Directors or chief executive of the Company) who had an interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

SHARE OPTION SCHEME

The Company has adopted the Share Option Scheme on 8 March 2018 ("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 40,000,000 Shares excluding Shares which may fall to be issued upon the exercise of the over-allotment option granted by the Company, representing approximately 10% of the issued shares as at the Listing Date.

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

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 8 years and 11 months.

During the year ended 31 December 2018, no options under the Share Option Scheme have been granted, exercised, lapsed or cancelled.

EQUITY-LINKED AGREEMENTS

Save as disclosed in the section headed "Share Option Scheme" of this annual report and in the Prospectus, during the year ended 31 December 2018 and up to the date of this annual report, neither the Company nor any of its subsidiaries had entered into (i) any agreement that will or may result in the Company issuing Shares; or (ii) any agreement requiring the Company to enter into any agreement specified in (i).

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

PRE-EMPTIVE RIGHTS

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

NON-COMPETITION UNDERTAKING

Although the Controlling Shareholders have control of formal middle school and informal education businesses that are not included in the Group, the Controlling Shareholders believe that their interests in such businesses will not, directly or indirectly, compete with the Group's business because there is a clear delineation of businesses of the Group and the Controlling Shareholders.

The Controlling Shareholders have entered into the Deed of Non-competition on 8 March 2018 in favour of the Company, pursuant to which the Controlling Shareholders have jointly and severally and irrevocably undertaken with the Company (for itself and for the benefit of its subsidiaries) that it or he would not, and would procure that its or his associates (except any members of our Group) would not, during the restricted period, directly or indirectly, either on its or his own account or in conjunction with or on behalf of any person, company (enterprise or corporate entity), partnership or associate (whether of an economic nature), among other things, carry on, participate or be interested or engaged in or hold (in each case whether as a shareholder, partner, agent, employee or otherwise) any business which is or may be in competition with the business of any member of the Group from time to time.

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

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

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

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

(1) Service Agreements

Pursuant to the service agreements (the "Service Agreements") dated 8 March 2018 entered into by Xinhua University with each of Anhui New East Cuisine Education Institute (安徽新東方烹飪專修學院) and Anhui Xinhua Computer Institute (安徽新華電腦專修學院) (the "Relevant Institutes"), each of the Relevant Institutes have agreed to assist Xinhua University in promoting its adult higher education program to students of the Relevant Institutes. In connection with such promotional effort, for those students who enrolled in the Group's adult higher education program (the "Relevant Students"), each of the Relevant Institutes have also agreed to provide convenient teaching locations for the Relevant Students to attend some of the classes for such program. In consideration of the foregoing services, Xinhua University shall pay to the Relevant Institutes a service fee equivalent to 50% of the tuition fees of the Relevant Students. The Service Agreements are for a term with effect from the Listing Date to 31 December 2020, renewable for another three years unless terminated by either party by serving written notice to the other party within 30 days prior to expiry of the Service Agreements (subject to compliance with the provisions under the Listing Rules regarding continuing connected transactions).

The Directors are of the view that the transactions contemplated under the Service Agreements are on normal commercial terms or terms more favorable to the Group.

(2) Structured Contracts II

A. Overview

The Group currently conducts the private higher education business through the PRC Operating Schools in the PRC as PRC laws and regulations generally restrict foreign ownership in the private education industry in the PRC. PRC laws and regulations currently restrict the operation of higher education institutions to Sino-foreign cooperation ownership, in addition to imposing qualification requirements on the foreign owners. The Group does not hold any equity interest in the PRC Operating Schools. The Structured Contracts, through which the Group obtains control over and derive the economic benefits from the PRC Operating Schools, have been narrowly tailored to achieve the business purpose and minimize the potential conflict with relevant PRC laws and regulations. The Group had entered into the Structured Contracts for the existing PRC Operating Schools and expect to enter into structured contracts for the schools to be newly established or invested in, the terms and conditions of which shall be the same as the existing Structured Contracts in all material aspects.

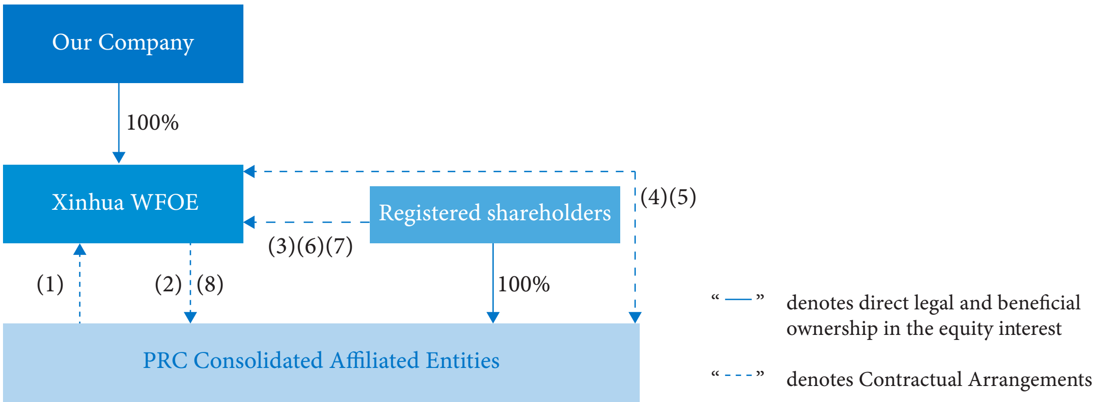
In order to comply with the PRC laws and regulations as set out above while availing ourselves of international capital markets and maintaining effective control over all of the operations, on 31 October 2017, the wholly-owned subsidiary, Xinhua Anhui, entered into various agreements that constitute the Structured Contracts I with, among others, the PRC Operating Schools and the School Sponsor, under which all economic benefits arising from the business of the PRC Operating Schools and the School Sponsor are transferred to Xinhua Anhui to the extent permitted under the PRC laws and regulations by means of service fees payable by the PRC Operating Schools and the School Sponsor to Xinhua Anhui.

Pursuant to relevant local government tax policy in Khorgos, Xinjiang, an enterprise established in Khorgos between 1 January 2010 and 31 December 2020 and falling within the scope of the Catalog of Enterprise Income Tax Incentives for Industries Particularly Encouraged by Poverty Areas of Xinjiang for Development (新疆困難地區重點鼓勵發展產業企業所得稅優惠目錄) is exempted from enterprise income tax entirely for five years beginning from the first year in which revenue from its principal business is earned and, after this initial period, such enterprise is entitled to another exemption on the local portion of its enterprise income tax. In light of this preferential tax policy, on 17 January 2018, Xinhua Xinjiang was established in Khorgos, Xinjiang, the PRC as a wholly foreign owned enterprise and was wholly owned by Xinhua HK. Xinhua Xinjiang is engaged in the provision of technical and management consultancy services to our PRC Operating Schools and School Sponsor and therefore falls within the scope of the aforesaid catalog. On 7 February 2018, Xinhua Xinjiang made a filing with the relevant local tax authorities in Khorgos for the preferential tax treatments, pursuant to which Xinhua Xinjiang is fully exempted from enterprise income tax from 1 January 2018 to 31 December 2020. See "Financial Information – Description of Major Components of The Combined Statements of Profit or Loss – Income Tax Expenses" in the Prospectus for details.

On 6 February 2018, Xinhua Xinjiang entered into the Structured Contracts II, the terms and conditions of which are the same as those contained in the Structured Contracts I in all material aspects, pursuant to which the Structured Contracts I were automatically terminated and all economic benefits arising from the business of the PRC Consolidated Affiliated Entities are transferred to Xinhua Xinjiang by means of services fees payable by the PRC Consolidated Affiliated Entities to Xinhua Xinjiang.

Although the Registered Shareholders are not consolidated as part of the Group, they are parties to certain agreements which constitute the Structured Contracts to ensure that the Registered shareholders' rights as shareholders of Xinhua Group are actually controlled by Xinhua WFOE.

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



Notes:

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

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

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

4. Entrustment of school sponsor' rights in the PRC Operating Schools by Xinhua Group. See "Structured Contracts – Operation of the Structured Contracts – Summary of the Material Terms of the Structured Contracts I – (4) School Sponsor's and Directors' Rights Entrustment Agreement" and "Structured Contracts – Operation of the Structured Contracts – Summary of the Material Terms of the Structured Contracts I – (5) School Sponsor's Powers of Attorney" in the Prospectus for details.

5. Entrustment of directors' rights in the PRC Operating Schools by directors of the PRC Operating Schools including Directors' Powers of Attorney. See "Structured Contracts – Operation of the Structured Contracts – Summary of the Material Terms of the Structured Contracts I – (4) School Sponsor's and Directors' Rights Entrustment Agreement" and "Structured Contracts – Operation of the Structured Contracts – Summary of the Material Terms of the Structured Contracts I – (6) Directors' Powers of Attorney" in the Prospectus for details.

6. Entrust of Shareholders' right including Shareholders' power of attorney. See "Structured Contracts – Operation of the Structured Contracts – Summary of the Material Terms of the Structured Contracts I – (7) Shareholders' Rights Entrustment Agreement" and "Structured Contracts – Operation of the Structured Contracts – Summary of the Material Terms of the Structured Contracts I – (8) Shareholders' Powers of Attorney" in the Prospectus for details.

7. Pledge of equity interest by the Registered Shareholders of their equity interest in Xinhua Group. See "Structured Contracts – Operation of the Structured Contracts – Summary of the Material Terms of the Structured Contracts I – (10) Equity Pledge Agreement" in the Prospectus for details.

8. Provision of loans by Xinhua WFOE to Xinhua Group. See "Structured Contracts – Operation of the Structured Contracts – Summary of the Material Terms of the Structured Contracts I – (11) Loan Agreement" in the Prospectus for further details.

9. 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." See "Regulatory Overview" in the Prospectus for further details.

Xinhua Group, or the School Sponsor, is a holding company to hold the school sponsor interests in the PRC Operating Schools and it is not engaged in any other business. Under the Structured Contracts, each of the PRC Consolidated Affiliated Entities entered into the Exclusive Technical Service and Management Consultancy Agreement and Loan Agreement with, among others, Xinhua WFOE, pursuant to which each of the School Sponsor and the PRC Operating Schools will be directly bound by and subject to the terms and conditions thereof. Accordingly, for any services provided by Xinhua WFOE to any of the School Sponsor and the PRC Operating Schools, the respective service fee will be paid by such School Sponsor and/or PRC Operating Schools to Xinhua WFOE directly.

In addition, in order to prevent the leakage of assets and values of the PRC Consolidated Affiliated Entities, the Registered Shareholders and the PRC Consolidated Affiliated Entities have undertaken that, without the prior written consent of Xinhua WFOE or its designated party, the PRC Operating Schools shall not, among others, distribute dividends or other payments to the School Sponsor, or the Registered Shareholders.

B. Summary of the Material Terms of the Structured Contracts I

(1) Business Cooperation Agreement

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

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

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

Furthermore, each of Registered Shareholders undertakes to Xinhua Anhui that, unless with the prior written consent of Xinhua Anhui, 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 Schools and/or the School Sponsor and its subsidiaries ("Competing Business"), (ii) use information obtained from any of the PRC Operating Schools and/or the School Sponsor or its subsidiaries for the Competing Business, and (iii) obtain any benefit from any Competing Business. Each of the Registered Shareholders further consents and agrees that, in the event that the Registered Shareholders (severally or jointly) directly or indirectly engage, participate in or conduct any Competing Business, Xinhua Anhui 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 I. If Xinhua Anhui does not exercise such option, the Registered Shareholders shall cease the operation of the Competing Business within a reasonable time.

(2) *Exclusive Technical Service and Management Consultancy Agreement*

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

Furthermore, Xinhua Anhui agreed to provide exclusive management consultancy services to the PRC Operating Schools and the School Sponsor, including but not limited to, (a) design of curriculum; (b) preparation, selection and/or recommendation of course materials; (c) provision of teacher and staff recruitment and training support and services; (d) provision of student recruitment support and services; (e) provision of public relation services; (f) preparation of long term strategic development plans and annual working plans; (g) development of financial management systems and recommendation and optimization on annual budget; (h) advising on design of internal structures and internal management; (i) provision of management and consultancy training; (j) conduct of market research; (k) preparation of market development plan; (l) building of marketing network; and (m) providing other management technical services reasonably requested by the PRC Operating Schools and the School Sponsor.

Pursuant to the Exclusive Technical Service and Management Consultancy Agreement, unless otherwise prescribed under the PRC laws and regulations, Xinhua Anhui 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 Xinhua Anhui to the PRC Operating Schools and the School Sponsor, and any intellectual property in the products developed, including any other rights derived thereunder, in the course of performance of obligations under the Exclusive Technical Service and Management Consultancy Agreement and/or any other agreements entered into between Xinhua Anhui and the PRC Consolidated Affiliated Entities.

(3) *Exclusive Call Option Agreement*

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

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

(4) *School Sponsor's and Directors' Rights Entrustment Agreement*

Pursuant to the School Sponsor's and Directors' Rights Entrustment Agreement, Xinhua Group has irrevocably authorized and entrusted Xinhua Anhui to exercise all its rights as school sponsor of each of the PRC Operating Schools to the extent permitted by PRC laws. These rights include, but are not limited to: (a) the right to appoint and/or elect directors or council members of the schools; (b) the right to appoint and/or elect supervisors of the schools; (c) the right to understand the operation and financial situation of the schools; (d) the right to review the resolutions and records of the board of directors and financial statements and reports of the schools; (e) the right to obtain reasonable returns as school sponsor of the schools in accordance with the laws and the articles of association of each school; (f) the right to acquire residue assets upon liquidation of the schools in accordance with the laws and the articles of association of each school; (g) the right to transfer school sponsor's interest in accordance with the laws; (h) the right to choose for the school to be a for-profit school or non-profit school pursuant to applicable PRC laws and regulations and the articles of association of each school as amended from time to time; and (i) other school sponsor's rights pursuant to applicable PRC laws and regulations and the articles of association of each school as amended from time to time.

Pursuant to the School Sponsor's and Directors' Rights Entrustment Agreement, each of the directors/council members appointed by the School Sponsor in the PRC Operating Schools (the "Appointees") has irrevocably authorized and entrusted Xinhua Anhui to exercise all his/her rights as directors/council members of the PRC Operating Schools and to the extent permitted by PRC laws. These rights include, but are not limited to: (a) the right to attend meetings of the board of directors as representative of the directors appointed by the School Sponsor; (b) the right to exercise voting rights in respect of all matters discussed and resolved at the board meeting of each of the PRC Operating Schools; (c) the right to propose to convene interim board meetings of each of the PRC Operating Schools; (d) the right to sign all board minutes, board resolutions and other legal documents which the directors appointed by Xinhua Group have authority to sign in his/her capacity as directors of the PRC Operating Schools; (e) the right to instruct the legal representative and financial and business responsible persons of the PRC Operating Schools to act in accordance with the instruction of Xinhua Anhui; (f) the right to exercise all other rights and voting rights of directors as prescribed under the articles of association of the PRC Operating Schools; (g) the right to handle the legal procedures of registration, approval and licensing of the PRC Operating Schools at the education department, the department of civil affairs or other government regulatory departments; and (h) other directors' rights pursuant to applicable PRC laws and regulations and the articles of association of the PRC Operating Schools as amended from time to time.

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

(5) *School Sponsor's Powers of Attorney*

Pursuant to the School Sponsor's Powers of Attorney executed by the School Sponsor in favor of Xinhua Anhui, the School Sponsor authorized and appointed Xinhua Anhui, the director of which is Ms. Fei Yun (費雲) (who is not a director of any of the School Sponsor and PRC Operating Schools and therefore does not give rise to any conflicts of interest), as its agent to act on its behalf to exercise or delegate the exercise of all its rights as school sponsor of each of the PRC Operating Schools. For details of the rights granted, see "Structured Contracts – Operation of the Structured Contracts – Summary of the Material Terms of the Structured Contracts I – (4) School Sponsor's and Directors' Rights Entrustment Agreement" of the Prospectus.

Xinhua Anhui shall have the right to further delegate the rights so delegated to the directors of Xinhua Anhui or other designated person. The School Sponsor 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 the School Sponsor's subdivision, merger, winding up, consolidation, liquidation or other similar events. The School Sponsor's Power of Attorney shall constitute a part and incorporate terms of the School Sponsor's 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 Xinhua Anhui, each of the Appointees authorized and appointed Xinhua Anhui, the sole director of which is Ms. Fei Yun (費雲) (who is not a director of any of the School Sponsor and/or PRC Operating Schools and therefore 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 of his/her rights as directors/council members of the PRC Operating Schools.

Xinhua Anhui shall have the right to further delegate the rights so delegated to the directors of Xinhua Anhui or other designated person. 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 Sponsor's and Directors' Rights Entrustment Agreement.

(7) *Shareholders' Rights Entrustment Agreement*

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

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

(8) *Shareholders' Powers of Attorney*

Pursuant to the Shareholders' Powers of Attorney executed by each of the Registered Shareholders in favor of Xinhua Anhui, each of the Registered Shareholders authorized and appointed Xinhua Anhui, as his or their agent to act on his or their behalf to exercise or delegate the exercise of all his or their rights as shareholders of the Xinhua Group. For details of the rights granted, see "Structured Contracts – Operation of the Structured Contracts – Summary of the Material Terms of the Structured Contracts I – (7) Shareholders' Rights Entrustment Agreement" in the Prospectus.

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

(9) *Spouse Undertakings*

Pursuant to the Spouse Undertakings, the respective spouse of the Registered Shareholders has irrevocably undertaken that:

(a) the spouse has full knowledge of and has consented to the entering into of the Structured Contracts I by the respective Registered Shareholders, and in particular, the arrangement as set out in the Structured Contracts I in relation to the restrictions imposed on the direct or indirect equity interest in Xinhua Group, pledge or transfer the direct or indirect equity interest in Xinhua Group, or the disposal of the direct or indirect equity interest in Xinhua Group in any other forms;

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

(c) the spouse authorizes the respective Registered Shareholders or his authorized 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 Xinhua Group (direct or indirect) in order to safeguard the interest of Xinhua Anhui under the Structured Contracts I and give effect to the fundamental purposes thereunder, and confirms and agrees to all such documents and procedures;

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

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

(f) all undertakings, confirmations, consents and authorizations under the Spouse Undertakings shall continue to be valid and binding until otherwise terminated by both Xinhua Anhui and the spouses of the respective Registered Shareholders in writing.

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

(10) Equity Pledge Agreement

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

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

Any of the following events shall constitute an event of default under the Equity Pledge Agreement:

(a) any of the Registered Shareholders, the School Sponsor or the PRC Operating Schools commits any breach of any obligations under the Structured Contracts I;

(b) any representations or warranties or information provided by any of the Registered Shareholders, the School Sponsor or the PRC Operating Schools under the Structured Contracts I is proved incorrect or misleading; or

(c) any provision in the Structured Contracts I becomes invalid or incapable of performance due to changes in PRC laws and regulations or promulgation of new laws and regulations in the PRC, and the parties have not agreed on any alternative arrangement.

Upon the occurrence of an event of default as described above, Xinhua Anhui shall have the right to enforce the Equity Pledge Agreement by written notice to the Registered Shareholders in one or more of the following ways:

(a) to the extent permitted under PRC laws and regulations, Xinhua Anhui may request the Registered Shareholders to transfer all or part of his or her or its equity interest in the School Sponsor to any entity or individual designated by Xinhua Anhui at the lowest consideration permissible under the PRC laws and regulations;

(b) sell the pledged equity interest by way of auction or at a discount and have priority in the entitlement to the sales proceeds;

(c) dispose of the pledged equity interest in other manner subject to applicable laws and regulations.

Under the Structured Contracts I, there is no equity pledge arrangement between Xinhua Anhui and the School Sponsor over the school sponsor's interest in the PRC Operating Schools held by the School Sponsor. As advised by the PRC legal advisors, if the Group is to make an equity pledge arrangement with the School Sponsor where the School Sponsor pledges its school sponsor's interest in each of the PRC Operating Schools 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 the School Sponsor's interests in schools cannot be registered with the relevant PRC regulatory authorities.

Nevertheless, the Group has implemented various measures which shall remain in place before the Structured Contracts I being unwound, with the aim of further enhancing the control over the PRC Operating Schools and the School Sponsor, in particular:

(a) as disclosed above, pursuant to the Business Cooperation Agreement, the School Sponsor, the Registered Shareholders and each of the PRC Operating Schools have undertaken that, without prior written consent of Xinhua Anhui or its designated party, he/it shall not conduct or cause to conduct any activity or transaction which may have an actual impact (i) on the assets, business, staff, obligations, rights or operations of the PRC Operating Schools and/or the School Sponsor or (ii) on the ability of School Sponsor, the Registered Shareholders and each of the PRC Operating Schools to perform the obligations under the Structured Contracts I. See "Structured Contracts – Operation of the Structured Contracts – Summary of the Material Terms of the Structured Contracts I – (1) Business Cooperation Agreement" in the Prospectus for details.

(b) as disclosed above, pursuant to the Exclusive Call Option Agreement, the Registered Shareholders have further undertaken to Xinhua Anhui that, among others, each of them shall not sell, assign, transfer or otherwise dispose of or create any encumbrance over school sponsor's interest in any of the PRC Operating Schools and/or equity interest in the School Sponsor without prior written consent of Xinhua Anhui. See "Structured Contracts – Operation of the Structured Contracts – Summary of the Material Terms of the Structured Contracts I – (3) Exclusive Call Option Agreement" in the Prospectus for details.

(c) the Company has taken measures to ensure that the company seals of the PRC Operating Schools and the School Sponsor are properly secured, are within the full control of the Company and cannot be used by the School Sponsor or the Registered Shareholders or the PRC Operating Schools without the permission. Such measures include arranging for the company seals of the PRC Operating Schools and the School Sponsor to be kept in the safe custody of the finance department of Xinhua Anhui and setting up lines of authority for using the company seals, financial chops and business registration certificates such that the company seals, financial chops and business registration certificates can only be used under direct authorization of the Company or Xinhua Anhui.

(11) Loan Agreement

Pursuant to the Loan Agreement, Xinhua Anhui agreed to provide interest-free loans to Xinhua Group in accordance with the PRC laws and regulations and Xinhua Group agreed to utilize the proceeds of such loans to contribute as capital of the PRC Operating Schools in its capacity as school sponsor of the schools in accordance with the instructions. Both parties agree that all such capital contribution will be directly settled by Xinhua Anhui on behalf of Xinhua Group.

The terms of the Loan Agreement shall continue until all interest of the PRC Operating Schools and the School Sponsor are transferred to Xinhua Anhui or other parties designated by the Company.

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

C. Structured Contracts I and Structured Contracts II

Other than the Spouse Undertakings, each of the specific agreements that comprise the Structured Contracts I contains clauses which provide that, to the extent permitted by the PRC laws, Xinhua Anhui shall have the right to designate other entities agreed by the Company (including any wholly foreign-owned enterprise to be established by us from time to time) to enter into and perform the agreements which are on the same terms and conditions as the Structured Contracts I (excluding the Spouse Undertakings) with the other parties to the Structured Contracts I (excluding the Spouse Undertakings), and the other parties to the Structured Contracts I shall unconditionally procure the signing and performance of such agreements. The Structured Contracts I shall be automatically terminated on the date on which the aforementioned agreements are entered into and become effective.

In light of the preferential tax policy in Xinjiang, on 6 February 2018, Xinhua Xinjiang entered into the Structured Contracts II, the terms and conditions of which are the same as those contained in the Structured Contracts I in all material aspects, pursuant to which the Structured Contracts I were automatically terminated and all economic benefits arising from the business of the PRC Consolidated Affiliated Entities are transferred to Xinhua Xinjiang by means of services fees payable by the PRC Consolidated Affiliated Entities to Xinhua Xinjiang.

D. Business Activities of the PRC Consolidated Affiliated Entities

The business activities of the consolidated affiliated entities of the Group, namely the School Sponsor, Xinhua University and Xinhua School, are primarily to offer higher educational services to the Group's students.

E. Significance and financial contributions of PRC Operating Schools

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

	Significances and financial contribution to the Group					
	Revenue		Net profit		Total assets	
	For the year ended 31 December		For the year ended 31 December		As at 31 December	
	2018	2017	**2018**	2017	**2018**	2017
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
PRC Consolidated Affiliated Entities	**386,127**	337,958	**247,998**	171,958	**1,578,901**	1,326,598

F. Revenue and assets involved in Structured Contracts

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

	Revenue	Total Assets
	For the year ended 31 December 2018	As at 31 December 2018
	RMB'000	RMB'000
PRC Consolidated Affiliated Entities	**386,127**	**1,578,901**

G. Regulatory Framework

The Group currently conducts its private higher education business through the PRC Operating Schools in the PRC as PRC laws and regulations generally restrict foreign ownership in the private education industry in the PRC. PRC laws and regulations currently restrict the operation of higher education institutions to Sino-foreign cooperation ownership, in addition to imposing qualification requirements on the foreign owners. The Group does not hold any equity interest in its PRC Operating Schools. The Structured Contracts, through which the Group obtains control over and derive the economic benefits from its PRC Operating Schools, have been narrowly tailored to achieve the Group's business purpose and minimize the potential conflict with relevant PRC laws and regulations. The Group had entered into the Structured Contracts for the existing PRC Operating Schools and expect to enter into structured contracts for the schools to be newly established or invested in, the terms and conditions of which shall be the same as the existing Structured Contracts in all material aspects.

1. *Higher Education and National Key Secondary Vocational School*

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

   While secondary vocational education is not listed in the Foreign Investment Catalog, Xinhua School was recognized by the MOE as a National Key Secondary Vocational School (國家級重點中等職業學校) and therefore was treated as if it falls within the "restricted" category according to the Anhui Education Department.

   The Group had fully complied with the Foreign Control Restriction in respect of the PRC Operating Schools on the basis that (a) the principals and the chief executive officers of the PRC Operating Schools are all PRC nationals; and (b) all the members of the board of directors of the PRC Operating Schools are PRC nationals.

   In relation to the interpretation of Sino-foreign cooperation, pursuant to the Sino-Foreign Regulation, if the Group was to apply for any of its schools to be reorganized as a Sino-foreign joint venture private school for PRC students (a "Sino-Foreign Joint Venture Private School"), the foreign investor in the Sino-Foreign Joint Venture Private School must be a foreign educational institution with relevant qualification and that provides high quality education (the "Qualification Requirement"). Furthermore, pursuant to the Implementation Opinions of the MOE on Encouraging and Guiding the Entry of Private Capital in the Fields of Education and Promoting the Healthy Development of Private Education (《教育部關於鼓勵和引導民間資金進入教育領域促進民辦教育健康發展的實施意見》), the foreign portion of the total investment in a Sino-Foreign Joint Venture Private School should be below 50% (the "Foreign Ownership Restriction") and the establishment of these schools is subject to approval of education authorities at the provincial or national level.

   The Group's PRC legal advisors have advised that there are no implementing measures or specific guidance on the Qualification Requirement in accordance with the existing PRC laws and regulations and therefore it is currently uncertain as to what specific criteria must be met by a foreign investor (such as length of experience and form and extent of ownership in the foreign jurisdiction) in order to demonstrate to the relevant educational authority that it meets the Qualification Requirement. With the assistance of its PRC legal advisors, the Group consulted the Anhui Education Department on 26 June 2017, being the competent authority as advised by the PRC legal advisors to confirm the matters relating to the Sino-Foreign Joint Venture Private Schools relevant to the Group. The Group was advised by the director of the department of foreign affairs office (外事處處長) at the Anhui Education Department that:

   (i) the Foreign Ownership Restriction and Qualification Requirements applies to Sino-Foreign Joint Venture Private Schools in their region;

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

(iii) as a matter of policy, no Sino-Foreign Joint Venture Private School has been approved in Anhui Province after the Sino-Foreign Regulation became effective on 1 September 2003;

(iv) the Anhui Education Department expects that the possibility of approving the establishment of Sino-Foreign Joint Venture Private Schools (including but not limited to the Sino-Foreign higher education institution and Sino-Foreign national key secondary vocational school) in Anhui in foreseeable future is very low; and

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

The Group's PRC legal advisors are of the view that the aforesaid officer is competent to provide the confirmation on the basis that they have good and authoritative understanding of the PRC laws and regulations regarding Sino-foreign cooperative education and its actual implementation in Anhui Province.

Given that as at the date of this report, as advised by the PRC legal advisors, the Group does not meet the Qualification Requirement as the Group has no experience in operating a school outside of the PRC, and as there are no implementing measures or specific guidance on the Qualification Requirement, it is therefore not practicable for the Group to seek to apply to reorganize any of its PRC Operating Schools and the schools to be newly established or invested by the Group as a Sino-Foreign Joint Venture Private School, or convert any of the PRC Operating Schools and the schools to be newly established or invested by the Group into a Sino-Foreign Joint Venture Private School. The Anhui Education Department has confirmed that the possibility of approving the establishment of Sino-Foreign Joint Venture Private schools in Anhui in foreseeable future is very low.

Notwithstanding the above, the Group is committed to meeting the Qualification Requirement. It has adopted a specific plan and will continue to expend genuine efforts and financial resources to do so. It has undertaken to make periodic inquiries of relevant educational authorities to understand any regulatory developments, including whether there will be any change in policy for approving any Sino-Foreign Joint Venture Private School in Anhui Province, and assess whether it is qualified to meet the Qualification Requirement, with a view to unwinding the Structured Contracts wholly or partially as and when practicable and permissible under the prevailing PRC laws and regulations.

As at the date of this report, the Group has not encountered any interference or encumbrance from any governing bodies in its plan to adopt the Structured Contracts and the consolidated financial results of the PRC Operating Schools are consolidated to those of the Group. The PRC legal advisors have opined that each of the PRC Operating Schools and the School Sponsor has been legally established and except for those disclosed under "Structured Contracts – Legality of the Structured Contracts – PRC Legal Opinions" and "Risk Factors – Risks relating to our Structured Contracts" of the Prospectus, the Structured Contracts in relation to the operation of higher education are valid, legal and binding and do not contravene PRC laws and regulations. According to the PRC legal advisors, under PRC laws and regulations, the failure to meet the Qualification Requirement and the adoption of the Structured Contracts to operate the schools do not render the Group's education business as illegal operations in the PRC. As disclosed above, the Group has obtained confirmation from the Anhui Education Department during the consultations with them that the Structured Contracts do not require approval from the education authorities. However, no positive regulatory assurance has been obtained from relevant PRC regulatory authorities with respect to the use of the Structured Contracts in the education industry, and it is impracticable to obtain such assurance, as no relevant PRC regulatory authorities have ever issued any regulations, rules or notices to prohibit the use of Structured Contracts in the education industry.

2. *Plan to Comply with the Qualification Requirement*

The Group has adopted a specific plan and begun to take the following concrete steps which it reasonably believes are meaningful endeavors to demonstrate compliance with the Qualification Requirement. According to the consultation with the Anhui Education Department, there are no implementing measures or specific guidance on the Qualification Requirement and they are rarely likely to approve an application to convert the PRC Operating Schools into Sino-Foreign Joint Venture Private Schools at this stage and in the foreseeable future. The Group's PRC legal advisors are of the view that based on the understanding of the general provisions of the existing laws and regulations, although it is rarely likely for the Anhui Education Department to approve the Group's application to convert any of its PRC Operating Schools or schools to be newly established or invested by the Group into Sino-Foreign Joint Venture Private Schools at this stage and in the foreseeable future, the following steps taken by the Group to demonstrate compliance with the Qualification Requirements are reasonable and appropriate.

As at the date of this report, the Group had taken the following concrete steps to implement its plan. On 22 August 2017, Xinhua US, a holding company of a new school (i.e., the American College) in the United States, was formed, and it became wholly owned by Xinhua BVI on 24 October 2017. The Group has submitted an application for provisional license for the American College to the CIE on 29 August 2017. On 27 December 2017, the Group received the approval and the provisional license granted by CIE to the American College for a period of one year. Under the provisional license, the American College may advertise, recruit students, accept fees and tuition from or on behalf of students and hold classes, but may not actually award a degree or a credential requiring one year or more to earn. The American College must attain an annual license before awarding degrees or other credentials or seeking CIE's approval to add or substantially modify programs or to add locations. In addition, in connection with the Group's application submitted to the CIE for the approval to establish its new school in Florida, on 14 September 2017, the Group and Keiser University in the U.S. entered into an articulation agreement which contains detailed terms of the Group's collaboration with Keiser University for offering bachelor's degree programs at the campus provided by Keiser University where students can earn a degree awarded by the American College after completing such degree programs. The Group has also nominated Mr. Ni Zheng to be the president of the American College, to oversee the administration of its international operations, including Xinhua US. The Group has expended approximately US$16,800 in connection with its plan as at the date of the report.

In the opinion of the Group's PRC legal advisors, if both of the Foreign Ownership Restriction and the Foreign Control Restriction are removed but the Qualification Requirement remains and assuming the new school to be operated by Xinhua US, i.e. the American College or another foreign educational institution established by the Group gains a level of foreign experience sufficient to demonstrate compliance with the Qualification Requirement and obtains the approval of the relevant education authorities for the establishment of a Sino-Foreign Joint Venture Private School in the future (provided that the then PRC laws and regulations do not impose new requirements, restrictions, or prohibitions in relation to the establishment of the Sino-Foreign Joint Venture Private Schools), the Group will be able to operate its schools in the PRC directly through the new school to be operated by Xinhua US, i.e. the American College or such other educational institution subject to the approval from the competent education authorities. The Group's PRC legal advisors are of the opinion that an educational institution which offers diploma certificates at the university level in a foreign jurisdiction, i.e. the American College to be operated by Xinhua US or such other foreign educational institution subject to the approval from the competent educational authorities established by the Group that acts as the foreign investor for the establishment of a Sino-Foreign Joint Venture Private School for formal higher education is in compliance with the general requirements of the existing PRC laws.

Furthermore, the Group has undertaken to the Stock Exchange that the Group will:

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

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

3. *Draft Foreign Investment Law and the Explanatory Notes*

The Ministry of Commerce ("MOFCOM") published a discussion draft of the proposed Foreign Investment Law in January 2015 aiming to, upon its enactment, replace the major existing laws and regulations governing foreign investment in China. While the MOFCOM solicited comments on this draft in early 2015, substantial uncertainties exist with respect to its enactment timetable, interpretation and implementation. The Draft Foreign Investment Law, if enacted as proposed, may materially impact the entire legal framework regulating foreign investments in China.

Among other things, the Draft Foreign Investment Law purports to introduce the principle of "actual control" in determining whether a company is considered a foreign invested enterprise, or an foreign invested entity ("FIE"). The Draft Foreign Investment Law specifically provides that entities established in China but "controlled" by foreign investors will be treated as FIEs, whereas an entity organized in a foreign jurisdiction, but confirmed by the authority in charge of foreign investment as "controlled" by PRC entities and/or citizens, would nonetheless be treated as a PRC domestic entity for investment in the "restricted category" on the "negative list" to be issued subject to the examination of the relevant authority in charge of foreign investment. For these purposes, "control" is broadly defined in the draft law to cover any of the following summarized categories:

(i) holding directly or indirectly 50% or more of the equity interest, assets, voting rights or similar equity interest of the subject entity;

(ii) holding directly or indirectly less than 50% of the equity interest, assets, voting rights or similar equity interest of the subject entity but (a) having the power to directly or indirectly appoint or otherwise secure at least 50% of the seats on the board or other equivalent decision making bodies, (b) having the power to secure its nominated person to acquire at least 50% of the seats on the board or other equivalent decision making bodies, or (c) having the voting power to exert material influence over decision-making bodies, such as the shareholders' meeting or the board; or

(iii) having the power to exert decisive influence, via contractual or trust arrangements, over the subject entity's operations, financial, staffing and technology matters.

In respect of "actual control", the Draft Foreign Investment Law looks at the identity of the ultimate natural person or enterprise that controls the foreign-invested enterprise. "Actual control" refers to the power or position to control an enterprise through investment arrangements, contractual arrangements or other rights and decision-making arrangements. Articles 19 of the Draft Foreign Investment Law defined "actual controllers" as the natural persons or enterprises that directly or indirectly control foreign investors or foreign-invested enterprises.

If an entity is determined to be an FIE, and its investment amount exceeds certain thresholds or its business operation falls within a "negative list" to be separately issued by the State Council in the future, market entry clearance by the authority in charge of foreign investment would be required.

The "variable interest entity" structure, or VIE structure, has been adopted by many PRC-based companies, and has been adopted by the Company in the form of the Structured Contracts, to establish control of the PRC Operating Schools and the School Sponsor by Xinhua WFOE, through which the Group operates the education business in the PRC. Under the Draft Foreign Investment Law, variable interest entities that are controlled via contractual arrangements would also be deemed as FIEs, if they are ultimately "controlled" by foreign investors. For companies with a VIE structure in an industry category that is in the "restricted category" on the "negative list," it is possible that the existing VIE structure may be deemed legitimate only if the ultimate controlling person(s) is/are of PRC nationality (either PRC state-owned enterprises or agencies, or PRC citizens). Conversely, if the actual controlling person(s) is/are of foreign nationalities, then the variable interest entities will be treated as FIEs and any operation in the industry category on the "negative list" without market entry clearance may be considered as illegal.

Pursuant to the Draft Foreign Investment Law, as far as the new VIE structures are concerned, if a domestic enterprise under the VIE structure is controlled by Chinese nationals, such domestic enterprise may be treated as a Chinese investor and therefore the VIE structures may be regarded as legal. However, if the domestic enterprise is controlled by foreign investors, such domestic enterprise may be treated as a foreign investor or foreign-invested enterprise, and therefore the operation of such domestic enterprise through VIE structures may be regarded as illegal if the domestic enterprise operates in a sector which is on the Negative List and the domestic enterprise does not apply for and obtain the necessary permission.

The Draft Foreign Investment Law stipulates restriction of foreign investment in certain industry sectors. The "negative list" set out in the Draft Foreign Investment Law classified the relevant prohibited and restricted industries into the Catalogue of Prohibitions and the Catalogue of Restrictions, respectively.

Foreign investors are not allowed to invest in any sector set out in the Catalogue of Prohibitions. Where any foreign investor directly or indirectly holds shares, equities, properties or other interests or voting rights in any domestic enterprise, such domestic enterprise is not allowed to invest in any sector set out in the Catalogue of Prohibitions, unless otherwise specified by the State Council.

Foreign investors are allowed to invest in sectors set out in the Catalogue of Restrictions, provided that the foreign investors are required to fulfil certain conditions and apply for permission before making such investment.

Notwithstanding that the accompanying explanatory notes to the Draft Foreign Investment Law (the "Explanatory Notes") do not provide a clear direction in dealing with VIE structures existing before the Draft Foreign Investment Law becoming effective, which is still pending for further study, the Explanatory Notes contemplate three possible approaches in dealing with foreign-invested enterprises with existing VIE structures and conducting business in an industry falling in the Negative List:

(a) to make a declaration to the competent authority that the actual control is vested with Chinese investors, then the VIE structures may be retained for its operation;

(b) to apply to the competent authority for certification of its actual control vested with Chinese investors and upon verification by the competent authority, the VIE structures may be retained for its operation;

(c) to apply to the competent authority for permission and the competent authority together with the relevant departments shall make a decision after taking into account the actual control of the foreign-invested enterprise and other factors.

Where foreign investors and foreign-invested enterprises circumvent the provisions of the Draft Foreign Investment Law by entrusted holding, trust, multi-level reinvestment, leasing, contracting, financing arrangements, protocol control, overseas transaction or otherwise, make investments in sectors specified in the Catalogue of Prohibitions, or make investments in sectors specified in the Catalogue of Restrictions without permission or violate the information reporting obligations specified therein, the penalty shall be imposed in accordance with Article 144 of (Investments in Sectors Specified in the Catalogue of Prohibitions), Article 145 (Violation of Provisions on Access Permission), Article 147 (Administrative Legal Liability for Violating the Information Reporting Obligation) or Article 148 (Criminal Legal Liability for Violating the Information Reporting Obligation) of the Draft Foreign Investment Law, as the case may be.

Where foreign investors make investments in the sectors specified in the Catalogue of Prohibitions, the competent authorities of foreign investment of the people's governments of provinces, autonomous regions and municipalities directly under the Central Government at the place where the investments are made shall order them to cease the implementation of such investments, dispose of equity or other assets within a prescribed time limit, confiscate illegal gains, if any, and impose a fine of not less than RMB100,000 but not more than RMB1 million or of not more than 10% of illegal investments.

Where foreign investors make investments in the sectors specified in the Catalogue of Restrictions without authorization, the competent authorities of foreign investment of the people's governments of provinces, autonomous regions and municipalities directly under the Central Government at the place where the investments are made shall order them to cease the implementation of such investments, dispose of equity or other assets within a prescribed time limit, confiscate illegal gains, if any, and impose a fine of not less than RMB100,000 but not more than RMB1 million or of not more than 10% of illegal investments.

Where foreign investors or foreign-invested enterprises are in violation of the provisions of the Draft Foreign Investment Law, including failing to perform on schedule, or evading the performance of, the information reporting obligation, or concealing the truth or providing false or misleading information, the competent authorities of foreign investment of the people's governments of provinces, autonomous regions and municipalities directly under the Central Government at the place where the investments are made shall order them to make rectifications within a prescribed time limit; if they fail to make rectifications within the prescribed time limit, or the circumstances are serious, a fine of not less than RMB50,000 but not more than RMB500,000 or of not more than 5% of the investments shall be imposed.

Where foreign investors or foreign-invested enterprises are in violation of the provisions of the Draft Foreign Investment Law, including failing to perform on schedule, or evading the performance of, the information reporting obligation, or concealing the truth or providing false or misleading information, and if the circumstances are extremely serious, a fine shall be imposed on the foreign investors or foreign-invested enterprises and the directly responsible person-in-charge and other persons liable shall be sentenced to fixed-term imprisonment of not more than one year or criminal detention.

If the Draft Foreign Investment Law is promulgated in the current draft form, on the basis that (i) Mr. Wu, who is of Chinese nationality, will indirectly control approximately 71.78% as at the Listing Date; (ii) the Company through Xinhua WFOE exercises effective control over the PRC Operating Schools and the School Sponsor pursuant to the Structured Contracts; and (iii) Mr. Wu is of Chinese nationality, the Group's PRC legal advisors are of the view that the Group can apply for the recognition of the Structured Contracts as domestic investments and it is likely that the Structured Contracts will be considered as legal.

4. *Regulatory Updates – 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 in the National People's Congress, and was implemented on 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 any foreign investment activities are granted with the pre-establishment national treatment and shall follow the negative list 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 in to 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.

H. 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 Consolidated Affiliated Entities which engage in the operation of higher education services where the PRC laws and regulations currently restrict operation of 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.

1. *Risks associated with the arrangements*

The PRC government may find that the Structured Contracts do not comply with applicable PRC laws and regulations, which may subject the Group 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 obtains control over and derive the economic benefits from the PRC Consolidated Affiliated Entities, which may not be as effective in providing operational control as direct ownership. The registered owners of the PRC Consolidated Affiliated 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 may not be able to meet the qualification requirement, according to which the foreign investor in a Sino-foreign joint venture private school offering high school and higher education institution must be a foreign educational institution with relevant qualification that provides high quality education, holds less than 50% of the capital investment in the Sino-foreign joint venture private School and the domestic party shall play a dominant role. The Group's execution on the option to acquire school sponsor's interest of the PRC Consolidated Affiliated 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 Consolidated Affiliated 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 Consolidated Affiliated Entities may be subject to limitations on their ability to operate private education or make payments to related parties. The Group's ability to distribute dividends to its Shareholders may be limited due to the unclear definition of "reasonable returns" under PRC laws and regulations. Substantial uncertainties exist regarding the interpretation and application of the 2016 Decision, including treatments of schools in the PRC as non-profit schools or for-profit schools. If any of the Group's consolidated affiliated entities becomes subject to winding up or liquidation proceedings, the Group may lose the ability to enjoy certain important assets, which could negatively impact its business and materially and adversely affect its ability to generate revenue. For more details, please refer to the section headed "Risk Factors – Risks relating to our Structured Contracts" in the Prospects.

2. *Actions taken to mitigate the risks*

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

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

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

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

(d) the Company and its Directors undertake to provide periodic updates in its annual and interim reports regarding the Qualification Requirement and its 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", 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 Xinhua WFOE and the PRC Operating Schools and/or the School Sponsor to deal with specific issues or matters arising from the Structured Contracts.

In addition, notwithstanding that the non-executive Director, Mr. Wu, is also one of the Registered Shareholders, the Group 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 of Association includes provisions to avoid conflict of interest by providing, amongst other things, that in the event of conflict of interest in such contract or arrangement which is material, a Director shall declare the nature of his or her interest at the earliest meeting of the Board at which it is practicable for him or her to do so, and if he or she is to be regarded as having material interest in any contracts or arrangements, such Director shall abstain from voting and not be counted in the quorum;

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

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

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

I. Material changes

Save as disclosed above, as at 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.

J. Unwinding of the Structured Contracts

As at 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), Xinhua WFOE 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.

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

(3) Connected Lease

On 25 December 2018, School of Clinical Medicine, a school jointly operated by the Company and an independent third party, entered into a tenancy agreement ("Connected Lease") with Anhui New East Culinary Institute ("Anhui New East"), pursuant to which Anhui New East (as landlord) has agreed to lease a premise located at Guanjing Road, Xiangshan Road, Professional Education Town, Yaohai District Hefei, Anhui province, the PRC, to School of Clinical Medicine (as tenant) as campus for a term from 1 January 2019 to 31 July 2020 at a monthly rental of RMB600,000. The rental amount was determined based on arm's length negotiations between Anhui New East and School of Clinical Medicine with reference to the prevailing market price of comparable lease.

The Directors are of the view that the transactions contemplated under the Connected Lease are on normal commercial terms.

(4) Confirmation of independent non-executive Directors

The independent non-executive Directors have reviewed the Service Agreements, the Structured Contracts and the Connected Lease (collectively, the "Continuing Connected Transactions") on an annual basis to confirm that, during the relevant financial year:

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

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

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

(5) Confirmation of auditors of the Company

KPMG, the Company's auditor, has carried out procedures annually 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.

RELATED PARTY TRANSACTIONS

Details of the related party transactions entered into by the Group during the year ended 31 December 2018 are set out in note 25 to the consolidated financial statements.

The related party transactions with regard to the services fee and rented fee paid as set out in note 25 constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules. The Company confirmed that it has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

ENVIRONMENTAL PROTECTION AND SOCIAL RESPONSIBILITIES

As the well-known leading provider of higher education, the Group strikes to perform its social responsibilities in each major area for a sustainable basis with no exceptions in the fields of environmental protection. Primarily engaged in providing educational services, the Group regards the environment of materials recycling and energies saving as instrumental and desirable for the Group's business successes. The Group therefore advocates the business model with energy efficiency and linear progressions on establishing environmental friendly teaching and learning systems for the students and the teachers.

During the Group's business operations, students and teachers are monitored by the internal guidelines for saving utilities such as turning off electrical appliances, air-conditioning, idle lightings and the water taps whenever it is likely to incur unnecessary waste of electricity and water resources. In addition, the Group has implemented and promoted the online and digital teaching methods at the classrooms which drastically reduce the possibility of paper waster. As at 31 December 2018, the Group has not been subject to any fines or regulatory or legal sanctions as a result of any non-compliance with the applicable PRC Environmental laws and regulations in any material aspects. Supported by the directors and senior management's long term strategy of sustainable development, the Group will continuously maintain its demanding standard for environmental protections and performance of its social responsibilities to the community. For more details, please refer to our separate Environmental, Social and Governance ("ESG") Report in this annual report.

DONATIONS

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

SIGNIFICANT LEGAL PROCEEDINGS

During the year ended 31 December 2018, 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 2018 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.

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

The important events occurred since the year ended 31 December 2018 are disclosed in note 27 to the consolidated financial statements.

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 has reviewed the Group's audited consolidated financial statements for the year ended 31 December 2018.

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 65 to 75 of this annual report.

SUFFICIENCY OF PUBLIC FLOAT

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

AUDITOR

The financial statements have been audited by KPMG who shall retire at AGM and, being eligible, will offer itself for re-appointment. A resolution for the re-appointment of KPMG as auditor will be proposed at the AGM.

RECOMMENDATION TO CONSULT PROFESSIONAL TAX ADVICE

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

On behalf of the Board
Wu Junbao
Chairman
China, Anhui, 26 March, 2019

CORPORATE GOVERNANCE REPORT

The Board is pleased to present this Corporate Governance Report in the Company's annual report for the year ended 31 December 2018.

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 Corporate Governance Code as its own code of corporate governance. The Company has complied with all applicable code provisions under the CG Code during the period from the Listing Date and up to the date of this annual report. The Company will continue to review and monitor its corporate governance practices to ensure compliance with the CG Code.

THE BOARD

Responsibilities

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 one non-executive Director, three executive Directors and three independent non-executive Directors as follows:

Non-executive Director:
Mr. Wu Junbao

Executive Directors:
Mr. Zhang Ming
Mr. Lu Zhen
Mr. Wang Yongkai

Independent Non-executive Directors:
Ms. Zhang Kejun
Mr. Yang Zhanjun
Mr. Chau Kwok Keung

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

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

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

The Company 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 attendance record of professional training received by the Directors for the Reporting Period is as follows:

Name of Directors	Nature of continuous professional development programmes
Executive Directors	
Mr. Zhang Ming *(appointed on 31 October 2018)*	D
Mr. Lu Zhen	D
Mr. Wang Yongkai	D
Ms. Wang Li *(resigned on 31 October 2018)*	D
Non-Executive Director	
Mr. Wu Junbao	D
Independent Non-Executive Directors	
Ms. Zhang Kejun	D
Mr. Yang Zhanjun	D
Mr. Chau Kwok Keung	D

Notes:

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

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

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

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

Chairman and Chief Executive

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

Mr. Wu Junbao is the Chairman of the Board and also the non-executive Director of the Group, responsible for providing opinion and judgment to the Board, while other executive Directors are responsible for the day-to-day management and operation of the Group. As a result, the roles of the chairman and chief executive are separate and performed by different individuals.

Appointment and Re-election of Directors

Each of Mr. Zhang Ming, Mr. Lu Zhen and Mr. Wang Yongkai, being the executive Directors of the Company, has entered into a service contract with the Company for an initial fixed term of three years commencing from 31 October 2018, the Listing Date and the Listing Date, 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 the non-executive Director and independent non-executive Directors has entered into an appointment letter with the Company for an initial fixed term of one year commencing from the Listing Date and will continue thereafter until terminated by not less than three months' notice in writing by served by either party on the other, which notice shall not expire until the end of the fixed term.

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

Pursuant to article 83(3) of the Articles of Association, any Director appointed by the Board to fill a casual vacancy shall hold office only until the first general meeting of the Company after his appointment and shall then be eligible for re-election at such meeting.

Pursuant to article 84 of the Articles of Association, at each annual general meeting one-third of the Directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years.

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

Board Meetings

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

For other Board and Board Committee meetings, reasonable notice is generally given. The agenda and accompanying board papers are despatched to the Directors or Board Committee members at least three days before the meetings to ensure that they have sufficient time to review the papers and are adequately prepared for the meetings. When Directors or Board Committee members are unable to attend a meeting, they will be advised of the matters to be discussed and given an opportunity to make their views known to the Chairman prior to the meeting. Minutes of meetings are kept by the 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 2018, four Board meetings and one general meeting were held and the attendance of each Director at the Board meetings is set out in the table below:

Directors	Attended/Eligible to attend the Board meeting(s)	Attended/Eligible to attend the general meeting(s)
Mr. Wu Junbao	4/4	1/1
Mr. Zhang Ming *(appointed on 31 October 2018)*	2/2	N/A
Mr. Lu Zhen	4/4	1/1
Mr. Wang Yongkai	4/4	1/1
Ms. Wang Li *(resigned on 31 October 2018)*	2/2	1/1
Ms. Zhang Kejun	4/4	1/1
Mr. Yang Zhanjun	4/4	1/1
Mr. Chau Kwok Keung	4/4	1/1

Model Code for Securities Transactions ("Model Code")

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 from the Listing Date. 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 period from the Listing Date to the date of this annual report.

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

Delegation by the Board

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

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

Corporate Governance Function

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

(a) reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements;

(b) reviewing and monitoring the training and continuous professional development of Directors and senior management;

(c) developing, reviewing and monitoring the code of conduct and compliance manual applicable to employees and Directors;

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

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

(f) reviewing and monitoring the Company's compliance with the Company's whistleblowing policy.

BOARD COMMITTEES

Audit Committee

The Audit Committee comprises three members, two independent non-executive Directors namely Mr. Chau Kwok Keung (chairman) and Ms. Zhang Kejun, and the non-executive Director namely Mr. Wu Junbao.

The principal duties of the Audit Committee include the following:

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

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

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 2018, two meetings were held by the Audit Committee. The individual record of each member of the Audit Committee at the meetings of the Audit Committee is set out below:

Name of the Directors	Attendance/Number of committee meeting(s)
Mr. Chau Kwok Keung (Chairman)	2/2
Mr. Wu Junbao	2/2
Ms. Zhang Kejun	2/2

The Group's unaudited financial results for the six months ended 30 June 2018 and the audited annual results for the year ended 31 December 2017 have been reviewed by the audit committee, which was of the opinion that the preparation of the relevant financial statements complied with the applicable accounting standards and requirements and that adequate disclosure has been made. The audit committee has also reviewed the accounting principles and practices adopted by the Group, and selection and appointment of the external auditors. In addition, the audit committee reviewed the internal control of the Group and oversaw the risk management and internal control systems of the Group during the year of 2018.

Nomination Committee

The Nomination Committee currently comprises three members, including the non-executive Director namely Mr. Wu Junbao (chairman) and two independent non-executive Directors namely Ms. Zhang Kejun and Mr. Yang Zhanjun.

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.

During the year ended 31 December 2018, one meeting was held by the Nomination Committee. The individual record of each member of the Nomination Committee at the meeting of the Nomination Committee is set out below:

Name of the Directors	Attendance/Number of committee meeting(s)
Mr. Wu Junbao (Chairman)	1/1
Ms. Zhang Kejun	1/1
Mr. Yang Zhanjun	1/1

During the period from the Listing Date to 31 December 2018, the nomination committee reviewed the structure, size and composition of the Board.

Remuneration Committee

The Remuneration Committee comprises three members, including two independent non-executive Directors namely Ms. Zhang Kejun (chairman) and Mr. Yang Zhanjun, and the non-executive Director namely Mr. Wu Junbao.

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 2018, one meeting was held by the Remuneration Committee. The individual record of each member of the Remuneration Committee at the meeting of the Remuneration Committee is set out below:

Name of the Directors	Attendance/Number of committee meeting(s)
Ms. Zhang Kejun (Chairman)	1/1
Mr. Wu Junbao	1/1
Mr. Yang Zhanjun	1/1

During the period from the Listing Date to 31 December 2018, the remuneration committee reviewed the remuneration packages of the Directors and senior management.

Remuneration of Directors and Senior Management

Details of the remuneration by band of the members of the Board of the Company, whose biographies are set out on pages 23 to 31 of this annual report, for the year ended 31 December 2018 are set out below:

Remuneration band	Number of individual
NIL – HKD1,000,000	8

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 2018 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 page 108 of this annual report.

INTERNAL CONTROL

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

The Board has conducted a review of the effectiveness of the internal control system of the Group and noted that the Company has established an internal control department and each of the schools has designated the relevant personnel who will be responsible for monitoring our on-going compliance with the relevant PRC laws and regulations that govern the business operations and overseeing the implementation of any necessary measures. In addition, the Company has adopted a set of internal rules and policies governing the conduct of the employees, including teachers and personnel performing other functions, and also set up a monitoring system to implement anti-bribery and anti-corruption measures so as to ensure that our employees comply with our internal rules and policies as well as the applicable laws and regulations. Therefore the Board considered the internal control system is effective and adequate.

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 2018 was approximately as follows:

Type of Services	Amount (RMB'000)
Audit services	2,505
Non-audit services	–
Total	2,505

COMPANY SECRETARY

Mr. Wong Yu Kit as the company secretary of the Company, an assistant vice president of SWCS Corporate Services Group (Hong Kong) Limited, a company engaged in the business of providing corporate services, 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. His primary contact person at the Company is Mr. Wang Yongkai, an executive Director.

For the year ended 31 December 2018, Mr. Wong Yu Kit 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 chairperson of the Board Committees of the Company will attend the annual general meetings to answer Shareholders' questions. The auditor will also attend the annual general meetings to answer questions about the conduct of the audit, the preparation and content of the auditor's report, the accounting policies and auditor independence.

To promote effective communication, the Company adopts a shareholders' communication policy which aims at establishing a two-way relationship and communication between the Company and the Shareholders and maintains a website of the Company at (www.chinaxhedu.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 40th Floor, Sunlight Tower, No.248 Queen's Road East, Wan Chai, Hong Kong.

CHANGE IN CONSTITUTIONAL DOCUMENTS

The Company has adopted the amended and restated memorandum of association on 8 March 2018 with immediate effect and articles of association on 8 March 2018, with effect from the Listing Date. There was no change in the memorandum and articles of association of the Company during the period from the Listing Date to the date of this annual report.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ABOUT THE REPORT

This Environmental, Social and Governance Report (the "ESG Report") summarizes the performance of China Xinhua Education Group Limited ("Xinhua Education" , the "Group" or "we") in implementing the sustainable development strategy that benefits the environment and the society and formulating the strict rules of corporate governance to create a better corporate operation environment in 2018.

Basis of Preparation

This ESG Report has been prepared in accordance with the disclosure obligations depicted in the Environmental, Social and Governance Reporting Guide (the "Guide") set out in Appendix 27 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The policies, measures and performances implemented by Xinhua Education during the 2018 financial year have been contained in the ESG Report. In addition, this ESG Report shall be read together with the section of "Corporate Governance Report" in the Annual Report to efficiently know more about our corporate governance information. This ESG Report is prepared in both English and Traditional Chinese versions, and in case of any discrepancy, the Traditional Chinese version will prevail.

Reporting Scope and Period

Unless otherwise specified, this ESG Report summarizes the sustainable development strategies of the Group from 1 January 2018 to 31 December 2018 (the "Year" or the "Reporting Period"). In order to provide readers with a comprehensive understanding of the Group's performance in the environmental and social subject areas, the ESG Report has covered the environmental key performance indicators (KPIs) of two schools operated by the Group, namely Xinhua University and Xinhua School (the "Schools"), as well as the social KPIs of the Group, and where applicable, data of the previous year have been used for comparison.

Information and Feedback

We attach great importance to your points of view about this ESG Report, so if you have any questions or suggestions, please don't hesitate to contact us by the following means.

Address: No.555 West Wangjiang Road, High-tech Development Zone, Hefei, Anhui Province
E-mail: xhjtbgs@xhgroup.cn
Tel: 0551-65872266

SUSTAINABLE DEVELOPMENT CONCEPT

During operation of its education business, Xinhua Education instills the importance of adhering to the sustainable development concept and being responsible to society to the next generation. Anhui Xinhua University has been honored as the largest private undergraduate education provider in the Yangtze River Delta. The Group, acting as a leader in this sector, draws attention from society with its every move. Therefore, our Schools' policies are closely associated with our sustainable business operation strategies, aiming at minimizing the negative impacts on the environment, safeguarding the employees' welfare and contributing to the community.

Governing the Schools by Experts

Establishing the planning system, recruitment system, training system, employees' relationship system and professional career system, etc.

Prospering the Schools by Talents

Building a "Nationally Well-known and High-level Application-oriented University with Distinct Characteristics"

Schools' Policies

Facilitating Quality Education

Facilitating quality education comprehensively by adhering to the ideas of Preserving One's Morality, and developing Entrepreneurship and Cultivating Talents"

Building a Strong Characteristic Schools

Inspiring the students' awareness of protecting the environment and contributing to the society

Stakeholder Engagement

The Group has been engaging with the stakeholders in an effective, comprehensive and transparent manner. Meanwhile, we identify the issues they concern to better prepare for future challenges. The following shows the main engagement approaches between Xinhua Education and the stakeholders:

Major Stakeholders	Main Engagement Channels
Government/Industry Associations	Consultation, organizing events for the industry, lectures, schools' rating, schools' visiting
Shareholders/Investors	Annual general meeting of shareholders and other general meetings of shareholders, interim and annual report, corporate communications, such as letters/circulars to shareholders and meeting notices, result announcement, visits of shareholders, meetings of investors, environmental, social and governance (ESG) meetings, meeting interviews, etc.
Teachers/Other employees	Employees' survey, channels for employees to express opinions (questionnaire, suggestion box, etc.), work performance evaluation, group discussion, meeting interview, work performance interview, business briefing, special advisory committee/special discussion group, seminars/workshops/lectures, journals (e.g., employee communications), employee communication conferences, employee Intranet

Major Stakeholders	Main Engagement Channels
Students/Parents	Feedback in the class, satisfaction survey, regular visit, education fair, parents' meeting, online platform, phone, e-mail
Alumni	Media information, school website, alumni gatherings, alumni activities organized by the Schools
Community/Non-governmental organizations (NGO)	Volunteering activities, donations, education fund/scholarship, community activities, seminars/lectures/workshops, meetings
Environment	Environmental education, disclosure of the environmental information, green teaching, working group
Business partners	Strategic cooperation projects, exchange activities, education fair, meetings, visits, lectures
Media	News release, press conferences, interviews of senior management, result announcement

Environmental, Social and Governance Working Group

The composition of the Environmental, Social and Governance Working Group (the "ESG Working Group") shows the Group's emphasis on sustainable development, and it plays an important role in enhancing communication with internal and external stakeholders.

Role	Responsibilities
The Board	• Overall responsibility for the ESG risk performance, strategy and reporting; • Evaluate and define ESG risks; • Ensure to set up a suitable and effective ESG risk management and internal monitoring system to reduce risks; • Supervise and guarantee operations with compliance
ESG Working Group	• Formulate policies or measures and submit to the Board for approval; • Report to the Board about the effectiveness of policies or measures that already implemented; • Provide corresponding improvement suggestions to the Board according to the sustainable development trends and the stakeholders' opinions
Employees of the Group	• Implement the policies or measures approved by the Board; • Reflect the potential improvements of the policies or measures to the ESG Working Group

In the future, we would encourage more employees to participate in enhancing the Group's environmental and social performance, and we expect the gradual enhancement would gain recognition and receive compliments from employees, students, parents, and society.

QUALITY EDUCATION

In order to develop the school policy of quality education, we have been making efforts to improve our teaching quality, creating favorable education environment. We attach the importance to exchanging the teaching opinions as to improve the teaching quality monitoring system, construct a healthy and safe campus, and protect information security and intellectual property rights, so as to further establish the internal control system and the supplier management to operate the business in a sustainable way.

Guaranteeing the Teaching Quality

In order to strengthen the teaching quality monitoring, the Group has formulated the "Implementation Measures of Xinhua University for Monitoring and Guaranteeing of the Teaching Quality" (《安徽新華學院教學質量監控與保障實施辦法》) in accordance with the "National Standards for Teaching Quality of Undergraduate Disciplines in Regular Institutions of Higher Education" (《普通高等學校本科專業類教學質量國家標準》) and the "Opinions on Accelerating the Construction of High-level Undergraduate Education and Comprehensively Improving the Talent Cultivation Capability" (《關於加快建設高水平本科教育全面提高人才培養能力的意見》) issued from the Ministry of Education.

We adopt the mode of "Self-monitoring, Self-improving and Virtuous Cycle" to strengthen diagnosis, incentive, supervision and guidance in the aspects of "School Construction, Management, Teaching and Learning" to promote continual improvements and advancements of our teaching work. The Group further advances the education and teaching reform through the "Three levels, Four Supervisions and Five Systems" and establishes the long-term mechanism of standardized teaching management, with an effort to constantly stabilizing and improving the teaching quality. Apart from self-assessments, we also receive the supervisions, inspections and various assessments from the government and supervisory authorities on our teaching work. In addition, we also invite the third-party teaching evaluation agencies to carry out objective evaluations and monitoring on our teaching quality. Moreover, we will accept opinions of the media and the public, treat the professional feedbacks seriously, and make proper adjustments and improvements.

"Three Levels, Four Supervisions and Five Systems"

Three Levels	Four Supervisions	Five Systems
• A management organization for monitoring and guaranteeing teaching quality • All the Schools, colleges (departments) and divisions (teaching and research section) have the corresponding responsibilities for teaching quality monitoring and guarantee	• Four supervision modules of school construction, management, teaching and learning • Guaranteeing the teaching quality by supervisions, evaluations and rectifications	• Operating the teaching objectives system, quality standard system, teaching information system, teaching evaluation system and teaching control system

Attaching Importance to Communicating Opinions

Xinhua Education accepts all parties' opinions, especially from students and their parents in an open manner, and listens to their attentions via different communication channels. During the Reporting Period, 24 complaints relating to education services have been received, but all have been solved timely with 100% handling rate. Our future target is to reduce the number of complaints, increase the use of satisfaction survey to collect opinions and evaluate the improvements of the education.

Communication between parents and schools

Parents pay close attention to the issues of school policies, prospects, students' life in campus and safety, etc. In view of this, we try to promote better information communication between the schools and parents. The Schools will hold the parent-teacher meetings for new students at the beginning of each semester, enabling the parents to have a deep understanding of the curriculum planning and knowing more about the expectations of all parties via the question and answer session. When the students are at the Schools, their head teachers would communicate the students' performance at school to parents by phone call or messages from time to time. In addition, the Schools hold parents' meetings regularly, providing chances for parents to have face-to-face communication with teachers, further increasing the effectiveness of education and facilitating students' growth and development.

Handling the opinions of students

Xinhua Education has formulated the "Measures of Anhui Xinhua University for Handling Students' Complaints" (《安徽新華學院學生申訴處理辦法》) in accordance with the "Education Law of the People's Republic of China" (中華人民共和國《教育法》) and the "Regulations for Administration of Students in Regular Institutions of Higher Education" (《普通高等學校學生管理規定》). When students are unsatisfied with the handling results of any violations, they can lodge a complaint according to the Measures. The Students' Complaints Handling Committee would accept the cases within its specified boundary as soon as possible. They would gather several school representatives to hold a special meeting for independent investigation if the information is adequate and available. If the students still have objection against the review decision, they may lodge a complaint to the provincial education department. This coincides with our governance concept to manage Schools according to laws.

Maintaining Information Security

In order to maintain the information security of the Group, teachers and students, they are required to follow the "Administrative Regulations of Xinhua Group for Confidentiality" (《新華集團保密工作管理規定》). The Group's shall impel information security and reduce the risk of data disclosure based on the principle of "Mitigating Positively, Highlighting the key points and Managing Strictly".

Confidentiality Measures

In terms of the confidentiality, the Group takes the following measures to ensure the files in the database are sufficiently protected:

- The senior management or confidentiality-related staff shall sign the confidentiality undertaking during the orientation period. They are required to uptake the confidentiality responsibilities during their job period or after dismission;

- The drafting, discussing, countersigning, printing, copying and distributing of any confidential documents and files will be supervised, and such documents or files will be kept in the cabinets appropriately;

- Any files involving internal information shall be treated by paper shredder and shall not be sold as waste paper; a list shall be prepared before destroying any confidential data, and such destruction shall be monitored by two people with approval; special technicians will be appointed to eliminate the stored data thoroughly to dispose the waste computing equipment involving confidential memories;

- Any disclosures or potential disclosure of the confidential information shall be timely reported to the responsible person for taking remedial measures; and

- Correct any problems found through routine supervision.

Intellectual Property Rights

We attach great importance to academic integrity, strictly abide by the "Copyright Law of the People's Republic of China" (《中華人民共和國著作權法》), and adopt the zero-tolerance attitude to the act of plagiarism. Students and teachers shall indicate the source of reference while writing as to perform the due moral values of the education industry. In addition, the Group is committed to protecting the joint academic research results achieved by students and teachers. In accordance with the "Administrative Measures for Scientific Research Projects of Xinhua University" (《安徽新華學院科研項目管理辦法》), a project contract needs to be signed for the scientific research projects involving the cooperation with third parties, with the terms and conditions including confidentiality of technical information and data, ownership and proceeds of technical achievements, ensure the cooperative projects run according to contracts to safeguard the Group's benefits.

Building a Healthy Campus

Xinhua Education is devoted to creating healthy and safe campus environment for students and teachers. During the Year, we have held a series of events to enhance the students and teachers' awareness of health and safety. During the Reporting Period, no work-related fatalities have occurred within the Group.

Mental Health Survey on New Students

We pay particular attention to the mental health of students. We can gain comprehensive understanding of the mental health condition of new students via the mental health survey, and improve the quality of the scientific and targeted mental education work. New students can complete the survey accurately under the patient instructions and guidance of the trained counselors. We have also established mental heath files for students to follow-up cases conveniently, achieving timely discovery and prevention, and raising their mental health consciousness.

Medical Service Management of the Infirmary

The infirmary operated by the Schools has obtained the "Practice License of Medical Institution" (《醫療機構執業許可證》), which can provide medical treatment and physical examination services for students and employees, so as to offer a powerful support for their physical and mental health. The medical equipment and professional medical care team in the infirmary can ensure the quality of medical service and maintain the life security of patients. Upon any difficulties and complicated cases that require for further diagnosis or emergency treatment, the infirmary would cooperate closely with and send the patients to the nearby hospital instantly in order not to miss the best treatment opportunity.

Safety of School Canteens

The school canteens are operated in strict accordance with the standards to ensure the dining safety of students and employees. We inspect the canteens mutually, hold student discussion forums etc. to collect feedbacks and implement the measures for strengthening food safety and environmental health, including:

- The canteens and the practitioners shall hold the hygiene licenses of food operation and health certificates;
- Regulate to get the delivery proof of raw food material and standardize the procedures to conduct acceptance testing before storage;
- The tableware shall be sterilized by special people and the meal sampling records shall be conducted every day;
- Purchase the raw food materials that are safe, uncontaminated, free of germs and possessing inspects with quarantine certificates, and store sanitation permit environment;
- Produce and sell the food in the hygienically and safe environment;
- Avoid the food from being contaminated during the selling process; and
- Cooperate with the State Food and Drug Administration (食品藥品管理局) for sampling inspections of the processed raw materials every semester.

Mental Health Training Themed with "Being Wise Women and Creating a Happy Life"

We emphasize mental health and self-adjustment capability of female employees and expect them to realize themselves, understand others and know about the world. In this Year, we organized a Mental Health Training Themed with "Being Wise Women and Creating a Happy Life". The lecturer demonstrated the methods for being wise women with real examples in the five aspects of "People Are Wonderful Because of Uniqueness", "Discovering Your Own Shining Points", "Accepting Your Own Imperfections", "Transcending Pessimistic And Building Self-confidence" and "Relieving Pressure in A Timely Manner". The lecturer presented the problems faced by modern women, such as "How to Deal With the Relationship with Others And the World" and "How to Re-examine the Parent-child Relationship from the Psychological Perceptive", and analyze such problems from women's perspective. Teachers who participated have mastered lots of practical psychological educational techniques and methods in the lectures, and to inspire them the role of guidance, reminding, interpretation and accompanying the students, which have laid a solid foundation for carrying out our education work effectively.

Improving the Internal Control System

As an educational institution, we have been setting a good example in instilling correct moral values to students, and requiring our employees abide by the "Administrative Regulations of Xinhua Investment Group for Anti-corruption Construction" (《新華投資集團廉政建設管理規定》) and "Administrative Regulations of Xinhua Group for Complaining and Whistle-Blowing" (《新華集團投訴舉報管理規定》) strictly. As to ensure our employees abide by the rules and laws, we arrange the new employees to learn Administrative Regulations during the on-boarding period. During the Reporting Period, the Group has not involved in any corruption case.

Anti-Corruption Construction and Management

The Group adopts a zero-tolerance attitude to fraud, money laundering, extortion, bribery, embezzlement of public funds and other unprofessional conducts. As stipulated in the "Administrative Regulations of Xinhua Investment Group for Anti-Corruption Construction" (《新華投資集團廉政建設管理規定》), the employees shall treat every student in a fair and equitable manner during teaching, and adopt appropriate punishments for any of their misconducts according to the anti-corruption construction responsibility mechanism. In terms of the mitigation measures, the Schools will arrange employees to conduct self-inspection every year. When significant violation is discovered, and the person in charge will personally supervise and submit to the Audit & Supervision Department for further investigation in writing. Moreover, employees shall read and perform according to the "Employee Commitment to Clean and Hones Practices" (《員工廉潔從業承諾書》) before on-boarding, so as to intensify their awareness of anti-corruption responsibility, and observe professional ethics based on the clean practice principle.

Complaining and Whistle-Blowing Management

The Group tries to find out, deal with and manage any hidden trouble timely in accordance with the "Administrative Regulations of Xinhua Group for Complaining and Whistle-Blowing" (《新華集團投訴舉報管理規定》) and aims to strengthen the internal control and monitoring mechanism, and facilitate the healthy development of the Group's business. The Audit & Supervision Department of the Group is mainly responsible for collecting and accepting the whistle-blowing cases via the whistle-blowing channels such as phone call, e-mail, letter and visit. We promise to keep every whistle-blowing case confidential and appoint special people to obtain evidence, investigate and handle the case fairly and objectively, and provide feedbacks within the time limit. Any investigator, who is found of neglecting any investigation item or disclosing any complaining and whistle-blowing information, will be punished correspondingly. The Chairman will review the summary of the complaints' handlings every month, and supervise whether the investigators have handled the cases in a fair and just manner. The Group will also hold regular meetings to monitor the implementation of the complaint management and correct any problems timely.

Supplier Management

The Group has its importance to conduct the procurement according to laws under the principles of high efficiency and risk evasion. The Group's suppliers mainly from Anhui, Beijing and Shenzhen, providing products and services such as teaching materials, multi-media, books, lab equipment, etc. The Group attaches great importance to the green and responsible procurement, and will check the potential suppliers whether to reduce the environmental impact, corporate governance, labour condition and code of ethics, so as to achieve the sustainable supply chain with suppliers.

The Group selects the suppliers in accordance with the "Administrative Regulations of Xinhua Group for Selecting and Evaluating the Procurement Suppliers" (《新華集團採購供應商選擇與評估管理規定》). The Procurement Department and the Development Survey Team will ensure with a fair and transparent selection process through collecting suppliers' information through public channels and requiring them to provide samples; the user departments will then carry out appraisal and evaluation according to the quality, process, technique, specifications, model and materials of the samples. Detailed archives will be established for any selected suppliers to facilitate the regular review and assessment in future. After extending the cooperation with the suppliers, we will supervise their performance through annual assessment. Suppliers will be rated according to the assessment results, such as quality defection, reject rate, delivery date delay rate, quantity error rate and failure in timely delivery. Such rating will affect whether or not the suppliers can be put into the list of eligible suppliers in the following year.

TEACHING TEAM

In the education sector, an excellent teaching team is required for realizing the strategic objective of "Governing the School by Experts". We treat every teachers as our precious assets. In our human resources planning and "Administrative Regulations of Anhui Xinhua University for Introducing High-level Talents" (《安徽新華學院高層次人才引進管理辦法》), we have established the trainings, employee relationship and professional career systems etc. to recruit, cultivate and retain the employees.

An Excellent Teaching Team

The Group positively implements the "Construction of an Excellent Teaching Team" in the "Thirteenth Five-Year Development Planning of Xinhua University" (《安徽新華學院"十三五"發展規劃》), including deploying core positions of the Group, recruiting external talents of the education sector, establishing a sustainable team, and continually enhancing the brand.

The Construction of High-level Talents Team Hits a Record High

Due to the introduction mechanism of high-level talents and the headhunting method, the construction of high-level talents team has made remarkable achievements. During the Reporting Period, the Group has totally recruited 37 high-level talents (a record high) with doctor's degree and sub-senior professional titles or above, 3 new foreign teachers and 50 self-recruited professors and associate professors, with the total number of teachers with senior professional titles up to 189.

Honors of Teachers

Winners	Award-winning Projects
1 student administer	Excellent Youth Worker for Mental Health Education for University Students in 2015-2018 (2015-2018年度大學生心理健康教育工作優秀青年工作者)
2 teachers of the Communication Engineering	First Prize in the Construction Contest for Application-Oriented Teaching Connotations Project of Private Universities in the Yangtze River Delta (長三角民辦高校應用型教學內涵項目建設大賽榮獲一等獎)
Ling Chen	Excellent Youth Worker for Mental Health Education of University Students in 2015-2018 (2015-2018年度大學生心理健康教育工作優秀青年工作者)
Tong Xiaohui Ling Chen	First Prize in the Competition of Academic Papers of Mental Health Education of University Students in Anhui Province (安徽省大學生心理健康教育學術論文評審一等獎)

Fair Employment Standard

The Group has formulated the "Administrative Regulations of Anhui Xinhua University for Recruitment" (《安徽新華學院招聘管理規定》) in accordance with the "Labour Law" (中華人民共和國《勞動法》) and "Labour Contract Law" (《勞動合同法》). The Group conducts the recruitment and hiring process in fair and just manner as well as treating the employees equally during their employment period. The Group establishes a diversified and anti-discrimination working environment, where all employees can obtain respect.

We have designed the comprehensive recruitment procedures (as shown below). The Human Resources Department will carry out recruitment work according to the approved recruitment plan, and release the recruitment information through appropriate channels. We promise to recruit talents based on the principles of equal competition and person-job matching, without considering such factors as gender, disability, pregnancy, family condition, race, religion, age, sex or nationality.

First interview	Second interview	Background survey	Signing the letter of intent to recruitment
Human Resources Department and employing department	Leaders of the University, Human Resources and employing department	Human Resources Department	Human Resources Department
Know about comprehensive quality of the candidates and test their professional skills by written examination, trial lecturing and skills demonstration	The second interview team and responsible leaders determine the recruitment of candidates through discussion	Check the authenticity of the education and working experience of candidates, the records of violations, background of family members, etc.	Safeguard the rights and interests of the candidates and the Group

We strictly abide by the labour standards. The recruitment information clearly states that the candidates must be aged 18 years or above, of which child labour is strictly forbidden. In addition, the Group adopts the zero-tolerance attitude to the case that the employees are forced to work against their will. We care about employees' satisfaction and strongly encourage work-life balance. Therefore the working hours and rest period are stated in the employment contract of each employee. During the Reporting Period, no illegal case related to recruitment of child or forced labour has occurred to the Group.

Improving Welfare and Benefits

The Group has formulated the "Implementation Measures for Administration of the Employees' Welfare of Anhui Xinhua University" (《安徽新華學院教職員福利管理實施辦法》), and provided attractive remuneration schemes with all kinds of welfare. We also review the policies regularly according to market conditions, which help recruit more talents and retain the excellent employees.

We ensure the employees enjoy various statutory welfare in accordance with the "Implementation Measures for Administration of the Employees' Welfare of Anhui Xinhua University" (《安徽新華學院教職員福利管理實施辦法》), including statutory holidays, marital leave, funeral leave and maternity leave. Benefits will also be distributed during particular holidays. In addition, the Group will buy the "Social Insurance and Housing Accumulation Fund" ("五險一金") – basic endowment insurance, basic medical insurance, work-related injury insurance, maternity insurance, unemployment insurance and housing accumulation fund as well as the school liability insurance for employees who are protected by the employment rules. During the employment period, employees can enjoy regular and free of charge physical examination, and the employees with no house can be guaranteed to live in the school free of charge for one year. In terms of remuneration, the Group constructs the position-salary chart and determines the annual remunerations of employees based on the value, experience and qualifications of job positions, as well as development stage and market competition, and rewards the employees for their contributions and efforts made to the Group.

We deeply believe that teamwork activities can increase the cohesion of employees. Every year, we allocate funds to organize the approved or proposed activities by employees, including recreational and sports activities, cultural trainings, symposiums, themed salons, outward trainings, etc., so as to enrich their knowledge, help them maintain the work-life balance, and improve their working efficiency. In future, we will make proper adjustments to administrative measures by listening to the opinions of employees and reviewing the welfare already provided, so as to increase their protection.

Cultivating the Teaching Staff

Talent cultivation with innovation model is one of three characteristic construction goals specified in the "Thirteenth Five-Year Development Planning of Xinhua University" (《安徽新華學院"十三五"發展規劃》). We have also invested sufficient resources in employee training and development. The Group has actively made career development planning for new and existing employees as to enhance their working skills and professional quality. The Academic Affairs Division, Scientific Research Division, Students' Affairs Division and other departments have cooperated to organize the following practical and business-related trainings, which have laid a solid foundation for talent cultivation and team construction.

New Employee Training

The teachers, counselors and employees that are newly recruited in 2018 have attended the annual intensive new employee training. The President of Xinhua University expects them to show their working enthusiasm and inject new energy to the Group. During the training period, the in-service employees have shared their growth and work experience, that can provide clear working guidance and career planning for new employees. In addition, the representatives of respective departments explained the rules and systems in areas of human resources, scientific research, teaching, student affairs, administration and safety, so as to increase the new employees' confidence in working at Xinhua Education.

Themed Training of Ethics of Teachers

We attach importance to the construction of teachers' ethics while developing the application-oriented university. During the Year, we summarized the concept of "Centennial Plan, Education-oriented, Education Plan, Teacher-oriented". We expect our teachers could be a model of virtue and teach students with dedication and sense of responsibility, and educate the next generations with good ethics.

Annual "Deep Blue Project" ("深藍工程") Training Class – "General Commandership and New Leadership" ("將帥之道與新領導力")

This Year, we invited Wu Lin, Assistant to Dean of School of Management, University of Science and Technology of China, and Director of EDP Center and Shanghai EE Center, to deliver a lecture relating to Accelerated Leadership Development Program (ALDP) and share his management experience. The training content and purpose include:

- Raise the "Stateful, In State" working requirements, and receive professional assessments and reviews in a positive attitude

  Purpose: Promote the conscious actions of employees

- Analyze the development view of Xinhua – "What is culture and Xinhua Culture", educational view – "What is good education", talent cultivation view – "how to be good teachers and employees" and "How to be good leaders"

  Purpose: Take the initiatives to learn, study and apply to the rules of higher education, and cultivate talents through scientific management, teaching and service

- The employees participate in group discussions relating to key words of Xinhua Culture "Innovation, Pragmatism, Unity, Dedication"

  Purpose: Enhance the communication and coordination, role positioning and team cohesion effectively

"Xinhua Culture Lecture Hall" ("新華文化大講堂")

In order to create a united, hardworking and efficient team, we organize the training events, gathering with those employees at different positions, ages and employment periods of time. Shared with the same culture and communality, they have cooperated to build the dream of Xinhua, and achieve the vision of "A Centennial Xinhua, a First-class University".

Target	Leaders of the Group and Schools, all the middle-level management and some junior-level management personnel	
Training Method	Share typical cases and discuss scientific research conclusions	
Training Content	(1)	Think and summarize in three aspects of horizon, professionalism and personality;
	(2)	The ways to grasp the opportunities, develop the skills, expand the visions and methods to improve leadership in the existing environment
Training Purpose	(1)	Conform to the trend;
	(2)	Improve professionalism and do right things;
	(3)	Re-learning moderately;
	(4)	Think peacefully with calm-minded

GREEN CULTURE

Building a Green Campus

Construction of Environmental Protection and Energy-Saving Campus

Newly-built campus buildings have been adopted with green architecture concept or design as to demonstrate to the social circles our dedications to the environment. We have comprehensively considered the life cycle of site selection, design, construction, operation, maintenance, renovation and removal of a building regarding the impacts on the environment and the use of resources, including:

- Consider that the Schools' operation time is intensively from morning till sunset, natural light is fully used in the architectural design to reduce energy consumption;
- Use heat-insulating glass materials to prevent the heat transmission into buildings;
- Choose durable building materials, such as high-strength steel and high-performance concrete;
- The construction and decoration are implemented accurately to avoid repeated works and waste of materials;
- Purchase green and eco-friendly furniture;
- Reserve the pubic areas for greening and leisure purposes. Plant local plants that are adapted to the local climate and soil, and select the plants characterized by less maintenance, strong weather resistance, fewer pests and diseases, and are harmless to the human body;
- Purchase materials can be recycled after renovation or removal

Emissions

We pay attention to the impact of the emissions from school buses towards the environment. To effectively reduce the emissions of sulfur dioxide and nitrogen oxide, we have replaced 3 school buses with new energy ones, operating with zero emissions. The new energy school buses can reduce the emissions by 60% for the Year. Other measures to manage vehicles include:

- Never run the engine when the vehicle is idling;
- Check and inflate the tires regularly to maintain correct tire pressure;
- Maintain the Group's motorcade and minimize the situation of more fuel usage and pollutants' discharge because of low energy-efficiency vehicles;
- Provide low carbon driving trainings for drivers (e.g. avoiding sudden acceleration);
- Use the vehicle reasonably, avoid repeated and unnecessary travel, etc.

CASE

Green Bicycling (綠色騎行)

Although shared bikes have become popular in Hefei, people still choose to travel by cars, resulting in the increasingly serious pollution problems. In view of this, our volunteers and cycling lovers were invited by Hefei Jinputao Community Neighborhood Committee to participate in the green bicycling event, which called on the citizens from Hefei to care about environmental problems. The volunteers promoted the event along the sightseeing road and Huanchao Lake of Dawei, and took a series of creative photos in 12 themes of "Prosperity, Democracy, Civilization, Harmony, Freedom, Equality, Justice, Rule of law, Patriotism, Dedication, Integrity and Friendship", showing boundless sceneries and highlighting the new society of green, civilized and healthy. The event advocated a kind of civilized and green way of travel; connected eco-civilized construction with lifestyle; fostered the green and healthy environmental protection concept of the citizens, enhanced the green and civilized travel consciousness, and promoted the construction of socialist modernization.

CASE

"Dashu Mountain Protection Program" ("大蜀山保護計劃")

The youth volunteers have carried out the Dashu Mountain Protection Program to popularize civilized tourism and hiking to the citizens and tourists. The volunteers conducted propaganda in the aspects of forest-fire prevention, civilized tourism service, environmental cleaning, safety prevention, popularization of science and education, civilization development and eco-friendly cycling, etc. to spread the concept of loving the nature and reducing air pollution.

Control the Oily Fume in Canteens

In addition, Schools have established the initiatives to control the oily fume in canteens, including:

- Ensure to turn off, clean the range hoods and pour off the waste cooking oil when complete cooking every day;
- Check the status of range hood, whether the air purifier is operating normally and the oil sediment on exhaust gas filter screen every day;
- Repair equipment timely when any abnormal is found;
- Conduct general cleaning every week, clean the fire-proof plates, and remove the oil from the inner wall of the range hood;
- Keep the outer part of the range hood neat and clean;
- In every semesters, employ a qualified cleaning company to monitor the overall oil and fume pipelines' cleaning and issue the compliance certificate

Carbon Audit

Since 2017, the Group has conducted the carbon audit for Xinhua University and Xinhua School according to the Greenhouse Gas Protocol (《溫室氣體盤查議定書》) developed by the World Resources Institute and the World Business Council for Sustainable Development as well as the ISO14064-1 set by the International Organization for Standardization. The summary of GHG emissions during the Reporting Period is as follows:

GHG emissions		Unit	2018
Scope 1	Direct GHG emissions	tonnes of CO_2 equivalent (CO_2e)	138.06
	GHG removals from newly planted trees	tonnes of CO_2e	16.05
Scope 2	Indirect GHG emissions	tonnes of CO_2e	9,794.38
Scope 3	Other indirect GHG emissions	tonnes of CO_2e	101.82
Total GHG emissions (Scope 1, 2 & 3)		tonnes of CO_2e	10,018.20
GHG emissions intensity			
Per square meter floor area (Scope 1, 2 & 3)		tonnes of CO_2e/m^2	0.02
Per capita (employee and student) (Scope 1, 2 & 3)		tonnes of CO_2e/capita	0.29

Scope 1: Direct GHG emissions from sources owned and controlled by the Group.

Scope 2: Indirect GHG emissions from electricity, heating and cooling, or steam purchased by the Group.

Scope 3: Emissions include indirect GHG emissions from sources that are not owned or directly controlled by the Group, but are related to the Group's business activities.

According to the results of the carbon audit, GHG emissions include carbon dioxide (CO_2), methane (CH_4), nitrous oxide (N_2O), hydrofluorocarbons (HFCs), perfluorocarbon (PFCs) and sulfur hexafluoride (SF_6). Such emissions can be divided into direct emissions (Scope 1) and indirect emissions (Scope 2 & 3). GHG emissions come from fuels used by vehicles under the name of the Group and fuel consumption by related equipment (Scope 1), power consumption during operation (Scope 2), emissions from the employees' business trip by air, waste landfill and paper consumption (Scope 3), etc. In this Year, the total GHG emissions of Xinhua University and Xinhua School was 9,993.75 tonnes of CO_2e. The GHG emissions intensity was 0.02 tonnes of CO_2e per square meter, approximately the same as last financial year; however, if calculated as per capita, the GHG emissions intensity was 0.29 tonnes of CO_2e, representing an increase of 10.37% as compared with last financial year.

We transformed the boiler room this Year. After transformation, the equipment begin to use the energy-saving fuel rather than steam, thereby highly reducing the consumption of natural gas. Moreover, the consumption of gasoline and diesel by vehicles of the Group have been reduced by 51.55% and 13.33% respectively. Therefore, the direct GHG emissions (Scope 1) of the Group decreased by 83.61% from 842.24 tonnes of CO_2e in the previous year to 138.06 tonnes of CO_2e. In addition, the Schools have planted 698 trees during the Reporting Period, and 16.05 tonnes of CO_2e was reduced by planting trees, contributing a lot to environmental protection.

Treasuring the Earth Resources

We attach great importance to consume resources in reasonable and economical way, and have formulated measures that require the close cooperation between employees and students, as to use the resources in responsible manner.

Energy Resources

We attach importance to adopting water conservation and energy saving measures wholeheartedly with involvement of teachers and students. The energy saving effect has been shown from the light source replacement project of last year, and has also been extended to the beginning of the Reporting Period. The Schools have replaced more than 300 LED energy saving lamps in the corridors and halls of the teaching buildings. Apart from meeting the light intensity requirements, their wattage can also be reduced from 11W to 9W. In addition, intelligent lighting system – energy saving acousto-optic controlled lamps have been used in stairwell areas, where the light intensity demand is lower. The installation can conserve the electricity by reducing unnecessary lighting consumption. Since the Group sponsored some training activities during the winter and summer vacations this Year, the operation period was extended, resulting in increase of energy consumption rate by 20%. In future, the Group will continue to implement the energy efficiency improvement initiatives on campus, with an effort to reduce the electricity consumption and make more contributions to the environment.

Schools deeply believe that environmental education can positively influence the students' awareness on environmental protection, so we post propaganda slogans in the classrooms, rest rooms and other public areas to remind and educate the students on campus. The classes hold regular meetings about the ways to save water and electricity as to raise every student awareness about the importance of energy saving, brainstorm good ideas and work out measures into practice. The practical execution includes organizing students to clean up the dorms' air –conditioning filter screens. Moreover, the Schools also adopt grid management in accordance with the "Administrative Measures of Anhui Xinhua University for Daily Use of Air Conditioners, Water and Electricity" (《安徽新華學院空調及水電日常使用管理規定》), supervise and notify the employees who cause wastage due to improper management.

Water Resources

Many plants have been planted on campus, which consume substantial water resources for irrigation. In view of this, we purchase special sprinklers to collect rainwater for irrigating the plants, which can significantly reduce the use of water provided by the government. In terms of cultivating the water saving consciousness of teachers and students, we assign personnel to record readings on water meters in every room of the dormitory buildings every month. If the water consumption per student of the room exceeds 3 tons per month, the associated students need to pay the extra expenses, as to reduce the abuse of water resources. This measure has shown primary effect, and the water consumption intensity per capita this Year has recorded a slight decrease. As a result, the Group will continuously make efforts to highly reduce the waste of water resources. Apart from this, the Group has introduced the BUT direct drinking water system at the dormitory and teaching buildings. This system not only ensures safe use of water resources by students, but also reduces the energy consumption from water boiling.

We deeply believe that regular inspection and respective timely maintenance can eliminate wastage of water resources. Therefore, the Group arranges the water and electricity maintenance personnel to check the indoor and outdoor water pipes every month, and repair pipes with any leaking found. For example, through the inspection of this Year, we have reinforced the main water supply pipelines and repaired more than 200 outdoor leaking fire hydrant pipelines. The Group has also taken the lead in replacing parts of the iron fire-fighting pipelines to prevent water leaks.

Paper Resources

The paper consumption of operating schools is larger than that of operating other industries, so we pay close attention to paper consumption via the annual paper consumption statistics. For some courses, we try to make use of the electronic teaching methods, such as multimedia classroom, electronic presentation, briefing, PowerPoint and video to reduce the use of papers for printing teaching materials. In addition to drafting the teaching materials, daily affairs can also be handled via the paperless system, replacing the working mode focusing on paper records. The Group understands that using paper of different weights can have different impacts to the environment, so we purchase the 60gsm sketching papers and 70gsm printing papers, and employees can choose the suitable types of paper according to their printing needs. Moreover, employees need to do registration prior to printing a large number of documents (e.g., test paper) to avoid misuse of the printers.

The paper consumption intensity per capita of the Group increased by 22.87%, compared with last year, so the Group pays close attention to this problem. The reason is that the Group has undertaken nearly twice more of training programs in 2018 as that in 2017 (include winter and summer vacations), which led to more training materials need to be printed for the trainees. In future, the Group plans to replace the traditional materials with the electronic system to reduce paper consumption for printing.

Waste Recycling

Hefei, acting as one of the first 33 pilot cities for food waste recycling and harmless treatment in China, is actively advancing the collection and disposal of food waste. The Group has highly involved in the event as to present a good example running as school institutions. The food waste produced by the Schools are collected by a qualified waste recycling and harmless treatment company every day to ensure with proper treatment and benefit to the environment. Food waste can be converted to the useful organic fertilizers, but we persist in the culture of food cherishing and aim at reducing the generation of food waste.

The total generation of non-hazardous waste from the Group increased by 66.55% as compared with last year. Such increase was attributed to two factors, i.e., the increase of schools' enrollment by nearly 700 students in 2018 as compared with 2017 and the increase of operating period. We will pay close attention to and educate the students and teachers the proper treatment methods to dispose of and recycle the non-hazardous waste. We also monitor the waste generation during non-operating period and take appropriate actions when conditions are allowed. In future, we plan to increase the recycling rate and reduce the transport of unnecessary waste as to alleviate the pressure of the landfill sites.

We are aware of the negative impacts on the environment arising from improper treatment of hazardous waste. There are lots of waste electronic products or waste ink cartridges generated during operation of the schools. During the Reporting Period, we have selected an eligible recycling company via two bids to dispose of the waste computer monitors, computers and waste ink cartridges. All the discarded waste will be collected by the qualified companies to conduct recycling as to reduce the impacts on the environment.

COMMUNITY ENGAGEMENT

The Group performs the corporate social responsibility, to care the disadvantaged groups and construct the harmonious community. We actively take part in community activities and reflect the concern towards the society. During the Year, 20,216 teachers and students have participated in or benefited from the community investment activities organized by the Group, of which more than 2,800 volunteers have been involved in and provided 132 days of voluntary services.

Caring for the Disadvantaged Groups

Based on our talent view of "Preserving One's Morality, Developing Entrepreneurship and Cultivating Talents" ("立德、立業、立人"), we have made efforts to care and support the disadvantaged students and social groups, further to cultivate the students with strong sense of social responsibility.

Pay Close Attention and Support the Students with "Five Characteristics" ("五特")

We pay close attention to the disadvantaged groups and have formulated the "Implementation Plan of Anhui Xinhua University for Strengthening the Support of Students with Five Characteristics" (《安徽新華學院關於加強"五特"學生幫扶工作的實施方案》) for the purpose of "Make Developmental Plans for student, Solve Difficulties for Students, And Promoting the Growth of Students". We have implemented the assistance and support mechanism to extend the caring actions. In addition, the Group has established a leadership group to coordinate the assistance and support work for the students, including:

Students with "Five Characteristics"	Supporting Measures
Students with economic difficulties from their family	• Provide various of rewards and subsidies; • Hold class meetings, of which excellent students share their learning experience or inspirational stories to cultivate the impoverished students with the spirit of "Self-confidence, Self-improvement, Self-reliance and Self-esteem", honest and trustworthy characters, and keep a positive and optimistic attitude
Students with special diseases	• Provide funding on medical insurance to alleviate students' financial difficulties; • Arrange friends to enhance the attention and care of students; • Encourage relevant students to overcome the disease and express themselves through interaction, talks, class meetings, etc., to achieve for the assistance and encouragement
Students with special psychological disorders	• Master the mental health condition of students through psychological survey, and strengthen the continual psychological concern; • Train psychological liaisons and supporters to provide professional counseling services; • Carry out class activities to help students get involved in the group life; help students resolve psychological disorders by virtue group of psychological counseling, psychological activities, lectures, etc.

Students with "Five Characteristics"	Supporting Measures
Students requiring special attention for poor learning ability	• Arrange the student Party members, leaders and excellent students to form a supporting team and offer academic assistance during the spare time; • Arrange teachers to provide academic guidance and help students solve their problems
Students experiencing the special sensitive period and with abnormal words and deeds	• The counselors shall know deeply about the root of difficulties and problems encountered by the students, carry out the ideological education work in a patient and careful way, and adhere to positive education and active guidance; • Provide economic, psychological, learning and living assistance, help establish the favorable ability to resist pressure, and get through the "Special Sensitive Period" actively and stably

As to improve the system, we hold the summary and communicating meetings relating with the assistance and support to the students with "Five Characteristics" in every semester. Personnel engaged in relevant work shall report the results from the leadership group, and may also propose more innovative and effective improvement measures to plan for the coming year, so as to promote the comprehensive, health growth and development of students, and to maintain the campus with safety and stability.

"Loving Ring-pull Cans" Public Welfare Event (“愛心易拉罐”)

Friendliness is one of the personal value criteria for citizens. In order to practice the core values of socialism, the Association of Young Volunteers of the Group has carried out the "Loving Ring-pull Cans" Public Welfare Event themed with "Realize Youth Welfare Dreams with Little Loving Cans" at the Schools from 31 October 2018 to 2 November 2018. We used our actions to raise funds and help the impoverished students achieve their dreams, and accumulate the streams of small love into the ocean of great love. The event has fully shown the good acts of our students and teachers in making dedications willingly without asking for returns, and it is also conducive to intensify the students' sense of social responsibility.

"Respecting the Elderly from Our Heat and Help the Elderly from Ourselves" (“敬老從心開始，助老從我做起”)

During the Year, we arranged 28 students to carry out the 4 hours voluntary services at Shushan Lake elderly Apartment to care for widowed elderlies. Through communication with the elderlies, the students pay close attention to psychological situation, and advocate the virtues of respecting, loving and caring them. In future, the Group hopes that more students could be attracted to participate in similar activities, and set up the good values and know the social trends clearly.

CASE

Building a Harmonious Community

Xinhua University has established the largest Youth Volunteers Federation with the largest number of members, which was honored as "the Sixth Top Ten Outstanding Service Organizations of Youth Volunteers in Anhui Province". The Federation has been chosen as the first team of the Civilized Holiday Service Brigade in Hefei, and held the "Blood Donation Vehicle Services" ("血車服務") every Saturday. Due to the appropriate arrangements of activities, it has won honors as the "Excellent Organization Award for Unpaid Blood Donation Work in Universities of Hefei in 2015" ("2015年合肥高校無償獻血工作優秀組織獎"), "Best Organization Award of Hefei Central Blood Station" ("合肥中心血站最佳組織獎"), "Second Prize of the Team Competition in the Knowledge Contest for Unpaid Blood Donation Volunteer Services of in Universities of Hefei" ("合肥市高校無償獻血志願服務知識競賽團體賽第二名"), "Excellent Volunteer Service Team of Hefei High-tech Zone Huiai Public Welfare Service Development Centre" ("高新區匯愛公益發展中心優秀志願服務團隊"), etc. The following activities have also been organized to benefit more people:

Voluntary Teaching for Children from Impoverished Families

Schools make good use of talents at the working team to provide voluntary teaching assistance to children from impoverished families of the community. It can relieve economic pressure of the parents due to insufficient resources, at the same time arouse the social concerns and attention to them. We have provided teaching guidance services of English, Chinese and Mathematics every weekend with more than 6 months, with more than 400 students have been benefited from this. We can enhance their learning interest and effectiveness through innovative teaching models. In addition, students need to provide suggestions, so as to help the teaching team improve the class arrangements for future or daily teaching activities. Meanwhile, we deeply believe that the activities will continue, attracting larger teaching teams to join and more people will be benefited therefrom.

CASE

"Big Hands Holding Little Hands to Let Love Rest in Our Heart" ("大手牽小手，讓愛住心間")

The Young Volunteers Association of Xinhua School is dedicated to caring for the children with autism, and regards Shushan District Chunyu Children's Rehabilitation Centre, which serves more than 100 children suffering from autism, as our volunteer service base. Under the guidance of teachers of the Youth League Committee, we have carried out the one-to-one support, grouped game and other activities. The activities not only allow us to accompany, we can also establish deep affections with the children suffering from autism.

APPENDIX 1: SUSTAINABILITY DATA STATEMENT

Environmental Subject Area	Unit	2018
Fuel consumption		
Gasoline consumption by the motorcade	tonnes	15.84
Diesel consumption by the motorcade	tonnes	7.80
Natural gas consumption	m^3	244,600.00
Refrigerant consumption		
HFC-134 refrigerant consumption	kg	60.00
Electricity consumption		
Total electricity consumption	MWh	13,922.36
Total electricity consumption intensity (per square meter)	MWh/m^2	0.03
Total electricity consumption intensity (per capita)	MWh/capita	0.40
Water consumption		
Total water consumption	m^3	1,166,870.00
Total water consumption intensity (per square meter)	m^3/m^2	2.41
Total water consumption intensity (per capita)	m^3/capita	33.43
Hazardous waste		
Computers	set	283.00
Other electronic waste	piece (waste ink cartridge/toner cartridge)	12.00
The intensity of hazardous waste (per capita)	piece/capita	0.01
Non-hazardous waste		
General waste disposal	tonnes	252.00
The intensity of non-hazardous waste (per capita)	kg/capita	7.22
Paper consumption	ream	6,863.00
Paper consumption intensity (per capita)	ream/capita	0.20
Trees planted		
Number of trees planted	tree	698.00
Business trip by air		
Business trip by air	tonnes of CO_2e	24.45

Social Subject Area	Unit	2018
Total workforce (by gender)		
Total employees	no. of people	1,429
Female	no. of people	878
Male	no. of people	551

Social Subject Area	Unit	2018
Total workforce (by employment type)		
Junior employees	no. of people	1,260
Middle employees	no. of people	132
Senior employees	no. of people	37
Total workforce (by age group)		
Below 30	no. of people	353
Aged 30-50	no. of people	905
Above 50	no. of people	171
Employee turnover rate (by gender)		
Employees	%	14.78
Female	%	14.24
Male	%	15.64
Employee turnover rate (by age group)		
Below 30	%	28.13
Aged 30-50	%	9.39
Above 50	%	15.79
Percentage of employees participating in training (by gender)		
Female	%	82.57
Male	%	77.27
Percentage of employees participating in training (by employment type)		
Junior employees	%	78.79
Middle management	%	91.67
Senior management	%	100.00
Average training hours completed per employee (by gender)		
Average training hours per female employee	hours	37.50
Average training hours per male employee	hours	34.00
Average training hours completed per employee (by employee type)		
Average training hours per junior employee	hours	45.00
Average training hours per middle management	hours	35.00
Average training hours per senior management	hours	35.00
Occupational health and safety		
Work-related casualties		
Work-related fatalities	no. of people	0.00

APPENDIX 2: INDEX TO THE ESG REPORTING GUIDE OF HONG KONG STOCK EXCHANGE

Indicators			Related Sections
A. Environmental			
A1 Emissions	General Disclosure	Information on: the policies, and compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and nonhazardous waste.	Green Culture
	KPI A1.1	The types of emissions and respective emissions data.	Building a Green Campus
	KPI A1.2	Greenhouse gas emissions in total and intensity.	Building a Green Campus
	KPI A1.3	Total hazardous waste produced and intensity.	Sustainable Development Data Summary
	KPI A1.4	Total non-hazardous waste produced and intensity.	Sustainable Development Data Summary
	KPI A1.5	Description of measures to mitigate emissions and results achieved.	Building a Green Campus
	KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	Treasuring the Earth Resources
A2 Use of Resources	General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	Treasuring the Earth Resources
	KPI A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total and intensity.	Sustainable Development Data Summary
	KPI A2.2	Water consumption in total and intensity.	Sustainable Development Data Summary
	KPI A2.3	Description of energy use efficiency initiatives and results achieved.	Treasuring the Earth Resources
	KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	Treasuring the Earth Resources
	KPI A2.5	Total packaging material used for finished products and, if applicable, with reference to per unit produced.	Not applicable, as the Group's business does not involve any packaging material
A3 The Environment and Natural Resources	General Disclosure	Policies on minimising the issuer's significant impact on the environment and natural resources.	Building a Green Campus
	KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	Building a Green Campus

Indicators			Related Sections
B. Social			
B1 Employment	General Disclosure	Information on the policies, and compliance with relevant laws and regulations that have a significant impact on the issuer, relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	Teaching Team
	KPI B1.1	Total workforce by gender, employment type, age group and geographical region.	Sustainable Development Data Summary The Group does not disclose the total workforce by geographical region for the time being
	KPI B1.2	Employee turnover rate by gender, age group and geographical region.	Sustainable Development Data Summary The Group does not disclose the employee turnover rate by geographical region for the time being
B2 Health and Safety	General Disclosure	Information on the policies, and compliance with relevant laws and regulations that have a significant impact on the issuer, relating to providing a safe working environment and protecting employees from occupational hazards.	Building a Healthy Campus
	KPI B2.1	Number and rate of work-related fatalities.	Building a Healthy Campus
	KPI B2.2	Lost days due to work injury.	The Group does not disclose such information for the time being.
	KPI B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.	Building a Healthy Campus
B3 Development and Training	General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	Cultivating the Teaching Staff
	KPI B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	Sustainable Development Data Summary
	KPI B3.2	The average training hours completed per employee by gender and employee category.	Sustainable Development Data Summary
B4 Labour Standards	B4	Information on the policies, and compliance with relevant laws and regulations that have a significant impact on the issuer, relating to preventing child and forced labor.	Fair Employment Standard
	KPI B4.1	Description of measures to review employment practices to avoid child and forced labour.	Fair Employment Standard
	KPI B4.2	Description of steps taken to eliminate such practices when discovered.	Fair Employment Standard

Indicators			Related Sections
B5 Supply Chain Management	General Disclosure	Policies on managing environmental and social risks of the supply chain.	Supplier Management
	KPI B5.1	Number of suppliers by geographical region.	The Group does not disclose such data for the time being
	KPI B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	Supplier Management
B6 Product Responsibility	General Disclosure	Information on the policies, and compliance with relevant laws and regulations that have a significant impact on the issuer, relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	Quality Education
	KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	Not Applicable to the Group's business
	KPI B6.2	Number of products and services related complaints received and how they are dealt with.	Attaching Importance to Communicating Opinions
	KPI B6.3	Description of practices relating to observing and protecting intellectual property rights.	Maintaining Information Security
	KPI B6.4	Description of quality assurance process and recall procedures.	Not Applicable to the Group's business
	KPI B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.	Maintaining Information Security
B7 Anti-corruption	General Disclosure	Information on the policies, and compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	Improving the Internal Control System
	KPI B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	Improving the Internal Control System
	KPI B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	Improving the Internal Control System
B8 Community Investment	General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	Community Engagement
	KPI B8.1	Focus areas of contribution (e. g. education, environmental concerns, labour needs, health, culture, sport).	Community Engagement
	KPI B8.2	Resources contributed to the focus area.	Community Engagement

INDEPENDENT AUDITOR'S REPORT

KPMG

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF CHINA XINHUA EDUCATION GROUP LIMITED

(Incorporated in Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of China Xinhua Education Group Limited (the "Company") and its subsidiaries (the "Group") set out on pages 110 to 165, which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement 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 2018 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with all applicable 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 Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

KEY AUDIT MATTERS (continued)

Revenue Recognition

Refer to Note 4 to the consolidated financial statements and the accounting policy on page 133.

The Key Audit Matter

Revenue comprises primarily tuition fees and boarding fees. The Group's schools generally receive these fees in advance prior to the beginning of each academic year or semester and initially record these fees as contract liabilities. Tuition fees and boarding fees are recognised proportionately over the reporting period of the applicable program.

We identified revenue recognition as a key audit matter because revenue is a key performance indicator of the Group which increases the risk that revenue could be manipulated to meet financial expectations or targets and also because the large volume of transactions processed increases the error in recognising revenue.

How the matter was addressed in our audit

Our audit procedures to assess revenue recognition included the following:

- assessing the design, implementation and operating effectiveness of key internal controls over the admission of students and collection of tuition fees and boarding fees;

- performing recalculation of the amount of deferred revenue and the revenue recognised during the year;

- analysing the revenue recognised during the year against the course fees and the number of students enrolled in the courses;

- on a sample basis, inspecting the evidence of payment of tuition fees and boarding fees from the students; and

- reconciling the enrolled student information of Anhui Xinhua University at the end of the reporting period to the records on the China Credentials Verification website and performing student count to verify the existence of enrolled students.

KEY AUDIT MATTERS (continued)

Income Tax

Refer to Note 7 to the consolidated financial statements and the accounting policy on page 132.

The Key Audit Matter	How the matter was addressed in our audit
As per the historical tax returns filed with the relevant tax authorities, the Group's schools which do not require reasonable returns claimed preferential corporate income tax exemption treatment since their establishment by not paying corporate income tax on the income from the provision of formal educational services. This approach was taken with reference to the Implementation Rules for the Law for Promoting Private Education (the "Implementation Rules") issued by the Ministry of Education. However, up to the date of this report, no separate policies, regulations or rules have been introduced by the tax authorities in this regard and thus management judgement is required in determining whether the Group's schools are entitled to the applicable preferential tax treatment in the relevant accounting periods. We identified income tax as a key audit matter because management judgement is involved in interpreting the relevant rules and regulation so as to determine whether the Group's schools are entitled to the preferential tax treatment.	Our audit procedures to assess the adequacy of income tax provisions included the following: • discussing with the Group's PRC legal advisors about the tax position taken by the Group, in particular, whether or not the Group's schools are required to pay income tax by their respective tax authorities during 2018 and whether the Group's schools which enjoy such preferential tax treatment are in compliance with applicable laws and regulations in China; • inspecting the confirmation issued by local tax authorities, to identify if the Group's schools are default in tax or in violation of PRC tax laws; and • involving our internal tax specialist to assist us in analysing the eligibility of the preferential tax treatment enjoyed by the Group's schools and assessing the adequacy of income tax provisions.

KEY AUDIT MATTERS (continued)

Impairment Assessment of Intangible Asset with Indefinite Useful Life

Refer to Note 13 to the consolidated financial statements and the accounting policy on page 124.

The Key Audit Matter	How the matter was addressed in our audit
As at 31 December 2018, the Group recorded an amount of RMB196.0 million for a school operation right for the School of Clinical Medicine as intangible asset with indefinite useful life. Management performs impairment assessment annually or when indicators of potential impairment are identified. No impairment charge has been recorded during 2018. In assessing impairment of the intangible asset with indefinite useful life, recoverable amount has been determined by the management using the value in use method, which involves the exercise of significant management judgement and estimation on certain key assumptions and estimates including discount rate and future revenue to estimate the net present value of the future operating cash flows. We identified impairment assessment of intangible asset with indefinite useful life as a key audit matter because significant management judgement and estimation are involved.	Our audit procedures to assess impairment assessment of intangible assets with indefinite useful life carried out by the Group included the following: • with the assistance of our internal valuation specialists, evaluating the methodology adopted by management in the preparation of the value in use calculation with reference to the requirements of the prevailing accounting standards and assessing whether the discount rate applied were within the range adopted by other companies in the same industry; • assessing the appropriateness of the key assumptions and estimates adopted in the value in use calculation by comparing to the School of Clinical Medicine's future business plans and financial and operational information of other university or school in the Group; • obtaining from management sensitivity analyses of the key assumptions and estimates adopted in the value in use calculation and assessing the impact of changes in the key assumptions and estimates to the conclusions reached in the impairment assessments and whether there were any indicators of management bias; and • evaluating the appropriateness of the disclosure in respect of impairment assessment of intangible assets in the consolidated financial statements with reference to the requirements of the prevailing accounting standards.

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

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

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

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON (continued)

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors 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 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 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 either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors 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. This 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.

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

- 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 communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

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

The engagement partner on the audit resulting in this independent auditor's report is Frankie C.Y. Lai.

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
26 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December, 2018

	Note	2018 RMB'000	2017 *(Note)* RMB'000
Revenue	4	**386,127**	337,958
Cost of sales		**(155,725)**	(145,481)
Gross profit		**230,402**	192,477
Other income	5	**91,758**	53,796
Selling and distribution costs		**(6,196)**	(5,375)
Administrative expenses		**(57,887)**	(66,857)
Profit from operations		**258,077**	174,041
Finance costs	6(a)	**(85)**	–
Profit before taxation	6	**257,992**	174,041
Income tax	7	**(1,982)**	(2,083)
Profit for the year		**256,010**	171,958
Other comprehensive income for the year (after tax and reclassification adjustments)			
Items that may be reclassified subsequently to profit or loss:			
Available-for-sale financial assets:			
Changes in fair value recognised during the year		**–**	9,715
Reclassification to profit or loss on disposal		**–**	(9,262)
Items that will not be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of the Company		**90,626**	–
Other comprehensive income for the year		**90,626**	453
Total comprehensive income for the year		**346,636**	172,411
Earnings per share	10		
Basic and diluted (RMB cents)		**16.92**	14.33

Note: The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See Note 2(c).

The notes on pages 115 to 165 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in Note 22(b).

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 31 December 2018

	Note	2018 RMB'000	2017 (Note) RMB'000
Non-current assets			
Property, plant and equipment	11	**475,994**	491,883
Lease prepayments	12	**87,880**	90,437
Intangible assets	13	**204,211**	5,301
Other non-current assets		**–**	197,939
		768,085	785,560
Current assets			
Trade receivables	15	**261**	201
Prepayments, deposits and other receivables	16	**13,042**	12,293
Available-for-sale financial assets		**–**	235,521
Financial assets measured at fair value through profit or loss	17	**60,242**	–
Cash and cash equivalents	18	**1,861,671**	293,023
		1,935,216	541,038
Current liabilities			
Deferred revenue		**–**	191,773
Contract liabilities	19	**212,810**	–
Other payables	20	**101,018**	130,932
Amounts due to related parties	25(b)	**–**	511
Deferred income	21	**1,510**	881
Current taxation		**3,429**	2,073
		318,767	326,170
Net current assets		**1,616,449**	214,868
Total assets less current liabilities		**2,384,534**	1,000,428

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 31 December 2018

	Note	2018 RMB'000	2017 *(Note)* RMB'000
Non-current liabilities			
Deferred income	21	–	503
NET ASSETS		**2,384,534**	999,925
CAPITAL AND RESERVES			
Share capital	22	**12,952**	–*
Reserves		**2,371,582**	999,925
TOTAL EQUITY		**2,384,534**	999,925

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

Approved and authorised for issue by the board of directors on 26 March 2019.

Lu Zhen
Executive Director

Wang Yongkai
Executive Director

Note: The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See Note 2(c).

The notes on pages 115 to 165 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2018

		Attributable to equity shareholders of the Company							
	Note	Share capital RMB'000	Share premium RMB'000	Capital reserves RMB'000	Statutory reserves RMB'000	Exchange reserves RMB'000	Fair value reserves RMB'000	Retained earnings RMB'000	Total equity RMB'000
Balance at 1 January 2017		50,000	–	–	174,938	–	68	541,608	766,614
Changes in equity for 2017:									
Profit for the year		–	–	–	–	–	–	171,958	171,958
Other comprehensive income		–	–	–	–	–	453	–	453
Total comprehensive income		–	–	–	–	–	453	171,958	172,411
Capital injection by shareholders		1,720	–	59,180	–	–	–	–	60,900
Elimination on the completion of the Reorganisation		(51,720)	–	51,720	–	–	–	–	–
Appropriation to reserves		–	–	–	47,631	–	–	(47,631)	–
Balance at 31 December 2017 *(Note)*		–*	–	110,900	222,569	–	521	665,935	999,925
Impact on initial application of IFRS 9	2(c)(i)	–	–	–	–	–	(521)	521	–
Balance at 1 January 2018		**–***	**–**	**110,900**	**222,569**	**–**	**–**	**666,456**	**999,925**
Changes in equity for 2018:									
Profit for the year		**–**	**–**	**–**	**–**	**–**	**–**	**256,010**	**256,010**
Other comprehensive income		**–**	**–**	**–**	**–**	**90,626**	**–**	**–**	**90,626**
Total comprehensive income		**–**	**–**	**–**	**–**	**90,626**	**–**	**256,010**	**346,636**
Issuance of ordinary shares through initial public offering, net of issuance costs	22(c)	**3,290**	**1,034,683**	**–**	**–**	**–**	**–**	**–**	**1,037,973**
Capitalization issue	22(c)	**9,662**	**(9,662)**	**–**	**–**	**–**	**–**	**–**	**–**
Appropriation to reserves		**–**	**–**	**–**	**61,623**	**–**	**–**	**(61,623)**	**–**
Balance at 31 December 2018		**12,952**	**1,025,021**	**110,900**	**284,192**	**90,626**	**–**	**860,843**	**2,384,534**

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

Note: The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transitions method chosen, comparative information is not restated. See Note 2(c).

The notes on pages 115 to 165 part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2018

	Note	2018 RMB'000	2018 RMB'000	2017 *(Note)* RMB'000	2017 *(Note)* RMB'000
Operating activities					
Cash generated from operations	18(b)	**294,641**		262,546	
Income tax paid		**(950)**		(5,295)	
Net cash generated from operating activities			**293,691**		257,251
Investing activities					
Payment for the purchase of property, plant and equipment		**(39,773)**		(59,446)	
Proceeds from sale of property, plant and equipment		**151**		43	
Payment for purchase of intangible assets		**(4,709)**		(2,938)	
Prepayment for cooperation agreement		**–**		(195,961)	
Net repayment (to)/from related parties		**(511)**		233,038	
Payment for purchase of available-for-sale financial assets		**–**		(1,579,000)	
Proceeds from sale of available-for-sale financial assets		**–**		1,473,262	
Payment for purchase of financial assets measured at fair value through profit or loss		**(2,400,500)**		–	
Proceeds from sale of financial assets measured at fair value through profit or loss		**2,592,249**		–	
Net cash generated from/(used in) investing activities			**146,907**		(131,002)
Financing activities					
Issue of ordinary shares through initial public offering, net of issuance costs		**1,037,973**		–	
Capital injection from shareholders		**–**		60,900	
Proceeds from bank loans		**35,000**		–	
Repayment of bank loans		**(35,000)**		–	
Borrowing costs paid		**(85)**		–	
Net cash generated from financing activities			**1,037,888**		60,900
Net increase in cash and cash equivalents			**1,478,486**		187,149
Cash and cash equivalents at 1 January			**293,023**		105,874
Effect of foreign exchange rate changes			**90,162**		–
Cash and cash equivalents at 31 December	18(a)		**1,861,671**		293,023

Note: The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See Note 2(c).

The notes on pages 115 to 165 form part of these financial statements.

1 GENERAL INFORMATION AND THE BASIS OF PRESENTATION

China Xinhua Education Group Limited (the "Company") was incorporated in the Cayman Islands on 30 August 2017 as an exempted company with limited liability under the Companies Law of the Cayman Islands. The Company and its subsidiaries (together, the "Group") are principally engaged in the formal higher and secondary vocational education business in the People's Republic of China (the "PRC").

Pursuant to a group reorganisation completed on 31 October 2017 (the "Reorganisation") to rationalise the Group's structure in preparation for the public offering (the "Offering") of the Company's shares on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the Group. The Company's shares were listed on the Stock Exchange on 26 March 2018 (the "Listing Date").

Prior to 31 October 2017, the Group's higher and secondary vocational education business was conducted through Anhui Xinhua University ("Xinhua University"), Anhui Xinhua School ("Xinhua School") and Anhui Xinhua Group Investment Co., Ltd ("Xinhua Group") (collectively, the "PRC Operating Entities"), which were ultimately owned and controlled by the same equity holder (hereinafter referred to as the "Controlling Shareholder") through direct or indirect equity holdings in the PRC Operating Entities. As part of the Reorganisation, the Group obtained control of the PRC Operating Entities and continued to obtain the economic benefits from the education business by executing certain structured contracts. On 31 October 2017, Anhui Ronghua Education Technology Co., Ltd ("Xinhua Anhui"), an indirect wholly-owned subsidiary of the Company, entered into certain contracts (the "Structured Contracts I") with the PRC Operating Entities and their respective equity holders. On 6 February 2018, Xinjiang Ronghua Education Technology Co., Ltd. ("Xinhua Xinjiang"), an indirect wholly-owned subsidiary of the Company, entered into another series of certain contracts (the "Structured Contracts II") with the PRC Operating Entities and their respective equity holders. The terms and conditions of Structured Contracts II are the same as those contained in the Structured Contracts I in all material aspects, pursuant to which the Structured Contracts I were automatically terminated and all economic benefits arising from the business of the PRC Operating Entities are transferred to Xinhua Xinjiang. The Structured Contracts, taken as a whole, enable Xinhua Anhui and Xinhua Xinjiang to have effective control over the operating and financial policies of the PRC Operating Entities. The directors of the Group are of the view that, notwithstanding the lack of equity ownership, the Structured Contracts effectively provide Xinhua Anhui and Xinhua Xinjiang the power to govern and control the PRC Operating entities so as to obtain benefits from their business activities. Accordingly, the PRC Operating Entities are included in the Group's consolidated financial statements as controlled subsidiaries.

All the companies now comprising the Group (including the PRC Operating Entities) that took part in the Reorganisation were ultimately controlled by the Controlling Shareholder both before and after the Reorganisation. Since there was a continuation of the risks and benefits of the Controlling Shareholder, the Reorganisation is considered to be a combination of entities under common control. These financial statements have been prepared using the merger basis of accounting as if the current group structure had always been in existence at the beginning of the earliest year presented.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations issued by the International Accounting Standards Board ("IASB"), and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Significant accounting policies adopted by the Group are disclosed below.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2018 comprise the Company and its subsidiaries.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the financial assets measured at fair value through profit or loss (see Note 2(f)) are stated at their fair value.

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in Note 3.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Changes in accounting policies

The IASB has issued a number of new IFRSs and amendments to IFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

(i) IFRS 9, *Financial instruments*

(ii) IFRS 15, *Revenue from contracts with customers*

(iii) IFRIC 22, *Foreign currency transactions and advance consideration*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

(i) IFRS 9, *Financial instruments*

IFRS 9 replaces IAS 39, *Financial instruments: recognition and measurement*. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Group has applied IFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. The Group has recognised the cumulative effect of initial application as an adjustment to the opening equity at 1 January 2018. Therefore, comparative information continues to be reported under IAS 39.

The following table summarises the impact, net of tax, of transition to IFRS 9 on retained earnings and reserves at 1 January 2018.

	RMB'000
Retained earnings	
Transferred from fair value reserves relating to financial assets now measured at FVPL	**521**
Net increase in retained earnings at 1 January 2018	**521**
Fair value reserves	
Transferred to retained earnings relating to financial assets now measured at FVPL	**521**
Net decrease in fair value reserves at 1 January 2018	**521**

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Changes in accounting policies (continued)

(i) IFRS 9, *Financial instruments* (continued)

Further details of the nature and effect of the changes to previous accounting policies and the transition approach are set out below:

a. Classification of financial assets and financial liabilities

IFRS 9 categorises financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income (FVOCI) and at fair value through profit or loss (FVPL). These supersede IAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under IFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated from the host. Instead, the hybrid instrument as a whole is assessed for classification.

The following table shows the original measurement categories for each class of the Group's financial assets under IAS 39 and reconciles the carrying amounts of those financial assets determined in accordance with IAS 39 to those determined in accordance with IFRS 9.

	IAS 39 carrying amount at 31 December 2017 RMB'000	Reclassification RMB'000	Remeasurement RMB'000	IFRS 9 carrying amount at 1 January 2018 RMB'000
Financial assets classified as available-for-sale under IAS 39				
Bank's wealth management products	235,521	(235,521)	–	–

	IAS 39 carrying amount at 31 December 2017 RMB'000	Reclassification RMB'000	Remeasurement RMB'000	IFRS 9 carrying amount at 1 January 2018 RMB'000
Financial assets measured at FVPL				
Bank's wealth management products	–	235,521	–	235,521

For an explanation of how the Group classifies and measures financial assets and recognises related gains and losses under IFRS 9, see respective accounting policy notes in Notes 2(f), (j), (l) and (m).

The measurement categories for all financial liabilities remain the same. The carrying amounts for all financial liabilities at 1 January 2018 have not been impacted by the initial application of IFRS 9.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Changes in accounting policies (continued)

(i) IFRS 9, *Financial instruments* (continued)

b. Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below:

– Information relating to comparative periods has not been restated. Differences in the carrying amounts of financial assets resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 continues to be reported under IAS 39 and thus may not be comparable with the current period.

– The following assessments have been made on the basis of the facts and circumstances that existed at 1 January 2018 (the date of initial application of IFRS 9 by the Group): the determination of the business model within which a financial asset is held.

– If, at the date of initial application, the assessment of whether there has been a significant increase in credit risk since initial recognition would have involved undue cost or effort, a lifetime ECL has been recognised for that financial instrument.

(ii) IFRS 15, *Revenue from contracts with customers*

IFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. IFRS 15 replaces IAS 18, *Revenue*, which covered revenue arising from sale of goods and rendering of services, and IAS 11, *Construction contracts*, which specified the accounting for construction contracts.

IFRS 15 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

The Group has elected to use the cumulative effect transition method and recognised the cumulative effect of initial application if any as an adjustment to the opening balance of equity at 1 January 2018. Therefore, comparative information has not been restated and continues to be reported under IASs 11 and 18. As allowed by IFRS 15, the Group has applied the new requirements only to contracts that were not completed before 1 January 2018.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Changes in accounting policies (continued)

(ii) IFRS 15, *Revenue from contracts with customers* (continued)

The Group has performed an assessment on the impact of the adoption of IFRS15 and concluded that no adjustment to the opening balance of equity at 1 January 2018 was recognised. Further details of the nature and effect of the changes on previous accounting policies are set out below:

Presentation of contract assets and liabilities

Under IFRS 15, a receivable is recognised only if the Group has an unconditional right to consideration. If the Group recognises the related revenue (see Note 2(s)) before being unconditionally entitled to the consideration for the promised goods and services in the contract, then the entitlement to consideration is classified as a contract asset. Similarly, a contract liability, rather than a payable, is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognises the related revenue. For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis (see Note 2(k)).

Previously, tuition and boarding fee prepayment received by the Group were presented in the consolidated statement of financial position under "deferred revenue" until the services were delivered to the customers and the revenue was recognised.

To reflect the changes in presentation, the Group has made the following adjustment at 1 January 2018, as a result of the adoption of IFRS 15:

– Deferred revenue amounting to RMB191,773,000 as at 1 January 2018, which represents the tuition and boarding fee prepayments received from students but not earned is now measured under contract liabilities.

(iii) IFRIC 22, *Foreign currency transactions and advance consideration*

This interpretation provides guidance on determining "the date of the transaction" for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) arising from a transaction in which an entity receives or pays advance consideration in a foreign currency.

The Interpretation clarifies that "the date of the transaction" is the date on initial recognition of the non-monetary asset or liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the date of the transaction for each payment or receipt should be determined in this way. The adoption of IFRIC 22 does not have any material impact on the financial position and the financial result of the Group.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see Note 2(f)) or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see Note 2(j), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

(e) Business combinations involving entities under common control

The consolidated financial statements incorporate the financial statement items of the combining entities or businesses in which the common control combination occurs as if they had been consolidated from the date when the combining entities or businesses first came under the control of the Controlling Shareholder.

The assets and liabilities of the consolidating entities or businesses are consolidated at the carrying amounts previously recognised in the respective Controlling Shareholder's financial statements.

The consolidated statements of profit or loss and comprehensive income include the results of each of the combining entities or businesses from the earliest date presented or since the date when combining entities or businesses first came under common control, where this is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the consolidated financial statements are presented as if the entities or businesses had been consolidated at the earliest balance sheet date presented or when they first came under common control, whichever is later.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Other investments in debt and equity securities

The Group's policies for investments in debt and equity securities, other than investments in subsidiaries, associates and joint ventures, are set out below.

Investments in debt and equity securities are recognised/derecognised on the date the Group commits to purchase/sell the investment. The investments are initially stated at fair value plus directly attributable transaction costs, except for those investments measured at fair value through profit or loss (FVPL) for which transaction costs are recognised directly in profit or loss. For an explanation of how the Group determines fair value of financial instruments, see Note 23(c). These investments are subsequently accounted for as follows, depending on their classification.

(A) Policy applicable from 1 January 2018

Investments other than equity investments

Non-equity investments held by the Group are classified into one of the following measurement categories:

– amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method (see Note 2(s)(iv)).

– fair value through other comprehensive income (FVOCI) – recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss.

– fair value at profit or loss (FVPL) if the investment does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

Equity investments

An investment in equity securities is classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI, are recognised in profit or loss as other income.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Other investments in debt and equity securities (continued)

(B) Policy applicable prior to 1 January 2018

Investments in securities held for trading were classified as financial assets measured at FVPL. Any attributable transaction costs were recognised in profit or loss as incurred. At the end of each reporting period the fair value was remeasured, with any resultant gain or loss being recognised in profit or loss.

Dated debt securities that the Group had the positive ability and intention to hold to maturity were classified as held-to-maturity securities. Held-to-maturity securities were stated at amortised cost (for impairment see Note 2(j)(i) – policy applicable prior to 1 January 2018).

Investments which did not fall into any of the above categories were classified as available-for-sale financial assets. At the end of each reporting period the fair value was remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve (recycling). Dividend income from equity investments and interest income from debt securities calculated using the effective interest method were recognised in profit or loss. Foreign exchange gains and losses arising from debt securities were also recognised in profit or loss. When the investments were derecognised or impaired (see Note 2(j)(i) – policy applicable prior to 1 January 2018), the cumulative gain or loss recognised in equity was reclassified to profit or loss.

(g) Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated in the consolidated statements of financial position at cost less accumulated depreciation and impairment losses (see Note 2(j)(ii)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see Note 2(u)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

–	Buildings	20 years
–	Motor vehicles	10 years
–	Furniture and fixtures	3 – 5 years
–	Electronic devices	3 – 5 years

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Property, plant and equipment (continued)

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

Construction in progress represents property, plant and equipment under construction and equipment pending installation, and is stated at cost less impairment losses (see Note 2(j)(ii)). Capitalisation of construction in progress costs ceases and the construction in progress is transferred to property, plant and equipment when substantially all of the activities necessary to prepare the assets for their intended use are completed. No depreciation is provided in respect of construction in progress until it is substantially completed and ready for its intended use.

(h) Intangible assets (other than goodwill)

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see Note 2(j)(ii)).

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

– Computer software	5 years

Both the period and method of amortisation are reviewed annually.

Intangible assets are not amortised while their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortisation of intangible assets with finite lives as set out above.

(i) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Leased assets (continued)

(ii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term.

(j) Credit losses and impairment of assets

(i) Credit losses from financial instruments

(A) Policy applicable from 1 January 2018

The Group recognises a loss allowance for expected credit losses (ECLs) on the following items:

– financial assets measured at amortised cost (including cash and cash equivalents and trade and other receivables);

Financial assets measured at fair value, including debt investments measured at FVPL, are not subject to the ECL assessment.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

– fixed-rate financial assets and trade and other receivables: effective interest rate determined at initial recognition or an approximation thereof.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Credit losses and impairment of assets (continued)

(i) Credit losses from financial instruments (continued)

(A) Policy applicable from 1 January 2018 (continued)

Measurement of ECLs (continued)

ECLs are measured on either of the following bases:

– 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

– lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables, lease receivables and contract assets are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (ii) the financial asset is 90 days past due. The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

– failure to make payments of principal or interest on their contractually due dates;

– an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

– an actual or expected significant deterioration in the operating results of the debtor; and

– existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Credit losses and impairment of assets (continued)

(i) Credit losses from financial instruments (continued)

(A) Policy applicable from 1 January 2018 (continued)

Significant increases in credit risk (continued)

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt securities that are measured at FVOCI (recycling), for which the loss allowance is recognised in other comprehensive income and accumulated in the fair value reserve (recycling).

Basis of calculation of interest income

Interest income recognised in accordance with Note 2(s)(iv) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

- significant financial difficulties of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or
- the disappearance of an active market for a security because of financial difficulties of the issuer.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Credit losses and impairment of assets (continued)

(i) Credit losses from financial instruments (continued)

(A) Policy applicable from 1 January 2018 (continued)

Write-off policy

The gross carrying amount of a financial asset, lease receivable or contract asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

(B) Policy applicable prior to 1 January 2018

Prior to 1 January 2018, an "incurred loss" model was used to measure impairment losses on financial assets not classified as at FVPL (e.g. trade and other receivables, available-for-sale investments and held-to-maturity debt securities). Under the "incurred loss" model, an impairment loss was recognised only when there was objective evidence of impairment. Objective evidence of impairment included:

– significant financial difficulties of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence existed, an impairment loss was determined and recognised as follows:

– For trade and other receivables and other financial assets carried at amortised cost, impairment loss was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate, where the effect of discounting was material. This assessment was made collectively where these financial assets shared similar risk characteristics, such as similar past due status, and had not been individually assessed as impaired. Future cash flows for financial assets which were assessed for impairment collectively were based on historical loss experience for assets with credit risk characteristics similar to the collective group.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Credit losses and impairment of assets (continued)

(i) Credit losses from financial instruments (continued)

(B) Policy applicable prior to 1 January 2018 (continued)

If in a subsequent period the amount of an impairment loss decreased and the decrease could be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss was reversed through profit or loss. A reversal of an impairment loss was only recognised to the extent that it did not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

When the recovery of a trade debtor or other financial assets carried at amortised cost was considered doubtful but not remote, associated impairment losses were recorded using an allowance account. When the Group was satisfied that recovery was remote, the amount considered irrecoverable was written off against the gross carrying amount of those assets directly. Subsequent recoveries of amounts previously charged to the allowance account were reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly were recognised in profit or loss.

– For available-for-sale investments, the cumulative loss that had been recognised in the fair value reserve (recycling) was reclassified to profit or loss. The amount of the cumulative loss that was recognised in profit or loss was the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

  Impairment losses recognised in profit or loss in respect of available-for-sale equity securities were not reversed through profit or loss. Any subsequent increase in the fair value of such assets was recognised in other comprehensive income.

  Impairment losses recognised in profit or loss in respect of available-for-sale debt securities were reversed if the subsequent increase in fair value could be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances were recognised in profit or loss.

(ii) Impairment of other non-current assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment;

– intangible assets; and

– investments in subsidiaries in the Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Credit losses and impairment of assets (continued)

(ii) Impairment of other non-current assets (continued)

– *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. 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. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– *Recognition of impairment losses*

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

– *Reversals of impairment losses*

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with IAS 34, *Interim financial reporting*, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see Note 2(j)).

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Contract liabilities

A contract liability is recognised when the customer pays consideration before the Group recognises the related revenue (see Note 2(s)). A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see Note 2(l)).

For a single contract with the customer, a net contract liability is presented. For multiple contracts, contract liabilities of unrelated contracts are not presented on a net basis.

When the contract includes a significant financing component, the contract balance includes interest accrued under the effective interest method (see Note 2(s)).

Policy prior to 1 January 2018

Tuition and boarding fees received by the Group but not earned was presented in the consolidated statement of financial position under "deferred revenue". The balance has been reclassified on 1 January 2018 as shown in Note 19 (see Note 2(c)(ii)).

(l) Trade and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due.

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see Note 2(j)(i)).

(m) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Cash and cash equivalents are assessed for expected credit losses (ECL) in accordance with the policy set out in Note 2(j)(i).

(n) Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(o) Interest-bearing borrowings

Interest-bearing borrowings are measured initially at fair value less transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method. Interest expense is recognised in accordance with the Group's accounting policy for borrowing costs (see Note 2(u)).

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Share-based payments

For equity-settled share-based payment transactions, the fair value of the services received is recognised as an expense with a corresponding increase in equity over the vesting period during which the employees become unconditionally entitled to the equity instrument. The fair value of the services received is determined by reference to the fair value of the equity instrument granted at the date of the grant. At each reporting date, the number of equity instruments that are expected to be vested are estimated. The impact on the revision of original estimates is recognised as an expense and as a corresponding adjustment to equity over the remaining vesting period, unless the revision to original estimates is due to market conditions. No adjustment is made if the revision or actual outcome differs from the original estimate due to market conditions.

The proceeds received from the exercise of the equity instruments, net of any directly attributable transaction costs, are credited to share capital when the equity instruments are exercised.

(q) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Income tax (continued)

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  - the same taxable entity; or

  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(r) Provisions and contingent liabilities

Provisions are recognised when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(s) Revenue and other income

Income is classified by the Group as revenue when it arises from the provision of services or the use by others of the Group's assets under leases in the ordinary course of the Group's business.

Revenue is recognised when control over a service is transferred to the customer, or the lessee has the right to use the asset, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Revenue and other income

Where the contract contains a financing component which provides a significant financing benefit to the customer for more than 12 months, 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 with the customer, and interest income is accrued separately under the effective interest method. Where the contract contains a financing component which provides a significant financing benefit to the Group, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method. The Group takes advantage of the practical expedient in paragraph 63 of IFRS 15 and does not adjust the consideration for any effects of a significant financing component if the period of financing is 12 months or less.

Further details of the Group's revenue and other income recognition policies are as follows:

(i) Tuition and boarding fee

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

(ii) Service income

Service income is recognised when the Group satisfies a performance obligation by transferring a promised service to a customer.

(iii) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(iv) Interest income

Interest income is recognised as it accrues under the effective interest method using the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the gross carrying amount of the financial asset. For financial assets measured at amortised cost or FVOCI (recycling) that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit-impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset (see Note 2(j)(i)).

(v) Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. The transaction date is the date on which the Company initially recognises such non-monetary assets or liabilities. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

The results of foreign operations are translated into Renminbi at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into Renminbi at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(u) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(v) Related parties

(a) A person, or a close member of that person's family, is related to the Group if 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 the Group's parent.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) Related parties (continued)

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(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).

(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 Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(w) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

3 ACCOUNTING JUDGEMENT AND ESTIMATES

(a) Critical accounting judgements in applying the Group's accounting policies

In the process of applying the Group's accounting policies, management has made the following accounting judgement:

Structured contracts

The Group conducts a substantial portion of the business through Anhui Xinhua University ("Xinhua University"), Anhui Xinhua School ("Xinhua School") and Anhui Xinhua Group Investment Co., Ltd ("Xinhua Group") (the "PRC Operating Entities"), due to regulatory restrictions on the foreign ownership in the Group's schools in the PRC. The Group does not have any equity interest in the PRC Operating Entities. The directors assessed whether or not the Group has control over the PRC Operating Entities, has rights to variable returns from its involvement with the PRC Operating Entities and has the ability to affect those returns through its power over the PRC Operating Entities. After assessment, the directors concluded that the Group has control over the PRC Operating Entities as a result of the Structured Contracts and accordingly the financial position and their operating results of the PRC Operating Entities are included in the Group's consolidated financial statements throughout the year.

Nevertheless, the Structured Contracts may not be as effective as direct legal ownership in providing the Group with direct control over the PRC Operating Entities and uncertainties presented by the PRC legal system could impede the Group's beneficiary rights of the results, assets and liabilities of the PRC Operating Entities. The directors, based on the advice of its other legal counsel, consider that the Structured Contracts among the PRC Operating Entities and their equity shareholders are in compliance with the relevant PRC laws and regulations and are legally enforceable.

Recognition of income taxes and deferred tax assets

Determining income tax provision involves judgment on the future tax treatment of certain transactions. Management evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatments of such transactions are reconsidered periodically to take into account all changes in tax legislation. Deferred tax assets are recognised in respect of deductible temporary differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences can be utilised, management's judgment is required to assess the probability of future taxable profits. Management's assessment is revised as necessary and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered.

(b) Sources of estimation uncertainty

Key sources of estimation uncertainty are as follows:

(i) Depreciation

As described in Note 2(g), property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value. Management reviews annually the useful lives of the assets and residual values, if any, in order to determine the amount of depreciation expenses to be recorded during any reporting period. The useful lives and residual values are based on the Group's historical experience with similar assets and taking into account anticipated technological and other changes. The depreciation expenses for future periods are adjusted if there are significant changes from previous estimates.

3 ACCOUNTING JUDGEMENT AND ESTIMATES (continued)

(b) Sources of estimation uncertainty (continued)

(ii) Impairment of non-current assets

If circumstances indicate that the carrying amount of a non-current asset may not be recoverable, the asset may be considered "impaired", and an impairment loss would be recognised in accordance with accounting policy for impairment of non-current assets as described in Note 2(j). The carrying amounts of the Group's non-current assets, including property, plant and equipment, lease prepayments and intangible assets are reviewed periodically to determine whether there is any indication of impairment. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and the fair value less costs to sell. An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. It is difficult to precisely estimate selling price of the Group's non-current assets because quoted market prices for such assets may not be readily available. In determining the value in use, expected future cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to level of revenue, amount of operating costs and applicable discount rate. Management uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of revenue and amount of operating costs.

4 REVENUE AND SEGMENT REPORTING

(a) Revenue

	2018	2017
	RMB'000	RMB'000
Revenue from contracts with customers within the scope of IFRS15		
Tuition fees	**341,535**	300,883
Boarding fees	**44,592**	37,075
Total	**386,127**	337,958

Revenue represents the value of service rendered during the year. No service provided to a single customer exceeds 10% or more of the total revenue of the Group during the year.

The Group has applied the practical expedient in paragraph 121 of IFRS 15 to its tuition and boarding fees received by university and school such that the Group does not include information about revenue that the Group will be entitled to when it satisfied the remaining performance obligations for tuition and boarding fees received by university and school that had an original expected duration of one year or less.

(b) Segment Reporting

IFRS 8, Operating Segments, requires identification and disclosure of operating segment information based on internal financial reports that are regularly reviewed by the Group's chief operating decision maker for the purpose of resources allocation and performance assessment. On this basis, the Group has determined that it only has one operating segment which is the provision of education services.

5 OTHER INCOME

	2018 RMB'000	2017 RMB'000
Rental and property management income	**25,436**	21,311
Service income	**25,957**	14,931
Government grants *(i)*	**7,262**	6,193
Available-for-sale financial assets: reclassification from equity on disposal	**–**	9,262
Net realised and unrealised gains on financial assets measured at fair value through profit or loss	**16,470**	–
Interest income on financial assets measured at amortised cost	**17,300**	756
Loss on operation of the School of Clinical Medicine *(ii)*	**(2,695)**	–
Others	**2,028**	1,343
	91,758	53,796

(i) Government grants mainly represent the grants from the local government for the purpose of compensating the operating expenses arising from the schools' teaching activities, scientific researches and expenditures on facilities.

(ii) On 20 November 2017, the Group entered into a formal agreement with Anhui Medical University for a term of three years to jointly operate the School of Clinical Medicine with the eventual goal of converting the School of Clinical Medicine into a school owned and operated solely by the Group (the "Conversion"). According to the agreement, the Group is entitled to the tuition fees relating to those students admitted in the 2018-2019 school year and thereafter and is responsible for the operation costs of the campus before the Conversion. The amount represents the recognized revenue less the operation costs of the School of Clinical Medicine during the year. After the Conversion, the operation results of the School of Clinical Medicine will be consolidated into the Group.

6 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	2018	2017
	RMB'000	RMB'000
(a) Finance costs		
Interest expense on bank loans	**85**	–
(b) Staff costs		
Salaries, wages and other benefits	**102,061**	91,650
Contributions to defined contribution retirement plan *(i)*	**8,622**	6,520
	110,683	98,170

(i) Employees of the Group's PRC subsidiaries are required to participate in a defined contribution retirement scheme administered and operated by the local municipal government. The Group's PRC subsidiaries contribute funds which are calculated on certain percentages of the average employee salary as agreed by the local municipal government to the scheme to fund the retirement benefits of the employees.

The Group has no other material obligation for the payment of retirement benefits associated with the scheme beyond the annual contributions described above.

	2018	2017
	RMB'000	RMB'000
(c) Other items		
Depreciation	**51,386**	48,027
Amortisation of intangible assets	**1,760**	1,216
Amortisation of lease prepayments	**2,557**	2,557
Auditors' remuneration	**2,505**	2,171
	58,208	53,971

7 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

(a) Income tax in the consolidated statement of profit or loss and other comprehensive income represents:

	2018 RMB'000	2017 RMB'000
Current tax		
Provision for PRC income tax for the year	**1,982**	2,083

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

(ii) No provision for Hong Kong profits tax has been made as the Group had no assessable profits derived from or earned in Hong Kong during the year.

(iii) Pursuant to the PRC Income Tax Law and the respective regulations, the companies of the Group which operate in Mainland China are subject to Corporate Income Tax ("CIT") at a rate of 25% on its taxable income.

(iv) According to the Implementation Rules for the Law for Promoting Private Education (the "Implementation Rules"), private schools, whether requiring reasonable returns or not, may enjoy preferential tax treatment. Private schools for which the school sponsors do not require reasonable returns are eligible to enjoy the same preferential tax treatment as public schools. The Implementation Rules provide that the relevant authorities under the State Council may introduce preferential tax treatments and related policies applicable to private schools requiring reasonable returns. During the year and up to the date of this report, no separate policies, regulations or rules have been introduced by the tax authorities in this regard. In accordance with the historical tax returns filed to the relevant tax authorities and the confirmation obtained therefrom, the Group's schools which do not require reasonable returns did not pay corporate income tax for the income from provision of formal educational services and had enjoyed the preferential corporate income tax exemption treatment since their establishment. As a result, no income tax expense for the income from provision of formal educational services was recognised for the Group's schools for the year ended 31 December 2018.

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2018 RMB'000	2017 RMB'000
Profit before taxation	**257,992**	174,041
Tax at the statutory rate	**64,498**	43,510
Tax effect of non-taxable income	**(61,016)**	(45,941)
Utilization of temporary difference and tax losses not recognized	**(1,524)**	–
Tax effect of temporary difference and tax losses not recognized	**–**	4,441
Tax effect of non-deductible expenses	**24**	73
Actual income tax expense	**1,982**	2,083

7 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (continued)

(c) Deferred tax assets not recognized

As at 31 December 2018, the Group has not recognised deferred tax assets in respect of deductible temporary differences and tax losses with total amount of RMB15,112,000 (2017: RMB21,209,000), as it is not probable that future taxable profits against which the deductible temporary differences can be utilised will be available in the relevant tax jurisdiction and entity.

(d) Deferred tax liabilities not recognized

The PRC Enterprise Income Tax law and its relevant regulations impose a withholding tax at 10%, unless reduced by a tax treaty/arrangement, for dividend distributions out of earnings accumulated beginning on 1 January 2008. Undistributed earnings generated prior to 1 January 2008 are exempted from such withholding tax.

As at 31 December 2018, the Group has not recognized deferred tax liabilities in respect of undistributed earnings generated by its PRC entities, with approximate total amount of RMB792,612,000 (2017: RMB606,584,000). In the opinion of the directors, the Group's undistributed earnings will be retained in the PRC for the expansion of the Group's operation, so it is not probable that these subsidiaries will distribute such earnings in the foreseeable future.

8 DIRECTORS' EMOLUMENTS

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Contributions to retirement benefit schemes RMB'000	2018 Total RMB'000
Chairman and non-executive Director					
Mr. Wu Junbao	–	–	–	–	–
Executive directors					
Mr. Zhang Ming	–	–	–	–	–
Mr. Lu Zhen	–	259	276	12	547
Mr. Wang Yongkai	–	251	276	–	527
Mrs. Wang Li	–	96	–	9	105
Independent non-executive directors					
Ms. Zhang Kejun	100	–	–	–	100
Mr. Yang Zhanjun	150	–	–	–	150
Mr. Chau Kwok Keung	150	–	–	–	150
	400	606	552	21	1,579

8 DIRECTORS' EMOLUMENTS (continued)

	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Contributions to retirement benefit schemes RMB'000	2017 Total RMB'000
Chairman and non-executive Director					
Mr. Wu Junbao	–	–	–	–	–
Executive directors					
Mr. Wang Yongkai	–	201	–	–	201
Mr. Lu Zhen	–	215	–	9	224
Mrs. Wang Li	–	215	–	8	223
	–	631	–	17	648

Mrs. Wang Li resigned as executive director of the Company on 31 October 2018.

Mr. Zhang Ming was appointed as executive director of the Company on 31 October 2018.

Except for Mr. Wu Junbao, no directors of the Group waived or agreed to waive his or her emolument during the year.

During the year, there was no amount paid or payable by the Group to the directors or any of the five highest paid individuals as set out in Note 9 below as an inducement to join or upon joining the Company or as compensation for loss of office.

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments of the Group, two of them are directors of the Company (2017: none). The aggregate of the emoluments in respect of the remaining three individuals (2017: five) are as follows:

	2018 RMB'000	2017 RMB'000
Salaries, allowance and benefits in kind	**1,038**	1,424
Discretionary bonuses	**286**	–
Contributions to retirement benefit schemes	**24**	26
	1,348	1,450

The emoluments of the above individuals are within the band of Nil to HKD1,000,000.

10 EARNINGS PER SHARE

The calculation of basic earnings per share for the year ended 31 December 2018 is based on the profit attributable to equity holder of the Company for the year ended 31 December 2018 of RMB256,010,000 (2017: RMB171,958,000) and the weighted average number of ordinary shares of 1,512,893,000 in issue during the year (2017: 1,200,000,000 shares after taking into account the Capitalization Issue (Note 22(c)(ii)), calculated as follows:

	2018 (thousand)	2017 (thousand)
Issued ordinary shares at 1 January 2018/30 August 2017 (date of incorporation)	**5**	5
Effect of Capitalization Issue *(Note 22(c)(ii))*	**1,199,995**	1,199,995
Effect of issues of ordinary shares by initial public offering *(Note 22(c)(ii))*	**312,893**	–
Weighted average number of ordinary shares at 31 December	**1,512,893**	1,200,000

There were no dilutive potential ordinary shares for the year ended 31 December 2018 and, therefore, diluted earnings per share are equivalent to basic earnings per share.

11 PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Motor vehicles RMB'000	Furniture and fixtures RMB'000	Electronic devices RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:						
At 1 January 2017	493,342	9,567	126,195	59,318	63,941	752,363
Additions	–	1,453	9,671	6,779	51,754	69,657
Disposals	–	(545)	(476)	(708)	–	(1,729)
Transfers	83,024	–	107	750	(83,881)	–
At 31 December 2017	576,366	10,475	135,497	66,139	31,814	820,291
At 1 January 2018	**576,366**	**10,475**	**135,497**	**66,139**	**31,814**	**820,291**
Additions	**8,180**	**1,674**	**4,497**	**6,481**	**16,657**	**37,489**
Disposals	**(2,938)**	**(104)**	**(110)**	**(1,105)**	**–**	**(4,257)**
Transfers	**27,264**	**–**	**–**	**–**	**(27,264)**	**–**
At 31 December 2018	**608,872**	**12,045**	**139,884**	**71,515**	**21,207**	**853,523**
Accumulated depreciation:						
At 1 January 2017	(156,838)	(5,428)	(81,213)	(38,588)	–	(282,067)
Charge for the year	(26,973)	(813)	(13,303)	(6,938)	–	(48,027)
Disposal	–	505	473	708	–	1,686
At 31 December 2017	(183,811)	(5,736)	(94,043)	(44,818)	–	(328,408)
At 1 January 2018	**(183,811)**	**(5,736)**	**(94,043)**	**(44,818)**	**–**	**(328,408)**
Charge for the year	**(29,165)**	**(951)**	**(13,778)**	**(7,492)**	**–**	**(51,386)**
Disposal	**1,043**	**11**	**106**	**1,105**	**–**	**2,265**
At 31 December 2018	**(211,933)**	**(6,676)**	**(107,715)**	**(51,205)**	**–**	**(377,529)**
Net book value:						
At 31 December 2017	392,555	4,739	41,454	21,321	31,814	491,883
At 31 December 2018	**396,939**	**5,369**	**32,169**	**20,310**	**21,207**	**475,994**

The Group's buildings are situated in Anhui province, the PRC. Certificates of ownership in respect of certain buildings of the Group with total net carrying amounts of RMB126,073,841 as at 31 December 2018 (2017: RMB135,452,654) have not yet been issued by the relevant PRC authorities. As at the end of the year, the directors were in the process of obtaining these certificates.

12 LEASE PREPAYMENTS

	2018 RMB'000	2017 RMB'000
Cost:		
At 1 January	**127,872**	127,872
Additions	**–**	–
At 31 December	**127,872**	127,872
Accumulated amortisation:		
At 1 January	**(37,435)**	(34,878)
Charge for the year	**(2,557)**	(2,557)
At 31 December	**(39,992)**	(37,435)
Net book value:		
At 31 December	**87,880**	90,437

Lease prepayments represent cost of land use rights in respect of land located in the PRC with lease term of 50 years.

13 INTANGIBLE ASSETS

	Computer software RMB'000	School operation right RMB'000	Total RMB'000
Cost:			
At 1 January 2017	8,649	–	8,649
Additions	2,938	–	2,938
At 31 December 2017	11,587	–	11,587
At 1 January 2018	**11,587**	**–**	**11,587**
Additions	**4,709**	**195,961**	**200,670**
At 31 December 2018	**16,296**	**195,961**	**212,257**
Accumulated amortisation:			
At 1 January 2017	(5,070)	–	(5,070)
Charge for the year	(1,216)	–	(1,216)
At 31 December 2017	(6,286)	–	(6,286)
At 1 January 2018	**(6,286)**	**–**	**(6,286)**
Charge for the year	**(1,760)**	**–**	**(1,760)**
At 31 December 2018	**(8,046)**	**–**	**(8,046)**
Net book value:			
At 31 December 2018	**8,250**	**195,961**	**204,211**
At 31 December 2017	5,301	–	5,301

As at 31 December 2018, intangible assets mainly represent a school operation right for the School of Clinical Medicine acquired from Anhui Medical University in the amount of RMB195,961,300. Such amount was recorded as prepayment in other non-current assets at 31 December 2017.

The school operation right is stated at cost and not amortised while its useful lives is assessed to be indefinite, and the Group performs impairment assessment annually or when indicators of potential impairment are identified. The school operation right is allocated to the cash-generating unit ("CGU") of the School of Clinical Medicine, and the recoverable amount of this CGU is determined based on value in use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a seven-year period. Cash flows beyond the seven-year period are extrapolated by using an estimated growth rate of 3% which is based on the relevant industry growth forecasts. The discount rates applied to the cash flow projections is 17%. Key assumptions used for value in use calculations are the growth rates for sales, corresponding gross margin rates and working capital changes, based on management's projection and expected market development.

14 INVESTMENTS IN SUBSIDIARIES

As at 31 December 2018, the Company, either through legal ownership or implementation of the Structured Contracts, has direct and indirect interests in the following subsidiaries, all of which are private companies. The particulars of these subsidiaries are set out below:

Name of company	Place and date of incorporation/ establishment	Registered capital/issued and fully paid up capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Xinhua Education International Limited	British Virgin Islands 31 August 2017	USD500/ USD0.01	100%	–	Investment holding
Hong Kong Xinhua Education Limited	Hong Kong 8 September 2017	HKD1/ HKD1	–	100%	Investment holding
Xinhua Education, Inc.	The United States 22 August 2017	USD0.1/ USD0.01	–	100%	Investment holding
Anhui Ronghua Education Technology Co., Ltd* 安徽融華教育科技有限公司 *(Note(a))*	The PRC 30 September 2017	RMB10,000,000/ –	–	100%	Provision of technical and management consultancy services
Xinjiang Ronghua Education Technology Co., Ltd* 新疆融華教育科技有限公司 *(Note(a))*	The PRC 17 January 2018	RMB50,000,000/ –	–	100%	Provision of technical and management consultancy services
Anhui Xinhua Group Investment Co., Ltd* 安徽新華集團投資有限公司 *(Note(b))*	The PRC 1 September 1999	RMB51,720,000/ RMB51,720,000	–	100%	Investment holding
Anhui Xinhua University* 安徽新華學院 *(Note(b))*	The PRC 18 June 2000	RMB60,480,000/ RMB60,480,000	–	100%	Provision of formal undergraduate and junior college education services
Anhui Xinhua School* 安徽新華學校 *(Note(b))*	The PRC 11 April 2002	RMB4,950,000/ RMB4,950,000	–	100%	Provision of formal vocational secondary school education services

Notes:

(a) These entities are incorporated in the PRC as a wholly foreign-owned enterprise by Hong Kong Xinhua Education Limited.

(b) These are PRC operating entities ultimately controlled by the Controlling Shareholder through Structured Contracts.

* The English translation of these entities is for reference only. The official names of the entities established in the PRC are in Chinese.

15 TRADE RECEIVABLES

As at the end of the year, an ageing analysis of the Group's trade receivables, based on the transaction date, is as follows:

	2018 RMB'000	2017 RMB'000
Within 1 year	**261**	201

Details on the Group's credit policy are set out in Note 23(a). No allowance for doubtful debts was made as at the end of the year.

16 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2018 RMB'000	2017 RMB'000
Prepayments and deposits	**5,289**	1,129
Other receivables	**7,753**	11,164
	13,042	12,293

17 FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

	2018 RMB'000	2017 RMB'000
Financial assets measured at FVPL	**60,242**	–

Financial assets measured at FVPL comprise the investments in wealth management products purchased from banks in the PRC.

18 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

(a) Cash and cash equivalents comprise:

	2018 RMB'000	2017 RMB'000
Cash at bank and on hand	**1,861,671**	293,023

18 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION (continued)

(b) Reconciliation of profit before taxation to cash generated from operations:

	Note	**2018**	2017 *(Note)*
		RMB'000	RMB'000
Profit before taxation		**257,992**	174,041
Adjustments for:			
Depreciation and amortisation	6(c)	**53,146**	49,243
Amortisation of lease prepayments	6(c)	**2,557**	2,557
Finance costs	6(a)	**85**	–
Loss on sale of property, plant and equipment		**1,841**	–
Available-for-sale financial assets:			
reclassification from equity on disposal	5	**–**	(9,262)
Net realised and unrealised gain of financial assets measured at fair value through profit or loss	5	**(16,470)**	–
Operating profit before changes in working capital		**299,151**	216,579
Increase in trade and other receivables		**(485)**	(7,404)
Increase in contract liability and deferred revenue		**21,037**	24,895
(Decrease)/increase in other payables		**(25,188)**	28,103
Increase in deferred income		**126**	373
Cash generated from operations		**294,641**	262,546

Note: The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See Note 2(c).

(c) Reconciliation of liabilities arising from financing activities

	Bank loans	**Interest payable**	**Total**
	RMB'000	**RMB'000**	**RMB'000**
Balance at 1 January 2017	–	–	–
Non-cash changes			
– Interest expense on bank loan *(Note 6 (a))*	–	–	–
Cash flows			
– Inflow from financing activities	–	–	–
– Outflow from financing activities	–	–	–
Balance at 31 December 2017 and 1 January 2018	**–**	**–**	**–**
Non-cash changes			
– Interest expense on bank loan *(Note 6 (a))*	**–**	**85**	**85**
Cash flows			
– Inflow from financing activities	**35,000**	**–**	**35,000**
– Outflow from financing activities	**(35,000)**	**(85)**	**(35,085)**
Balance at 31 December 2018	**–**	**–**	**–**

19 CONTRACT LIABILITIES

	Notes	31 December 2018 RMB'000	1 January 2018[i] RMB'000	31 December 2017[i] RMB'000
Tuition fees	(ii)	**183,839**	165,174	–
Boarding fees	(ii)	**28,971**	26,599	–
		212,810	191,773	–

Notes:

(i) The Group has initially applied IFRS 15 using the cumulative effect method and adjusted the opening balance at 1 January 2018.

(ii) Upon the adoption of IFRS 15, these amounts were reclassified from deferred revenue to contract liabilities (see Note 2(c)(ii)).

Movements in contract liabilities

	2018 RMB'000
Balance at 1 January	**191,773**
Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the year	**(191,773)**
Increase in contract liabilities as a result of receipts in advance of performance	**212,810**
Balance at 31 December	**212,810**

20 OTHER PAYABLES

	2018 RMB'000	2017 RMB'000
Miscellaneous expenses received from students *(Note (i))*	**27,467**	31,300
Accrued expenses	**7,203**	5,943
Payables to suppliers	**28,599**	29,173
Accrued staff costs	**16,542**	13,032
Accrued listing expenses	**–**	25,802
Others	**21,207**	25,682
	101,018	130,932

Note (i): the amount represent miscellaneous expenses received from students which will be paid out on behalf of students.

All other payables are expected to be settled within one year.

21 DEFERRED INCOME

	2018 RMB'000	2017 RMB'000
Government grants		
At beginning of year	**1,384**	1,011
Grants received	**7,388**	6,566
Charged to profit or loss	**(7,262)**	(6,193)
At end of year	**1,510**	1,384
Current	**1,510**	881
Non-current	**–**	503
	1,510	1,384

22 CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

Company

		Attributable to equity shareholders of the Company				
	Note	Share capital RMB'000	Share premium RMB'000	Exchange reserves RMB'000	Retained earnings RMB'000	Total equity RMB'000
Balance at 30 August 2017 (date of incorporation)		–*	–	–	–	–*
Changes in equity for 2017:						
Profit for the year		–	–	–	–	–
Other comprehensive income		–	–	–	–	–
Total comprehensive income		–	–	–	–	–
Balance at 31 December 2017 *(note)* **and 1 January 2018**		–*	–	–	–	–*
Changes in equity for 2018:						
Profit for the year		**–**	**–**	**–**	**8,880**	**8,880**
Other comprehensive income		**–**	**–**	**90,626**	**–**	**90,626**
Total comprehensive income		**–**	**–**	**90,626**	**8,880**	**99,506**
Issuance of ordinary shares through initial public offering, net of issuance costs	22(d)	**3,290**	**1,034,683**	**–**	**–**	**1,037,973**
Capitalization issue	22(c)(ii)	**9,662**	**(9,662)**	**–**	**–**	**–**
Balance at 31 December 2018		**12,952**	**1,025,021**	**90,626**	**8,880**	**1,137,479**

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

Note: The Group, including the Company has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See Note 2(c).

22 CAPITAL, RESERVES AND DIVIDENDS (continued)

(b) Dividends

Dividends payable to equity shareholders of the Company attributable to the year:

	2018 RMB'000	2017 RMB'000
Final dividend proposed after the end of the reporting period of RMB4.77 cents per ordinary share (2017:nil)	**76,729**	–

The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

(c) Share capital

The share capital of the Group represents the issued capital of the Company at the respective balance sheet dates.

Movements in the authorised share capital of the Company during the period are as follows:

	2018		2017	
	Number of shares (thousand)	Amount HK$'000	Number of shares (thousand)	Amount HK$'000
Ordinary shares, authorised (note (i)):				
Ordinary shares of HK$0.01 each	**2,000,000**	**20,000**	38,000	380
Ordinary shares, issued and fully paid (note (ii)):				
At 1 January 2018/30 August 2017 (date of incorporation)	**5**	**–***	5	–*
Capitalisation issue	**1,199,995**	**12,000**	–	–
Issues of ordinary shares by initial public offering	**408,583**	**4,086**	–	–
At 31 December	**1,608,583**	**16,086**	5	–*
RMB equivalent ('000)		**12,952**		–*

* The balance represents an amount less than 1,000.

(i) Authorised share capital

The Company was incorporated in the Cayman Islands on 30 August 2017 with an authorised share capital of HK$380,000 divided into 38,000,000 shares of par value of HK$0.01 each.

Pursuant to the written resolutions of the shareholders passed on 8 March 2018, the authorised number of ordinary shares was increased from 38,000,000 to 2,000,000,000 of par value of HK$0.01 each.

22 CAPITAL, RESERVES AND DIVIDENDS (continued)

(c) Share capital (continued)

(ii) Issued share capital

The following sets out the changes in the Company's issued share capital since the date of its incorporation:

- The Company was incorporated on 30 August 2017 with issued capital of 5,172 ordinary shares at HK$0.01 each. The issued capital was subsequently credited as fully paid.

- Pursuant to the written resolutions of the shareholders passed on 8 March 2018, the Company capitalized, out of the share premium as at 26 March 2018, HK$11,999,948.28 (equivalent to RMB9,662,000) in paying up in full at par 1,199,994,828 shares for allotment and issue to the shareholders whose names appear on the register of members of the Company on the date of the written resolutions (or as they may direct) on a pro rata basis (the "Capitalisation Issue").

- On 26 March 2018, the Company issued 400,000,000 new ordinary shares of HK$0.01 each by way of the offering to Hong Kong and overseas investors (the "Offering"). Consequently, HK$4,000,000 was recorded in share capital. On 18 April 2018, the Company issued 8,583,000 new ordinary shares to cover over-allocations in the Offering. Consequently, HK$85,830 was recorded in share capital.

(d) Nature and purpose of reserves

(i) Share premium

On 26 March 2018 and 18 April 2018, the Company issued 408,583,000 new ordinary shares of HK$0.01 each at a price of HK$3.26 per share by way of the Offering. Net proceeds from the Offering amounted to RMB1,037,973,000 (after offsetting issuance costs of RMB34,399,000), out of which RMB3,290,000 and RMB1,034,683,000 were recorded in share capital and share premium respectively.

(ii) PRC statutory reserves

Statutory reserves are established in accordance with the relevant PRC rules and regulations and the articles of association of the companies comprising the Group which are incorporated in the PRC. Appropriations to the reserves were approved by the respective boards of directors' meeting. These reserves include (i) general reserve of the limited liability companies and (ii) the development fund of schools.

- In accordance with the PRC Company Law, 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 reserves until the reserves reach 50% of their respective registered capital. For the entity concerned, statutory reserves can be used to make good previous years' losses, if any, and may be converted into capital in proportion to the existing equity interests of investors, provided that the balance of the reserve after such conversion is not less than 25% of the entity's registered capital.

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

22 CAPITAL, RESERVES AND DIVIDENDS (continued)

(e) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of a debt-to-asset ratio. This ratio is calculated as total liabilities divided by total assets.

The debt-to-asset ratio at 31 December 2018 and 2017 was as follows:

	2018	2017
	RMB'000	RMB'000
Total liabilities	**318,767**	326,673
Total assets	**2,703,301**	1,326,598
Debt-to-asset ratios	**12%**	25%

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

23 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

Exposure to credit and liquidity risks arises in the normal course of the Group's business. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to trade receivables and financial assets which comprise bank balances and investments in wealth management products.

In respect of trade receivables, the balances represent amounts related to students who have applied for the delayed payment of tuition fees and boarding fees. There is no fixed term for delayed payments. The Group's students are required to pay tuition fees and boarding fees in advance for the upcoming school year or semester, which normally commences in September or February. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified students, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances.

In respect of bank balances and investments in wealth management products, the Group transacts mainly with recognized and creditworthy banks, and the maximum exposure equal to the carrying amount of these financial assets.

23 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the parent company's board when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor its liquidity requirements, to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following tables show the remaining contractual maturities at the end of the reporting period of the Group's non-derivative financial liabilities and derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay:

	At 31 December 2018			
	Contractual undiscounted cash outflow			
	Within 1 year or on demand RMB'000	**More than 1 year but less than 5 years RMB'000**	**Total RMB'000**	**Carrying amount RMB'000**
Other payables	**101,018**	**–**	**101,018**	**101,018**

	At 31 December 2017			
	Contractual undiscounted cash outflow			
	Within 1 year or on demand RMB'000	More than 1 year but less than 5 years RMB'000	Total RMB'000	Carrying amount RMB'000
Other payables	130,932	–	130,932	130,932
Amounts due to related parties	511	–	511	511
	131,443	–	131,443	131,443

23 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

(c) Fair value measurement

(i) Financial assets and liabilities measured at fair value

Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in IFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

– Level 1 valuations: Fair value measured using only Level 1 input i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

– Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

– Level 3 valuations: Fair value measured using significant unobservable inputs.

The Group has a team headed by the finance manager performing valuation for wealth management products which are categorized into Level 3 of the fair value hierarchy. The team reports directly to the head of finance department. A valuation report with analysis of changes in fair value measurement is prepared by the team at each interim and annual reporting date, and is reviewed and approved by the head of finance department. Discussion of the valuation process and results with the head of finance department and the directors is held twice a year, to coincide with the reporting dates.

	2018	2017
	RMB'000	RMB'000
Level 3 – bank's wealth management products	**60,242**	235,521

Note: Available-for-sale financial assets were reclassified to financial assets measured at FVPL upon the adoption of IFRS 9 at 1 January 2018 (see Note 2(c)).

The fair values of banks' wealth management products have been estimated using a discounted cash flow valuation model based on assumptions that are not supported by observable market prices or rates. The valuation requires the directors to make estimates about the expected future cash flows including expected future interest return on maturity of the wealth management products. The directors believe that the estimated fair values resulting from the valuation technique are reasonable, and that they were the most appropriate values at the end of reporting period.

23 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

(c) Fair value measurement (continued)

(i) Financial assets and liabilities measured at fair value (continued)

Fair value hierarchy (continued)

Below is a summary of significant unobservable inputs to the valuation of these wealth management products together with a quantitative sensitivity analysis at the end of reporting period:

31 December 2018

	Valuation techniques	Significant unobservable inputs	Range	Sensitivity of fair value to the input
Bank's wealth management products, at fair value	**Discounted cash flow method**	**Interest return rate**	**3.08% to 4.10%**	**0.50% increase/(decrease) in interest return rate would result in increase/(decrease) in fair value by RMB41,000.**

31 December 2017

	Valuation techniques	Significant unobservable inputs	Range	Sensitivity of fair value to the input
Bank's wealth management products, at fair value	Discounted cash flow method	Interest return rate	3.50% to 4.55%	0.50% increase/(decrease) in interest return rate would result in increase/(decrease) in fair value by RMB53,000.

During the period, there was no transfer between instruments in Level 1 and Level 2. The movements during the period in the balance of these Level 3 fair value measurements was as follows:

	2018 RMB'000	2017 RMB'000
Bank's wealth management products:		
At beginning of the year	**235,521**	120,068
Payment for purchases	**2,400,500**	1,579,000
Net unrealised gains or losses recognised in other comprehensive income during the year	**–**	521
Changes in fair value recognised in profit or loss during the year	**16,470**	–
Redemption of investment	**(2,592,249)**	(1,464,068)
At ending of the year	**60,242**	235,521

23 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

(c) Fair value measurement (continued)

(i) Financial assets and liabilities measured at fair value (continued)

Fair value hierarchy (continued)

From 1 January 2018, any gains or losses arising from the remeasurement of the banks' wealth management products are presented in the "Other income" line item in the consolidated statement of profit or loss and other comprehensive income. Prior to 1 January 2018, the net unrealised gains arising from the remeasurement are recognised in fair value reserve in other comprehensive income, and the gains arising from the disposal of the banks' wealth management products are presented in the "Other income" line item in the consolidated statement of profit or loss and other comprehensive income.

(ii) Fair value of financial assets and liabilities carried at other than fair value

The carrying amounts of the Group's financial instruments carried at amortized cost are not materially different from their fair values as at 31 December 2018 and 2017 due to short-term maturity of these instruments.

24 COMMITMENTS

Capital commitments of the Group in respect of plant, property and equipment and lease prepayments outstanding at 31 December 2018 and 2017 not provided for in the consolidated financial statements were as follows:

	2018	2017
	RMB'000	RMB'000
Contracted for	–	15,261
Authorised but not contracted for	**615,212**	107,500
	615,212	122,761

25 MATERIAL RELATED PARTY TRANSACTIONS

During the year ended 31 December 2018, the directors are of the view that the following companies and persons are related parties of the Group:

Name of party	Relationship
Wu Junbao	Controlling Shareholder
Anhui New East Cuisine Education Institute ("New East Cuisine") 安徽新東方烹飪專修學院	Fellow subsidiary
Xinhua Computer College ("Xinhua Computer") 新華電腦專修學院	Fellow subsidiary
Anhui Xinhua Investment Co., Ltd ("Xinhua Investment") 安徽新華投資有限公司	Fellow subsidiary
Anhui Huadong Chuanmei Co., Ltd ("Huadong Chuanmei") 安徽華動文化傳媒有限公司	Fellow subsidiary
Hefei Wanzhi Trading Co., Ltd ("Hefei Wanzhi") 合肥皖智商貿有限公司	Fellow subsidiary

Note: The English translation of these entities is for reference only. The official names of the entities established in the PRC are in Chinese.

(a) Significant related party transactions

	2018 **RMB'000**	2017 RMB'000
Service fee charged by related parties	**2,428**	2,778
Rental fee charged by related parties	**600**	–
Purchase of property, plant, and equipment and merchandise	**–**	3,939
Repayment to/(repayment from) related parties	**511**	(233,038)

25 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(b) Balances with related parties

During the year ended 31 December 2018, the directors are of the view that the following companies and persons are related parties of the Group:

Amounts due to:

	2018 RMB'000	2017 RMB'000
Non-trade related:		
Wu Junbao	–	511

(c) Key management personnel remuneration

Key management personnel remuneration is disclosed in Notes 8 and 9.

(d) Applicability of the Listing Rules relating to connected transactions

The related party transactions in terms of service fee and rental fee above constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules. The disclosures required by Chapter 14A of the Listing Rules are provided in section Non-exempt Continuing Connected Transactions of the Directors' Report.

26 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	Note	2018 RMB'000	2017 RMB'000
Non-current assets			
Investments in subsidiaries		–*	–*
		–*	–*
Current assets			
Amounts due from a subsidiary		15,694	–
Cash and cash equivalents		1,124,270	–*
		1,139,964	–*
Current liabilities			
Other payables		2,485	–
Amounts due to related parties		–	–*
		2,485	–*
Net current assets		1,137,479	–*
Total assets less current liabilities		1,137,479	–*
Net assets		1,137,479	–*
Capital and reserves	22(a)		
Share capital		12,952	–*
Reserves		1,124,527	–
Total equity		1,137,479	–*

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

27 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

On 28 January 2019, the Group submitted a tender application in response to a tender published by Nanjing University of Finance & Economics ("NUFE"), which is aimed to select a candidate to become the new school sponsor of the Hongshan College of NUFE ("Hongshan College"), with an eventual goal of converting Hongshan College into a standalone school owned and operated solely by the new school sponsor.

On 2 February 2019, the Group received the tender confirmation from NUFE, confirming that it was the successful tenderer in respect of the acquisition of Hongshan College. An initial payment of RMB305 million, which should be applied towards the final consideration to be agreed upon, had been paid to NUFE. The total consideration payable, the payment terms and other terms and conditions in respect of the acquisition of Hongshan College would be further agreed upon in a formal agreement between NUFE and the Group.

28 COMPARATIVE FIGURES

The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. Further details of the changes in accounting policies are disclosed in Note 2(c).

29 IMMEDIATE AND ULTIMATE CONTROLLING PARTY

At 31 December 2018, the directors consider the immediate parent and ultimate controlling party of the Group to be Wu Junbao Company Limited, which was incorporated in the British Virgin Islands. This entity does not produce financial statements available for public use.

30 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2018

Up to the date of issue of these financial statements, the IASB has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2018 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
IFRS 16, *Leases*	1 January 2019
IFRIC 23, *Uncertainty over income tax treatments*	1 January 2019
Annual Improvements to IFRSs 2015-2017 Cycle	1 January 2019
Amendments to IAS 28, *Long-term interest in associates and joint ventures*	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far the Group has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position. Specifically, the Group assesses the impact of IFRS 16 and IFRIC 23 as follows.

30 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

IFRS 16, Leases

As disclosed in Note 2(i), currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The Group enters into some leases as the lessor and others as the lessee.

IFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once IFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

IFRS 16 will primarily affect the Group's accounting as a lessee of leases for properties, plant and equipment which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease. However, as the Group does not have any material operating lease commitment during the reporting period, the application of the new accounting policy is expected to have no material impact for the Group's financial statements.

IFRIC 23, Uncertainty over income tax treatments

IFRIC 23 provides guidance on how to apply the recognition and measurement requirements in IAS 12 *Income taxes* when there is uncertainty over income tax treatments. The interpretation specifically addresses the following:

– whether an entity considers uncertain tax treatments separately;

– the assumptions an entity makes about the examination of tax treatments by taxation authorities;

– how an entity determines taxable profits (tax losses), tax bases, unused tax losses, unused tax credits and tax rates; and

– how an entity considers changes in facts and circumstances.

The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, and the Group will apply this interpretation from its effective date. The Group does not expect the applying of the interpretation to have material impact for the Group's financial statements.

DEFINITION

In this annual report, unless the context otherwise requires, the following expressions have the following meanings:

"AGM"	the annual general meeting of the Company
"American College"	Xinhua American College, a private higher education institution established by our Group in the State of Florida, US and obtained the provisional license dated 27 December, 2017 to offer post secondary programs
"Anhui Education Department"	Department of Education of Anhui Province (安徽省教育廳)
"Articles of Association" or "Articles"	the amended and restated articles of association of our Company conditionally adopted on 8 March 2018 and effective upon the Listing Date, and as amended from time to time
"associate(s)"	has the meaning ascribed thereto in the Listing Rules
"Board"	the board of Directors
"Business Cooperation Agreement"	the business cooperation agreement entered into by and among Xinhua Anhui, the PRC Consolidated Affiliated Entities and the Registered Shareholders dated 31 October 2017
"Business Day" or "business day"	a day on which banks in Hong Kong are generally open for business to the public and which is not a Saturday, Sunday or public holiday in Hong Kong
"BVI"	the British Virgin Islands
"Capitalization Issue"	the issue of 1,199,994,828 Shares upon capitalization of certain sums standing to the credit of the share premium account of our Company referred to in the paragraph headed "Appendix VI – Statutory and General Information – A. Further Information about Our Company – 4. Written resolutions of the then shareholders of our Company passed on 8 March 2018"
"CG Code"	the Corporate Governance Code as set out in Appendix 14 to the Listing Rules
"China" or "PRC"	the People's Republic of China excluding for the purpose of this annual report, Hong Kong, the Macau Special Administrative Region and Taiwan
"CIE"	Commission for Independent Education, which is established in the Florida Department of Education
"Companies Ordinance"	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) as the same may be amended, supplemented or otherwise modified from time to time

"Company" or "China Xinhua Group"	China Xinhua Education Group Limited, a company incorporated in the Cayman Islands whose shares are listed on the Stock Exchange
"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"Controlling Shareholder(s)"	has the meaning ascribed to it under the Listing Rules and unless the context requires otherwise, refers to the controlling shareholders of our Company, namely WJB Company and Mr. Wu
"Deed of Non-competition"	a deed of non-competition dated 8 March, 2018 entered into by our Controlling Shareholders in favor of our Company (for ourselves and as trustee for each of our subsidiaries from time to time) regarding the non-competition undertaking
"Director(s)"	the director(s) of the Company
"Directors' Powers of Attorney"	the school sponsor appointed director's power of attorney executed by each of the directors appointed by the School Sponsor of each PRC Operating School dated 31 October, 2017
"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 the MOFCOM on 19 January, 2015 for public consultation
"Equity Pledge Agreement"	the equity pledge agreement entered into by and among the Registered Shareholders, Xinhua Group and Xinhua Anhui dated 31 October, 2017
"Exclusive Call Option Agreement"	the exclusive call option agreement entered into by and among Xinhua Anhui, our PRC Consolidated Affiliated Entities and the Registered Shareholders dated 31 October, 2017
"Exclusive Technical Service and Management Consultancy Agreement"	the exclusive technical service and management consultancy agreement entered into by and among Xinhua Anhui and our PRC Consolidated Affiliated Entities dated 31 October, 2017
"FIE"	foreign invested enterprise
"Foreign Investment Catalog"	the Guidance Catalog of Industries for Foreign Investment (《外商投資產業指導目錄(2017)》), 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 28 July, 2017 and became effective from 28 July, 2017, which is amended from time to time

"Frost & Sullivan"	Frost & Sullivan (Beijing) Inc., Shanghai Branch Co., an independent market research and consulting company
"Frost & Sullivan Report"	an independent market research report dated 14 March, 2018, commissioned by our Company on the PRC private education market and prepared by Frost & Sullivan
"FVPL"	fair value through profit or loss
"Global Offering"	the Hong Kong Public Offering and the International Offering
"Group", "we", "our" or "us"	the Company and its subsidiaries
"HK$", "Hong Kong dollar(s)", "HKD" or "cents"	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong Stock Exchange", "Stock Exchange" and "HKSE"	The Stock Exchange of Hong Kong Limited
"Huayuan Partnership"	Hefei Huayuan Equity Investment Limited Partnership* (合肥華園股權投資合夥企業（有限合夥)), a limited partnership established under the laws of the PRC on 11 August, 2017 with Mr. Wu acting as its general partner and 31 individuals acting as its limited partners, including Mr. Wu, Ms. Zhou Jiaju (spouse of Mr. Wu), Mr. Wu Shan (son of Mr. Wu), our three executive Directors (namely, Mr. Lu Zhen, Mr. Wang Yongkai and Ms. Wang Li) and 26 other employees of our Group. Huayuan Partnership is one of the Registered Shareholders and holds 3.33% equity interest of Xinhua Group
"IFRSs"	the International Financial Reporting Standard(s)
"independent college"	a bachelor-degree level higher education institution established by a public university that provides formal education in bachelor-degree level or above in association with individuals or social organisations other than governmental institutions using non-state funds
"Independent Third Party(ies)"	an individual(s) or a company(ies) who or which is/are independent of and not connected with (within the meaning of the Listing Rules) any Director, chief executive or substantial shareholder (within the meaning of the Listing Rules) of our Company, its subsidiaries or any of their respective associates

"Listing"	the listing of the shares on the Main Board of the Stock Exchange on 26 March, 2018
"Listing Date"	26 March, 2018, the date on which the Company's Shares are listed and from which dealings therein are permitted to take place on the Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange, as amended from time to time
"Loan Agreement"	a loan agreement entered into by and among Xinhua Anhui, the PRC Operating Schools, and Xinhua Group dated 31 October, 2017
"Main Board"	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with the GEM of the Stock Exchange
"MOE"	the Ministry of Education of the PRC (中華人民共和國教育部)
"MOFCOM"	Ministry of Commerce of the PRC (中華人民共和國商務部)
"PRC Company Law"	the Company Law of the PRC (中華人民共和國公司法), as enacted by the Standing Committee of the Eighth National People's Congress on 29 December, 1993 and effective on 1 July, 1994, and subsequently amended on 25 December, 1999, 28 August, 2004, 27 October, 2005 and 28 December, 2013, as amended, supplemented or otherwise modified from time to time
"PRC Consolidated Affiliated Entities"	namely, our School Sponsor and our PRC Operating Schools, each a consolidated affiliated entity of our Company
"PRC government" or "State"	the central government of the PRC, including all governmental sub-divisions (such as provincial, municipal and other regional or local government entities)
"PRC Legal Advisors" or "PRC Legal Advisers"	Jingtian & Gongcheng, our legal advisors as to PRC Laws
"PRC Operating Schools"	our consolidated affiliated entities, namely, Xinhua University and Xinhua School
"private schools"	schools which are not administered by local, provincial or national governments

"Prospectus"	the prospectus of the Company dated 14 March, 2018
"public schools"	schools administered by local, provincial or national governments
"Registered Shareholders"	the shareholders of Xinhua Group, namely Mr. Wu, Mr. Wu Di and Huayuan Partnership
"Reporting Period"	the year ended 31 December, 2018
"RMB" or "Renminbi"	Renminbi, the lawful currency for the time being of the PRC
"School of Clinical Medicine"	School of Clinical Medicine of Anhui Medical University* (安徽醫科大學臨床醫學院), an independent college of Anhui Medical University established under the laws of the PRC in 2003 as further described in "Business – Planned Additional Schools – School of Clinical Medicine" in the Prospectus
"School Sponsor's and Directors' Rights Entrustment Agreement"	the school sponsor's and directors' rights entrustment agreement entered into by and among Xinhua Group, the PRC Operating Schools, the directors of each PRC Operating School and Xinhua Anhui dated 31 October, 2017
"School Sponsor's Power of Attorney"	the school sponsor's power of attorney executed by the School Sponsor in favor of Xinhua Anhui dated 31 October, 2017
"school year"	the school year for all of our schools, which generally starts on September 1 of each calendar year and ends on June 30 of the next calendar year
"SFO" or "Securities and Futures Ordinance"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended and supplemented from time to time
"Share Option Scheme"	the share option scheme conditionally adopted by our Company on 8 March, 2018
"Shareholders"	holder(s) of the Share(s)
"Shareholders' Rights Entrustment Agreement"	the shareholders' rights entrustment agreement entered into by and among the Registered Shareholders, the School Sponsor and Xinhua Anhui dated 31 October, 2017
"Shares"	ordinary share(s) of HK$0.01 each in the share capital of our Company
"Sino-Foreign Regulation"	the Regulation on Sino-Foreign Cooperation in Operating Schools (中華人民共和國中外合作辦學條例), promulgated by the State Council in 2003 and amended on 18 July, 2013

"Spouse Undertakings"	collectively, the spouse undertakings dated 31 October, 2017 executed by Ms. Zhou Jiaju, the spouse of Mr. Wu, and by Ms. Wu Songping, the spouse of Mr. Wu Di, respectively
"State Council"	the State Council of the PRC (中華人民共和國國務院)
"Structured Contracts"	collectively, Structured Contracts I and Structured Contracts II
"Structured Contracts I"	collectively, the Business Cooperation Agreement, the Exclusive Technical Service and Management Consultancy Agreement, the Exclusive Call Option Agreement, the Equity Pledge Agreement, the Shareholders' Rights Entrustment Agreement, the School Sponsor's and Directors' Rights Entrustment Agreement, the School Sponsor's Powers of Attorney, the Directors' Powers of Attorney, the Shareholders' Powers of Attorney, the Loan Agreement and the Spouse Undertakings, further details of which are set out in the section headed "Structured Contracts" in the Prospectus
"Structured Contracts II"	collectively, the structured contracts dated 6 February, 2018 entered into by Xinhua Xinjiang with, among others, our PRC Consolidated Affiliated Entities, the terms and conditions of which are the same as the Structured Contracts I in all material aspects
"Subsidiary(ies)"	has the meaning ascribed to it under the Listing Rules. For the avoidance of doubt, the Subsidiaries include the PRC Operating Schools and the School Sponsor in the Prospectus
"substantial Shareholder(s)"	has the meaning ascribed to it under the Listing Rules
"U.S." or "United States"	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
"U.S. dollar(s)" or "US$" or "USD"	United States dollars, the lawful currency for the time being of the United States
"Xinhua Anhui"	Anhui Ronghua Education Technology Co., Ltd.* (安徽融華教育科技有限公司), a limited liability company established under the laws of the PRC on 30 September, 2017, which is wholly owned by Xinhua HK
"Xinhua BVI"	Xinhua Education International Limited (新華教育國際有限公司), a limited liability company incorporated under the laws of the BVI on 31 August, 2017 and a wholly-owned subsidiary of our Company
"Xinhua Education Group"	Anhui Xinhua Education Group Co., Ltd.* (安徽新華教育集團有限公司, formerly known as Anhui Xinhua Education Development Co., Ltd.* (安徽新華教育發展有限公司)), a limited liability company established under the laws of the PRC on 30 March, 2004, which is owned as to 38.4% by Mr. Wu, 51.6% by relatives of Mr. Wu and 10% by two companies held by Mr. Wu and his relatives

"Xinhua Group" or "School Sponsor"	Anhui Xinhua Group Investment Co., Ltd.* (安徽新華集團投資有限公司) (previously known as Anhui Xinhua Investment Co., Ltd.* (安徽新華投資有限公司)), a limited liability company established under the laws of the PRC on 1 September, 1999, which is owned as to 95.70% by Mr. Wu, 0.97% by Mr. Wu Di and 3.33% by Huayuan Company. It is the school sponsor of Xinhua University and Xinhua School, and a consolidated affiliated entity of our Company
"Xinhua HK"	Hong Kong Xinhua Education Limited (香港新華教育有限公司), a limited liability company incorporated in Hong Kong on 8 September, 2017 and a wholly owned subsidiary of our Company
"Xinhua School"	Anhui Xinhua School* (安徽新華學校), a private formal secondary vocational school that obtained approval from the Anhui Education Department for its establishment on 11 April, 2002, of which the school sponsor's interest is wholly owned by Xinhua Group and a consolidated affiliated entity of our Company
"Xinhua University"	Anhui Xinhua University* (安徽新華學院), a private formal higher education institution whose predecessor is Anhui Xinhua Vocational College (安徽新華職業學院) which obtained approval from The People's Government of Anhui Province (安徽省人民政府) for its establishment on 18 June, 2000. The school sponsor's interest of Xinhua University is wholly owned by Xinhua Group and a consolidated affiliated entity of our Company
"Xinhua US"	Xinhua Education, Inc., a company incorporated in the State of Florida of the United States, with limited liability on 22 August, 2017 and a wholly-owned subsidiary of our Company
"Xinhua WFOE"	Xinhua Anhui or Xinhua Xinjiang (as the case maybe), and collectively, "Xinhua WFOEs"
"Xinhua Xinjiang"	Xinjiang Ronghua Education Technology Co., Ltd.* (新疆融華教育科技有限公司), a limited liability company established under the laws of the PRC on 17 January, 2018, which is wholly owned by Xinhua HK
"Xinjiang"	Xinjiang Uygur Autonomous Region, a provincial-level autonomous region of the PRC
"Yangtze River Delta"	comprises Jiangsu, Zhejiang, Anhui and Shanghai in the PRC
"%"	percent
"2016 Decision"	the Decision on Amending the Law for Promoting Private Education of the PRC (《關於修改<中華人民共和國民辦教育促進法>的決定》) approved by the Standing Committee of the National People's Congress on November 2016, which took effect on 1 September, 2017

CHINA XINHUA EDUCATION GROUP LIMITED
中國新華教育集團有限公司