中國新高教集團有限公司
China New Higher Education Group Limited

(Incorporated in the Cayman Islands with Limited Liability)
Stock Code: 2001

2016
ANNUAL REPORT

CONTENTS

BOARD OF DIRECTORS

Executive Directors

Mr. Li Xiaoxuan *(Chairman of the Board)*
Mr. Zhao Shuai
Mr. Zhang Ke
Mr. Zhu Lidong

Non-executive Director

Mr. Chen Shuo

Independent Non-executive Directors

Mr. Wong Man Chung Francis
Mr. Chung Yue Ping Stephen
Mr. Kwong Wai Sun Wilson

AUDIT COMMITTEE

Mr. Wong Man Chung Francis *(Chairman)*
Mr. Chung Yue Ping Stephen
Mr. Kwong Wai Sun Wilson

REMUNERATION COMMITTEE

Mr. Chung Yue Ping Stephen *(Chairman)*
Mr. Li Xiaoxuan
Mr. Kwong Wai Sun Wilson

NOMINATION COMMITTEE

Mr. Li Xiaoxuan *(Chairman)*
Mr. Wong Man Chung Francis
Mr. Kwong Wai Sun Wilson

AUTHORISED REPRESENTATIVES

Mr. Zhang Ke
Ms. Wang Xin

JOINT COMPANY SECRETARIES

Ms. Wong Wai Ling
Ms. Wang Xin

LEGAL ADVISORS AS TO HONG KONG LAWS

Luk & Partners
Unit 2001, Level 20
One International Finance Centre
1 Harbour View Street, Central
Hong Kong

AUDITORS

Ernst & Young
Certified Public Accountant
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1 Tim Mei Avenue
Central
Hong Kong

COMPLIANCE ADVISER

Haitong International Capital Limited
8/F Li Po Chun Chambers
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Hong Kong

CORPORATE INFORMATION

REGISTERED OFFICE

Cricket Square
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Grand Cayman, KY1-1111
Cayman Islands

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

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Beijing
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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28 Queen's Road East, Wan Chai
Hong Kong

CAYMAN ISLANDS SHARE REGISTRAR AND TRANSFER OFFICE

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Grand Cayman KY1-1111
Cayman Islands

HONG KONG SHARE REGISTRAR

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Hopewell Centre
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Wanchai
Hong Kong

PRINCIPAL BANKS

China Minsheng Bank
Kunming Guandu Rural Cooperative Bank
Industrial and Commercial Bank of China

INVESTOR RELATIONS

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General Manager of Investor Relations Department
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COMPANY'S WEBSITE

http://www.xingaojiao.com

STOCK CODE

2001

DATE OF LISTING

19 April 2017

CHAIRMAN'S STATEMENT

Dear Shareholders,

I would like to thank Shareholders and all sectors of the society for your support to China New Higher Education Group Limited (the "Group"). On behalf of the Board, I would like to present the annual report for the year ended December 31, 2016. This is the first financial year report of the Group upon its successful listing on the Stock Exchange on April 19, 2017.

BUSINESS REVIEW

We provide high quality higher education in a wide selection of fields in applied sciences. Our course offerings are designed to equip our students with practical and readily applicable skills and prepare them for the job market. We conduct market research on an on-going basis to determine employer preferences and adjust our course offerings from time to time to meet changing market demand. We have established workplace simulation studios that are designed to simulate typical workplaces to allow our students to put into practice the knowledge they learned through our course offerings. We also encourage our students to obtain professional certifications to help them gain entry into their desired fields.

During the Reporting Period, the student enrollment at Yunnan School and Guizhou School of the Group was 33,462; the student enrollment at Northeast School in which the Group was investing was 9,518; and the student enrollment at Central China School was 3,480. The graduate employment rate of the Group was more than 98% for three consecutive years since 2013.

FUTURE PROSPECT

Currently, Yunnan School and Guizhou School of the Group as well as Northeast School and Central China School in which the Group was investing operate well, showing strong market demand. In the future, on one hand, we will help each student maximize his or her potential and live his or her life to the fullest by running better universities. On the other hand, we will accelerate our development and run more universities so as to help more students to achieve their dreams of going to university, and endeavor to make active contribution for the development of private higher education with an aim to provide return to you and also the society.

Finally, on behalf of the Board, I would like to express my sincere gratitude to local governments and all sectors of society which are in support of China New Higher Education Group Limited. And my sincere thanks also go to the Shareholders for your unswerving support for China New Higher Education Group Limited!

China New Higher Education Group Limited
Li Xiaoxuan
Chairman and executive Director

Beijing, China • April 28, 2017

FINANCIAL REVIEW

Revenue

Our revenue increased by 24.5% from RMB274.0 million for the year ended December 31, 2015 to RMB341.0 million for the year ended December 31, 2016. This increase was primarily due to (i) a 25.2% increase in tuition fees from RMB248.1 million for the year ended December 31, 2015 to RMB310.7 million for the year ended December 31, 2016, which was attributable to an increase in the number of students enrolled at our schools between these periods and also because the Yunnan School raised its tuition rates for junior college programs for the 2016-2017 school year; and (ii) a 17.0% increase in boarding fees from RMB25.9 million for the year ended December 31, 2015 to RMB30.3 million for the year ended December 31, 2016, which was mainly attributable to the increase in our student enrollment.

Cost of Sales

Cost of sales increased by 28.2% from RMB138.4 million for the year ended December 31, 2015 to RMB177.4 million for the year ended December 31, 2016. This increase was primarily due to (i) an increase in the salaries and benefits of our school personnel due to an increase in the number of personnel in line with the increase in our student enrollments and an increase in the average salary level; (ii) an increase in depreciation and amortization expenses as a result of the increase in our student dormitories and school facilities and equipment; (iii) an increase in costs relating to students as a result of the increased number of contests participated in by our students; (iv) an increase in teaching activity costs as a result of increased costs relating to practical training programs; and (v) an increase in utilities, which was in line with the increase in our student enrollments and as a result of an increase in the water rate paid by the Guizhou School.

Gross Profit

Gross profit increased by 20.6% from RMB135.6 million for the year ended December 31, 2015 to RMB163.6 million for the year ended December 31, 2016, which was in line with the growth of our business. Our gross profit margin decreased slightly to 48.0% for the year ended December 31, 2016 from 49.5% for the year ended December 31, 2015 primarily because the increase in our cost of sales outpaced the growth in our revenue primarily due to the increase in the salaries and benefits of our school personnel.

Other Income and Gains

Other income and gains increased by 23.5% from RMB49.3 million for the year ended December 31, 2015 to RMB60.9 million for the year ended December 31, 2016. The increase was primarily due to an increase in service income from RMB32.2 million for the year ended December 31, 2015 to RMB46.0 million for the year ended December 31, 2016 as a result of the recognition of RMB13.5 million of service fee pursuant to the exclusive technical service and education consultancy service agreement between the Northeast School and Huihuang Company. This increase was partially offset by (i) a decrease of RMB1.5 million in government grants due to a decrease in the amount of government grants which have been recognized as income when the attaching conditions have been fully fulfilled; (ii) a decrease of RMB0.8 million in interest income primarily as a result of the decrease in our cash on deposit, which in turn was primarily due to our investments in Enchang Company in relation to the establishment of a new campus at the Central China School; and (iii) a decrease of RMB0.7 million in rental income primarily as a result of the termination of leases with canteen operators which in turn was due to the decoration of two canteens on the campus of the Yunnan School, and the expiration of one lease between the Yunnan School and a medical service provider.

Selling and Distribution Expenses

Selling and distribution expenses decreased by 6.0% from RMB3.4 million for the year ended December 31, 2015 to RMB3.2 million for the year ended December 31, 2016. This decrease was primarily due to a decrease in our advertising expenses, which in turn was because we reduced promotional activities as we believed our Yunnan School and Guizhou School had become well-established brand names in their respective markets.

Administrative Expenses

Our administrative expenses increased by 62.3% from RMB36.9 million for the year ended December 31, 2015 to RMB59.9 million for the year ended December 31, 2016, primarily due to (i) the incurrence of RMB19.5 million of listing expenses in connection with our proposed Listing; (ii) an increase in salaries and benefits primarily as a result of the addition of senior management team members and an increase in the number of administrative personnel at our headquarters, as well as an increase in general salary levels in 2016; (iii) an increase in depreciation and amortization as a result of the decoration of new office by our headquarters and the increase in our office administrative assets, such as vehicles; and (iv) an increase in rental expenses as a result of the lease of new office by our headquarters. These increases were partially offset by a decrease of RMB4.1 million in tax expenses because our applicable tax regime switched from business tax to value-added tax in May 2016. Prior to May 2016, we recorded business tax as part of our administrative expenses. After we changed to the value-added tax regime in May 2016, we recorded tax payable as part of our liabilities.

Other Expenses

Other expenses increased from RMB5.1 million for the year ended December 31, 2015 to RMB12.4 million for the year ended December 31, 2016. The increase was primarily as a result of the incurrence of RMB10.2 million of foreign exchange loss, which was partially offset by a decrease of RMB0.9 million in bad debt provision because our schools took measures to reduce the amount of unpaid tuition fees.

Finance Costs

Finance costs increased by 22.0% from RMB29.6 million for the year ended December 31, 2015 to RMB36.1 million for the year ended December 31, 2016, mainly reflecting an increase in interest on bank loans as a result of the US$64.0 million loan granted to us by the China CITIC Bank International Limited and CSI Finance Limited and an increase of RMB2.2 million in interest on finance lease primarily due to the incurrence of RMB0.9 million of early termination fee as result of our early repayment of RMB25.4 million to Greenland Financial Leasing Co., Ltd. in September 2016.

Profit before Tax

As a result of the foregoing, we recognized a profit of RMB112.9 million before income tax for the year ended December 31, 2016, compared to a profit of RMB110.1 million before income tax for the year ended December 31, 2015. Our profit before tax as a percentage of revenue was 33.1% for the year ended December 31, 2016, while our profit before tax as a percentage of revenue was 40.2% for the year ended December 31, 2015.

Income Tax Expense

Our income tax expense decreased from RMB5.8 million for the year ended December 31, 2015 to RMB2.4 million for the year ended December 31, 2016 primarily due to our disposal of Bai Fen Bai, which was subject to income tax, in 2016.

Profit for the Period from Continuing Operations

As a result of the above factors, we recorded a profit of RMB110.5 million for the year ended December 31, 2016, as compared to a profit of RMB104.3 million for the year ended December 31, 2015.

LIQUIDITY AND CAPITAL RESOURCES

Our primary uses of cash are to fund our working capital requirements, our purchases of property, plant and equipment and to repay loans and related interest expenses. To date, we have funded our operations principally with cash generated from our operations, bank borrowings and shareholder contributions. In the future, we believe that our liquidity requirements will be satisfied with a combination of cash flows generated from our operating activities, bank loans and other borrowings, net proceeds from this Global Offering and other funds raised from the capital markets from time to time. Any significant decrease in our student enrollments or our tuition fees and boarding fees or a significant decrease in the availability of bank loans or other financing may adversely impact our liquidity. As of December 31, 2015 and 2016, we had cash and cash equivalents of RMB83.0 million and RMB178.8 million, respectively.

We combine the results of our PRC Operating Schools and our access to their cash balance or future earnings through our Structured Contracts with them.

Cash Flow

The following table sets forth a summary of our cash flows for the periods indicated:

	Year ended December 31,	
	2015	**2016**
	(RMB in thousands)	
Net cash from/(used in) operating activities	254,364	225,100
Net cash used in investing activities	(343,744)	(666,546)
Net cash from/(used in) financing activities	(126,811)	537,369
Effect of change in cash and cash equivalents	–	(117)
Cash and cash equivalents at beginning of the year	299,170	82,979
Cash and cash equivalents at the end of the year	82,979	178,785

Cash Flows from/(used in) Operating Activities

We generate cash from operating activities primarily from tuition fees and boarding fees, all of which are typically paid in advance in September before the respective services are rendered. Tuition fees and boarding fees are initially recorded under deferred revenue. We recognize tuition fees over a nine-month school year over the course of the relevant periods in a school year, which is generally from September to June, and boarding fees over a 12-month calendar year. As we generally collect tuition fees and boarding fees upfront at the beginning of a school year in September, we typically have cash outflows for operating activities for the first half year. Cash flows from operating activities reflects (i) profit before tax adjusted for non-cash and non-operating items, such as finance costs, depreciation of items of property, plant and equipment, investment income, recognition of prepaid land lease payments, interest income recognition of finance lease, government grants released and impairment of prepayments, deposits and other receivables; (ii) movements in working capital, such as increase or decrease in prepayments, deposits and other receivables, increase or decrease in other payables and accruals, and increase or decrease in deferred revenue; and (iii) other cash items consisting of income tax paid and interest received.

Net cash from operating activities amounted to RMB225.1 million for the year ended December 31, 2016, primarily reflecting (i) profit before tax from continuing operations of RMB112.9 million; (ii) positive total adjustments before movements in working capital of RMB61.4 million, which in turn primarily reflected RMB36.1 million of positive adjustment for finance costs and RMB33.3 million of positive adjustment for depreciation of items of property, plant and equipment, as partially offset by RMB2.9 million of negative adjustment for investment income and RMB2.9 million of amortization of government grants; and (iii) positive movements in working capital of RMB53.6 million, which primarily reflected RMB38.1 million of increase in deferred revenue and RMB179.2 million of increase in other payables and accruals, as partially offset by RMB163.8 million of increase in prepayments, deposits and other receivables.

Cash Flows from/(used in) Investing Activities

Investing activities consist primarily of purchases of items of property, plant and equipment and intangible assets, prepaid land lease payments, purchases of and proceeds from disposal of wealth investment products, and deposits into or withdrawals from pledged time deposits.

Net cash used in investing activities amounted to RMB666.5 million for the year ended December 31, 2016, primarily reflecting (i) RMB350.9 million of prepayment on investments to finance the construction of the new campus at the Central China School and RMB156.9 million of prepayment toward the total consideration for the investment in the Northeast School; (ii) RMB155.5 million used to purchase property, plant and equipment in connection with school facilities at the Yunnan School and the Guizhou School; and (iii) RMB32.7 million increase in pledged time deposits that were used to secure bank loans, which were partially offset by RMB20.0 million in proceeds from disposal of wealth management products which matured in January 2016.

Cash Flows from/(used in) Financing Activities

Financing activities primarily include borrowing and repaying bank loans, and the distribution by Yun Ai Group to its shareholders.

Net cash generated from financing activities amounted to RMB537.4 million for the year ended December 31, 2016, primarily reflecting RMB430.7 million of capital injection from an investor, RMB725.4 million in proceeds from new bank loans, RMB11.9 million of receipt of government grants, and RMB18.6 million of capital contribution from non-controlling shareholder, which was partially offset by RMB587.8 million used for repayment of bank loans, RMB50.4 million used for payment of interest and RMB10.9 million of capital element of finance lease rental payments.

CURRENT ASSETS AND CURRENT LIABILITIES

As of December 31, 2016, we had net current liabilities of RMB278.0 million. We had net current liabilities primarily because (i) we used a large amount of cash to finance, among others, the expansion of our school facilities at the Yunnan School and the Guizhou School, the investments in the Northeast School, and the Central China School. These capital expenditures and prepayments, which are recorded as non-current assets were partially financed by non-current liabilities, such as long-term interest-bearing bank loans and other borrowings and equity, and partially financed by current liabilities, such as short-term interest-bearing bank loans and other borrowings; and (ii) tuition fees and boarding fees from our schools were generally paid in advance at the beginning of each school year, and we record payments of tuition fees and boarding fees initially as a current liability under deferred revenue and recognize tuition fees as revenue over a nine-month period and boarding fees over a 12-month period. As a school year typically starts in September each year and ends in June the following year, the amounts of deferred revenue, which were part of our current liabilities, as of December 31, 2016 generally represented the amount of tuition fees and boarding fees received from all of our students for 2016-2017 school years, respectively, but have yet to be recognized as revenue for the remainder of the school year (generally from January to June). In the meantime, certain portion of the cash derived from tuition fees and boarding fees was used to finance the capital expenditures and prepayments described above, which are recorded as non-current assets.

CAPITAL EXPENDITURES

Our capital expenditures consisted of purchases or construction costs relating to property, equipment, prepaid land lease payments and other intangible assets. For the year ended December 31, 2016, our capital expenditures were RMB184.5 million. Our capital expenditures during the Reporting Period primarily related to construction of buildings and school facilities and prepaid land lease payments at the Yunnan School, the Guizhou School and the new campus at the Central China School and purchases of equipment and software. We have funded these capital expenditures primarily with cash generated from operations and bank loans.

CONTRACTUAL COMMITMENTS

Capital Commitments

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

	As of December 31,	
	2015	**2016**
	(RMB in thousands)	
Contracted but not provided for:		
Property, plant and equipment	39,022	22,724
	39,022	22,724

As of December 31, 2016, we did not have any significant authorized but not contracted for capital commitment.

Operating Lease Commitments

As lessor

We leased out our investment properties under operating lease arrangements, with leases negotiated for terms ranging from one to nine years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

As of the dates indicated, we had total future minimum lease receivables under non-cancellable operating leases with our tenants falling due as follows:

	As of December 31,	
	2015	2016
	(RMB in thousands)	
Within one year	12,787	9,011
After one year but not more than five years	16,891	10,567
More than five years	700	600
	30,378	20,178

As lessee

We lease certain of our office properties and office equipment under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to 15 years, and those for office equipment are for terms ranging from one to three years.

As of the dates indicated, we had future aggregate minimum lease payments under non-cancellable operating leases falling due as follows:

	As of December 31,	
	2015	2016
	(RMB in thousands)	
Within one year	4,596	4,813
After one year but not more than five years	3,323	7,519
More than five years	225	–
	8,144	12,332

INDEBTEDNESS

Bank Loans and Other Borrowings

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

We primarily borrow loans from banks and use finance leases to supplement our working capital and finance our expenditure. The bank loans and finance lease payables as of December 31, 2016 were all denominated in Renminbi. As of December 31, 2016, our bank loans bore effective interest rates ranging from 4.57% to 7.13% per annum.

CONTINGENT LIABILITIES

As of December 31, 2016, we did not have any material contingent liabilities, guarantees or any litigations or claims of material importance, pending or threatened against any member of our Group. The Directors have confirmed that there has not been any material change in the contingent liabilities of our Group since December 31, 2016.

Debt to Equity Ratio

Debt to equity ratio equals total interest-bearing bank loans and other borrowings net of cash and cash equivalents at the end of the year divided by total equity at the end of the year. Our debt to equity ratio decreased from 96.4% as of December 31, 2015 to 42.4% as of December 31, 2016 primarily because our Interest-bearing bank loans and other borrowings net of cash and cash equivalents increased by 8.6% while our equity increased by 147.0% as a result of (i) the Pre-IPO Investment of RMB251.2 million and USD28.1 million from Pre-IPO Investors; and (ii) an increase in our net profit during these periods.

Gearing Ratio

Gearing ratio equals total debt divided by total equity as of the end of the year. Total debt includes all interest-bearing bank loans and other borrowings. Our gearing ratio decreased from 118.2% as of December 31, 2015 to 61.4% as of December 31, 2016, primarily because our interested bearing bank loans and other borrowings increased by 28.3% while our equity increased by 147.0% as a result of (i) the Pre-IPO Investment of RMB251.2 million and USD28.1 million from Pre-IPO Investors; and (ii) an increase in our net profit during these periods.

FUTURE PLAN FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

Save as disclosed in the Prospectus and this annual report, the Group did not have other plans for material investments and capital assets.

SIGNIFICANT INVESTMENTS, ACQUISITIONS AND DISPOSALS

Northeast School

The Northeast School is a private institution of formal higher education. It was established as an independent institute in 2004. The school sponsor of the Northeast School does not require reasonable returns according to its articles of association. Immediately prior to our investment in the Northeast School, the school sponsors of the Northeast School are individuals who are not connected with our Company, including the Principal of the Northeast School. On January 6, 2016, we entered into a cooperation agreement with the current school sponsors, pursuant to which, among others, our Group should pay RMB381.9 million, as the total amount for the cooperation. To implement the cooperation agreement, on April 20, 2016, Haxuan Company entered into an agreement with the current school sponsors of the Northeast School, pursuant to which Haxuan Company agreed to acquire the entire school sponsor's interest of the Northeast School. As of the date of this annual report, the relevant application to transfer the school sponsor's interest from the current school sponsors of the Northeast School to Haxuan Company is pending the final approval of the MOE and registration with the provincial civil affairs authorities. Upon completion, the Northeast School's results of operations will be consolidated into our Group's results of operations following the execution of the structured contracts, the terms and conditions of which shall be the same as the existing Structured Contracts in all material aspects.

On August 23, 2016, the Northeast School and Huihuang Company entered into an exclusive technical service and education consultancy service agreement, which has taken effect on September 1, 2016. Pursuant to this agreement, Huihuang Company agrees to provide technology and management consulting services to the Northeast School prior to the MOE's final approval of the transfer of the school sponsor's interest from the current school sponsors of the Northeast School to Haxuan Company. The parties have agreed that Huihuang Company will provide technology and management consulting services to the Northeast School and, in return, the Northeast School will pay 73.91% of its surplus from operations on a monthly basis to Huihuang Company as service fees during the term of the exclusive technical service and education consultancy service agreement. The Northeast School is expected to enter into the structured contracts, the terms and conditions of which shall be the same as the existing Structured Contracts in all material aspects, with Huihuang Company, our wholly owned subsidiary, as soon as practicable after the MOE grants its approval for the transfer of the school sponsor's interest to Haxuan Company, and the exclusive technical service and education consultancy service agreement is expected to terminate automatically upon the approval and registration of change of school sponsor's interest and the execution of the structured contracts. Following the execution of the structured contracts, the Northeast School will become an entity controlled by us and its results of operations will be consolidated into our Group's results of operations.

New Campus at Central China School

The Central China School is a public institution of higher education established in 2003. The school sponsor of Central China School requires reasonable returns according to its articles of association. Minzu College is currently the school sponsor of the Central China School and it is a state-owned university of formal higher education. On April 28, 2014, Minzu College entered into the Central China School Cooperation Agreement with Enhao Company, an Independent Third Party, pursuant to which Enhao Company would apply to be a joint school sponsor of the Central China School and make investments to establish a new campus at a new location. Pursuant to the terms of the said agreement, Minzu College shall contribute intangible assets comprising its school name, and Enhao Company shall contribute the required funding and land use rights for the construction of the new campus. Enhao Company entered into a transfer agreement to transfer its rights and obligations under the Central China School Cooperation Agreement to Guo Hui (郭輝) on August 4, 2015. On August 26, 2015, Enhao Company, Guo Hui (郭輝) and Enchang Company, after arm's length negotiation, entered into the Central China School School Sponsor Interest Transfer Agreement, pursuant to which Enhao Company and Guo Hui (郭輝) agreed to transfer their rights and obligations under the Central China School Cooperation Agreement to Enchang Company.

Beginning in August 2015, we have made advances to the Central China School to fund the construction of the new campus, which has been put into use from August 31, 2016. On August 5, 2016, Enchang Company entered into an agreement with Minzu College which contains the same terms and conditions as the Central China School Cooperation Agreement. Under this agreement, Enchang Company is entitled to the financial results relating to students admitted after the establishment of the new campus, and Minzu College is only entitled to a fixed fee in the amount of 5% of the tuition fees generated from such new students. At the same time, Minzu College alone is entitled to all financial results relating to all students admitted to the Central China School prior to the establishment of the new campus. Enchang Company has no rights to such financial results of such students and according to the Central China School Cooperation Agreement, has no responsibility for any liabilities in this regard. In addition, we have agreed with Minzu College that neither party may engage in any civil action in the name of the Central China School without the other party's prior consent. We have the right to nominate four among the nine directors on the board of the Central China School and the chairman of the board of the Central China School shall be appointed by us. Separate financial accounts will be maintained for business operations relating to the students admitted to the Central China School prior to and after the establishment of the new campus. Upon the establishment of the new campus, the existing staff employed by the Central China School shall remain unchanged and will be managed under the administrative regime of the the Central China School, while the existing staff of the Central China School appointed by Minzu College shall, upon the negotiation between Minzu College and Enchang Company, be able to remain as an appointee, transfer back to Minzu College or become employed by the Central China School. As of the date of this annual report, the Central China School has filed an application with the MOE to change the school sponsorship of the Central China School and add Enchang Company as a joint school sponsor. Upon completion, Enchang Company will become a joint school sponsor of the Central China School and the results attributable to students admitted after the completion of the new campus will be included in our results of operation.

Northwest School

In August 2014, Bei Ai Company and Gaolan County People's Government* (皋蘭縣人民政府) entered into an investment agreement, pursuant to which Bei Ai Company agreed to invest and establish a new school for vocational higher education in Lanzhou, Gansu Province. Bei Ai Company, as the proposed school sponsor of the Northwest School, has applied for and obtained from the Education Department of Gansu Province* (甘肅省教育廳) the approval for the preparation for the construction of the Northwest School. As at the date of this annual report, we have settled RMB5 million as the guarantee for the establishment of the Northwest School. It is expected that the Northwest School will be officially established after the Listing and our Group intends to apply part of the listing proceeds to the construction of the Northwest School.

Apart from disclosed above and the reorganization of the Group in relation to the Listing, there were no significant investments held as at December 31, 2016, nor other material acquisitions and disposals of subsidiaries and associated companies during the Reporting Period.

FOREIGN EXCHANGE RISK MANAGEMENT

The functional currency of the Company is RMB. The majority of the Group's revenue and expenditures are denominated in RMB. As at December 31, 2016, certain bank balances were denominated in USD. The Group did not enter into any financial instrument for hedging purpose as it is expected that foreign exchange exposure will not be material.

PLEDGE OF ASSETS

As at December 31, 2016, the Group did not pledge any assets.

HUMAN RESOURCES

As of December 31, 2016, we had approximately 1,824 employees, respectively. As required by the PRC laws and regulations, we participate in various employee social security plans for our employees that are administered by local governments, including housing, pension, medical insurance, maternity insurance and unemployment insurance. We believe we maintain a good working relationship with our employees, and we have not experienced any material labor disputes during the year ended December 31, 2016.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As of the date of this annual report, we had not entered into any off-balance sheet transactions.

EXECUTIVE DIRECTORS

Mr. Li Xiaoxuan (李孝軒), aged 42, the founder of our Group. He was appointed as a Director of our Company on July 8, 2016. He is the chairman of the Board. Mr. Li has more than 18 years of experience in education and is responsible for the overall management and strategic development of our Group.

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

Period	Company	Position
1999 to 2004	Training Station	Director
2005 to present	Yun Ai Group	Chairman

As a director of the Training Station from 1999 to 2004, Mr. Li was in charge of the daily operation and management of the Training Station, overall management and strategic development of the Training Station, as well as decision-making on significant operational and administrative matters.

The following table shows the awards received by Mr. Li:

Date	Awards	Awarding Authority
February 2009	Yunnan Youth Entrepreneur Award* (雲南青年創業省長獎)	Yunnan Youth Entrepreneur Governor Award Organizer Committee* (雲南青年創業省長獎活動組織委員會)
December 2009	Yunnan Education Contribution Award* (雲南教育功勛獎)	Education Department of Yunnan Province
October 2010	The Second Huang Yanpei Outstanding Principal Award* (第二屆黃炎培傑出校長獎)	The National Association of Vocational Education of China* (中華職業教育社)
June 2011	The Advanced Individual of China's Private Higher Education* (中國民辦高等教育先進個人)	The China Association for Non-Government Education
February 2013	The Seventh China Youth Entrepreneurship Nominee Award* (第七屆中國青年創業獎提名獎)	Central Communist Youth League of China and Ministry of Human Resources and Social Security* (共青團中央及中華人民共和國人力資源和社會保障部)

Mr. Li became the first vice president of the China Private Education Association* (中國民辦教育協會) in March 2010, a council member of the 6th China Higher Education Association* (中國高等教育學會第六屆理事會理事) in August 2012, a member of the standing committee of the 11th Chinese People's Political Consultative Conference Yunnan Province* (中國人民政治協商會議雲南省第十一屆委員會常務委員會) in January 2013 and a member of the 11th Committee of the All-China Youth Federation* (中華全國青年聯合會第十一屆委員會) in August 2010. He is currently the vice chairman of Applied Technology University Association* (應用技術大學(學院)聯盟), the executive director of the China Education Development Strategy Association* (中國教育發展戰略學會), and the executive director of the Education and Finance Committee of the China Education Development Strategy Association * (中國教育發展戰略學會教育財政專業委員會).

Mr. Li completed his undergraduate studies in administrative management at the Army Officer Academy of PLA (中國人民解放軍炮兵學院), the PRC, in June 2008, and subsequently obtained the qualification as senior economist in October 2009. Mr. Li was subsequently awarded a master degree in business administration from Nankai University (南開大學), the PRC, in June 2010.

* *For identification purpose only*

Mr. Zhao Shuai (趙帥), aged 37, joined the Group in April 2004, and was appointed as the chief executive officer and an executive Director of our Company on August 19, 2016. Mr. Zhao has more than 13 years of experience in education and is responsible for setting annual operational targets and day-to-day management.

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

Period	**Company**	**Position**	**Roles and responsibilities**
April 2004 to August 2008	Yunnan School	Student recruitment director	In charge of student recruitment
September 2008 to March 2014	Yunnan School	Associate dean	In charge of student recruitment, administrative and logistics matters
April 2014 to April 2015	Yun Ai Group	General manager of administration department	In charge of procurement, logistics and infrastructures
May 2015 to March 2016	Guizhou School	Executive dean	In charge of management and strategic development, staff recruitment and other administrative matters
March 2016 to present	Yun Ai Group	Senior president	In charge of management and strategic development

Mr. Zhao obtained the qualification as senior economist in December 2013. He was awarded a bachelor degree in Mechanical Engineering Automation from Kunming University of Science and Technology (昆明理工大學), the PRC, in July 2004, and is currently pursuing a master degree in software engineering at Jilin University (吉林大學).

Mr. Zhang Ke (張柯), aged 44, joined the Group in March 2000 and was appointed as the chief operating officer and an executive Director on August 19, 2016. Mr. Zhang has more than 17 years of experience in education or training and is responsible for day-to-day operations and external communications and publications.

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

Period	**Company**	**Position**
March 2000 to December 2005	Training Station	Vice-director, in charge of setting business objectives, and internal and external communications
January 2007 to September 2015	Beijing Crystal Stone Technology Training Co., Ltd.* (北京水晶石技術培訓有限公司)	Chief operating officer
November 2015 to present	Yun Ai Group	Senior vice president, in charge of decision making in significant operational matters, student recruitment, marketing and publications, and investment

Mr. Zhang was awarded a diploma in accounting from Northwest University (西北大學), the PRC, in June 1997 and was awarded a master degree in agricultural marketing from Beijing Forestry University (北京林業大學), the PRC, in December 2015.

Mr. Zhu Lidong (朱立東), aged 46, was appointed as an executive Director of our Company on August 19, 2016 and he has been our chief financial officer and senior vice president since March 2016. Prior to joining our Group, he served as the vice president of China Rundong Auto Group Limited, a listed company on the Stock Exchange (stock code: 1365) (currently known as "China Greenland Rundong Auto Group Limited"), responsible for the financial management of the whole group. Previously, he served as the finance director and the chief financial officer from August 2005 to February 2013 of the three reputable automobile companies being Chery Automotive Co., Ltd. (奇瑞汽車股份有限公司), Beiqi Foton Motor Co., Ltd. (北汽福田汽車股份有限公司), a listed company on the Shanghai Stock Exchange, (stock code: 600166) and ZAP Inc., a US-based manufacturer of electric vehicles. Mr. Zhu also spent ten years, from May 1995 to July 2005, serving in two Big Four accounting firms, Deloitte and PricewaterhouseCoopers. He graduated with a bachelor's degree in business management from Southwestern University of Finance and Economics (西南財經大學) in July 1993. He has been a member of Chinese Institute of Certified Public Accountant since December 1994.

NON-EXECUTIVE DIRECTOR

Mr. Chen Shuo (陳爍), aged 38, was appointed as a non-executive Director of our Company on August 19, 2016.

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

Period	Company	Position
May 2002 to May 2010	Shenzhen office of Deloitte Touche Tohmatsu Limited	Taxation manager
July 2010 to Present	Ping An Trust Co., Ltd. (平安信託有限責任公司)	Executive general manager
January 2012 to February 2015	JPMF Guangdong Co., Ltd. (廣東江粉磁材股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 002600)	Non-executive director

Mr. Chen obtained the qualification as registered tax agent from Shenzhen Personnel Bureau in June 2009. He was awarded a bachelor degree in real estate management from the University of Shenzhen (深圳大學), the PRC, in June 1999, and a master degree in management from University of Nottingham, the United Kingdom, in December 2001.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Wong Man Chung Francis (黃文宗), aged 52, was appointed as an independent non-executive Director of our Company on March 20, 2017.

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

Period	Company	Position
August 1985 to December 1991	KPMG	Assistant manager
January 1992 to October 1993	Hong Kong Securities Clearing Co., Ltd.	Assistant manager
1996 to 2007	Francis Wong C.P.A. Co., Limited	Managing Director
2002 to present	Union Alpha C.P.A. Limited	Managing Director
2008 to present	Francis M.C. Wong Charitable Foundation Limited	Founding director
2004 to present	China Oriental Group Company Limited (stock code: 581)	Independent non-executive director
2004 to present	Wai Kee Holdings Limited (stock code: 610)	Independent non-executive director
2006 to present	Digital China Holdings Limited (stock code: 861)	Independent non-executive director
2009 to present	Union Alpha CAAP Certified Public Accountants Limited	Director
October 2013 to present	Integrated Waste Solutions Group Holdings Limited (stock code: 923)	Independent non-executive director
July 2015 to present	Greenheart Group Limited (stock code: 94)	Independent non-executive director
April 2016 to present	GCL-Poly Energy Holdings Limited (stock code: 3800)	Independent non-executive director
June 2016 to present	Kunming Dianchi Water Treatment Co., Ltd	Independent non-executive director

Mr. Wong is a Certified Public Accountant (Practising). He was admitted as a Certified Public Accountant in October 1990 and in September 2012, enrolled in a master programme in management at Jinan University (暨南大學), the PRC, and was subsequently awarded the master degree in management in June 2005. Mr. Wong is currently a fellow member of the Chartered Association of Certified Accountants of the United Kingdom, the Hong Kong Institute of Certified Public Accountants, the Institute of Chartered Accountants in England and Wales and the Society of Chinese Accountants and Auditors, and a Certified Tax Advisor of the Taxation Institute of Hong Kong.

Mr. Chung Yue Ping Stephen (鍾宇平), aged 68, was appointed as an independent non-executive Director of our Company on March 20, 2017.

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

Period	Company	Position
August 1978 to August 2013	Department of Education Administration & Policy, Faculty of Education, The Chinese University of Hong Kong	Professor
August 1997 – July 2003	Faculty of Education, The Chinese University of Hong Kong	Dean
August 2013 to July 2014	Department of Education Administration & Policy, Faculty of Education, The Chinese University of Hong Kong	Part-time professor
August 2014 to July 2016	Department of Education Administration & Policy, Faculty of Education, The Chinese University of Hong Kong	Adjunct Professor
October 2014 to present	Department of Education Administration & Policy, Faculty of Education, The Chinese University of Hong Kong	Emeritus Professor

Mr. Chung was awarded the Bachelor of Arts from The University of Oregon in June 1972, the Master of Arts from Michigan State University in June 1973, the Master of Arts from The Leland Stanford Junior University in June 1986 and the Doctor of Philosophy from The Leland Stanford Junior University in June 1988. Mr. Chung was appointed as a Justice of the Peace in July 2001.

Mr. Kwong Wai Sun Wilson (鄺偉信), aged 51, was appointed as an independent non-executive Director of our Company on March 20, 2017. Mr. Kwong has more than 10 years of experience in corporate finance and equity capital markets in Asia. Mr. Kwong is an executive Director of China Metal Resources Utilization Limited (stock code: 1636), in charge of its corporate and strategic development. Mr. Kwong was the president of Gushan Environmental Energy Limited, a company whose American depositary shares were listed on the New York Stock Exchange from December 2007 to October 2012. He is also an independent non-executive director of Shunfeng International Clean Energy Limited (stock code: 1165) since July 16, 2014, C.banner International Holdings Limited (stock code: 1028) since August 26, 2011 and China Outfitters Holdings Limited (stock code: 1146) since June 8, 2011, all of which are listed on the Main Board of the Stock Exchange since July 13, 2011, September 23, 2011 and December 9, 2011, respectively. Prior to joining Gushan Environmental Energy Limited in 2006, he was the managing director of investment banking and he held the position as the head of Hong Kong and China equity capital markets at CLSA Equity Capital Markets Limited from March 2004 to July 2006. Mr. Kwong was a director from 2002 to 2003, and the general manager of the corporate finance department from 1997 to 2003 for Cazenove Asia Limited. After graduating from University of Cambridge, England with a bachelor's degree in Arts in 1987, he qualified as a chartered accountant in the United Kingdom in 1990. Mr. Kwong is currently an associate member of the Institute of Chartered Accountant in England and Wales, the Hong Kong Institute of Certified Public Accountants and the Hong Kong Institute of Chartered Secretaries.

SENIOR MANAGEMENT

Mr. Qin Hongkang (秦宏康), aged 41, joined our Group in December 2004, and was appointed as a vice president of our Company on August 19, 2016.

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

Period	Company	Position
July 1999 to December 2004	Dianchi Morning News Agency* (滇池晨報社)	Reporter of social news, director of important news and economic news
December 2004 to November 2009	Yunnan School	Associate dean
December 2009 to December 2013	Guizhou School	Executive dean
December 2013 to present	Yun Ai Group	Vice president in charge of mergers and acquisitions, online education and students career advice

Mr. Qin obtained the qualification as lecturer from Intermediate Title Evaluation Committee* (中級職稱評審委員會) of Software College in September 2008. He was awarded a bachelor degree in applied chemistry from Yunnan University (雲南大學), the PRC, in July 1999.

Ms. Liu Fengming (劉風明), aged 47, joined our Group in September 2002, and was appointed as a vice president of our Company on August 19, 2016.

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

Period	Company	Position
September 2002 to October 2003	Training Station	Teacher and director of education research office
October 2003 to January 2005	Zhuan Xiu School	Director of education department and vice principal
January 2005 to March 2011	Yunnan School	Associate dean
March 2011 to September 2015	Zhuan Xiu School	Dean
September 2015 to July 2016	Beijing Lianhe	General manager
July 2016 to present	Yun Ai Group	Vice president

Ms. Liu was awarded a master degree in business administration from Yunnan University (雲南大學), the PRC, in December 2009. She obtained the qualification as senior economist from Yunnan Township Enterprise Senior Professional and Technical Position Evaluation Committee* (雲南省鄉鎮企業高級專業技術職務評審委員會) in November 2012 and the qualification as associate professor from Yunnan Higher Education Institution Professor and Associate Professor Evaluation Committee* (雲南省高校教師教授副教授評審委員會) in October 2013. She is currently studying for a doctor degree in management science and engineering at Kunming University of Science and Technology (昆明理工大學).

Ms. Zheng Yanli (鄭艷麗), aged 46, joined our Group in May 2014, and was appointed as a vice president of our Company in August 19, 2016.

Prior to joining our Group, Ms. Zheng worked at Ambow Education Group Limited (安博教育集團有限公司) from April 2003 to April 2014, where she left as the general manager of the operations centre. Since May 2014, Ms. Zheng serves as the vice president and general manager of the investment department at Yun Ai Group, where she is in charge of mergers and acquisitions.

Ms. Zheng was awarded a master degree in business administration from University of International Business and Economics (對外經濟貿易大學), the PRC, in January 2010.

Mr. Chen Guoding (陳國定), aged 48, joined our Group in March 2014, and was appointed as the chief strategy officer of our Company on August 19, 2016.

Prior to joining our Group, Mr. Chen served as the deputy general manager at Beijing Century Advertising Co., Ltd.* (北京世紀博覽廣告有限公司) from July 1992 to September 1996. Mr. Chen subsequently served as the project manager at Beijing Shichuang Shangdi Technology Development Corporation* (北京實創上地科技有限公司) from April 1999 to September 2001. From September 2001 to September 2007, Mr. Chen served as the general manager at Beijing Guoding Dianji Wealth Information Company Limited* (北京國定點擊財富資訊有限公司). From December 2010 to January 2014, Mr. Chen served as the executive dean of education research institute and dean of school of Russian language at Beijing Bawei Education Group* (北京八維教育集團). Since then, Mr. Chen has joined Yun Ai Group, serving as the associate dean and dean of education research institute from March 2014 to June 2015 and the general manager of president office since July 2015, in charge of strategic planning, teaching and research.

Mr. Chen was awarded a bachelor degree in material science and engineering from Tsinghua University (清華大學), the PRC, in July 1992; a master degree in international commerce from Beihang University (北京航空航天大學), the PRC, in March 1999; a master degree in business administration from Beijing University (北京大學), the PRC, in July 2009, and a doctorate degree in educational economy and management from Beijing University (北京大學), the PRC, in July 2012. Mr. Chen is currently a council member of the Chinese Society of Educational Development Strategy (中國教育發展戰略學會) and the deputy secretary-general of the Union of University (College) of Applied Technology in China* (中國應用技術大學(學院)聯盟).

Mr. Li Xiaoshen, aged 49, was appointed as the chief executive officer of California Academy on August 19, 2016.

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

Period	Company	Position	Roles and responsibilities
August 2003 to July 2006	Krasnow Institute, George Mason University	Research assistant professor	Research on computer simulation of neuronal system
August 2006 to October 2015	CyberData Technologies Inc.	Senior software engineer	Software development and providing training for government personnel

Mr. Li was awarded a bachelor degree in biology from University of Science and Technology of China (中國科學技術大學) in January 1991 and a doctor of philosophy degree from University of Wisconsin – Madison in May 1999.

Ms. Wang Xin (王馨), aged 34, joined our Group in October 2014. She is also the joint chief financial officer, the joint company secretary and the general manager of investor relations department of our Company.

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

Period	Company	Position
August 2006 to November 2010	Bayer AG	Internal control executive
December 2010 to October 2014	CP Pharmaceutical Group	Vice general manager of finance department
October 2014 to November 2015	Yun Ai Group	Vice general manager of finance department
December 2015 to present	Yun Ai Group	General manager of capital operation department, currently named as investor relations department

Ms. Wang was awarded a master degree in accounting from Nanjing University of Science and Technology (南京理工大學), the PRC, in July 2006, a master degree in business administration jointly offered by Peking University (北京大學) and Vlerick Business School, Belgium, in November 2014. She obtained the qualification of the Chinese Institute of Certified Public Accountant in August 2009 and is currently enrolled in the qualification programme of the Hong Kong Institute of Certified Public Accountants.

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

GLOBAL OFFERING

The Company's shares were listed on the Main Board of the Stock Exchange on April 19, 2017.

PRINCIPAL ACTIVITIES

The Company is leading private formal higher education group in China, as measured by the graduate employment rates in 2013, 2014 and 2015, according to Frost & Sullivan. Analysis of the principal activities of the Group during the year ended December 31, 2016 is set out in the note 6 to the consolidated financial statements.

SUBSIDIARIES

Details of the principal subsidiaries of the Company as at December 31, 2016 are set out in note 1 to the consolidated financial statements.

RESULTS

The results of the Group for the year ended December 31, 2016 are set out in the consolidated statement of profit or loss on page 95 of this annual report.

FINAL DIVIDENDS

The Board did not recommend the payment of a final dividend for the year ended 31 December 2016.

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

BUSINESS REVIEW

The Group is a leading private formal higher education group in China, as measured by our graduate employment rates in 2013, 2014 and 2015, according to Frost & Sullivan. The graduate employment rate is calculated by including graduates either employed or pursuing further studies pursuant to the MOE Notice regarding the calculation of graduate employment rate. As at the date of this annual report, we operated two schools, the Yunnan School and the Guizhou School, which were controlled by us through the Structured Contracts. According to Frost & Sullivan, only approximately 37.1% of the college-aged population in China were enrolled in higher education institutions as of December 31, 2015, compared to an average of approximately 64.0% and 87.0% in developed countries in Europe and North America, respectively. Meanwhile, PRC government spending on higher education as a percentage of its total spending on education declined in recent years, according to Frost & Sullivan. As such, we believe there is significant market potential in China for the growth of private higher education. At the same time, with the further development of the Chinese economy, market demand for talent with practical and readily applicable technical skills has grown and is expected to continue to grow, according to Frost & Sullivan. In light of this industry background, we believe that, as a private provider of higher education focusing on applied sciences, we are well-positioned to capitalize on the growth opportunities in the PRC higher education sector.

We provide high quality higher education in a wide selection of fields in applied sciences. Our course offerings are designed to equip our students with practical and readily applicable skills and prepare them for the job market. We conduct market research on an on-going basis to determine employer preferences and adjust our course offerings from time to time to meet changing market demand. We have established workplace simulation studios that are designed to simulate typical workplaces to allow our students to put into practice the knowledge they learned through our course offerings. We also encourage our students to obtain professional certifications to help them gain entry into their desired fields. As a result, we have achieved industry-leading graduate employment rates, with an average of approximately 98.7%, 98.6% and 98.3% of the graduates of our Yunnan School and Guizhou School in 2013, 2014 and 2015, respectively, either employed or pursuing further studies by the end of their year of graduation, compared with PRC industry averages of 86.8%, 87.4% and 92.3% for the same years, according to Frost & Sullivan. In addition, approximately 98.3% of graduates of our Yunnan School and Guizhou School in 2016 were either employed or pursuing further studies by the end of 2016. We believe that our highly successful graduate placement record attests to the effectiveness of our educational approach as well as helping to enhance our reputation, raise our profile and attract talented high school graduates.

We experienced significant growth in our revenue, net profit and student enrollment over the past three years. Our revenue from continuing operations increased from RMB206.5 million for the year ended December 31, 2014 to RMB274.0 million for the year ended December 31, 2015, and further to RMB341.0 million for the year ended December 31, 2016, representing a CAGR of approximately 28.5%. Our net profit from continuing operations increased from RMB78.7 million for the year ended December 31, 2014 to RMB104.3 million for the year ended December 31, 2015, and further to RMB110.5 million for the year ended December 31, 2016, representing a CAGR of 18.5%. Our overall student enrollment grew from 18,590 as of June 30, 2014 to 29,716 as of June 30, 2016 and further to 33,462 as of December 31, 2016.

FUTURE DEVELOPMENT

Expand our school network coverage and increase our market penetration.

We intend to expand our school network and increase our market penetration and our market share in the private higher education sector in the PRC. Specifically, we have formed an investment team headed and managed directly by our vice president for investment. This investment team is responsible for identifying and evaluating potential acquisition targets across China. We plan to establish an investment and acquisition management committee headed by the chairman of our Board. This committee will periodically review the feasibility of acquisitions and determine which ones to pursue.

We intend to expand into western, central and northeastern China where we believe there exists significant growth potential because the higher education enrollment rates in these regions are lower than the national average enrollment rates, and compared with economically more developed regions in China.

Continue to strengthen our market position and enhance our reputation.

We believe that the reputation of a school is one of the most important criteria students would normally consider when selecting a university. To increase our enrollment and expand our business, we intend to continue to enhance our market position in the higher education industry in the PRC. We believe that our high graduate employment rates and comprehensive curriculums with diversified offerings of practical courses distinguish us from our competitors and make us attractive to potential applicants. We plan to design new courses and adjust our existing courses to continue to best reflect evolving market trends and meet the demands of employers. We intend to continue and expand our market research to better understand employer preferences and student needs. Specifically, we plan to collaborate with well-established online recruitment platforms to conduct data analysis in order to further our understanding of market demand and employment statistics, and with third-party organizations to analyze nationwide employment data relating to students in those majors that we offer. We also plan to obtain relevant data from social security agencies to understand employer hiring needs and from local government education departments to understand employment rates of university graduates to gain a comprehensive and objective understanding of the market demand and supply of university graduates. In addition, we plan to gather human resources plans from corporations and career plans from our students, and provide career planning and job placement counselling services to our students in order for them to find the most suitable position. We plan to further enhance our reputation among well-known companies and other potential employers, establish long-term collaborative relationships with them, and create employment opportunities for our students.

We plan to promote our schools and programs through both online and offline media. Specifically, we intend to arrange for periodic reports on our major school activities through traditional media. We plan to continue to promote our schools online where appropriate. We believe that these promotional activities may help raise our profile among the general population and enhance our reputation among parents and students.

Continue to attract, incentivize and retain talented teachers and support their professional development.

The quality of our education services largely depends on our teachers. We intend to continue to attract, incentivize and retain talented teachers and build a first-rate faculty team. To this end, we plan to recruit well-recognized technical experts, experienced business administrators and other highly skilled persons to teach in our schools on either a full time or a part time basis. We will continue to apply stringent standards in our recruitment of teachers.

Further expand our educational service offerings to capture growth opportunities.

We plan to continue to expand and diversify our course offerings in response to industry trends and market demand, including establishing new major offerings based on market developments.

Construct additional workplace simulation training studios and further improve our school facilities.

We believe that we can distinguish ourselves from our competitors by our ability to offer our students opportunities to develop practical skills and knowledge, which we believe help them to secure employment upon graduation and succeed in their careers.

Enhance our profitability by optimizing our sources of revenue and other income.

The tuition fees and boarding fees we charge are a significant factor affecting our profitability. We believe that we are able to maintain the current tuition rates and raise the tuition rates charged by our schools where appropriate as our brand awareness and market recognition have grown. In addition, we retain discretion to adjust the tuition rates charged by our schools, and our schools are only required to make a filing with relevant authorities regarding proposed tuition fee adjustments but are not subject to approval requirements or any pre-set fee limits. Historically, we have kept our tuition rates at levels we believe are competitive in order to attract more students and thereby increase our student enrollment and market share. As we have established a strong reputation for providing quality education to our students, we believe we are in a position to optimize our pricing without compromising our reputation and our ability to attract and retain students. In addition, we plan to diversify our sources of revenue and other income.

PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks and uncertainties for the Company include the followings:

(1) Our business is heavily dependent on the market recognition of the brand and reputation of each of our schools.

We were among the first movers in China to provide private formal higher undergraduate education focused on applied sciences according to Frost & Sullivan. We believe that each of our schools has gained wide recognition in the region where it is located and continues to attract students and qualified teaching staff. We believe that our success is heavily dependent on the market recognition of the brand and the reputation of each of our schools.

However, we cannot assure you that our marketing efforts will be successful or sufficient in further promoting our schools' brands or in helping us to remain competitive. If any of our schools is unable to further enhance its reputation and increase market awareness of its programs and services, or if it is required to incur additional promotional expenses in order to remain competitive, our business, financial condition and results of operations may be materially and adversely affected. If our schools are unable to maintain or sustain their brand reputation and recognition, they may also be unable to maintain or increase student enrollment, which may have a material adverse effect on our business, financial condition and results of operations.

(2) Our business and results of operations depend on the level of tuition fees and boarding fees we are able to charge and our ability to maintain and raise tuition and boarding fees.

One of the most significant factors affecting our profitability is the tuition fees we charge at our schools. For the years ended December 31, 2014, 2015 and 2016, tuition fees constituted 90.3%, 90.6% and 91.1% of our total revenue from continuing operations, respectively, while boarding fees accounted for the remainder. However, there can be no assurance that we will be able to maintain or raise the tuition and/or boarding fee levels we charge at our schools in the future at the same levels as historically, or at all, or even if we are able to maintain or raise tuition fees or boarding fees, we cannot assure you that we will be able to attract prospective students to apply for our schools at such increased fee rates at the same levels as historically, or at all.

(3) Our business and results of operations depend on the number of students we may admit, which in turn is subject to the admission quotas approved by relevant education authorities and limited by the capacity of our school facilities.

Each year the education authorities specify a quota for the number of new students each of our schools may admit, which is subject to adjustment by the education authorities. The number of students we may admit at each of our schools is therefore subject to the quota set by the local education authorities on a year by year basis, as adjusted by the education authorities. The maximum number of new students each of our schools may admit each year is therefore beyond our control. To the best of the Directors' knowledge, to determine the admission quota to be granted to each school, the local education authorities take into account factors including the number of students enrolled and number of applications received by the school, quality of education, social recognition and reputation of the school and the overall regional economic and educational conditions and policies. In addition, the number of students we are able to admit at each of our schools is also constrained by the education facilities and number of beds for students of our schools, which are limited in space and size.

(4) Adverse changes in the PRC economic, political and social conditions as well as laws and government policies, may materially and adversely affect our business, financial condition, results of operations and growth prospects.

The economic, political and social conditions in the PRC differ from those in more developed countries in many respects, including structure, government involvement, level of development, growth rate, control of foreign exchange, capital reinvestment, allocation of resources, rate of inflation and trade balance position. Before the adoption of its reform and opening up policies in 1978, the PRC was primarily a planned economy.

In recent years, the PRC government has been reforming the PRC economic system and government structure. For example, the PRC government has implemented economic reform and measures emphasizing the utilization of market forces in the development of the PRC economy in the past three decades. These reforms have resulted in significant economic growth and social prospects. Economic reform measures, however, may be adjusted, modified or applied inconsistently from industry to industry or across different regions of the country.

We cannot predict whether the resulting changes will have any adverse effect on our current or future business, financial condition or results of operations. Despite these economic reforms and measures, the PRC government continues to play a significant role in regulating industrial development, allocation of natural and other resources, production, pricing and management of currency, and there can be no assurance that the PRC government will continue to pursue a policy of economic reform or that the direction of reform will continue to be market friendly.

ENVIRONMENT, HEALTH AND SAFETY

The business and operation of the Group is not in violation of the applicable PRC Environmental laws and regulations in any material aspects.

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

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

FINANCIAL SUMMARY

A summary of the Group's results, assets and liabilities for the last four financial years are set out on pages 152 to 153 "Financial Summary" of this annual report. This summary does not form part of the audited consolidated financial statements.

USE OF NET PROCEEDS FROM LISTING

The Company was listed on April 19, 2017.

Net proceeds from the Listing (after deducting underwriting fee and relevant expenses) amounted to approximately HK$743.0 million. As of the date of this annual report, none of the proceeds had been utilised. Such amounts are proposed to be used according to the allocation set out in the Prospectus.

MAJOR CUSTOMERS AND SUPPLIERS

Major Customers

For the year ended December 31, 2016, the Group's customers primarily consist of the Group's students and their parents. The Group did not have any single customer who accounted for more than 5% of the Group's revenue.

Major Suppliers

For the year ended 31 December 2016, the Group's five largest suppliers accounted for 75.2% of the Group's total purchases and the Group's single largest supplier accounted for 48.4% of the Group's total purchases.

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

RELATIONSHIP WITH EMPLOYEES, SUPPLIERS AND CUSTOMERS

The Group understands the importance of maintaining a good relationship with its employees, suppliers and customers to meet its immediate and long-term goals. The Group maintains a good relationship with employees, suppliers and customers. During the 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 2016 are set out in note 15 to the consolidated financial statements.

By comparing the valuation of the property interest of the Group as set out in Appendix III to the Prospectus, the valuation surplus is approximately RMB107.2 million as compared to the carrying amounts of the Group's property interests RMB1,017.8 million. The valuation surplus of the property interests had not be incorporated in the Group's consolidated financial statements for the Reporting Period. If the valuation surplus were to be included in the consolidated financial statements, an additional annual depreciation charge of approximately RMB2.1 million would be incurred.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 28 to the consolidated financial statements.

RESERVES

Details of movements in the reserves of the Group and the Company during the year ended 31 December 2016 are set out in the consolidated statement of changes in equity on page 99 of this annual report and note 29 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2016, the Company's reserve available for distribution was nil (as at 31 December 2015: Nil).

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Group as at 31 December 2016 are set out in note 25 to the consolidated financial statements.

DIRECTORS

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

Executive Directors:
Mr. Li Xiaoxuan *(Chairman of the Board)*
Mr. Zhao Shuai
Mr. Zhang Ke
Mr. Zhu Lidong

Non-executive Directors:
Mr. Chen Shuo
Mr. Wan Yuan *(resigned on April 18, 2017)*

Independent Non-executive Directors:
Mr. Wong Man Chung Francis
Mr. Chung Yue Ping Stephen
Mr. Kwong Wai Sun Wilson

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. Li Xiaoxuan, Mr. Zhao Shuai and Mr. Zhang Ke shall retire by rotation, and being eligible, have offered themselves for re-election at the proposed annual general meeting ("AGM").

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

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and senior management of the Company are set out on pages 18 to 28 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 since their appointment and remain so as of the date of this annual report.

DIRECTORS' SERVICE CONTRACTS AND LETTERS OF APPOINTMENT

Each of Mr. Li Xiaoxuan, Mr. Zhao Shuai, Mr. Zhang Ke and Mr. Zhu Lidong, being the executive Directors of the Company has entered into a service contract with the Company for a specific term of three years commencing form the Listing Date, and will automatically continue thereafter until terminated by not less than three months' notice in writing served by either party on the other, which notice shall not expire until after the fixed term.

Mr. Chen Shuo, being the non-executive Director of the Company, has entered into a letter of appointment with us 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 the non-executive Director to our Company or with immediate effect following the notice in writing served by our Company to the non-executive Director.

Each of Mr. Wong Man Chung Francis, Mr. Chung Yue Ping Stephen and Mr. Kwong Wai Sun Wilson, being the independent non-executive Director of the Company, has entered into a letter of appointment with us 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 the independent non-executive Director to our Company or with immediate effect following the notice in writing served by our Company to the independent non-executive Director.

The above service contracts or letters of appointment are subject to retirement by rotation and re-election at an annual general meeting at least once every three years in accordance with the Articles.

The Articles provide that any Director appointed by the Board to fill a casual vacancy in the Board shall hold office until the first general meeting of the Company after his/her appointment and be subject to re-election at such meeting, and any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

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

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

Save as disclosed in the section headed "Non-exempt Continuing Connected Transaction" and otherwise disclosed in this annual report, no 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 2016 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 2016 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 2016 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 2016 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 V-33 of the Prospectus "Share Option Scheme".

Details of the emoluments of the Directors, and five highest paid individuals during the Reporting Period are set out in notes 9 and 10 to the consolidated financial statements.

None of the Directors waived any emoluments during the year ended 31 December 2016.

RETIREMENT AND EMPLOYEE BENEFITS SCHEME

Details of the retirement and employee benefits scheme of the Company are set out in notes 3 and 8 to the consolidated financial statements.

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

As the Company had not been listed on the Stock Exchange by December 31, 2016, during the year ended 31 December 2016, Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance (the "SFO") and Section 352 of the SFO did not apply to the Directors, and chief executives of the Company.

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

(i) Long position in our Company

Name	Capacity/ Nature of interest	Number of Shares	Approximate percentage of shareholding in our Company
Mr. Li(1)(2)(3)(4)	Interest in a controlled corporation	792,000,000	55.34%

Note:

(1) Mr. Li is the sole shareholder of Aspire Education Management and he is therefore deemed to be interested in the Shares held by Aspire Education Management upon the Listing.

(2) Mr. Li holds 53.35% shares in Aspire Education Technology and he is therefore deemed to be interested in the Shares held by Aspire Education Technology upon the Listing.

(3) Mr. Li holds 79.20% shares in Aspire Education Consulting and he is therefore deemed to be interested in the Shares held by Aspire Education Consulting upon the Listing.

(4) Aspire Education International is owned by (i) all partners of Chengxin Investment and Huihuang Investment, being Mr. Li, 44 employees of our Group, the Principal of the Northeast School and 9 other individuals who are Independent Third Parties; and (ii) one other individual, Chan Tung Hoi (陳冬海), a friend of Mr. Li and an Independent Third Party, who invested in our Company directly through Aspire Education International. Each of the shareholders of Aspire Education International has authorized Mr. Li to exercise his or her voting rights in Aspire Education International. Mr. Li is therefore deemed to be interested in the Shares held by Aspire Education International under the SFO.

(ii) Long position in associated corporation:

Yun Ai Group

Name	Capacity/ Nature of interest	Amount of registered share capital	Approximate percentage of shareholding in our Company
Mr. Li	Beneficial owner	RMB10,428,600	29.88%

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

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

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

As the Company had not been listed on the Stock Exchange by December 31, 2016, during the year ended December 31, 2016, Divisions 2 and 3 of Part XV of the SFO and Section 336 of the SFO did not apply to the Company.

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

(i) Interests and short positions in our Shares and underlying Shares of our Company:

Long position in our Company

Name	Capacity/ Nature of interest	Number of Shares	Approximate percentage of shareholding in our Company
Aspire Education Management(1)	Beneficial owner	502,160,000	35.09%
Aspire Education Technology(1)	Beneficial owner	196,000,000	13.70%
Advance Vision(1)	Beneficial owner	177,760,000	12.42%
Shanghai Taifu(1)	Interest in a controlled corporation	177,760,000	12.42%
Shenzhen Pingan Decheng Investment Co., Ltd.* (深圳市平安德成投資有限公司)(1)	Interest in a controlled corporation	177,760,000	12.42%
Shenzhen Pingan Financial Technology Consulting Co., Ltd.* (深圳平安金融科技諮詢有限公司)(1)	Interest in a controlled corporation	177,760,000	12.42%
Ping An Insurance (Group) Company of China, Ltd.(1)	Interest in a controlled corporation	177,760,000	12.42%
Design Time(4)	Beneficial owner	104,800,000	7.33%
CCBI Investments Limited(2)	Interest in a controlled corporation	104,800,000	7.33%

Name	Capacity/ Nature of interest	Number of Shares	Approximate percentage of shareholding in our Company
CCB Financial Holdings Limited (建行金融控股有限公司)(2)	Interest in a controlled corporation	104,800,000	7.33%
CCB International (Holdings) Limited* (建銀國際（控股）有限公司)(2)	Interest in a controlled corporation	104,800,000	7.33%
CCB International Group Holdings Limited* (建行國際集團控股有限公司)(2)	Interest in a controlled corporation	104,800,000	7.33%
China Construction Bank Corporation* (中國建設銀行股份有限公司)(2)	Interest in a controlled corporation	104,800,000	7.33%

Notes:

(1) Shanghai Taifu holds 100% shares in Advance Vision and it is therefore deemed to be interested in the Shares held by Advance Vision upon the Listing. The general partner of Shanghai Taifu is Shenzhen Pingan Decheng Investment Co., Ltd. (深圳市平安德成投資有限公司). Such general partner is wholly owned by Shenzhen Pingan Financial Technology Consulting Co., Ltd. (深圳平安金融科技諮詢有限公司), which is in turn owned as to 96.52% by Ping An Insurance (Group) Company of China, Ltd. (中國平安保險（集團）股份有限公司), a joint-stock company incorporated in the PRC and listed on the Main Board of the Stock Exchange (stock code: 2318) and the Shanghai Stock Exchange (stock code: 601318). Each of the Shanghai Taifu, Shenzhen Pingan Decheng Investment Co., Ltd. (深圳市平安德成投資有限公司), Shenzhen Pingan Financial Technology Consulting Co., Ltd. (深圳平安金融科技諮詢有限公司) and Ping An Insurance (Group) Company of China, Ltd. (中國平安保險（集團）股份有限公司) is deemed to be interested in the Shares held by Advance Vision upon the Listing.

(2) China Construction Bank Corporation (中國建設銀行股份有限公司) holds 100% shares in CCB International Group Holdings Limited (建行國際集團控股有限公司), which in turn holds 100% shares in CCB Financial Holdings Limited (建行金融控股有限公司). CCB Financial Holdings Limited (建行金融控股有限公司) holds 100% shares in CCB International (Holdings) Limited (建銀國際（控股）有限公司), which in turn holds 100% shares in CCBI Investments Limited. CCBI Investments Limited is the direct and sole shareholder of Design Time. Each of China Construction Bank Corporation (中國建設銀行股份有限公司), CCB International Group Holdings Limited (建行國際集團控股有限公司), CCB Financial Holdings Limited (建行金融控股有限公司), CCB International (Holdings) Limited (建銀國際（控股）有限公司) and CCBI Investments Limited is deemed to be interested in the same number of Shares held by Design Time upon the Listing.

(ii) Interests and short positions in associated corporations

Long position in Yun Ai Group

Name	Capacity/ Nature of interest	Amount of registered share capital	Approximate percentage of shareholding
Daai Partnership	Beneficial owner	RMB7.960964 million	22.8102%
Pai Dui Pai	Beneficial owner	RMB7 million	20.0568%
Shanghai Taifu	Beneficial owner	RMB5.418904 million	15.5265%

Long position in Haxuan Company

Name	Capacity/ Nature of interest	Amount of registered share capital	Approximate percentage of shareholding
Ningde Company	Beneficial owner	RMB31.308 million	26.09%

Long position in Enchang Company

Name	Capacity/ Nature of interest	Amount of registered share capital	Approximate percentage of shareholding
Mr. Jiang Mingxue	Beneficial owner	RMB54 million	10.8%

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

SHARE OPTION SCHEME

The Company has adopted the Share Option Scheme on March 20, 2017 ("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; (g) an associate of any of the persons referred to in paragraphs (a) to (f) above; and (h) any person involved in the business affairs of the Company whom our Board determines to be appropriate to participate in the Share Option Scheme (the person referred above are the "Eligible Persons").

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 143,110,000 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 date of this annual report.

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

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

Subject to such terms and conditions as the Board may determine (including such terms and conditions in relation to their vesting, exercise or otherwise), there is no minimum period for which an option must be held before it can be exercised and no performance target which need to be achieved by the grantee before the Option can be exercised.

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

The subscription price in respect of any particular option shall be such price as the Board may in its absolute discretion determine at the time of grant of the relevant option (and shall be stated in the letter containing the offer of the grant of the option) but the subscription price shall not be less than whichever is the highest of: (a) the nominal value of 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 9 years and 11 months.

Since the Listing Date and up to the date of this annual report, 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 2016 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 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

Beijing Lianhe

Beijing Lianhe was established on June 17, 2014 by Daai Company. It is engaged in the provision of a free online courses platform to a specific range of students of colleges/universities, some of which are members of the AUAS. On May 31, 2016, as part of the Corporate Reorganization, Daai Company entered into an equity transfer agreement to transfer all equity interest in Beijing Lianhe to Daai Management, an investment holding company wholly owned by Daai Consulting, which is in turn beneficially owned by Mr. Li as to 90%, at a consideration of RMB66,258.94. Such consideration was determined with reference to the net asset value of Beijing Lianhe as of May 31, 2016.

Beijing Lianhe does not compete directly or indirectly with our Group's business in terms of (1) applicable laws and regulations, (2) business model, (3) students base and (4) management.

Beijing Lianhe is at a preliminary stage of development and including Beijing Lianhe in our Group will not facilitate its further development. Beijing Lianhe commenced operation in 2015. The net loss of Beijing Lianhe for the year ended December 31, 2015 and the year ended December 31, 2016 according to its PRC accounts was approximately RMB3.41 million and RMB3.54 million, respectively.

Beijing Lianhe was at a very preliminary stage of development as at the date of this report. Beijing Lianhe currently provides a free online courses platform to students at our schools and schools operated by other third parties, which falls within the "permitted" category under the Foreign Investment Catalog. It is expected that Beijing Lianhe will expand its business to provide paid online education services to a specific range of students in the future, which falls within the "restricted" and "prohibited" categories under the Foreign Investment Catalog and requires an internet culture operation license (網絡文化經營許可證), and a value-added telecommunications business operating license to operate such business, which are only granted to domestic persons, as advised by our PRC legal advisors. As such, if Beijing Lianhe were to have been retained in our Group as a foreign invested enterprise, Beijing Lianhe may not be able to obtain these licenses to expand its business scope. Accordingly, our Group may face uncertainties in developing the online education business which may not eventually bring any economic benefit to our Group. Beijing Lianhe is excluded from our Group and measures have been put in place to allow us to acquire all the equity interest in Beijing Lianhe in the future, if we deem appropriate and in the interests of our Group at the relevant time.

Our Directors are of the view that, (i) given that the online courses were provided by Beijing Lianhe to students at both our schools and schools operated by other third parties for free and Beijing Lianhe currently does not hold all the necessary licenses to require anyone to pay for such online courses, the provision of such services to our Group without charge would not affect our financial independence from our Controlling Shareholders, and (ii) it is not in the interests of our Company and our Shareholders to include Beijing Lianhe into our Group at this stage.

In order to safeguard the interests of our Company in respect of the future business opportunities in Beijing Lianhe and against potential competition, we have adopted the following measures:

Non-competition Undertaking

Under the Structured Contracts, our Controlling Shareholders have undertaken not to engage in any business which would, directly or indirectly, compete with the business of any member of our Group.

Option to acquire Beijing Lianhe

Huihuang Company, Mr. Li, Ms. Yang, Daai Consulting, Daai Management and Beijing Lianhe entered into an agreement on August 22, 2016 pursuant to which Mr. Li, Ms. Yang, Daai Consulting and Daai Management, individually and collectively, irrevocably granted the following options to Huihuang Company:

(i) an irrevocable option ("the Option") for the transfer of all the equity interest in Beijing Lianhe to Huihuang Company or its designee by equity transfer or through a series of contracts on substantially the same terms and conditions as the existing Structured Contracts at a consideration determined with reference to the then fair market value of Beijing Lianhe according to the then applicable laws and regulations;

(ii) an irrevocable right of first refusal (the "Right of First Refusal") under which, in the event any of Mr. Li, Ms. Yang, Daai Consulting and Daai Management intends to transfer his/her/its direct or indirect interest in Beijing Lianhe to any third party, Huihuang Company or its designee has the right of first refusal to acquire all the interest in Beijing Lianhe by equity transfer or through a series of contracts on substantially the same terms and conditions as the existing Structured Contracts at the consideration with reference to the then fair market value of Beijing Lianhe according to the then applicable laws and regulations; and

(iii) an irrevocable right (the "Rights of Selling Request") for our Company to require Mr. Li, Ms. Yang, Daai Consulting and Daai Management to sell all his/her/its direct or indirect interest in Beijing Lianhe to an Independent Third Party if and when, as determined by our independent non-executive Directors, Beijing Lianhe may be in direct or indirect competition with the business of our Group but it is not in the interest of our Company to exercise the option under (i) above to acquire all of the equity interest in Beijing Lianhe.

In order to ensure the independence of any decision of our Company in respect of Beijing Lianhe, our independent non-executive Directors will be responsible for reviewing, considering and deciding whether or not to exercise any of the Option, the Right of First Refusal or the Right of Selling Request. As of this annual report, we had no intention to purchase any equity interest of Beijing Lianhe, or exercise any Right of Selling Request. The independent non-executive Directors shall review, at a minimum, twice each year and decide whether to exercise the Option, the Right of First Refusal or the Right of Selling Request. Our Group expects that the following factors would be taken into consideration when making such determination:

(i) the development and status of business expansion of Beijing Lianhe, including its operation scale, target students or curriculum;

(ii) the value-added telecommunications business operating and/or internet culture operation licenses (網絡文化經營許可證) then held by Beijing Lianhe, if any;

(iii) the financial positions and performance of Beijing Lianhe and our Group;

(iv) the extent of any direct or indirect competition (potential or actual) between Beijing Lianhe and our Group;

(v) the view of any independent advisors engaged by our Company at the request of our independent non-executive Directors; and

(vi) such other relevant factors or considerations as our independent non-executive Directors consider necessary or appropriate.

Any decision (positive or negative) made in relation to the Option, the Right of First Refusal and the Right of Selling Request will be disclosed, with basis, in our Company's interim and annual reports after the Listing. Our Group expects that, if we decide to acquire Beijing Lianhe by exercising the Options the Rights of First Refusal or the Right of Selling Request, the acquisition is expected to be funded by our internal resources. Such acquisitions would be made in accordance with the applicable Listing Rules and the applicable laws and regulations in the PRC.

According to the applicable PRC laws and regulations, Beijing Lianhe will only be allowed to engage in the provision of paid online education services after it expands the business scope registered on its business license and obtains the above-mentioned licenses after a new business license is issued. As at the date of this annual report, Beijing Lianhe has obtained the business license for the expanded business scope on December 22, 2016 and the internet culture operation license on February 8, 2017, and the value-added telecommunications business operating license on March 29, 2017. Beijing Lianhe intends to take all necessary steps to obtain the remaining necessary licenses for the provision of paid online education services by the end of 2017 and then our Group would only consider acquiring Beijing Lianhe at that point.

Non-Competition Undertaking of the Controlling Shareholders

In addition, our Controlling Shareholders have entered into the Deed of Non-competition on March 20, 2017 in favour of our Company, pursuant to which our Controlling Shareholders have jointly and severally and irrevocably undertaken with our 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 set out below, directly or indirectly, either on its or his own account or in conjunction with or on behalf of any person, firm or company, among other things, carry on, participate or be interested or engaged in or hold (in each case whether as a shareholder, partner, agent, employee or otherwise) any business which is or may be in competition with the business of any member of our Group from time to time.

DIRECTORS' INTEREST IN COMPETING BUSINESS

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

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

As the Company had not been listed on the Stock Exchange by December 31, 2016, during the year ended December 31, 2016, the provisions relating to disclosure of connected transactions under Chapter 14A of the Listing Rules were not applicable to the Company.

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

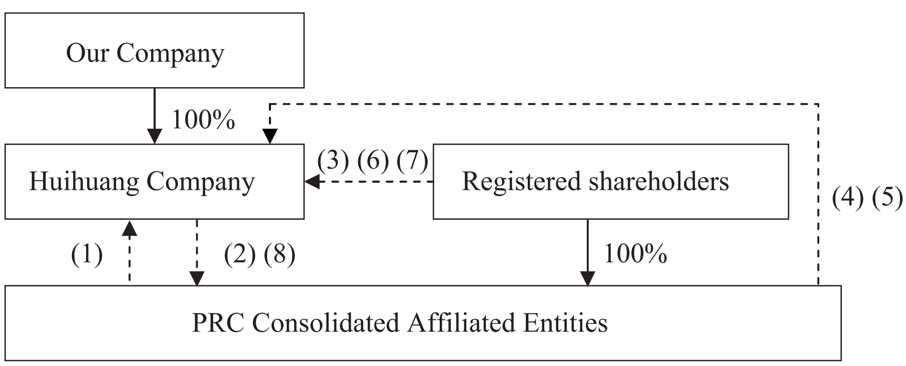
Structured Contracts

A. Background and overview

We currently conduct our private higher education business through our 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. We do not hold any equity interest in our PRC Operating Schools. The Structured Contracts, through which we obtain control over and derive the economic benefits from our PRC Operating Schools, have been narrowly tailored to achieve our business purpose and minimize the potential conflict with relevant PRC laws and regulations. We had entered into the 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 our operations, on September 8, 2016, our wholly-owned subsidiary, Huihuang Company, entered into various agreements that constitute the Structured Contracts with, among others, our PRC Operating Schools and our School Sponsors, under which all economic benefits arising from the business of our PRC Operating Schools and our School Sponsors are transferred to Huihuang Company to the extent permitted under the PRC laws and regulations by means of service fees payable by our PRC Operating Schools and our School Sponsors to Huihuang Company. Although the Registered Shareholders are not consolidated as part of our Group, they are parties to certain agreements which constitute the Structured Contracts to ensure that the Shareholders' rights of Yun Ai Group are actually controlled by Huihuang Company.

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



"——" denotes direct legal and beneficial ownership in the equity interest
"- - - -" denotes Structured Contracts

Notes:

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

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

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

4. Entrustment of school sponsors' rights in our PRC Operating Schools and the Northwest School by Yun Ai Group and Bei Ai Company. See the below section and "Structured Contracts – Operation of the Structured Contracts – Summary of the Material Terms of the Structured Contracts – (4) School Sponsors' and Directors' Rights Entrustment Agreement" and "Structured Contracts – Operation of the Structured Contracts – Summary of the Material Terms of the Structured Contracts – (5) School Sponsors' Powers of Attorney" in the Prospectus for details.

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

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

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

8. Provision of loans by Huihuang Company to Yun Ai Group. See the below section and "Structured Contracts – Operation of the Structured Contracts – Summary of the Material Terms of the Structured Contracts – (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.

As of the date of this annual report, we have not encountered any interference or encumbrance from any governing bodies in our plan to adopt the Structured Contracts and the consolidated financial results of our PRC Operating Schools, which engage in higher education service, are consolidated to those of our Group.

B. Summary of the Material Terms of the Structured Contracts

A description of each of the specific agreements that comprise the Structured Contracts is set out below.

(1) Business Cooperation Agreement

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

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

(a) to carry out its private education operations in a prudent and efficient manner in accordance with good financial and business standards while maintaining the asset value of our PRC Operating Schools and our School Sponsors and the quality and standard of private education;

(b) to prepare school development plans and annual working plans in accordance with the instructions of Huihuang Company;

(c) to carry out its private education activities and other relevant business under the assistance of Huihuang Company;

(d) to carry out and manage its daily operations and financial management in accordance with the recommendations, advice, principles and other instructions of Huihuang Company;

(e) to execute and act upon the recommendations of Huihuang Company in terms of employment and removal of senior management and staff;

(f) to adopt the advice, guidance and plans given by Huihuang Company in relation to their respective strategic development; and

(g) to carry out its business operations and renew and maintain its respective necessary licenses.

In addition, pursuant to the Business Cooperation Agreement,

(a) Mr. Li undertakes to Huihuang Company that, in the event of death, loss of or restriction on capacity, divorce or other circumstances which may affect the exercise of his direct or indirect equity interest in the Registered Shareholders, he shall have made all necessary arrangement and sign all necessary documents such that his/their respective successor, guardian, spouse, and any other person which may as a result of the above events obtain the equity interest or relevant rights shall not prejudice or hinder the enforcement of the Structured Contracts;

(b) the Registered Shareholders undertake to Huihuang Company that, in the event of a merger and subdivision of the Registered Shareholders (except for Mr. Li), presentation by the Registered Shareholders (except for Mr. Li) or the Registered Shareholders (except for Mr. Li) being presented any application for winding up, liquidation, winding up restructuring or reconciliation, dissolution and liquidation of the Registered Shareholders (except for Mr. Li) pursuant to an order, application for involuntary dissolution of the Registered Shareholders (except for Mr. Li) or other reasons, or other circumstances which may affect the Registered Shareholders in exercising its direct or indirect interest in Yun Ai Group, they shall have made all necessary arrangement and sign all necessary documents such that the successor, administrator, liquidation committee and any other person which may as a result of the above events obtain the direct or indirect interest or relevant rights in Yun Ai Group shall not prejudice or hinder the enforcement of the Structured Contracts;

(c) the Registered Shareholders undertake that, in the event of the dissolution or liquidation of our PRC Operating Schools and/or our School Sponsors, (i) Huihuang Company shall have the right to exercise all school sponsor's right on behalf of the School Sponsors/shareholders' rights on our PRC Operating Schools and/or School Sponsors; (ii) PRC Operating Schools and/or School Sponsors and/or the shareholders of our PRC Operating Schools and/or School Sponsors shall transfer all assets received or receivable in its capacity as school sponsor of each of our PRC Operating Schools/as shareholders of each of our School Sponsors as a result of the dissolution or liquidation of our PRC Operating Schools and/or our School Sponsors to Huihuang Company or other persons designated by us at nil consideration, and instruct all of our PRC Operating Schools and/or our School Sponsors to transfer such assets directly to Huihuang Company before such dissolution or liquidation; (iii) if consideration is required for such transfer under the then applicable PRC laws, PRC Operating Schools and/or School Sponsors and/or the shareholders of PRC Operating Schools and/or School Sponsors shall compensate Huihuang Company or the person as designated by us the amount and guarantee that Huihuang Company or other persons as designated by us does not suffer any loss; and

(d) School Sponsors and our PRC Operating Schools agreed that, without the prior written consent of Huihuang Company, our PRC Operating Schools and/or School Sponsors shall not declare or pay to its shareholders any reasonable return or other interest or benefit. In the event that our School Sponsors/the shareholders of our School Sponsors receive any reasonable return or other interest or benefit, our School Sponsors/the shareholders of our School Sponsors shall unconditionally and without compensation transfer such amount to Huihuang Company.

(2) Exclusive Technical Service and Management Consultancy Agreement

Pursuant to the Exclusive Technical Service and Management Consultancy Agreement, Huihuang Company agreed to provide exclusive technical services to our PRC Operating Schools and our School Sponsors, 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 our PRC Operating Schools and our School Sponsors; (c) design, development, update and maintenance of management information systems necessary for the education activities of our PRC Operating Schools and our School Sponsors; (d) provision of other technical support necessary for the education activities of our PRC Operating Schools and our School Sponsors; (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 our PRC Operating Schools and our School Sponsors.

Furthermore, Huihuang Company agreed to provide exclusive management consultancy services to our PRC Operating Schools and our School Sponsors, 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 our PRC Operating Schools and our School Sponsors.

In consideration of the technical and management consultancy services provided by Huihuang Company, each of our PRC Operating Schools and our School Sponsors agreed to pay Huihuang Company a service fee equal to all of their respective amount of surplus from operations (after deducting all costs, expenses, taxes, losses from the previous year (if required by the law) and the legally compulsory development fund of the respective school (if required by the law)). The compulsory development fund is included as statutory surplus reserve at the Group's level and retained at schools' level. Huihuang Company has the right (but not the obligation) to adjust the amount of such service fee by reference to the actual services provided and the actual business operations and needs of our PRC Operating Schools and our School Sponsors, provided that any adjusted amount shall not exceed the amount mentioned above. Our PRC Operating Schools and/or our School Sponsors do not have any right to make any such adjustment.

(3) Exclusive Call Option Agreement

Under the Exclusive Call Option Agreement, the Registered Shareholders have irrevocably granted Huihuang Company or its designated purchaser the right to purchase all or part of the school sponsor's interest of our School Sponsors in our PRC Operating Schools and equity interest in our School Sponsors ("Equity Call Option"). The purchase price payable by Huihuang Company 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. Huihuang Company or its designated purchaser shall have the right to purchase such proportion of the school sponsor's interest of our PRC Operating Schools and/or equity interest in our School Sponsors as it decides at any time.

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

Pursuant to the School Sponsors' and Directors' Rights Entrustment Agreement, Yun Ai Group and Bei Ai Company have irrevocably authorized and entrusted Huihuang Company to exercise all its rights as school sponsor of each of our PRC Operating Schools and the Northwest School 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 sponsors' interest in accordance with the laws; and (h) 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 Sponsors' and Directors' Rights Entrustment Agreement, each of the directors of each school (the "Appointees") has irrevocably authorized and entrusted Huihuang Company to exercise all his/her rights as directors of our PRC Operating Schools as appointed by our School Sponsors 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 our School Sponsors; (b) the right to exercise voting rights in respect of all matters discussed and resolved at the board meeting of each of our PRC Operating Schools; (c) the right to propose to convene interim board meetings of each of our PRC Operating Schools and the Northwest School; (d) the right to sign all board minutes, board resolutions and other legal documents which the directors appointed by Yun Ai Group and Bei Ai Company have authority to sign in his/her capacity as directors of our PRC Operating Schools and the Northwest School; (e) the right to instruct the legal representative and financial and business responsible persons of our PRC Operating Schools and the Northwest School to act in accordance with the instruction of Huihuang Company; (f) the right to exercise all other rights and voting rights of directors as prescribed under the articles of association of our PRC Operating Schools and the Northwest School; (g) the right to handle the legal procedures of registration, approval and licensing of our PRC Operating Schools and the Northwest School 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 our PRC Operating Schools and the Northwest School as amended from time to time.

(5) School Sponsors' Powers of Attorney

Pursuant to the School Sponsors' Powers of Attorney executed by School Sponsors in favor of Huihuang Company, our School Sponsors authorized and appointed Huihuang Company, the directors of which are Li Ming (李明), Jiang Hong (姜虹) and Fang Jinsheng (方晉勝) (none of whom is a director of any of our School Sponsors and/or 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 our PRC Operating Schools and the Northwest School.

(6) Directors' Powers of Attorney

Pursuant to the Directors' Powers of Attorney executed by each of the Appointees in favor of Huihuang Company, each of the Appointees authorized and appointed Huihuang Company, the directors of which are Li Ming (李明), Jiang Hong (姜虹) and Fang Jinsheng (方晉勝) (none of whom is a director of any of our School Sponsors 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 of our PRC Operating Schools.

(7) Shareholders' Rights Entrustment Agreement

Pursuant to the Shareholders' Rights Entrustment Agreement, each of the Registered Shareholders and Yun Ai Group has irrevocably authorized and entrusted Huihuang Company to exercise all of his/their respective rights as shareholders of Yun Ai Group, Enchang Company, Haxuan Company and Bei Ai Company (together, "the Relevant Subsidiaries") to the extent permitted by the PRC laws. These rights include, but are not limited to: (a) the right to attend shareholders' meetings of the Relevant Subsidiaries, 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 the Relevant Subsidiaries, as the case may be; (c) the right to appoint directors or legal representative of the Relevant Subsidiaries, as the case may be; (d) the right to propose to convene interim shareholders' meetings of the Relevant Subsidiaries, as the case may be; (e) the right to sign all shareholders' resolutions and other legal documents which the Registered Shareholders and Yun Ai Group have authority to sign in his or their capacity as shareholders of the Relevant Subsidiaries, as the case may be; (f) the right to instruct the directors and legal representative of the Relevant Subsidiaries, as the case may be to act in accordance with the instruction of Huihuang Company; (g) the right to exercise all other rights and voting rights of shareholders as prescribed under the articles of association of the Relevant Subsidiaries, as the case may be; (h) the right to handle the legal procedures of registration, approval and licensing of the Relevant Subsidiaries, 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 our PRC Operating Schools as amended from time to time.

(8) Shareholders' Powers of Attorney

Pursuant to the Shareholders' Powers of Attorney executed by each of the Registered Shareholder and Yun Ai Group in favor of Huihuang Company, each of the Registered Shareholder and Yun Ai Group authorized and appointed Huihuang Company, 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 Relevant Subsidiaries.

(9) Spouse Undertakings

Pursuant to the Spouse Undertakings, the spouse of Mr. Li has irrevocably undertaken that:

(a) the spouse has full knowledge of and has consented to the entering into of the Structured Contracts by Mr. Li, and in particular, the arrangement as set out in the Structured Contracts in relation to the restrictions imposed on the direct or indirect equity interest in Yun Ai Group, pledge or transfer the direct or indirect equity interest in Yun Ai Group, or the disposal of the direct or indirect equity interest in Yun Ai 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 our School Sponsors and our PRC Operating Schools;

(c) the spouse authorizes Mr. Li 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 Yun Ai Group (direct or indirect) in order to safeguard the interest of Huihuang Company under the Structured Contracts and give effect to the fundamental purposes thereunder, and confirms and agrees to all such documents and procedures;

(d) any undertaking, confirmation, consent and authorization under the Spouse Undertakings shall not be revoked, prejudiced, invalidated or otherwise adversely affected by any increase, decrease, consolidation or other similar events relating to the direct or indirect equity interest in Yun Ai 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 Huihuang Company and the spouse of Mr. Li 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/her/its equity interest in Yun Ai Group together with all related rights thereto to Huihuang Company as security for performance of the Structured Contracts and all direct, indirect or consequential damages and foreseeable loss of interest incurred by Huihuang Company as a result of any event of default on the part of the Registered Shareholders, our School Sponsors or each of our PRC Operating Schools and all expenses incurred by Huihuang Company as a result of enforcement of the obligations of the Registered Shareholders, our School Sponsors and/or each of our PRC Operating Schools under the Structured Contracts (the "Secured Indebtedness").

The pledges under the Equity Pledge Agreement were registered with the relevant Administration of Industry and Commerce of the PRC on September 20, 2016 and became effective on the same date of the registration of the pledge.

(11) Loan Agreement

Pursuant to the Loan Agreement, Huihuang Company agreed to provide interest free loans to Yun Ai Group in accordance with the PRC laws and regulations and Yun Ai Group agreed to utilize the proceeds of such loans to contribute as capital of our PRC Operating Schools and the Northwest School in its capacity as school sponsor or the shareholder of the school sponsors of our schools in accordance with our instructions. Both parties agree that all such capital contribution will be directly settled by Huihuang Company on behalf of Yun Ai Group.

C. Business Activities of PRC Operating Entities

The consolidated affiliated entities of the Group include the PRC Operating Schools and the School Sponsors. The PRC Operating Schools, being Yunnan School and Guizhou School are engaged in higher education services. All of the School Sponsors are investment holding companies.

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

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

	Significances and financial contribution to the Group		
	Revenue For the year ended December 31, 2016	**Net profit For the year ended December 31, 2016**	**Total Assets As of December 31, 2016**
Significances and financial contribution to the Group	100%	119.9%	61.6%

E. Revenue and assets involved in Structured Contracts

The table below sets out (i) revenue; and (ii) total assets involved in the PRC Operating Entities for the year ended December 31, 2016, they would be consolidated into the Group's financial statements pursuant to the Structural Contracts:

	Revenue	**Total Assets**
	RMB	*RMB*
PRC Operating Schools and School Sponsors	340,995,567.86	1,239,965,110.27

F. Regulatory Framework

1. Higher Education

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"). We had fully complied with the Foreign Control Restriction in respect of the Yunnan School, the Guizhou School, the Northeast School and the Central China School on the basis that (a) the principals and the chief executive officers of the aforementioned schools are all PRC nationals; and (b) all the members of the board of directors are PRC nationals. We will only engage PRC nationals as the principals, the chief executive officers and the members of the board of directors of the Northwest School after its establishment.

In relation to the interpretation of Sino-foreign cooperation, pursuant to the Sino-Foreign Regulation, if we were to apply for any of our schools to be reorganized as a Sino-foreign joint venture private school for PRC students at higher education institutions (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, 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.

Our PRC legal advisors have advised that there are no implementing measures or specific guidance on the Qualification Requirement in accordance with the existing PRC laws and regulations and therefore it is currently uncertain as to what specific criteria must be met by a foreign investor (such as length of experience and form and extent of ownership in the foreign jurisdiction) in order to demonstrate to the relevant educational authority that it meets the Qualification Requirement. With the assistance of our PRC legal advisors, we consulted the Education Department of Yunnan Province on July 12, 2016, Guizhou Province on July 12, 2016, Hubei Province on September 30, 2016, Heilongjiang Province on July 19, 2016 and Gansu Province on October 31, 2016, being the competent authorities as advised by our PRC legal advisors to confirm the matters relating to the Sino-Foreign Joint Venture Private Schools relevant to us. We were advised by (a) the director of the department of private education (民

辦教育處處長) at the Education Department of Yunnan Province and Education Department of Guizhou Province, (b) the vice director of the department of foreign cooperation and exchange (對外合作與交流處副處長) at the Education Department of Hubei Province, (c) the division officer of the department of private education management (division of development and planning) (省民辦教育辦管理辦公室(發展規劃處)) of Heilongjiang Province and (d) the director of the department of private education at the Education Department (民辦教育處處長) of Gansu Province, respectively that:

(i) the Foreign Ownership Restriction 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 Yunnan, Guizhou, Hubei, Heilongjiang and Gansu Provinces;

(iii) as a matter of policy, due to the lack of implementing measures or specific guidance on the Sino-Foreign Regulation, including the Qualification Requirement, the relevant education authorities will not accept an application to convert the PRC Operating Schools or the schools to be newly established or invested by us into Sino-Foreign Joint Venture Private Schools; and

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

With a view to further understanding the feasibility of converting our PRC Operating Schools or the schools to be newly established or invested by us into Sino-Foreign Joint Venture Private Schools, with the assistance of our PRC legal advisors, we conducted additional interviews with the Relevant Education Authorities as appropriate in October 2016 and November 2016. According to the aforesaid interviews, notwithstanding our willingness to take necessary steps in meeting the Qualification Requirement, the Relevant Education Authorities would not accept an application to convert our PRC Operating Schools or the schools to be newly established or invested by us into Sino-Foreign Joint Venture Private Schools due to the lack of implementation rules and guidance on the Qualification Requirement.

Our PRC legal advisors are of the view that the aforesaid officers are 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 the Yunnan, Guizhou, Hubei, Heilongjiang and Gansu Provinces.

2. Plan to Comply with the Qualification Requirement

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

As of the date of this annual report, we had taken the following concrete steps to implement our plan. On July 18, 2016, we have formed a holding company of a new school in the United States, namely, California Academy, which was wholly owned by Aspire Education Holding. We have submitted a formal application to the BPPE through the non-accredited application process in July 2016 to apply for the establishment of a new school. The approval process with the BPPE is expected to complete within approximately 12 months from the date of application. California Academy will be responsible for the daily operation and management of the new school to be established. As of the date of this annual report, we are in the process of designing the educational programs to be offered by the new school. In addition, in preparation of and in connection with our application submitted to the BPPE for the approval to establish our new school in the State of California, on September 20, 2016, California Academy entered into a lease agreement for the lease of a premises in Redondo Beach, California to be used for office purposes and the monthly rent for the lease is US$2,500. The lease has a term of one year commencing from October 1, 2016 and will expire on September 30, 2017. The lease may be renewed by California Academy by giving to the landlord a one-month prior notice. We have also nominated Mr. Zhang Ke, an executive Director, to oversee the administration of California Academy. We have expended approximately US$56,000 in connection with our plan as of the date of this annual report.

In the opinion of our 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 California Academy, i.e. the California School or another foreign educational institution established by us 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), we will be able to operate our schools in the PRC directly through the new school operated by California Academy, i.e. the California School or such other educational institution subject to the approval from the competent education authorities. Our 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. California School to be operated by California Academy or such other foreign educational institution subject to the approval from the competent educational authorities established by our 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, we have undertaken to the Stock Exchange that we will:

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

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

3. *Draft Foreign Investment Law*

The 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 our Company in the form of the Structured Contracts, to establish control of our PRC Operating Schools and/or our School Sponsors by Huihuang Company, through which we operate our education business in 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 as of the date of this annual report, 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.

If the Draft Foreign Investment Law is promulgated in the current draft form, on the basis that (i) Mr. Li, who is of Chinese nationality, will indirectly hold approximately 55.34% (without taking into account any Shares which may be issued upon the exercise of the Over-allotment Option or any options that may be granted under the Share Option Scheme) of the issued share capital of our Company upon completion of the Capitalization Issue and the Global Offering and will indirectly hold approximately 53.74% of the issued share capital of our Company assuming that the Over-allotment Option is exercised in full; (ii) our Company through Huihuang Company exercises effective control over our PRC Operating Schools and/or our School Sponsors pursuant to the Structured Contracts and (iii) Mr. Li is of Chinese nationality, our PRC legal advisors are of the view that we 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.

If the operation of higher education institutions is no longer in the negative list and our Group can legally operate the education business under PRC Laws, Huihuang Company will exercise the Equity Call Option under the Exclusive Call Option Agreement to acquire the school sponsor's interest of our PRC Operating Schools and/or the equity interest in our School Sponsors and unwind the Structured Contracts subject to re-approval by the relevant authorities.

If the operation of higher education is in the negative list, the Structured Contracts may be viewed as prohibited foreign investment. If the Draft Foreign Investment Law is refined and deviates from the current draft, depending on the treatment of existing contractual arrangements, the Structured Contracts may be regarded as invalid and illegal. As a result, our Group would not be able to operate our schools through the Structured Contracts and we would lose our rights to receive the economic benefits of our PRC Operating Schools and our School Sponsors. As a result, the financial results of our PRC Operating Schools and/or our School Sponsors would no longer be consolidated into our Group's financial results and we would have to derecognize their assets and liabilities according to the relevant accounting standards. An investment loss would be recognized as a result of such derecognition.

Nevertheless, considering that a number of existing conglomerates are operating under contractual arrangements and some of which have obtained listing status abroad, our Directors are of the view that it is unlikely, if the Draft Foreign Investment Law is promulgated, that the relevant regulations will take retrospective effect to require the relevant enterprises to remove the contractual arrangements. In future, the PRC government is likely to take a relatively cautious attitude towards the aspects of supervision as well as the enactment, and make decisions according to different situations in practice.

However, there are uncertainties as to what the definition of control may be under the finally enacted version of the Foreign Investment Law in the future, and the relevant government authorities will have a broad discretion in interpreting the law and may ultimately take a view that is inconsistent with our PRC legal advisors' understanding. In any event, our Company will take reasonable steps in good faith to seek to comply with the enacted version of the Foreign Investment Law, if and when it comes into force.

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

We entered into a series of agreements in which our wholly-owned subsidiary, Huihuang Company receives economic benefits from our PRC Operating Schools pursuant to relevant clauses under the agreements.

Foreign investment in the education industry in China is extensively regulated and subject to numerous restrictions. We have been and are expected to continue to be dependent on the Structured Contracts to operate our education business.

If the Structured Contracts that establish the structure for operating our China business are found to be in violation of any PRC laws or regulations in the future or fail to obtain or maintain any of the required permits or approvals, the relevant PRC regulatory authorities, including the MOE, which regulates the education industry, would have broad discretion in dealing with such violations, including:

- revoking the business and operating licenses of our PRC subsidiaries;

- discontinuing or restricting the operations of any related-party transactions among our PRC subsidiaries;

- imposing fines or other requirements with which we or our PRC subsidiaries may not be able to comply;

- requiring us to restructure our operations in such a way as to compel us to establish new entities, re-apply for the necessary licenses or relocate our businesses, staff and assets;

- imposing additional conditions or requirements with which we may not be able to comply; or

- restricting the use of proceeds from our additional public offering or financing to finance our business and operations in China.

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

Our Group has adopted the following measures to ensure the effective operation of our Group with the implementation of the Structured Contracts and our 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 our Board, if necessary, for review and discussion on an occurrence basis;

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

(c) our 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) our Company and our Directors undertake to provide periodic updates in our annual and interim reports regarding the qualification requirement and our status of compliance with the 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 our plan and progress in acquiring the relevant experience to meet the qualification requirement; and

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

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

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

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

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

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

H. Material changes

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

I. Unwinding of the Structured Contracts

As of the date of this annual report, there has not been any unwinding of any Structured Contracts, nor has there been any failure to unwind any Structured Contracts when the restrictions that led to the adoption of the Structured Contracts are removed. For more details, please refer to the section headed "Structured Contracts – 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), Huihuang Company 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.

Confirmation of independent non-executive Directors

The independent non-executive Directors will review the aforesaid Structured Contract on an annual basis to confirm that, during the relevant financial year:

(i) the Structured Contracts have been entered into in the ordinary and usual course of business of the Group;

(ii) the Structured Contracts are on normal commercial terms; and

(iii) the Structured Contracts 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.

The Company was listed on 19 April 2017.

Our Company's auditors will carry out procedures annually on the transactions carried out pursuant to the Structured Contracts and will provide a letter to our Directors with a copy to the Stock Exchange, confirming that the transactions have received the approval of our Directors, have been entered into in accordance with the relevant Structured Contracts and that no dividends or other distributions have been made by our PRC Operating Schools and/or our School Sponsors to the holders of its school sponsor's interest which are not otherwise subsequently assigned or transferred to our Group.

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

RELATED PARTY TRANSACTIONS

Details of the related party transactions entered into by the Group during the year ended December 31, 2016 are set out in note 34 to the consolidated financial statements.

The Company confirmed that it has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

DONATIONS

During the Reporting Period, the charitable and other donations made by the Group amounted to RMB0.6 million.

SIGNIFICANT LEGAL PROCEEDINGS

During the year ended December 31, 2016, 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 December 31, 2016 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.

The 2016 Amendments

Pursuant to the 2016 Amendments, the school sponsors of a private school which provides education services other than nine-year compulsory education may choose for the school to be a for-profit private school or a non-profit private school with effect from September 1, 2017. The following table sets forth the key differences between a for-profit private school and a non-profit school under the 2016 Amendments:

Item	For-profit Private School	Non-profit Private School
Receipt of operating profits	School sponsors are allowed to receive operating profits, and the surplus from operations shall be handled in accordance with the provisions of the PRC Company Law and other laws and regulations	School sponsors are not allowed to receive operating profits, and all surplus from operations shall be used for the operation of the school
Licenses and registration	Private school operating licenses, business licenses and other registrations required to go through by a corporate legal person	Private school operating licenses and registration certificate of private non-enterprise entities
Fees to be charged	Determined based on school operating costs and market demand, and no prior regulatory approval is required	Determined pursuant to the standards stipulated by the local governments
Tax treatment	Preferential tax treatment as stipulated by the State	Same preferential tax treatment as public schools
Land	Acquired either through land allocation or land transfer	Acquired through land allocation
Public funding	Public funding in the form of purchase of services, student loans, scholarships, lease or acquisition of unused State-owned assets	Public funding in the form of purchase of services, student loans, scholarships, lease or acquisition of unused State-owned assets, and government grants, incentive funds and donations

Item	For-profit Private School	Non-profit Private School
Liquidation	Liquidated in accordance with the provisions of the PRC Company Law. School sponsors can obtain the school's remaining assets after the settlement of the school's indebtedness	School sponsors will be compensated or rewarded when the private school is liquidated. The remaining portion of school assets should continually be used for the operation of a non-profit private school

As advised by our PRC legal advisors, the 2016 Amendments will only take effect on September 1, 2017, and both the Implementing Measures on Classification Registration of Private Schools and the Implementing Measures for the Supervision and Administration of For-profit Private Schools promulgated by government authorities at the State level do not have any definitive effective dates. In addition, according to the 2016 Amendments, the detailed rules and regulations regarding the conversion of existing private schools into for-profit or non-profit schools shall be promulgated by the local government authorities. However, as such detailed rules and regulations have not been promulgated by the local governmental authorities, and therefore there are uncertainties involved in interpreting and implementing the 2016 Amendments with respect to various aspects of the operations of a private school, such as (i) when should we notify relevant authorities regarding our decision for our schools to be for-profit or non-profit schools; (ii) procedures to be undergone for a school to become a for-profit school or non-profit school; (iii) respective preferential tax treatment which may be enjoyed by a for-profit school and a non-profit school; and (iv) respective public fundings can be obtained by a for-profit school and a non-profit school. Consequently, we are unable to accurately evaluate the potential impact on our operations at this stage, such as tax liabilities our schools may be exposed to if we choose for our schools to be for-profit private schools, public funding our schools are able to receive, extra costs that may have to be incurred to obtain land use right for the school site of the Northwest School through land transfer. Under the existing regulatory environment and based on the current interpretation of the 2016 Amendments and the relevant implementing measures, it is our intention to register the schools we currently own and the schools we invested in or plan to establish as for-profit schools after the 2016 Amendments and its implementing measures become effective, and the detailed local rules and regulations regarding the conversion of existing schools are promulgated by relevant local authorities and take effect. As of the date of this annual report, we had established a special committee to pay close attention to rules and regulations to be promulgated by relevant authorities at all levels regarding interpreting and implementing the 2016 Amendments. The special committee comprises three members and is led by Mr. Zhu Lidong. We will (i) consult with our PRC legal advisors when relevant rules and regulations are promulgated regarding the potential impact on all aspects of the operations of our schools; and (ii) make announcements when appropriate. As of the date of this annual report, neither the Yunnan School nor the Guizhou School was required to pay enterprise income tax in respect of its revenue from tuition fees and boarding fees.

PERMITTED INDEMNITY PROVISION

Pursuant to article 164(1) of the Articles of Association, the Directors, secretary and other officers and every Auditor for the time being of the Company and the liquidator or trustees (if any) for the time being acting in relation to any of the affairs of the Company and every one of them, and every one of their heirs, executors and administrators, 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 them, their or any of their heirs, executors or administrators, 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 December 31, 2016 are disclosed in note 38 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, together with the Board and external auditor, has reviewed the Group's audited consolidated financial statements for the year ended December 31, 2016.

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 78 to 88 of this annual report.

SUFFICIENCY OF PUBLIC FLOAT

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

AUDITOR

Ernst & Young was appointed as the auditor for the year ended 31 December 2016. The accompanying financial statements prepared in accordance with HKFRSs have been audited by Ernst and Young.

Ernst & Young shall retire at the AGM and, being eligible, will offer itself for re-appointment. A resolution for the reappointment of Ernst & Young 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
Li Xiaoxuan
Chairman

China, April 28, 2017

CORPORATE GOVERNANCE CODE

The Company is committed to the establishment of good corporate governance practices and procedures with a view to being a transparent and responsible organization which is open and accountable to the Shareholders. The Board strives for adhering to the principles of corporate governance and has adopted sound corporate governance practices to meet the legal and commercial standards, focusing on areas such as internal control, fair disclosure and accountability to all Shareholders to ensure the transparency and accountability of all operations of the Company. The Company believes that effective corporate governance is an essential factor to create more value for its Shareholders. The Board will continue to review and improve the corporate governance practices of the Group from time to time to ensure that the Group is led by an effective Board in order to optimize return for Shareholders.

The Company was not listed by the end of the Reporting Period, and since the Listing Date to the date of this annual report, the Company has complied with the Corporate Governance Code.

BOARD OF DIRECTORS

The overall management of the Company's operation is vested in the Board.

The Board takes overall responsibility to oversee all major matters of the Group, including the formulation and approval of all policy matters, overall strategic development of the Group, monitoring and controlling the Group's operation and financial performance, internal control and risk management systems, and monitoring of the performance of the senior management. The Directors have to make decisions objectively in the interests of the Company.

The day-to-day management, administration and operation of the Company are delegated to the chief executive officer and the senior management of the Company. The delegated functions and work tasks are periodically reviewed.

During the Reporting Period, the Company appointed Mr. Li Xiaoxuan as an executive Director on July 8, 2016, each of Mr. Zhao Shuai, Mr. Zhang Ke and Mr. Zhu Lidong as an executive Director on August 19, 2016 and each of Mr. Chen Shuo and Mr. Wan Yuan as a non-executive Director. On March 20, 2017, each of Mr. Wong Man Chung Francis, Mr. Chung Yue Ping Stephen and Mr. Kwong Wai Sun Wilson was appointed as an independent non-executive Director. On April 18, 2017, Mr. Wan Yuan resigned as a non-executive Director.

As at the date of this annual report, the Board comprises eight Directors, consisting of four executive Directors, Mr. Li Xiaoxuan (the chairman of the Board), Mr. Zhao Shuai, Mr. Zhang Ke and Mr. Zhu Lidong, one non-executive Director, Mr. Chen Shuo and three independent non-executive Directors, Mr. Wong Man Chung Francis, Mr. Chung Yue Ping Stephen and Mr. Kwong Wai Sun Wilson. The Company was not listed by the end of the Reporting Period and since the Listing Date to the date of this annual report, all Directors have given sufficient time and attention to the affairs of the Group. Each executive Director is suitably qualified for his position, and has sufficient experience to hold the position so as to carry out his duties effectively and efficiently. Biographical information of the Directors are set out in the section headed "Biographic Details of Directors and Senior Management" of this annual report.

To the best knowledge of the Company, there is no other financial, business or family relationship among the members of the Board.

As at the date of this annual report, the Company has complied with Rule 3.10(1) of the Listing Rules to appoint at least three independent non-executive Directors. In addition, at least one independent non-executive Director possesses appropriate professional accounting qualifications or financial management expertise in accordance with Rule 3.10(2) of the Listing Rules and the Company has appointed three independent non-executive Directors representing more than one-third of the Board and is in compliance with Rule 3.10A of the Listing Rules.

Board Diversity Policy

Pursuant to the new code provisions of the Corporate Governance Code relating to board diversity which has come into effect since 1 September 2013, the Board approved a new board diversity policy (the "Board Diversity Policy") in March 2017. The Company recognises and embraces the benefits of diversity of Board members. While all Board appointments will continue to be made on a merit basis, the Company will ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the needs of the Company's business. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, experience (professional or otherwise), skills and knowledge.

Model Code

The Company has also adopted the Model Code set out in Appendix 10 of the Listing Rules as its code of conduct regarding securities transactions by the Directors in March 2017. Having made specific enquiry with all Directors of the Company, all Directors confirmed that they have complied with the required standard set out in the Model Code regarding directors' securities transactions since the Listing Date and up to the date of this annual report.

Independent Non-Executive Directors

Since their appointments and up to the date of this annual report, independent non-executive Directors have played a significant role in the Board by bringing their independent judgment at the Board meeting and scrutinizing the Group's performance. Their views carry significant weight in the Board's decision, in particular, they bring an impartial view to bear on issues of the Group's strategy, performance and control. All independent non-executive Directors possess extensive academic, professional and industry expertise and management experience and have provided their professional advices to the Board. The independent non-executive Directors provide independent advice on the Group's business strategy, results and management so that all interests of Shareholders can be taken into account, and the interests of the Company and its Shareholders can be protected.

Since March 20, 2017 and up to the date of this annual report, the Board has three independent non-executive Directors with one of them, Mr. Wong Man Chung Francis, possessing appropriate professional accounting qualifications and financial management expertise in compliance with the requirements set out in Rule 3.10(2) of the Listing Rules.

The Company has received confirmations of independence from each of the existing independent non-executive Directors in accordance with Rule 3.13 of the Listing Rules. Based on the contents of such confirmations, the Company considers that all the independent non-executive Directors are independent and that they have met the specific independence guidelines as set out in Rule 3.13 of the Listing Rules.

Training and Support for Directors

All Directors must keep abreast of their collective responsibilities. Any newly appointed Director would receive an induction package covering the Group's operations, businesses, governance policies and the statutory regulatory obligations and responsibilities of a director of a listed company. The Directors have been informed of the requirement under code provision A.6.5 of the Corporate Governance Code regarding continuous professional development. The Company was listed on April 19, 2017, the Directors are committed to attending the relevant corporate governance and accounting, financial and management or other training with an emphasis on the roles, functions and duties of a director of a listed company in compliance with the new requirement of the Corporate Governance Code on continuous professional development in the future.

Directors' and Officers' Insurance

As at the date of this annual report, the Company has arranged appropriate insurance cover in respect of potential legal actions against its Directors and officers.

Meetings

The Board meets to discuss the overall strategy as well as the operation and financial performance of the Group from time to time. Directors may participate either in person or through electronic means of communications.

Since the Listing Date and up to the date of this annual report, one Board meeting was convened and every current Director attended such meeting. The Board will convene the Board meetings at least four times a year.

The Board commits that once any Board meeting is held, it will ensure that all Directors will be provided with relevant materials relating to the matters brought before the meetings. They will have separate and independent access to the senior management and the company secretary of the Company at all time and may seek independent professional advice at the Company's expense. Where queries are raised by Directors, steps would be taken to respond as promptly and fully as possible. All Directors will have the opportunity to include matters in the agenda for Board meetings. Notices of at least 14 days of Board meetings will be given to the Directors and Board procedures comply with the Articles, as well as relevant rules and regulations.

Minutes of the Board meetings and Board committee meetings are/will be recorded in sufficient detail to include the matters considered by the Board and the Board committees and the decisions reached, including any concerns raised by the directors.

Draft minutes of each Board meeting and Board committee meeting are/will be sent to the directors for comments within a reasonable time after the date on which the meeting is held.

Appointments, Re-election and removal of Directors

During the Reporting Period, the Company appointed Mr. Li Xiaoxuan as an executive Director on July 8, 2016, each of Mr. Zhao Shuai, Mr. Zhang Ke and Mr. Zhu Lidong as an executive Director on August 19, 2016 and each of Mr. Chen Shuo and Mr. Wan Yuan as a non-executive Director. On March 20, 2017, each of Mr. Wong Man Chung Francis, Mr. Chung Yue Ping Stephen and Mr. Kwong Wai Sun Wilson was appointed as an independent non-executive Director. On April 18, 2017, Mr. Wan Yuan resigned as a non-executive Director.

Each of Mr. Li Xiaoxuan, Mr. Zhao Shuai, Mr. Zhang Ke and Mr. Zhu Lidong, being the executive Directors of the Company has entered into a service contract with the Company for a specific term of three years commencing form the Listing Date, and will automatically continue thereafter until terminated by not less than three months' notice in writing served by either party on the other, which notice shall not expire until after the fixed term.

Mr. Chen Shuo, being the non-executive Director of the Company, has entered into a letter of appointment with us 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 the non-executive Director to our Company or with immediate effect following the notice in writing served by our Company to the non-executive Director.

Each of Mr. Wong Man Chung Francis, Mr. Chung Yue Ping Stephen and Mr. Kwong Wai Sun Wilson, being the independent non-executive Director of the Company, has entered into a letter of appointment with us 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 the independent non-executive Director to our Company or with immediate effect following the notice in writing served by our Company to the independent non-executive Director.

The above service contracts are subject to retirement by rotation and re-election at an annual general meeting at least once every three years in accordance with the Articles.

The Articles provide that any Director appointed by the Board to fill a casual vacancy in the Board shall hold office until the first general meeting of the Company after his/her appointment and be subject to re-election at such meeting, and any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

Remuneration of Directors and Senior Management

Details of the remuneration by band of the members of the Board and senior management of the Company, whose biographies are set out on pages 18 to 28 of this annual report, for the year ended 31 December 2016.

Remuneration band *(RMB)*	**Number of individual**
0-500,000	2
500,001-1,500,000	7

Board Committees

The Board has established (i) audit committee, (ii) remuneration committee; and (iii) nomination committee, with defined terms of reference. The terms of reference of the board committees which explain their respective role and the authority delegated to them by the Board are available on the website of the Company at www.xingaojiao.com and the website of the Stock Exchange at www.hkexnews.hk. The board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice and other assistance in appropriate circumstances, at the Company's expenses.

Audit Committee

The Company established the Audit Committee pursuant to a resolution of the Directors passed on March 20, 2017. The primary duties of the Audit Committee are to make recommendation to the Board on the appointment and removal of external auditors, review the financial statements and material advice in respect of financial reporting, and oversee the risk management and internal control systems of the Company. Their composition and written terms of reference are in line with the Corporate Governance Code. The Audit Committee comprises of three members, namely, three independent non-executive Directors, Mr. Wong Man Chung Francis, Mr. Chung Yue Ping Stephen and Mr. Kwong Wai Sun Wilson. Mr. Wong Man Chung Francis is the chairman of the Audit Committee.

During the period from the Listing Date to the date of this annual report, one meeting was held by the Audit Committee and each member of the Audit Committee attended such meeting.

Remuneration Committee

The Company established a remuneration committee on March 20, 2017 with written terms of reference. The primary duties of the remuneration committee to make recommendations to the Board on the remuneration packages of all executive Directors and senior management, including benefits in kind, pension rights and compensation payments (including any compensation payable for loss or termination of their office or appointment), and make recommendations to the Board on the remuneration of non-executive Directors. Their composition and written terms of reference are in line with the CG Code. The remuneration committee comprises of three members, namely, Mr. Li Xiaoxuan, an executive Director, and two independent non- executive Directors, Mr. Chung Yue Ping Stephen and Mr. Kwong Wai Sun Wilson. Mr. Chung Yue Ping Stephen is the chairman of the remuneration committee.

During the period from the Listing Date to the date of this annual report, no meeting was held by the remuneration committee.

Nomination Committee

The Company established a nomination committee on March 20, 2017 with written terms of reference. The primary duties of the nomination committee are to review the structure, size and composition of the Board on a regular basis and to recommend to the Board the suitable candidates for directors after consideration of the nominees' independence and quality in order to ensure the fairness and transparency of all nominations. In identifying suitable director candidates and making such recommendations to the Board, the nomination committee would also take into account various aspects of a candidate, including but not limited to his/her education background, professional experience, experience with the relevant industry and past directorships. Their composition and written terms of reference are in line with the CG Code. The nomination committee comprises of three members, namely, Mr. Li Xiaoxuan, an executive Director, and two independent non- executive Directors, Mr. Chung Yue Ping Stephen and Mr. Kwong Wai Sun Wilson. Mr. Li Xiaoxuan is the chairman of the nomination committee.

During the period from the Listing Date to the date of this annual report, no meeting was held by the nomination committee.

Company Secretary

The joint company secretaries of the Company are Ms. Wang Xin and Ms. Wong Wai Ling, whose biography details are set out in the section headed "Biographical Details of Directors and Senior Management" in this annual report. They are responsible for advising the Board on corporate governance matters and ensuring that Board policy and procedures and applicable laws, rules and regulations are followed. Each of Ms. Wang Xin and Ms. Wong Wai Ling has been informed of the requirement of the Rule 3.29 of the Listing Rules. The Company was not listed by the end of the Reporting Period and each of Ms. Wang Xin and Ms. Wong Wai Ling has informed the Company that they will take at least 15 hours of training covering corporate governance and accounting matters per annum starting from the financial year ending 31 December 2017 to comply with the requirements under Rule 3.29 of the Listing Rules.

FINANCIAL REPORTING

The Board, supported by the chief financial officer and the finance department, is responsible for the preparation of the financial statements of the Company and the Group for each financial year which shall give a true and fair view of the financial position, performance and cash flow of the Company and its subsidiaries for that period. The Board is not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Group's ability to continue as a going concern.

The responsibilities of Ernst & Young, the Company's external auditors, on the financial statements are set out in the section headed "Independent Auditors' Report" in this annual report.

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2016.

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 financial and other information put before them for approval. The management provides all members of the board with monthly updates on the Company's performance, positions and prospects.

Auditor's Remuneration

The Audit Committee of the Board is responsible for making recommendation to the Board on the appointment, re-appointment and removal of the authorized external auditors and to approve the remuneration and terms of engagement of the external auditors, and any questions of resignation or dismissal of the external auditors. The Company engages Ernst & Young as its external auditors. Details of the fees paid/payable to Ernst & Young during the year ended 31 December 2016 are as follows.

	RMB'000
Audit services	500
Non-audit services	0
	500

RISK MANAGEMENT AND INTERNAL CONTROLS

The Group's risk management and internal control systems are featured with a defined management structure with limits of authority and well-rounded policies and procedures, and are designed to facilitate effective and efficient operations, to ensure reliability of financial reporting and compliance with applicable laws and regulations, to identify and manage potential risks, and to safeguard assets of the Group. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. The Board also recognises its overall responsibility for the Group's risk management and internal control systems and reviewing their effectiveness on an ongoing basis. In addition, the Audit Committee also has the responsibility for reviewing and assessing the Group's risk management and internal control systems. From the Listing Date to the date of this annual report, the Company has adopted the following policies and procedures and taken the following measures to improve the risk management and internal control systems of the Group.

In order to ensure the effectiveness of our risk management and internal control system, the Company has established various management and control procedures a ("Risk Management and Internal Control Procedures") for identifying, evaluating, and managing the significant risks associated with the achievement of its operational objectives. The Company will conduct complete the Risk Management and Internal Control Procedures with scientific analysis and assessment, to recognize potential risk points. By virtue of the Risk Management and Internal Control Procedures, the senior management of the Group reviews and evaluates the internal control process, monitors any risk factors on a regular basis, and reports to the Board on any findings and measures taken to address such variances and identified risks. The Board, with the assistance of the senior management of the Company, also conducts regular management meetings and on-site inspections to check and monitor the potential risks associated with the business operation and financial management of the Group.

With the integration of the real situation of the Company and various applicable laws and regulations, the management of the Company can act in concert with such to develop solutions towards the risks, to organize the business operation systematically, and to monitor and mitigate possible risks. The Company also requires all staff of the Group to comply with certain internal risk management and internal control standards, and together build a regulatory environment of risk control and standardized operation. In addition, the Company has also established policies and procedures with clear segregation of duties applicable to certain operating units to ensure the effectiveness of risk management and internal controls. The day-to-day operation is also entrusted to the individual department or school, which is accountable for its own conduct and performance, and is required to strictly adhere to the policies set by the Board or the Audit Committee. This process is subject to continuous improvement.

Meanwhile, with the assistance of the professional auditor, the Audit Committee will supervise the Company's revenue and expenditure for the financial and economic activities, to further strengthen the functions of risk management, to ensure the effective implementation of risk management and internal control system and the Company's standardized operation and healthy development. In order to comply with the relevant requirements under the Corporate Governance Code in relation to the corporate risk management and internal controls, the Company has established an internal audit department for the purposes of simultaneous updates between the corporate governance and the Code on Corporate Governance and continuously improving the effectiveness of the Company's risk management and internal controls.

In the preparation for the Listing, the Company provided inside information training courses to the Directors and senior management of the Company to ensure that all relevant facts and circumstances that may have material effect on the share price of the Company is assessed in a timely manner and that any material information which comes to the knowledge of any one or more officers of the Group be promptly identified, assessed and, if appropriate, escalated for the attention of the Board to determine whether a disclosure is required.

The Board acknowledges its responsibility to ensure that sound and effective internal control systems are maintained so as to safeguard the Group's assets and the interest of Shareholders. The Board has developed its systems of internal control and risk management and is also responsible for reviewing and maintaining an adequate internal control system to safeguard the interests of the shareholders and the assets of the Company.

The Company was not listed by the end of the Reporting Period. The Board, with the assistance of the Audit Committee, will conduct review of the risk management and internal control and consider the risk management and internal control systems of the Company are adequate and being implemented effectively. Such review covered all material controls, financial, compliance and operational controls as well as risk management mechanisms.

The Board, with the assistance of the Audit Committee, will also review and disclose whether they are satisfied with the adequacy of the Company's resources, the staff's qualifications and experience, the training courses and the related budgets in accounting, internal review and financial reporting functions.

SHAREHOLDERS' RIGHTS

Procedures for shareholders to convene an extraordinary general meeting and putting forward proposals at shareholders' meeting

Pursuant to the Article 58 of the Articles, any one or more member(s) of the Company ("Shareholder(s)") holding at the 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 the joint company secretary (Ms. Wang Xin) of the Company by mail at 9/F, Jinze Building East, No. 2 Ningbo Street, Xicheng District, Beijing, PRC, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within 21 days 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.

Procedures by which enquiries may be put to the Board

Shareholders may send their enquiries and concerns to the Board by addressing them to the joint company secretary of the Company (Ms. Wang Xin) by mail at 9/F, Jinze Building East, No. 2 Ningbo Street, Xicheng District, Beijing, PRC, or by email at wangxin@daai-group.com. The joint company secretary of the Company is responsible for forwarding communications relating to matters within the Board's direct responsibilities to the Board and communications relating to ordinary business matters, such as suggestions and inquiries, to the chief executive officer of the Company.

Constitutional documents

The Company has adopted the Memorandum and the Articles on March 20, 2017, which has been effective since March 20, 2017 and the Listing Date, respectively. Save as disclosed herein, there has been no significant change in the Company's constitutional documents during the year ended December 31, 2016 and up to the date of this annual report.

Communications with Shareholders

The Board recognizes the importance of maintaining clear, timely and effective communication with Shareholders of the Company and investors. Therefore, the Group is committed to maintaining a high degree of transparency to ensure the investors and the shareholders of the Company receiving accurate, clear, comprehensive and timely information of the Group by the publication of annual reports, announcements and circular. The Company also publishes all corporate correspondence on the Company's website www.xingaojiao.com. The Board maintains regular dialogues with institutional investors and analysts from time to time to keep them informed of the Group's strategy, operations, management and plans. In this regard, the Company established a shareholders' communication policy and review it on a regular basis to ensure its effectiveness. Members of the Board and of the various board committees will attend the annual general meeting of the Company and answer questions raised during the meeting. Separate resolutions would be proposed at the general meeting on each substantially separate issue.

The chairman of the general meetings of the Company would explain the procedures for conducting poll before putting a resolution to vote. The results of the voting by poll will be declared at the meeting and published on the websites of the Stock Exchange and the Company respectively.

To the shareholders of China New Higher Education Group Limited
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of China New Higher Education Group Limited (the "Company") and its subsidiaries (the "Group") set out on pages 95 to 151, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

KEY AUDIT MATTERS (CONTINUED)

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

Key audit matter	**How our audit addressed the key audit matter**
Income Tax	
The provision for income tax involved a high level of management estimation and judgments in interpreting the relevant tax rules and regulations so as to determine whether the Group is subject to the applicable corporate income tax. The Group engaged external legal counsels and external tax advisor for the estimation of income tax obligations, and there were significant estimates included in the management's analysis and assessment, such as tax rates used and an assessment on possible outcome of the tax provision based on historical experience, and estimates about future events after balance sheet date that may cause the Group to change its judgment regarding the adequacy of the tax liabilities. Such changes to tax liabilities will impact the tax expense in the period that such determination is made. According to the Implementation Rules for the Law for Promoting Private Education of the PRC (the "Implementation Rules"), private schools, whether requiring reasonable returns or not, may enjoy preferential tax treatment. The Implementing Rules provide that the private schools for which the sponsors do not require reasonable returns are eligible to enjoy the same preferential tax treatment as public schools, and relevant authorities under the State Council may introduce preferential tax treatments and related policies applicable to private schools requiring reasonable returns. Up to the balance sheet date, no separate policies, regulations or rules have been introduced by the authorities in this regard. No corporate income tax was provided on the income from provision of formal educational services of the Guizhou School and the Yunnan School because of the preferential tax treatment. The Group's disclosures about income tax are included in Note 4 and Note 11 in the financial statements.	Our audit procedures included understanding the basis for the income tax provisions made and assessing the consistency of provisioning applied. We also assessed management estimation and judgements by reference to the historical experience, such as the historical tax returns filed to the relevant tax authorities and the confirmation obtained therefrom, and reviewed subsequent events after the balance sheet date. In performing audit procedures, we involved our internal tax specialists to assess the basis of provision applied to calculate the tax provision. We also obtained confirmations from the Group's external legal counsels and the Group's tax advisor about the income tax position made by the Guizhou School and Yunnan School particularly in respect of the eligibility of the preferential tax treatment under the applicable PRC tax rules and regulations.

Revenue Recognition	
Revenue mainly comprised the tuition fees and boarding fees from students, and these fees are collected through the official payment channels at the beginning of each academic year. Students' identity and applicable program are registered with the relevant education authorities. Tuition and boarding fees are calculated by reference to number of students and the annual fee of applicable program for the academic year, and is recognized proportionately over the relevant period of the applicable program. For the portion of tuition and boarding fees received from students but not earned is recorded as deferred revenue. Given the significant amount and volume of transactions and the risk of overstatement of revenue, we considered it a key audit matter. The Group's disclosures about revenue recognition are included in notes 3 and 6 in the financial statements.	Our audit procedures included understanding the basis of revenue recognition and the overall transaction process and procedures adopted by the management; and we tested the applicable internal controls relating to the revenue receipts process made through the official payment channels. On a sampling basis, we reviewed and checked the relevant supporting documentation including the student payment records, official student records registered with the relevant education authorities, and the payment remittance receipts of tuition and boarding fees. In addition, we recalculated the amount of deferred revenue and the revenue recognized in the period.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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 Leung, Wai Lap, Philip.

Ernst & Young
Certified Public Accountants
Hong Kong

28 April 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

YEAR ENDED 31 DECEMBER 2016

	Notes	2016 *RMB'000*	2015 *RMB'000*
CONTINUING OPERATIONS			
REVENUE	*6*	340,996	273,994
Cost of sales		(177,409)	(138,367)
Gross profit		163,587	135,627
Other income and gains	*6*	60,859	49,329
Selling and distribution expenses		(3,174)	(3,375)
Administrative expenses		(59,929)	(36,892)
Other expenses		(12,365)	(5,068)
Finance costs	*7*	(36,089)	(29,554)
PROFIT BEFORE TAX	*8*	112,889	110,067
Income tax expense	*11*	(2,358)	(5,816)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		110,531	104,251
DISCONTINUED OPERATION			
Profit/(loss) for the year from a discontinued operation	*12*	1,666	(430)
PROFIT FOR THE YEAR		112,197	103,821
Attributable to:			
Owners of the parent		111,755	103,823
Non-controlling interests		442	(2)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

YEAR ENDED 31 DECEMBER 2016

	Note	2016 RMB'000	2015 RMB'000
PROFIT FOR THE YEAR		112,197	103,821
OTHER COMPREHENSIVE INCOME			
OTHER COMPREHENSIVE LOSS TO BE RECLASSIFIED TO PROFIT OR LOSS IN SUBSEQUENT YEAR			
Exchange differences on translation of foreign operations		(15,594)	–
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		96,603	103,821
Attributable to:			
Owners of the parent		96,161	103,823
Non-controlling interests		442	(2)
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted (RMB)	*14*	0.10	0.09

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 DECEMBER 2016

	Notes	2016 RMB'000	2015 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	*15*	867,240	728,270
Investment properties	*16*	31,817	30,213
Prepaid land lease payments	*17*	99,173	103,030
Other intangible assets	*18*	8,318	4,921
Available-for-sale investments	*19*	–	4,500
Other non-current assets	*20*	720,585	173,944
Total non-current assets		1,727,133	1,044,878
CURRENT ASSETS			
Prepayments, deposits and other receivables	*21*	50,516	48,794
Amounts due from related parties	*34*	–	–
Pledged deposits	*22*	52,749	20,000
Cash and cash equivalents	*22*	178,785	82,979
Available-for-sale Investments	*19*	–	20,000
Other current assets		3,415	42
Total current assets		285,465	171,815
CURRENT LIABILITIES			
Deferred revenue	*23*	217,047	180,019
Other payables and accruals	*24*	240,262	177,230
Interest-bearing bank and other borrowings	*25*	102,500	319,496
Deferred income	*27*	2,122	2,324
Tax payable		1,511	2,472
Total current liabilities		563,442	681,541
NET CURRENT LIABILITIES		(277,977)	(509,726)
TOTAL ASSETS LESS CURRENT LIABILITIES		1,449,156	535,152
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	*25*	476,128	131,500
Deferred income	*27*	30,512	22,028
Total non-current liabilities		506,640	153,528
Net assets		942,516	381,624

31 DECEMBER 2016

	Notes	2016 RMB'000	2015 RMB'000
EQUITY			
Equity attributable to owners of the parent			
Share capital	28	–	–
Reserves	29	888,169	345,781
		888,169	345,781
Non-controlling interests		54,347	35,843
Total equity		942,516	381,624

YEAR ENDED 31 DECEMBER 2016

	Attributable to owners of the parent							
	Share capital	Capital reserve	Exchange fluctuation reserve	Statutory reserve	Retained profits	Total interests	Non-controlling equity	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(note 28)	*(note 29)*	*(note 29)*	*(note 29)*				
As at 1 January 2015	–	125,001	–	77,896	178,161	381,058	–	381,058
Profit and total comprehensive income for the year	–	–	–	–	103,823	103,823	(2)	103,821
Transfer from retained profits	–	–	–	36,280	(36,280)	–	–	–
Final dividend declared	–	–	–	–	(137,000)	(137,000)	–	(137,000)
Acquisition of a subsidiary	–	–	–	–	–	–	35,845	35,845
Contribution to the shareholders	–	(2,100)	–	–	–	(2,100)	–	(2,100)
As at 31 December 2015 and 1 January 2016	–	122,901*	–*	114,176*	108,704*	345,781	35,843	381,624
Profit for the year	–	–	–	–	111,755	111,755	442	112,197
Other comprehensive income	–	–	(15,594)	–	–	(15,594)	–	(15,594)
Total comprehensive income	–	–	(15,594)	–	111,755	96,161	442	96,603
Transfer from retained profits	–	–	–	48,118	(48,118)	–	–	–
Capital injection from investors	–	446,254	–	–	–	446,254	–	446,254
Contribution from non-controlling shareholders	–	–	–	–	–	–	18,605	18,605
Acquisition of non-controlling interests	–	(27)	–	–	–	(27)	(543)	(570)
As at 31 December 2016	–	569,128*	(15,594)*	162,294*	172,341*	888,169	54,347	942,516

* These reserve accounts comprise the consolidated other reserves of RMB888,169,000 (2015: RMB345,781,000) in the consolidated statements of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED 31 DECEMBER 2016

	Notes	2016 RMB'000	2015 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax:			
From continuing operations		112,889	110,067
From a discontinued operation	12	1,838	331
Adjustments for:			
Finance costs	7	36,089	29,554
Interest income		(1,415)	(2,234)
Investment income		(2,875)	(2,792)
Gain on disposal of subsidiaries	30	(758)	–
Gain on disposal of discontinued operations	12	(1,267)	–
Dividend income from available-for-sale investments		–	(482)
(Gain)/loss on disposal of items of property, plant and equipment		(125)	533
Provision for prepayments, deposits and other receivables		496	1,320
Amortisation of government grants		(2,917)	(4,522)
Amortisation of deferred gain on disposal of property, plant and equipment		(3,834)	(1,996)
Depreciation of items of property, plant and equipment		33,259	26,569
Depreciation of investment properties		904	989
Amortisation of prepaid land lease payments		2,251	2,286
Amortisation of other intangible assets		1,595	993
(Increase)/decrease in prepayments deposits and other receivables		(163,751)	34,036
Increase in other payables and accruals		179,243	22,217
Increase in deferred revenue		38,072	41,111
Cash generated from operations		229,694	257,980
Interest received		1,415	2,234
Income tax paid		(3,491)	(5,451)
Interest element of finance lease rental payments		(2,518)	(399)
Net cash flows from operating activities		225,100	254,364
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(155,458)	(150,067)
Proceeds from disposal of items of property, plant and equipment		344	115
Prepaid land lease payments		(10,153)	(20,007)
Additions to other intangible assets		(4,922)	(2,952)
Acquisition of non-controlling interests		(570)	–
Proceeds from acquisition of a subsidiary	31	–	19
Contribution to a shareholder		–	(2,100)
Proceeds from disposal of subsidiaries	30	9,309	–
Net cash inflow in respect of disposal of discontinued operations		4,874	–
Purchases of wealth management products		–	(20,000)

YEAR ENDED 31 DECEMBER 2016

	Note	2016 RMB'000	2015 RMB'000
Proceeds from disposal of wealth management products		20,000	10,000
Proceeds from disposal of Unlisted equity investment		4,500	–
Prepayment on investments		(507,822)	(141,647)
Advance to third parties		–	(9,290)
Investment income received		649	2,792
Dividend received from available-for-sale investments		–	482
Repayment of advance to third parties		5,452	4,900
Repayment of advance to related parties		–	4,011
New pledged time deposits		(52,749)	20,000)
Returned of pledged time deposits		20,000	–
Net cash flows used in investing activities		(666,546)	(343,744)
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital injection from investors		430,660	–
New bank loans		725,368	245,800
Repayment of bank loans		(587,806)	(209,500)
Interest paid		(50,437)	(35,958)
Dividends paid		–	(137,000)
Receipt of government grants		11,864	12,891
Capital contribution from non-controlling shareholders		18,605	–
Capital element of finance lease rental payments		(10,885)	(3,044)
Net cash flows from/(used in) financing activities		537,369	(126,811)
EFFECT OF CHANGES IN EXCHANGE RATE ON CASH		(117)	–
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		95,806	(216,191)
Cash and cash equivalents at beginning of year		82,979	299,170
CASH AND CASH EQUIVALENTS AT END OF YEAR		178,785	82,979
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		123,785	72,979
Pledged deposits for bank loans	22	(52,749)	(20,000)
Time deposits with original maturity of three months or more when acquired	22	107,749	30,000
Cash and cash equivalents as stated in the consolidated statements of financial position	22	178,785	82,979

YEAR ENDED 31 DECEMBER 2016

1. CORPORATE INFORMATION

The Company was incorporated as an exempted company with limited liability under the Companies Law of the Cayman Islands on 8 July 2016. The registered office address of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The Company was listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 19 April 2017.

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

Information about subsidiaries

Particulars of the Company's subsidiaries are as follows:

Name	Place and date of incorporation/ registration and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
Aspire Education Information Co., Ltd.	29 October 2015, BVI	USD50,000	100%	–	Investment holding
Aspire Education Holding Co., Ltd.	30 October 2015, Hong Kong	HKD1	–	100%	Investment holding
Yunnan Einsun Education Investment Group Co., Ltd. ("Yun Ai Group")* 雲南愛因森教育投資集團有限公司	19 May 2005, the PRC	RMB28,570,000	–	100%	Investment holding
Yunnan Technology and Business University ("Yunnan School")* 雲南工商學院	29 September 2005, the PRC	RMB16,000,000	–	100%	Rendering of education services
Guizhou Technology and Business Institute ("Guizhou School")* 貴州工商職業學院	3 July 2012, the PRC	RMB64,240,000	–	100%	Rendering of education services
Beijing Aiyinsheng Education Investment Co.,Ltd.* 北京愛因生教育投資有限責任公司	16 October 2012, the PRC	RMB300,000,000	–	100%	Investment holding
Harbin Xuande Technology Co., Ltd. ("Haxuan Company")* 哈爾濱軒德科技有限公司	19 April 2016, the PRC	RMB120,000,000	–	73.91%	Investment holding
Yunnan Daai Fangzhou Information Consultancy Co., Ltd.* 雲南大愛方舟信息諮詢有限公司	16 March 2016, the PRC	RMB300,000,000	–	100%	Investment holding

YEAR ENDED 31 DECEMBER 2016

1. CORPORATE INFORMATION (CONTINUED)

Information about subsidiaries (continued)

Name	Place and date of incorporation/ registration and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
Tibet Daai Huihuang Information and Technology Co., Ltd. ("Huihuang Company")* 西藏大愛輝煌信息科技有限公司	5 August 2016, the PRC	USD1,000,000	–	100%	Rendering of technical and management consultancy services
Enshi Autonomous Prefecture Changqing Education Development Co, Ltd. ("Enchang Company")* 恩施自治州常青教育發展有限公司	13 November 2014, the PRC	RMB300,000,000	–	82%	Investment holding
California Academy of Business, Inc.*	18 July 2016, U.S.	USD10	–	100%	Rendering of technical and management consultancy services

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

2.1 BASIS OF PRESENTATION

Through a group reorganization (the "Reorganization") as set out in the section headed "History and Corporate Structure – Corporate Reorganization" in the Prospectus dated 5 April 2017 for the public listing of the Company's shares on the Stock Exchange, the Company became the holding company of the companies now comprising the Group on 6 September 2016. The shares of the Company were listed on the Stock Exchange on 19 April 2017.

2.2 BASIS OF PREPARATION

The financial statements has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and accounting principles generally accepted in Hong Kong. All HKFRSs effective for the accounting periods commencing from 1 January 2016, together with the relevant transitional provisions, have been early adopted by the Group in the preparation of the financial statements throughout the year 2015 and 2015.

The financial statements has been prepared under the historical cost convention, except for available-for-sale investments which have been measured at fair value. The financial statements is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

The Group recorded net current liabilities of RMB277,977,000 as at 31 December 2016 (2015: RMB509,726,000).

In view of the net current liabilities position, the Directors have given careful consideration to the future liquidity and performance of the Group and its available sources of finance in assessing whether the Group will have sufficient financial resources to continue as a going concern.

Having considered the cash inflow from operations, the Directors are satisfied that the Group is able to meet in full its financial obligations as they fall due for the foreseeable future. To mitigate any liquidity issues that might be faced by the Group, the Group has obtained adequate banking facilities from reputable financial institutions to meet its obligations as and when they fall due.

2.2 BASIS OF PREPARATION (CONTINUED)

Accordingly, the Directors are of the opinion that it is appropriate to prepare the financial statements on a going concern basis. Should the Group be unable to operate as a going concern, adjustments would have to be made to write down the value of assets to their recoverable amounts, and to provide for any further liabilities which might arise. The effect of these adjustments has not been reflected in the financial statements.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2016. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

(b) rights arising from other contractual arrangements; and

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

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

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

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

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

2.3 ISSUED BUT NOT YET EFFECTIVE HKFRSs

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

HKFRS 9	*Financial Instruments*[2]
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*[2]
Amendments to HKAS 7	*Disclosure Initiative*[1]
Amendments to HKAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*[1]
Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*[2]
Amendments to HKFRS 10	*Sale or Contribution of Assets between an Investor and its Associate or and HKAS 28 (2011) Joint Venture*[4]
HKFRS 15	*Revenue from Contracts with Customers*[2]
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*[2]
HKFRS 16	*Leases*[3]

1 Effective for annual periods beginning on or after 1 January 2017
2 Effective for annual periods beginning on or after 1 January 2018
3 Effective for annual periods beginning on or after 1 January 2019
4 No mandatory effective date determined but available for adoption

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, the Group considers that these new and revised HKFRSs may result in changes in accounting policies and are unlikely to have a significant impact on the Group's results of operations and financial position.

Further information about those HKFRSs that are expected to be applicable to the Group is as follows:

HKFRS 9 Financial Instruments

The Group does not expect that the adoption of HKFRS 9 will have a significant impact on the classification and measurement of its financial assets. It expects to continue measuring at fair value all financial assets currently held at fair value. Equity investments currently held as available for sale will be measured at fair value through other comprehensive income as the investments are intended to be held for the foreseeable future and the Group expects to apply the option to present fair value changes in other comprehensive income. Gains and losses recorded in other comprehensive income for the equity investments cannot be recycled to profit or loss when the investments are derecognized.

HKFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under HKFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group expects to apply the simplified approach and record lifetime expected losses that are estimated based on the present value of all cash shortfalls over the remaining life of all of its trade and other receivables. The Group will perform a more detailed analysis which considers all reasonable and supportable information, including forward looking elements, for estimation of expected credit losses on its trade and other receivables upon the adoption of HKFRS 9.

2.3 ISSUED BUT NOT YET EFFECTIVE HKFRSs (CONTINUED)

HKFRS 15 and Clarifications to HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. In September 2015, the HKICPA issued an amendment to HKFRS 15 regarding a one-year deferral of the mandatory effective date of HKFRS 15 to 1 January 2018. In June 2016, the HKICPA issued further amendments to HKFRS 15 to address certain implementation issues, relating to identification of a performance obligation, application guidance on principal versus agent and licenses of intellectual property; and to add two practical expedients to the transition requirement. The Group expects to adopt HKFRS 15 on 1 April 2018.

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

The Group is in the process of making an assessment of the potential impact of the application of HKFRS 15 and it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until a detailed review is performed by the Group. The impact to the Group is expected to include more comprehensive disclosure as requested by the new standard. In addition, contract that contains two or more performance obligations would be accounted for separately and this might have an impact on the pattern of revenue and profit recognition.

HKFRS 16 Leases

In May 2016, the HKICPA issued HKFRS 16, which provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessors and lessees. The new standard maintains substantially the lessor accounting requirements in the current standard.

A lessee is required to recognise a right-of-use asset and a lease liability at the commencement of lease arrangement. Right-of-use asset includes the amount of initial measurement of lease liability, any lease payment made to the lessor at or before the lease commencement date, estimated cost to be incurred by the lessee for dismantling or removing the underlying assets from and restoring the site, as well as any other initial direct cost incurred by the lessee. Lease liability represents the present value of the lease payments. Subsequently, depreciation and impairment expenses, if any, on the right-of-use asset will be charged to profit or loss following the requirements of HKAS 16 Property, Plant and Equipment, while lease liability will be increased by the interest accrual, which will be charged to profit or loss, and deducted by lease payments. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. For lessors, there is little change to the existing accounting in HKAS 17 Leases. The Group expects to adopt HKFRS 16 on 1 April 2019.

As set out in note 32 to the financial statements, The Group's total future minimum lease payments under non-cancelable operating leases as at 31 December 2015 and 2016 are RMB8,144,000 and RMB12,332,000, respectively. The Directors do not expect the adoption of HKFRS 16 as compared with the current accounting policy would result in a significant impact on the Group's results but it is expected that certain portion of these lease commitments will be required to be recognised in the consolidated statement of financial position as right-of-use assets and lease liabilities.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates and joint ventures

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

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

The Group's investments in associates and joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

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

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

Business combinations and goodwill

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combinations and goodwill (continued)

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

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

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

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

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

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

Fair value measurement

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

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

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

YEAR ENDED 31 DECEMBER 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair value measurement (continued)

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

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

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

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

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

Impairment of non-financial assets

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Related parties

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

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

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

(ii) has significant influence over the Group;

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

or

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

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

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

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

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

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

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

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

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

Property, plant and equipment and depreciation

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment and depreciation (continued)

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

Buildings	1.9%
Leasehold improvements	19.4%-33.3%
Motor vehicles	19.4%
Furniture and fixtures	12.1%
Electronic devices	19.4%-32.3%

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

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

Construction in progress is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment or investment properties when completed and ready for use.

Investment properties

Investment properties are interests in buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purpose; or for sale in the ordinary course of business.

When the properties first became investment property after a change in use, the fair value of the investment property is not reliably measurable on a continuing basis as there are few recent transactions and market for comparable properties is inactive, and alternative reliable measurements of fair value are not available, either. The Group determines that the fair value of the investment property is not reliably measurable on a continuing basis and the investment property is measured using the cost model.

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

Building	1.9%
Land used right	2%

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Non-current assets and disposal groups held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the asset or disposal group must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets or disposal groups and its sale must be highly probable. All assets and liabilities of a subsidiary classified as a disposal group are reclassified as held for sale regardless of whether the Group retains a non-controlling interest in its former subsidiary after the sale.

Non-current assets and disposal groups (other than investment properties and financial assets) classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell. Property, plant and equipment and intangible assets classified as held for sale are not depreciated or amortised.

Intangible assets (other than goodwill)

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

Software

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

Leases

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as loans and receivables and available-for-sale financial investments. When financial assets are recognized initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

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

Subsequent measurement

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in profit or loss. The loss arising from impairment is recognized in profit or loss in finance costs for loans and in other expenses for receivables.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealized gains or losses recognized as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognized, at which time the cumulative gain or loss is recognized in profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to profit or loss in other gains or losses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognized in profit or loss as other income in accordance with the policies set out for "Revenue recognition" below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (continued)

Available-for-sale financial investments (continued)

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognized in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to profit or loss.

Derecognition of financial assets

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

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

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

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

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

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (continued)

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other expenses in profit or loss.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognized in profit or loss, is removed from other comprehensive income and recognized in profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in profit or loss – is removed from other comprehensive income and recognized in profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through profit or loss. Increases in their fair value after impairment are recognized directly in other comprehensive income.

The determination of what is "significant" or "prolonged" requires judgment. In making this judgment, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as loans and borrowings.

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

The Group's financial liabilities include other payables, amounts due to related parties and interest-bearing bank borrowings.

Subsequent measurement

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

Loans and borrowings

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

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

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

Cash and cash equivalents

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax

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

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

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

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

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

- in respect of taxable temporary differences associated with investments in subsidiaries where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

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

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

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

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

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government grants

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

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

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the normal course of business, net of returns, discounts, and sales related tax.

The tuition fees from the schools of the Group are paid in advance at the beginning of each academic year. Revenue is recognized after a service contract is signed, the price is fixed or determinable, and services are provided.

Tuition and boarding fees received from college are generally paid in advance prior to the beginning of each academic year, and are initially recorded as deferred revenue. Tuition and boarding fees are recognized proportionately over the relevant period of the applicable program. The portion of tuition and boarding payments received from students but not earned is recorded as deferred revenue 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 colleges is generally from September to June of the following year.

Service income is recognized on the percentage of completion basis, in the period in which the services are rendered.

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

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

Employee benefits

Pension scheme

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme managed by the local municipal government. The subsidiaries are required to contribute a certain percentage of the payroll costs to the central pension scheme. The Group has no obligation for the payment of retirement benefits beyond the annual contributions. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Borrowing costs

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

Where funds have been borrowed generally, and used for the purpose of obtaining qualifying assets, a capitalisation rate ranging between 5.22% and 7.68% has been applied to the expenditure on the individual assets.

Dividends

Final dividends are recognized as a liability when they are approved by the shareholders in a general meeting. In prior years, final dividends proposed by the directors were classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognized as a liability.

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

4. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

Judgments

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

Contractual arrangements

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

As disclosed in note 2.1 to the financial statements, as part of the Reorganization, the Group exercises control over the PRC Operating Entities and enjoys all economic benefits of the PRC Operating Entities through the Structured Contracts.

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

4. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (CONTINUED)

Judgments (continued)

Operating lease commitments – Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties and accounts for the contracts as operating leases.

Estimation uncertainty

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

Impairment of non-financial assets (other than goodwill)

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

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

In determining the useful lives and residual values of items of property, plant and equipment, the Group has to consider various factors, such as technical or commercial obsolescence arising from changes or improvements in the production and provision of services, or from a change in the market demand for the product or service output of the asset, expected usage of the asset, expected physical wear and tear, care and maintenance of the asset, and legal or similar limits on the use of the asset. The estimation of the useful life of the asset is based on the experience of the Group with similar assets that are used in a similar way. Additional depreciation is made if the estimated useful lives and/or residual values of items of property, plant and equipment are different from previous estimation. Useful lives and residual values are reviewed at the end of the year based on changes in circumstances. Further details of the property, plant and equipment are set out in note 15.

Current and deferred tax

Significant judgment is required in interpreting the relevant tax rules and regulations so as to determine whether the Group is subject to corporate income tax. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Group to change its judgment regarding the adequacy of the tax liabilities. Such changes to tax liabilities will impact the tax expense in the period that such determination is made.

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5. OPERATING SEGMENT INFORMATION

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

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

Geographical information

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

Information about major customers

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

6. REVENUE, OTHER INCOME AND GAINS

Revenue, represents the values of services rendered during the year.

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

	2016	**2015**
	RMB'000	*RMB'000*
Revenue		
Tuition fees	310,678	248,120
Boarding fees	30,318	25,874
	340,996	273,994
Other income and gains		
Service income*	45,965	32,176
Rental income	6,436	7,180
Government grants	2,917	4,434
Investment income	2,875	2,792
Interest income	1,415	2,216
Gain on disposal of subsidiaries	758	–
Dividend income from available-for-sale investments	–	482
Others	493	49
	60,859	49,329

* Service income for the year ended December 31, 2016 included RMB13.5 million of service fee recognized under the exclusive technical service and management consultancy agreement between the Harbin Huade University ("Northeast school") and a subsidiary of the Group (2015: Nil).

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7. FINANCE COSTS

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

	2016	2015
	RMB'000	*RMB'000*
Interest on bank loans	41,362	35,958
Interest on finance lease	2,497	344
Total interest expense on financial liabilities not at fair value through profit or loss	43,859	36,302
Less: Interest capitalized	(7,770)	(6,748)
	36,089	29,554

8. PROFIT BEFORE TAX

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

	Note	2016	2015
		RMB'000	*RMB'000*
Employee benefit expense (excluding directors' and chief executive's remuneration *(Note (9))*:			
Wages and salaries		128,177	97,947
Pension scheme contributions (defined contribution plan)		14,866	10,171
		143,043	108,118
Depreciation of items of property, plant and equipment		33,259	24,607
Depreciation of investment properties		904	989
Amortisation of prepaid land lease payments		2,251	2,286
Amortisation of software*		1,595	989
Rental income	*5*	(6,436)	(7,180)
Dividend income from available-for-sale investments	*5*	–	(482)
Minimum lease payments under operating leases		4,596	3,920
Interest income	*5*	(1,415)	(2,216)
Provision for prepayments, deposits and other receivables		496	1,320
(Gain)/loss on disposal of items of property, plant and equipment		(125)	548

* The amortisation of software during the year is included in "Cost of sales" in the consolidated statement of profit or loss and other comprehensive income.

9. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

The Company did not have any chief executive, executive director, non-executive director and independent non-executive director at any time during the year ended 31 December 2015.

Mr. Li, Mr. Zhao Shuai, Mr. Zhu Lidong and Mr. Zhang Ke were appointed as executive directors of the Company on 19 August 2016.

Certain directors received remuneration from the subsidiaries now comprising the Group for their appointment as directors of these subsidiaries. The remuneration of these directors is set out below:

	2016	2015
	RMB'000	*RMB'000*
Fees	–	–
Other emoluments:		
Salaries, allowances and benefits in kind	1,963	1,027
Performance related bonuses	1,481	824
Pension scheme contributions	44	24
	3,488	1,875

(a) Independent non-executive directors

No independent non-executive directors were appointed and there were no fees and other emoluments payable to the independent non-executive directors during the year.

(b) Executive directors

	Year ended 31 December 2016				
	Fee	Salaries, allowance, and benefits in kind	Performance related bonuses	Pension scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors:					
Mr. Li	–	520	520	11	1,051
Mr. Zhao Shuai	–	441	360	11	812
Mr. Zhu Lidong	–	601	200	11	812
Mr. Zhang Ke	–	401	401	11	813
	–	1,963	1,481	44	3,488

9. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (CONTINUED)

(b) Executive directors (continued)

	Year ended 31 December 2015				
	Fee	**Salaries, allowance, and benefits in kind**	**Performance related bonuses**	**Pension scheme contributions**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors:					
Mr. Li	–	520	520	11	1,051
Mr. Zhang Ke	–	67	67	2	136
Mr. Zhao Shuai	–	440	237	11	688
	–	1,027	824	24	1,875

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included 4 directors (2015: 3), details of whose remuneration are set out in note 9 above. Details of the remaining 1 (2015: 2) highest paid employee who is neither a director nor chief executive of the Company are as follows:

	2016	**2015**
	RMB'000	*RMB'000*
Salaries, allowances and benefits in kind	304	1,065
Performance related bonuses	304	458
Pension scheme contributions	11	34
	619	1,557

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

	2016	**2015**
Nil to RMB1,000,000	1	2

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

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11. INCOME TAX

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

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.

According to the Implementation Rules for the Law for Promoting Private Education ("Implementation Rules"), private schools, whether requiring reasonable returns or not, may enjoy preferential tax treatment. The Implementing Rules provide that the private schools for which the sponsors do not require reasonable returns are eligible to enjoy the same preferential tax treatment as public schools, and relevant authorities under the State Council may introduce preferential tax treatments and related policies applicable to private schools requiring reasonable returns. To date, however, no separate policies, regulations or rules have been introduced by the authorities in this regard. In accordance with the historical tax returns filed to the relevant tax authorities and the confirmation obtained therefrom, the Guizhou School and the Yunnan School have historically enjoyed preferential tax treatment since their establishment.

Based on the confirmations from the local tax bureau and the local office of the State Administration of Taxation of Guizhou Province and Yunnan Province, there is no corporate income tax imposed on the income from the provision of formal educational services of the Guizhou School and the Yunnan School. As a result, no income tax expense was recognized for the income from the provision of formal educational services during the year.

After the corporate reorganization, the corporate income tax rate for Huihuang Company is 15% based on the relevant tax regulations of Tibet Autonomous Region. The Tibet local government has exempted 40% corporate income tax payable by enterprises in Tibet Autonomous Region for a period of three years commencing from 1 January, 2015 to 31 December, 2017. Therefore the effective corporate income tax rate initially applicable for Huihuang Company is 9%, which will be increased to 15% beginning in 2018 when the three year preferential tax exemption expires.

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

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

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

	2016	**2015**
	RMB'000	*RMB'000*
Current income tax – Mainland China	2,358	5,816
Adjustments of overprovision of income tax in previous year	–	–
Total tax charge for the year	2,358	5,816

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11. INCOME TAX (CONTINUED)

A reconciliation of the tax expense applicable to profit before tax at the statutory rate in Mainland China to the tax expense at the effective tax rate are as follows:

	2016		2015	
	RMB'000	*%*	*RMB'000*	*%*
Profit before tax from continuing operations	112,889		110,067	
Tax at the statutory rate	28,223	25.0	27,517	25.0
Lower tax rates for specific provinces or enacted by local authority	(1,860)	(1.6)	(3,446)	(3.1)
Income not subject to tax	(85,009)	(75.3)	(66,902)	(60.8)
Adjustments in respect of current tax of previous year	–	–	–	–
Tax losses utilised from previous periods	–	–	(255)	(0.2)
Tax losses and deductible temporary differences not recognized	14,958	13.3	6,404	5.8
Expenses not deductible for tax	46,046	40.8	42,498	38.6
Tax charge at the Group's effective rate	2,358	2.1	5,816	5.3

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

As at 31 December 2016, no deferred tax has been recognized for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the Directors, the Group's fund will be retained in Mainland China for the expansion of the Group's operation, so it is not probable that these subsidiaries will distribute such earnings in the foreseeable future.

Deferred tax assets have not been recognised in respect of the losses amounting RMB69,757,000 as at 31 December 2016 (2015: RMB54,799,000) as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the taxable losses can be utilised.

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12. DISCONTINUED OPERATION

In June 2016, the Company announced the decision of its board of directors to dispose of Kunming Science and Technology Vocation College and Yunnan Einsun Science and Technology College to Songming Zhonghe Enterprise Management Consulting Co. Ltd. The Group has decided to cease its vocational education service because it plans to focus its resources on its formal higher education service. The disposal of Kunming Science and Technology Vocation College and Yunnan Einsun Science and Technology College were completed in August 2016.

The results of Kunming Science and Technology Vocation College and Yunnan Einsun Science and Technology College for the year are presented below:

	2016	**2015**
	RMB'000	*RMB'000*
Revenue	2,029	8,255
Cost of sales	(787)	(2,947)
Other income and gains	8,668	16,279
Selling and distribution expenses	(1,341)	(3,867)
Administrative expenses	(399)	(1,185)
Other expenses	(7,599)	(16,204)
Profit from the discontinued operation	571	331
Gain on disposal of disposal group constituting the discontinued operation	1,267	–
Profit before tax from the discontinued operation	1,838	331
Income tax:		
Related to pre-tax profit	(172)	(761)
Profit/(loss) for the year from the discontinued Operation	1,666	(430)

The net cash flows incurred by Kunming Science and Technology Vocation College and Yunnan Einsun Science and Technology College are as follows:

	2016	**2015**
	RMB'000	*RMB'000*
Operating activities	1,219	920
Investing activities	11	(236)
Net cash inflow	1,230	684

13. DIVIDENDS

Dividends of RMB137,000,000 and nil have been declared and paid by certain subsidiaries for the years ended 31 December 2015 and 2016.

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

The calculation of basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of 1,144,870,459 ordinary shares in issue during the year ended 31 December 2016 as adjusted to reflect the capitalization issue occurred after the reporting period (note 38(4)). The weighted average number of ordinary shares used to calculate the basic earnings per share for the year ended 31 December 2015 were 1,144,865,689, which were deemed to have been issued by way of capitalization throughout the year ended 31 December 2015. The weighted average number of ordinary shares used to calculate the basic earnings per share for the year ended 31 December 2016 includes the weighted average of 4,770 shares issued during the year and the aforesaid 1,144,865,689 ordinary shares.

The calculation of diluted earnings per share amounts is based on the profit for the period attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the period, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

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

	2016	**2015**
	RMB'000	*RMB'000*
Earnings		
Profit attributable to ordinary equity holders of the parent	111,755	103,823

	2016	**2015**
Shares		
Weighted average number of ordinary shares in issue during the period	1,144,870,459	1,144,865,689
Earnings per share		
Basic and Diluted (RMB)	0.10	0.09

Diluted earnings per share is the same as basic earnings per share as no potential ordinary shares were outstanding for the year ended 31 December 2016 and 2015, respectively.

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15. PROPERTY, PLANT AND EQUIPMENT

31 December 2016

	Buildings	Leasehold improvements	Motor vehicles	Furniture and fixtures	Electronic devices	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2016:							
Cost	626,423	3,985	7,840	62,783	35,393	91,464	827,888
Accumulated depreciation	(49,455)	(2,921)	(4,528)	(26,258)	(16,456)	–	(99,618)
Net carrying amount	576,968	1,064	3,312	36,525	18,937	91,464	728,270
At 1 January 2016, net of accumulated depreciation	576,968	1,064	3,312	36,525	18,937	91,464	728,270
Additions	4,707	3,277	1,616	9,613	12,115	147,138	178,466
Disposals	–	–	–	(138)	(81)	–	(219)
Disposal of discontinued operations	–	(184)	(56)	(258)	(2,094)	–	(2,592)
Disposal of subsidiaries *(Note 30)*	–	(682)	–	(215)	(21)	–	(918)
Depreciation provided during the period	(13,874)	(1,061)	(1,330)	(7,049)	(9,945)	–	(33,259)
Transfer from construction in progress	154,502	–	–	33	–	(154,535)	–
Transfer to investment properties	–	–	–	–	–	(2,508)	(2,508)
At 31 December 2016, net of accumulated depreciation	722,303	2,414	3,542	38,511	18,911	81,559	867,240
At 31 December 2016:							
Cost	785,631	4,868	9,356	71,343	37,245	81,559	990,002
Accumulated depreciation	(63,328)	(2,454)	(5,814)	(32,832)	(18,334)	–	(122,762)
Net carrying amount	722,303	2,414	3,542	38,511	18,911	81,559	867,240

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15. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

31 December 2015

	Buildings	Leasehold improvements	Motor vehicles	Furniture and fixtures	Electronic devices	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2015:							
Cost	558,457	3,803	7,143	53,163	29,424	23,267	675,257
Accumulated depreciation	(37,644)	(1,755)	(3,508)	(20,008)	(10,556)	–	(73,471)
Net carrying amount	520,813	2,048	3,635	33,155	18,868	23,267	601,786
At 1 January 2015, net of accumulated depreciation	520,813	2,048	3,635	33,155	18,868	23,267	601,786
Additions	492	343	697	9,988	6,057	135,959	153,536
Addition from acquisition of a subsidiary *(Note 31)*	–	–	–	190	–	–	190
Disposals	–	(98)	–	(376)	(174)	–	(648)
Depreciation provided during the year	(11,811)	(1,229)	(1,020)	(6,437)	(6,072)	–	(26,569)
Transfer from construction in progress	67,474	–	–	5	258	(67,737)	–
Transfer to investment properties	–	–	–	–	–	(25)	(25)
At 31 December 2015, net of accumulated depreciation	576,968	1,064	3,312	36,525	18,937	91,464	728,270
At 31 December 2015:							
Cost	626,423	3,985	7,840	62,783	35,393	91,464	827,888
Accumulated depreciation	(49,455)	(2,921)	(4,528)	(26,258)	(16,456)	–	(99,618)
Net carrying amount	576,968	1,064	3,312	36,525	18,937	91,464	728,270

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15. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The net carrying amounts of the Group's fixed assets held under finance leases included in the total amounts of electronic devices were nil as at 31 December 2016 (2015: RMB1,142,000).

At 31 December 2016, certain of the Group's buildings with a net carrying amount of approximately RMB47,374,000 (2015: RMB149,731,000), were pledged to secure general banking facilities granted to the Group (note 25).

Certain of the Group's buildings with aggregate net book values of nil as at 31 December 2016 (2015: RMB155,323,000) do not have building ownership certificates because they were built on land where the Group did not have the land use right certificates. The Group has obtained confirmation letters from the relevant bureaus of land and resources confirming that (1) the Group can build the relevant buildings on such land, (2) the Group will not be imposed of fine for the use of land, (3) the relevant bureaus will not confiscate the constructions and other facilities built on such land, and (4) the Group will not be required to return the relevant land before public bidding. In the opinion of the Directors, the risk of the relevant government authorities imposing a fine on the Group or confiscating the buildings is relatively low.

16. INVESTMENT PROPERTIES

	2016	**2015**
	RMB'000	*RMB'000*
Carrying amount at beginning of the year	30,213	31,177
Transfer from prepaid land lease payments	–	–
Transfer from property, plant and equipment	2,508	25
Depreciation provided during the year	(904)	(989)
Carrying amount at end of the year	31,817	30,213

The Group's investment properties are the buildings and land use rights leased as canteen and shops in the Yunnan School and the Guizhou School. The Directors of the Company have determined that the investment properties are commercial properties, based on the nature, characteristics and risks of each property. The Group's investment properties were revalued on 31 December 2016 based on valuations performed by an independent property valuer, at RMB99,523,000.

The investment properties are leased to third parties under operating leases, further summary details of which are included in note 32 to financial statements.

Certain of the Group's buildings with aggregate net book values of nil as at 31 December 2016 (2015:RMB13,804,000) do not have building ownership certificates because they were built on land where the Group did not have the land use right certificates. The Group has obtained confirmation letters from the relevant bureaus of land and resources confirming that (1) the Group can build the relevant buildings on such land, (2) the Group will not be imposed of fine for the use of land, (3) the relevant bureaus will not confiscate the constructions and other facilities built on such land, and (4) the Group will not be required to return the relevant land before public bidding. In the opinion of the Directors, the risk of the relevant government authorities imposing a fine on the Group or confiscating the buildings is relatively low.

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16. INVESTMENT PROPERTIES (CONTINUED)

Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Group's investment properties:

	Fair value measurement As at 31 December 2016 using			
	Quoted prices in active markets (Level 1)	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Assets for which fair values are disclosed:				
Commercial properties	–	–	99,523	99,523

	Fair value measurement As at 31 December 2015 using			
	Quoted prices in active markets (Level 1)	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Assets for which fair values are disclosed:				
Commercial properties	–	–	94,936	94,936

Under the discounted cash flow method, fair value is estimated using assumptions regarding the benefits and liabilities of ownership over the asset's life including an exit or terminal value. This method involves the projection of a series of cash flows on a property interest. A market-derived discount rate is applied to the projected cash flow in order to establish the present value of the income stream associated with the asset. The exit yield is normally separately determined and differs from the discount rate.

The duration of the cash flows and the specific timing of inflows and outflows are determined by events such as rent reviews, lease renewal and related reletting, redevelopment or refurbishment. The appropriate duration is driven by market behaviour that is a characteristic of the class of property. The periodic cash flow is estimated as gross income less vacancy, non-recoverable expenses, collection losses, lease incentives, maintenance costs, agent and commission costs and other operating and management expenses. The series of periodic net operating income, along with an estimate of the terminal value anticipated at the end of the projection period, is then discounted.

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17. PREPAID LAND LEASE PAYMENTS

	2016	2015
	RMB'000	*RMB'000*
Carrying amount at beginning of the year	103,030	105,309
Additions during the year	153	7
Amortisation during the year	(2,251)	(2,286)
Disposal of subsidiaries *(note 30)*	(1,759)	–
Transfers to investment properties	–	–
Carrying amount at end of the year	99,173	103,030

These pieces of leasehold lands are located in Mainland China and are held under long term leases.

The Group's prepaid land lease payments with a carrying value of nil as at 31 December 2016 (2015: RMB25,543,000) were pledged to secure general banking facilities granted to the Group (note 25).

Certain of the Group's land use rights are rights with aggregate net book values of nil as at 31 December 2016 (2015: RMB38,610,000) which the Group had not obtained the land use right certificates. The Group has obtained confirmation letters from the relevant bureaus of land and resources confirming that (1) the Group can build the relevant buildings on such land, (2) the Group will not be imposed of fine for the use of land, (3) the relevant bureaus will not confiscate the constructions and other facilities built on such land, and (4) the Group will not be required to return the relevant land before public bidding. In the opinion of the Directors, the risk of the relevant government authorities imposing a fine on the Group or requiring the Group to return the relevant land before public bidding is relatively low.

18. OTHER INTANGIBLE ASSETS

31 December 2016

	Software
	RMB'000
Cost at 1 January 2016, net of accumulated amortisation	4,921
Additions	5,875
Amortisation provided during the period	(1,595)
Disposal of discontinued operations	(23)
Disposal of subsidiaries *(note 30)*	(860)
At 31 December 2016	8,318
At 31 December 2016:	
Cost	11,793
Accumulated amortisation	(3,475)
Net carrying amount	8,318

18. OTHER INTANGIBLE ASSETS (CONTINUED)

31 December 2015

	Software
	RMB'000
Cost at 1 January 2015, net of accumulated amortisation	3,447
Additions	2,467
Amortisation provided during the year	(993)
At 31 December 2015	4,921
At 31 December 2015:	
Cost	7,033
Accumulated amortisation	(2,112)
Net carrying amount	4,921

19. AVAILABLE-FOR-SALE INVESTMENTS

	2016	2015
	RMB'000	*RMB'000*
Current:		
Wealth management products	–	20,000
Non-current:		
Unlisted equity investments, at cost	–	4,500

Certain unlisted equity investments with carrying amounts of nil as at 31 December 2016 (2015: RMB4,500,000) were stated at cost less impairment because the range of reasonable fair value estimates is so significant that the directors are of the opinion that their fair value cannot be measured reliably.

20. OTHER NON-CURRENT ASSETS

	2016	2015
	RMB'000	*RMB'000*
Prepayment for investments *(note (i))*	679,571	141,647
Prepayment for land use rights	40,000	30,000
Prepayment for other intangible assets	797	1,751
Prepayment for property, plant and equipment	217	546
	720,585	173,944

Note (i): The amount represents the down payment for investments and acquisition of new schools. RMB156,937,000 is the down payment for acquisition of Northeast school, and RMB522,634,000 is the down payment for investment on Science and Technology College of Hubei Minzu University.

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2016	2015
	RMB'000	*RMB'000*
Prepaid rent and other prepaid expenses	9,442	3,329
Advance to third parties	24,352	18,900
Staff advances	755	2,750
Other receivables	15,967	23,815
	50,516	48,794

The amounts are interest-free and are not secured with collateral.

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

22. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

		2016	2015
	Note	*RMB'000*	*RMB'000*
Cash and bank balances		123,785	72,979
Time deposits		107,749	30,000
		231,534	102,979
Less: Pledged deposits for bank loans	*25*	(52,749)	(20,000)
Cash and cash equivalents		178,785	82,979
Denominated in:			
RMB		167,023	82,979
United States Dollar ("US$")		11,762	–
Cash and cash equivalents		178,785	82,979

At the end of the year, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to RMB167,023,000 (2015: RMB82,979,000). The RMB is not freely convertible into other currencies, however, under the PRC Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorized to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

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23. DEFERRED REVENUE

	2016	2015
	RMB'000	*RMB'000*
Tuition fees	195,718	162,722
Boarding fees	21,329	17,297
	217,047	180,019

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

24. OTHER PAYABLES AND ACCRUALS

	2016	2015
	RMB'000	*RMB'000*
Payables for purchase of property, plant and equipment	32,286	20,547
Accrued bonus and social insurance	46,179	34,048
Miscellaneous expenses received from students *(Note (i))*	67,524	48,609
Other payables	86,146	64,455
Accrued expenses	8,127	9,571
	240,262	177,230

The above balances are unsecured and non-interest-bearing. The carrying amount of other payables and accruals at the end of the year approximated to their fair value due to their short term maturity.

Note (i): The amount represents the miscellaneous expenses received from students which will be paid out on behalf of students.

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25. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2016			2015		
	Effective interest rate	Maturity		Effective interest rate	Maturity	
	(%)		*RMB'000*	*(%)*		*RMB'000*
Current						
Bank loans – secured	4.57%	2017	80,000	5.24-10.50%	2016	142,800
Current portion of long term bank loans – secured	5.70%-7.13%	2017	22,500	7.68%-9.00%	2016	175,500
Finance lease payables *(note 26)*			–	5.45%	2016	1,196
			102,500			319,496
Non-current						
Bank loans – secured	Libor+3.3%	2018	493,968	5.22%-9.00%	2017-2019	131,500
Finance lease payables *(note 26)*			–			–
			493,968			131,500
Transaction costs			(17,840)			–
			476,128			131,500
			578,628			450,996

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Analyzed into:		
Bank loans repayable:		
Within one year	102,500	318,300
In the second year	476,128	106,500
In the third to fifth years, inclusive	–	25,000
	578,628	449,800
Finance lease payables:		
Within one year	–	1,196
In the second year	–	–
In the third to fifth years, inclusive	–	–
	–	1,196
	578,628	450,996

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25. INTEREST-BEARING BANK AND OTHER BORROWINGS (CONTINUED)

All of the bank loans are jointly secured and pledged by:

(i) the Group's buildings with an aggregate net carrying amount of approximately RMB47,374,000 as at 31 December 2016 (2015: RMB149,731,000) (note 15);

(ii) the Group's prepaid land lease payments with an aggregate net carrying amount of nil as at 31 December 2016 (2015: RMB25,543,000) (note 17);

(iii) personal guarantees executed by Mr. Li, a director of the Company, Ms. Yang Xuqing ("Ms. Yang") and Mr. Li Xiaoshen (note 34);

(iv) corporate guarantees executed by related companies of the Group, which are controlled by Mr. Li, a director of the Company (note 34);

(v) 30% of equity interest in Enchang Company by Yun Ai Group;

(vi) 20% of equity interest in Yun Ai Group held by Kunming Paiduipai Economic Consulting Co., Ltd. ("Paiduipai") (note 34);

(vii) 20% of equity interests in Yunnan Daai Fangzhou Information Consultancy Co., Ltd. held by Aspire Education Holding Co., Ltd.;

(viii) 51% equity interests of Aspire Education Holding Co., Ltd.;

(ix) all shares of Aspire Education Group Co., Ltd and Aspire education information Co., Ltd.;

(x) deposits of the Group with the amount of RMB52,749,000 at as 31 December 2016 (2015: RMB20,000,000).

26. FINANCE LEASE PAYABLES

The Group leases certain items of experimental equipment for use in teaching. These leases are classified as finance leases and amortised for 3.5 years to 8 years.

At the end of the year, the total future minimum lease payments under finance leases and their present values were as follows:

	Minimum lease payments	
	2016	**2015**
	RMB'000	*RMB'000*
Amounts payable:		
Within one year	–	1,238
In the second year	–	–
In the third to fifth years, inclusive	–	–
Total minimum finance lease payments	–	1,238
Future finance charges	–	(42)
Total net finance lease payables	–	1,196
Portion as classified as current liabilities *(note 25)*	–	(1,196)
Non-current portion *(note 25)*	–	–

YEAR ENDED 31 DECEMBER 2016

27. DEFERRED INCOME

	2016	2015
	RMB'000	*RMB'000*
At beginning of year	24,352	17,979
Additions during the year	28,161	12,891
Disposal	(13,128)	–
Released to profit or loss	(6,751)	(6,518)
At end of year	32,634	24,352
Less: current portion	(2,122)	(2,324)
Non-current portion	30,512	22,028

Deferred income represents the government grants received for subsidies in connection with certain leasehold improvements and the excess amount arising from sales and lease back transaction. These government grants are released to profit or loss over the expected useful lives of the relevant assets.

28. SHARE CAPITAL

The Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 8 July 2016 with authorized share capital of amount divided into 500,000,000 shares of USD0.0001 each, of which one share was issued and allotted and fully paid to Aspire Education Group Co., Ltd., a company owned by the Controlling Party.

In June and July 2016, Aspire Education Group Co., Ltd entered into a series of subscription agreement with the following investors:

(1) Advance Vision Investment Co., Ltd subscribed 15.53% new shares of Aspire Education Group Co., Ltd. at a consideration of RMB200 million.

(2) Design Time Limited subscribed 9.15% new shares of Aspire Education Group Co., Ltd. at a consideration of RMB155.8 million.

(3) Aspire Education International Limited subscribed 3.31% new shares of Aspire Education Group Co., Ltd. at a consideration of approximately RMB54.2 million.

(4) Gainful Asset Management Limited subscribed 2.14% new shares of the Aspire Education Group Co., Ltd. at a consideration of RMB36.3 million.

On September 6, 2016, Aspire Education Group entered into a sale and purchase agreement with the Company, pursuant to which the Company acquired all of the issued share capital in Aspire Education Information from Aspire Education Group. In consideration, the Company allotted and issued 14,310 Shares at nominal value to Aspire Education Group. Immediately after this transfer, the Company became wholly owned by Aspire Education Group and held all of the issued share capital in Aspire Education Information.

Save for the aforesaid and the Reorganization, the Company has not conducted any business since the date of its incorporation. As Hui Huang Company entered into certain Structured Contracts with the PRC Operating Entities on 8 September 2016 and the Group obtained control over the PRC Operating Entities thereafter.

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28. SHARE CAPITAL (CONTINUED)

	2016	2015
	RMB'000	*RMB'000*
Registered, issued and fully paid:		
Ordinary shares of USD0.0001 each	–	–

Movements of the share capital of the Company are as follows:

	2016	
	Number of shares	**Nominal value**
		USD
At the beginning of the year	–	–
Issued and fully paid	14,311	0.0001
At the end of the year	14,311	0.0001

29. RESERVES

The amounts of the Group's reserves and the movements therein for the year are presented in the consolidated statements of changes in equity of the financial statements.

Capital reserve

The capital reserve of the Group represents the capital contributions from the then equity holders of the Group's subsidiaries. The additions during the year represent the injection of additional paid-up capital by the then equity holders of the Group's subsidiaries, which were consolidated from the earliest date presented or since the date when the subsidiaries and/or businesses first came under the common control of the Controlling Party. The deduction during the year represents the decrease in the Group's net assets resulting from the acquisition of equity interests in subsidiaries from the Controlling Party for businesses combination under common control.

Statutory and other surplus reserves

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

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

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

YEAR ENDED 31 DECEMBER 2016

30. DISPOSAL OF SUBSIDIARIES

On 31 May 2016, the Group disposed its entire equity interests in the subsidiaries which were not related to formal higher education to third parties of the Group. These subsidiaries include Beijing Daai Investment Management Group Co, Ltd., Kunming Baifenbai Property Services Co., Ltd., Kunming Einsun Enterprise Management Consulting Co. Ltd., Kunming Einsun Advertising Co. Ltd., Guizhou Siboyuan Education Investment Group Co., Ltd., Yunnan Qingchuang Investment Management Co., Ltd., Shuren Education Investment Co., Ltd., Wuhu Education Investment Co., Ltd., Gansu Qihang Investment Co., Ltd., Heima Technology Co., Ltd. and Beijing United Education Technology Co., Ltd.

	Notes	*RMB'000*
Net assets disposed of:		
Property, plant and equipment	*15*	918
Cash and bank balances		20,437
Prepayments and other receivables		167,170
Prepaid land lease payments	*17*	1,759
Other intangible assets	*18*	860
Accruals and other payables		(162,053)
Deferred revenue		(103)
		28,988
Gain on disposal of subsidiaries	*6*	758
		29,746
Satisfied by:		
Cash		29,746

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

	RMB'000
Cash consideration	29,746
Cash and bank balances disposed of	(20,437)
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	9,309

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31. ACQUISITION OF A SUBSIDIARY THAT IS NOT A BUSINESS

On 27 August 2015, the Group entered into a capital increase agreement with Mr. Guo Hui and Mr.Jiang Mingxue, the then shareholders of Enchang Company, to acquire 68% equity interests in Enchang Company via capital injection in phases. On 1 September 2015, the registered capital of Enchang Company increased from RMB50,000,000 to RMB300,000,000. Then the Group injected RMB120,000,000, representing 77% equity interests of Enchang Company as of the acquisition date. Up to the date of acquisition, Enchang Company has not carried out any business. In June 2016, the Group further injected RMB84,000,000 in accordance with the capital increase agreement. In November 2016, the Group further injected cash of RMB41.55 million and acquired 0.2% shares held by Mr Guo Hui with consideration of RMB570,000, and then held 82% shares of Enchang company.

The above acquisition has been accounted for the Group as an acquisition of assets as the entity acquired by the Group does not constitute a business.

The net assets acquired by the Group in the above transaction are as follows:

	RMB'000
Net assets acquired:	
Cash and cash equivalents	19
Prepayments, deposits and other receivables	35,635
Property, plant and equipment	190
Non-controlling interests	(35,844)
	–

	RMB'000
Satisfied by:	
Cash	–

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

	RMB'000
Cash and cash equivalents acquired	19
Net inflow of cash and cash equivalents in respect of the acquisition of a subsidiary	19
Transaction costs of the acquisition included in cash flows from operating activities	–
	19

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32. OPERATING LEASE COMMITMENTS

As lessor

The Group leased its investment properties under operating lease arrangement, with leases negotiated for terms ranging from one to nine years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 31 December 2016, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2016	**2015**
	RMB'000	*RMB'000*
Within one year	9,011	12,787
After one year but not more than five years	10,567	16,891
More than five years	600	700
	20,178	30,378

As lessee

The Group leases certain of its office properties and office equipment under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to fifteen years, and those for office equipment are for terms ranging from one to three years.

At 31 December 2016, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2016	**2015**
	RMB'000	*RMB'000*
Within one year	4,813	4,596
After one year but not more than five years	7,519	3,323
Over five years	–	225
	12,332	8,144

33. COMMITMENTS

In addition to the operating lease commitments detailed in note 32 above, the Group had the following capital commitments as at the end of the year:

	2016	**2015**
	RMB'000	*RMB'000*
Contracted but not provided for:		
Property, plant and equipment	22,724	39,022
	22,724	39,022

As at 31 December 2015 and 2016, the Group had no significant authorised but not contracted for capital commitment.

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34. RELATED PARTY TRANSACTIONS AND BALANCES

The directors of the Company are of the view that the following parties/companies are related parties that had transactions or balances with the Group during the year.

(a) Name and relationship

Name of related parties	Relationship with the Group and the Company
Mr. Li	Ultimate shareholder
Ms. Yang	Spouse of Mr. Li
Mr. Li Xiaoshen	Senior management of the Group
Bamupu Technology Co., Ltd. ("Bamupu")	Controlled By Mr. Li
Paiduipai	Controlled By Mr. Li
Kashi Daai Huihuang Investment Management Limited Partnership ("Huihuang Investment")	Controlled By Mr. Li

(b) Outstanding balances with related parties

The Group had the following outstanding balances with related parties:

	2016	2015
	RMB'000	*RMB'000*
Amounts due from related parties:		
Bamupu	–	–
Paiduipai	–	–
	–	–

The amounts due from related parties and amounts due to related parties are unsecured, interest-free, repayable on demand and non-trade in nature.

The Group had the maximum amount outstanding during the year/period is as follows:

	2016	2015
	RMB'000	*RMB'000*
Amounts due from related parties:		
Bamupu	–	4
Paiduipai	–	4,007
	–	4,011

As set out in Note 25, certain of the Group's interest bank loans were jointly guaranteed by Mr. Li, a director of the Company, Ms. Yang, spouse of Mr. Li, Mr. Li Xiaoshen, Yun Ai Group and Beijing Einsun Education Investment Co., Ltd., subsidiaries of the Company, and pledged by 20% of equity interest in Yun Ai Group., Ltd. held by Paiduipai.

34. RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

(c) Compensation of key management personnel of the Group

	2016	**2015**
	RMB'000	*RMB'000*
Short term employee benefits	6,087	3,707
Contributions to the pension scheme	103	68
	6,190	3,775

Further details of directors' and the chief executive's emoluments are included in note 9 to the financial statements.

35. FINANCIAL INSTRUMENTS BY CATEGORY

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

As at 31 December 2016

Financial assets

	Loans and Receivables
	RMB'000
Financial assets included in prepayments, deposits and other receivables	41,074
Pledged deposits	52,749
Prepayment for investment	679,571
Cash and cash equivalents	178,785
	952,179

Financial liabilities

	Financial Liabilities at amortised cost
	RMB'000
Financial liabilities included in other payables and accruals	194,083
Interest-bearing bank and other borrowings	578,628
	772,711

35. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

As at 31 December 2015

Financial assets

	Loans and receivables	Available-for-sale financial assets	Total
	RMB'000	*RMB'000*	*RMB'000*
Available-for-sale investments	–	24,500	24,500
Financial assets included in prepayments, deposits and other receivables	45,465	–	45,465
Pledged deposits	20,000	–	20,000
Prepayment for investment	141,647	–	141,647
Cash and cash equivalents	82,979	–	82,979
	290,091	24,500	314,591

	Financial liabilities at amortised cost
	RMB'000
Financial liabilities included in other payables and accruals	143,182
Interest-bearing bank and other borrowings	450,996
	594,178

36. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, for those with carrying amounts that require recurring fair value measurement, are as follows:

Group

	Carrying amount	
	2016	**2015**
	RMB'000	*RMB'000*
Financial assets		
Available-for-sale investments	–	20,000

	Fair value	
	2016	**2015**
	RMB'000	*RMB'000*
Financial assets		
Available-for-sale investments	–	20,000

Management has assessed that the fair values of cash and cash equivalents, the current portion of pledged deposits, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals, and amounts due from/to subsidiaries, approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance manager reports directly to the chief financial officer. At the end of each of the year, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer.

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

The fair values of the non-current portion of pledged deposits, finance lease payables, and interest-bearing bank and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for finance lease payables, and interest-bearing bank and other borrowings as at 31 December 2015 and 2016 was assessed to be insignificant. The fair value of the liability portion of the convertible bonds is estimated by discounting the expected future cash flows using an equivalent market interest rate for a similar convertible bond with consideration of the Group's own non-performance risk.

The fair values of available-for-sale investments included in other current financial assets are measured using valuation techniques after incorporating market observable input, and the prevailing rates of return of similar products.

36. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair value hierarchy

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

Financial assets measured at fair value

Group	Fair value measurement using			
	31 December 2015	**Quoted prices in active markets Level 1**	**Significant observable inputs Level 2**	**Significant unobservable inputs Level 3**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Available-for-sale investments	20,000	–	20,000	–

During the years ended 31 December 2015 and 2016, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

The Company did not have any financial assets and liabilities measured at fair value as at 31 December 2015 and 2016.

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank borrowings, other payables, other current financial assets, cash and cash equivalents and pledged deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as amounts due from related parties, amounts due to related parties, which arise directly from its operations.

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

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's bank borrowings with floating interest rates. The interest rates and terms of repayments of the borrowings are disclosed in note 25.

The Group has not used any interest swaps to hedge its exposure to interest rate risk.

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Interest rate risk (continued)

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings) as follows:

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax
		RMB'000
Year ended 31 December 2016		
RMB	50	(2,618)
RMB	(50)	2,618
Year ended 31 December 2015		
RMB	50	(1,061)
RMB	(50)	1,061

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all students and cooperative schools who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the specific approval of the Head of Credit Control.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, amounts due from related parties, other receivables and available-for-sale investments, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognized and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty, by geographical region and by industry sector. There are no significant concentrations of credit risk within the Group.

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial investments and financial assets (e.g., other financial assets) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans.

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk (continued)

The tables below summarize the maturity profile of the Group's financial liabilities at the end of year based on contractual undiscounted payments.

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
31 December 2016					
Interest-bearing bank and other borrowings	–	7,082	121,355	496,617	625,054
Financial liabilities included in other payables and accruals	194,083	–	–	–	194,083
	194,083	7,082	121,355	496,617	819,137
31 December 2015					
Finance lease payables	–	1,238	–	–	1,238
Interest-bearing bank and other borrowings	–	60,191	287,010	146,145	493,346
Financial liabilities included in other payables and accruals	122,635	–	20,547	–	143,182
	122,635	61,429	307,557	146,145	637,766

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the year.

The debt-to-asset ratios at the end of the year were as follows:

	2016	2015
	RMB'000	*RMB'000*
Total liabilities	1,070,082	835,069
Total assets	2,012,598	1,216,693
Debt-to-asset ratios	53%	69%

38. EVENTS AFTER THE BALANCE SHEET DATE

(1) The Group signed a 5-year long term loan agreement of RMB147 million from China Minsheng Bank and withdrew RMB47 million on 21 January 2017.

(2) On January 10, 2017, Jiang Mingxue and Yun Ai Group entered into a capital increase agreement, pursuant to which the registered capital of Enchang Company was increased from RMB300 million to RMB500 million, of which Yun Ai Group agreed to invest RMB200 million to the registered capital of Enchang Company by converting a shareholder's loan of RMB200 million previously provided to Enchang Company by Yun Ai Group into its registered capital. Upon completion of such capital increase on January 12, 2017, Enchang Company became owned as to 89.2% by Yun Ai Group and 10.8% by Jiang Mingxue.

(3) During the year ended 31 December 2016, through a series of agreements entered into in January, April and July 2016, Haxuan Company, one subsidiary of the Group agreed to acquire the sole sponsorship interest of the Northeast School from the current school sponsors, which are independent third parties, for a total consideration of RMB381.9 million. As of 31 December 2016, the Group has paid RMB156.9 million as down-payment as disclosed in the Note 20 of the financial statements. As at the date of report, the relevant application to transfer the school sponsorship from the current school sponsors to Haxuan Company is pending the final approval of the Ministry of Education ("MOE") and the registration with the provincial civil affairs authorities.

(4) In connection with the Company's Global Offering (as defined in the prospectus of the Company dated 5 April, 2017), 286,220,000 shares with a nominal value of US$0.0001 each were issued at a price of HK$2.78 per share for a total cash consideration of approximately HK$743 million after deducting underwriting fees, commissions and related expenses. And 1,144,865,689 shares were issued by way of capitalization. Dealings in shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") commenced on April 19, 2017.

39. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	As at 31 December 2016
	RMB'000
NON-CURRENT ASSETS	
Interests in subsidiaries	446,239
Total non-current assets	446,239
Net assets	446,239
EQUITY	
Share capital	–
Capital Reserve	446,239
Total equity	446,239

40. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 28 April 2017.

Results of operations	**Year ended December 31,**			
	2013	**2014**	**2015**	**2016**
	RMB in thousands	*RMB in thousands*	*RMB in thousands*	*RMB in thousands*
Income	138,942	206,495	273,994	340,996
Gross profit	64,732	100,770	135,627	163,587
Profit for the year	54,477	81,308	103,821	112,197
Adjusted net profit *(note 1)*	54,477	81,308	103,821	131,717
Attributable to equity holders of the parent	54,477	81,308	103,823[(2)]	111,755

Note 1: The adjusted net profit as calculated based on the adjusted profit for the year and listing expenses (the non-recurring expenses of the year).

Financial ratios	**Year ended December 31,**			
	2013	**2014**	**2015**	**2016**
Gross profit margin (%)	46.6%	48.8%	49.5%	48.0%
Net profit margin (%)	39.2%	39.4%	37.9%	32.9%
Adjusted net profit margin (%)	39.2%	37.8%	38.9%	38.6%

Assets and liabilities	**As at December 31,**			
	2013	**2014**	**2015**	**2016**
	RMB in thousands	*RMB in thousands*	*RMB in thousands*	*RMB in thousands*
Non-current assets	627,374	757,485	1,044,878	1,727,133
Current assets	154,343	356,549	171,815	285,465
Current liabilities	369,335	401,456	681,541	563,442
Net current liabilities	(214,992)	(44,907)	(509,726)	(277,977)
Total assets less current liabilities	412,382	712,578	535,152	1,449,156
Non-current liabilities	100,632	331,520	153,528	506,640
Total equity	311,750	381,058	381,624	942,516
Property, plant and equipment	506,002	601,786	728,270	867,240
Cash and cash equivalents	103,687	299,170	82,979	178,785
Deferred income	103,843	138,908	180,019	217,047
Interest-bearing bank and other borrowings	118,471	100,599	319,496	102,500

Financial ratios	As of December 31/ for the year ended December 31,			
	2013	**2014**	**2015**	**2016**
Current Ratio	0.4	0.9	0.3	0.5
Gearing ratio *(note 2)*	67.4%	109.6%	118.2%	61.4%

Note 2: Gearing ratio equals total debt divided by total equity as of the end of the year. Total debt refers to all interest-bearing bank loans and other borrowings.

Cash flows	Year ended December 31,			
	2013	**2014**	**2015**	**2016**
	RMB in thousands	*RMB in thousands*	*RMB in thousands*	*RMB in thousands*
Net cash from operating activities	160,702	156,160	254,364	225,100

"Advance Vision"	Advance Vision Investment Co., Ltd., a company incorporated under the laws of the Cayman Islands on May 18, 2016 and beneficially owned by Ping An Insurance (Group) Company of China, Ltd.* (中國平安保險（集團）股份有限公司), a joint-stock company incorporated in the PRC and listed on the Main Board of the Stock Exchange (stock code: 2318) and the Shanghai Stock Exchange (stock code: 601318). Advance Vision is one of our substantial shareholders
"affiliate(s)"	with respect to any specific person, any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person
"Articles of Association" or "Articles"	the articles of association of our Company conditionally adopted on March 20, 2017 and as amended from time to time
"Aspire Education Consulting"	Aspire Education Consulting Co., Ltd., a limited liability company established under the laws of the BVI on October 15, 2015 and owned as to 79.20% by Mr. Li, 14.37% by Yang Xuwei (楊旭維), 3.52% by Liu Fengming (劉風明), 0.98% by Pan Yi (潘毅), 0.80% by Qin Hongkang (秦宏康), 0.59% by Wang Lei (汪蕾), 0.40% by Yang Junxiong (楊俊雄) and 0.15% by Yao Li (姚莉). Except for Mr. Li and Yang Xuwei (楊旭維), the sister-in-law of Mr. Li, all are Independent Third Parties. Aspire Education Consulting is one of our Controlling Shareholders
"Aspire Education Group"	Aspire Education Group Co., Ltd., an exempted company incorporated in the Cayman Islands with limited liability on October 20, 2015. Aspire Education Group was the sole shareholder of our Company prior to the completion of the Corporate Reorganization
"Aspire Education Holding"	Aspire Education Holding Co., Limited, a limited liability company incorporated in Hong Kong on October 30, 2015 and a wholly-owned subsidiary of our Company
"Aspire Education Information"	Aspire Education Information Co., Ltd., a limited liability company established under the laws of the BVI on October 29, 2015 and a wholly-owned subsidiary of our Company
"Aspire Education International"	Aspire Education International Limited, a limited liability company established under the laws of the BVI on May 6, 2016 and is one of our Controlling Shareholders

"Aspire Education Management"	Aspire Education Management Co., Ltd., a limited liability company established under the laws of the BVI on October 15, 2015 and wholly owned by Mr. Li. Aspire Education Management is one of our Controlling Shareholders
"Aspire Education Technology"	Aspire Education Technology Co., Ltd., a limited liability company established under the laws of the BVI on October 15, 2015 and owned as to 53.35% by Mr. Li, 14.23% by Yang Xuwei (楊旭維), 4.85% by Huang Wei (黃煒), 2.74% by Miao Qiongfen (繆瓊芬), 2.93% by Yang Xuyan (楊旭艷), 2.39% by Liu Yun (劉雲), 1.30% by Wang Yan (汪焰), 0.95% by Jiang He (姜河), 0.95% by Yuan Hao (袁蒿), 0.57% by Yang Xufen (楊旭芬), 0.51% by Lv Xuerui (呂雪蕊), 0.48% by Wu Shiyi (吳世義), 0.47% by Fu Zigang (傅子剛) and 14.28% by Li Yaohong (李耀紅). Except for Mr. Li, Yang Xuwei (楊旭維), the sister-in-law of Mr. Li, Yang Xuyan (楊旭艷), the sister-in-law of Mr. Li, Yang Xufen (楊旭芬), the sister-in-law of Mr. Li, and Li Yaohong (李耀紅), the sister of Mr. Li, all are Independent Third Parties. Aspire Education Technology is one of our Controlling Shareholders
"associate(s)"	has the meaning ascribed to it under the Listing Rules
"Bai Fen Bai"	Kunming Baifenbai Property Services Co., Ltd.* (昆明佰分佰物業服務有限公司), a limited liability company established under the laws of the PRC on October 18, 2005. It is wholly owned by an Independent Third Party
"Bei Ai Company"	Beijing Aiyinsheng Education Investment Co., Ltd.* (北京愛因生教育投資有限責任公司), a limited liability company established under the laws of the PRC on October 16, 2012, and wholly owned by Yun Ai Group. Bei Ai Company will act as the school sponsor of the Northwest School upon the official establishment of the Northwest School
"Beijing Lianhe"	Beijing Lianhe Open Education Technology Co., Ltd.* (北京聯合開放教育科技有限公司), a limited liability company established under the laws of the PRC on June 17, 2014, and wholly owned by Daai Management, a wholly-owned subsidiary of Daai Consulting, which is in turn owned by Mr. Li as to 90% and Ms. Yang, the spouse of Mr. Li as to 10%
"Board" or "Board of Directors"	the board of Directors of our Company

"BPPE"	California Bureau for Private Postsecondary Education, a unit of the California Department of Consumer Affairs charged with regulation of private postsecondary educational institutions operating in the State of California
"Business Cooperation Agreement"	the business cooperation agreement entered into by and among Huihuang Company, the PRC Consolidated Affiliated Entities and the Registered Shareholders dated September 8, 2016
"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
"California Academy"	California Academy of Business, Inc., a company incorporated in the State of California the United States, with limited liability on July 18, 2016 and a wholly-owned subsidiary of our Company
"California School"	a private higher education institute to be established by our Group in the State of California
"Central China School"	Science and Technology College of Hubei Minzu University* (湖北民族學院科技學院), an institution of higher education established under the laws of the PRC in 2003. The results attributable to students admitted after the completion of the new campus of Central China School will be included in our results of operation
"Chengxin Investment"	Kashi Daai Chengxin Investment Management Limited Partnership* (喀什大愛誠信投資管理合夥企業(有限合夥)), a limited partner established under the laws of the PRC on December 12, 2015 with Mr. Li as its general partner and ten individuals acting as its limited partners, including Yang Xuwei (楊旭維), the sister-in-law of Mr. Li, and the Principal of Northeast School. Chengxin Investment is one of the Registered Shareholders and holds 1.3177% equity interest of Yun Ai Group
"China" or "PRC"	the People's Republic of China excluding for the purpose of this report, Hong Kong, the Macau Special Administrative Region and Taiwan

"close associate(s)"	has the meaning ascribed to it under the Listing Rules
"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 "our Company"	China New Higher Education Group Limited (中國新高教集團有限公司) (formerly known as "China New University Group Co., Ltd. (中國新大學集團有限公司)"), an exempted company incorporated in the Cayman Islands with limited liability on July 8, 2016
"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 Aspire Education Technology, Aspire Education Management, Aspire Education Consulting, Aspire Education International and Mr. Li
"Corporate Reorganization"	the corporate reorganization of our Group conducted in preparation for the Listing
"Daai Company"	Beijing Daai Investment Management Group Co., Ltd.* (北京大愛投資管理集團有限公司) (formerly known as "Beijing Daai Investment Management Co., Ltd.* (北京大愛投資管理有限公司)"), a limited liability company established under the laws of the PRC on September 21, 2015 and wholly owned by an Independent Third Party
"Daai Consulting"	Daai Consulting Management Co., Ltd.* (大愛諮詢管理股份有限公司) (formerly known as "Daai Education Management Co., Ltd.* (大愛教育管理股份有限公司)"), a joint stock company with limited liability established on May 6, 2015 under the laws of PRC, which is owned as to 90% by Mr. Li and 10% by Ms. Yang, the spouse of Mr. Li
"Daai Management"	Beijing Daai Enterprise Management Co., Ltd.* (北京大愛企業管理有限公司), a limited liability company established under the laws of the PRC on September 18, 2015 and wholly owned by Daai Consulting

"Daai Partnership"	Kashi Daai Investment Management Limited Partnership* (喀什大愛投資管理合夥企業(有限合夥)), a limited partnership established under the laws of the PRC on December 8, 2015 with Ma Chongliang (馬崇亮) acting as the general partner and Mr. Li and Ma Chongliang (馬崇亮) acting as the limited partner. Daai Partnership is one of the Registered Shareholders and holds 22.8102% equity interest of Yun Ai Group
"Deed of Non-competition"	a deed of non-competition dated March 20, 2017 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
"Design Time"	Design Time Limited, a limited liability company incorporated under the laws of the British Virgin Islands on October 18, 2010. Design Time Limited is indirectly and wholly owned by CCB International (Holdings) Limited (建銀國際(控股)有限公司) ("CCBI"). CCBI is an investment services flagship which is indirectly and wholly owned by China Construction Bank Corporation, a joint-stock company incorporated in the PRC and listed on the Main Board of the Stock Exchange (stock code: 939) and the Shanghai Stock Exchange (stock code: 601939). Design Time is one of Shareholders
"Director(s)"	the directors of our Company
"Directors' Powers of Attorney"	the school directors' power of attorney executed by each of the directors of each PRC Operating School dated September 8, 2016
"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 January 19, 2015 for public consultation
"Enchang Company"	Enshi Autonomous Prefecture Changqing Education Development Co., Ltd.* (恩施自治州常青教育發展有限責任公司), a limited liability company established under the laws of the PRC on November 13, 2014. It is owned as to 89.2% by Yun Ai Group and 10.8% by Jiang Mingxue (蔣明學). Enchang Company will be a joint school sponsor of Central China School pending final approval of the MOE and registration with the provincial civil affairs authorities

"Equity Pledge Agreement"	the equity pledge agreement entered into by and among the Registered Shareholders, Yun Ai Group and Huihuang Company dated September 8, 2016
"Exclusive Call Option Agreement"	the exclusive call option agreement entered into by and among Huihuang Company, our PRC Consolidated Affiliated Entities and the Registered Shareholders dated September 8, 2016
"Exclusive Technical Service and Management Consultancy Agreement"	the exclusive technical service and management consultancy agreement entered into by and among Huihuang Company and our PRC Consolidated Affiliated Entities dated September 8, 2016
"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(2015)》), which was promulgated jointly by the MOFCOM and the National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會) on March 10, 2015 and became effective from April 10, 2015, which is amended from time to time
"Gainful Asset"	Gainful Asset Management Limited, a limited liability company incorporated under the laws of the BVI on February 15, 2016 and wholly owned by Mr. Chen. Gainful Asset is one of our Shareholders
"Group", "our Group", "we" or "us"	our Company, its subsidiaries, our PRC Operating Schools and the consolidated affiliated entities from time to time, or, where the context so requires in respect of the period before our Company became the holding company of our present subsidiaries, the entities which carried on the business of the present Group at the relevant time
"Guizhou School"	Guizhou Technology and Business Institute* (貴州工商職業學院), a private institution of formal higher education established under the laws of the PRC on July 3, 2012, of which the school sponsor's interest is wholly owned by Yun Ai Group and a consolidated affiliated entity of our Company

"Haxuan Company"	Harbin Xuande Technology Co., Ltd.* (哈爾濱軒德科技有限公司), a limited liability company established under the laws of the PRC on April 19, 2016 and owned as to 73.91% by Yun Ai Group and as to 26.09% by Ningde Company. Haxuan Company will be the sole school sponsor of the Northeast School pending final approval of the MOE and registration with the provincial civil affairs authorities
"HK$", "Hong Kong dollar(s)", "HKD" or "cents"	Hong Kong dollars and cents respectively, the lawful currency for the time being of Hong Kong
"HKFRSs"	the Hong Kong Financial Reporting Standard(s)
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the PRC
"Huihuang Company"	Tibet Daai Huihuang Information and Technology Co., Ltd.* (西藏大愛輝煌信息科技有限公司), a limited liability company established on August 5, 2016 under the laws of the PRC, which is wholly owned by Aspire Education Holding
"Huihuang Investment"	Kashi Daai Huihuang Investment Management Limited Partnership* (喀什大愛輝煌投資管理合夥企業(有限合夥)), a limited partner established under the laws of the PRC on December 12, 2015 with Mr. Li acting as its general partner and 44 individuals acting as its limited partners, including Mr. Zhao Shuai (趙帥), Mr. Zhang Ke (張柯) and Mr. Zhu Lidong (朱立東), our executive Directors. Huihuang Investment holds 1.2956% equity interest of Yun Ai Group
"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
"Kunming Guandu Bank"	Kunming Guandu Rural Cooperation Bank* (昆明官渡農村合作銀行), a cooperation bank wholly owned by Independent Third Parties
"Listing"	the listing of our Shares on the Main Board of the Stock Exchange
"Listing Date"	April 19, 2017

"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 Huihuang Company, the PRC Operating Schools, and Yun Ai Group dated September 8, 2016
"Main Board"	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with the Growth Enterprise Market of the Stock Exchange
"Memorandum of Association" or "Memorandum"	the memorandum of association of our Company adopted on March 20, 2017 and as amended from time to time
"Mr. Chen"	Mr. Chen Weisong (陳偉松), a friend of Mr. Li and an Independent Third Party. Mr. Chen is the sole shareholder of Gainful Asset, which is one of our Shareholders
"Mr. Li"	Mr. Li Xiaoxuan (李孝軒), our founder, one of our Controlling Shareholders, chairman of the Board and an executive Director
"Ms. Wang"	Ms. Wang Xueping (王雪萍), a friend of Mr. Li and an Independent Third Party. Ms. Wang owns 99.995% interest in Aspire Education Worldwide, which is one of our Shareholders
"Ms. Yang"	Ms. Yang Xuqing (楊旭青), the spouse of Mr. Li
"Ningde Company"	Ningbo Meishan Bonded Port Area Deshida Investment Partnership (Limited Partnership)* (寧波梅山保稅港區德士達投資合夥企業(有限合夥)), a limited liability partnership established under the laws of the PRC on April 7, 2016, of which the partnership interest is owned by the Principal of the Northeast School and his family members. Ningde Company owns 26.09% equity interest of Haxuan Company
"Northeast School"	Harbin Huade University* (哈爾濱華德學院), an independent institute established under the laws of the PRC in 2004. Northeast School will be a consolidated affiliated entity of our Company pending final approval of the MOE and registration with the provincial civil affairs authorities and following the execution of the structured contracts with Huihuang Company

"Northwest School"	Northwest Technology and Business Institute* (西北工商職業學院), a private institution of higher education college to be established under the laws of the PRC, of which the school sponsor's interest will be wholly-owned by Bei Ai Company after the official establishment of the Northwest School
"Pai Dui Pai"	Kunming Paiduipai Economic Information Consultancy Co., Ltd.* (昆明排對排經濟信息諮詢有限公司), a limited liability company established under the laws of the PRC on June 2, 2010, which is owned as to 53.35% by Mr. Li, 14.28% by Li Yaohong (李耀紅), 2.74% by Miao Qiongfen (繆瓊芬), 4.85% by Huang Wei (黄煒), 1.30% by Wang Yan (汪焰), 14.23% by Yang Xuwei (楊旭維), 0.95% by Jiang He (姜河), 0.95% by Yuan Song (袁嵩), 2.39% by Liu Yun (劉雲), 0.51% by Lv Xuerui (呂雪蕊), 0.48% by Wu Shiyi (吳世義), 0.47% by Fu Zigang (傅子剛), 0.57% by Yang Xufen (楊旭芬) and 2.93% by Yang Xuyan (楊旭艷). Except for Mr. Li, Yang Xufen (楊旭芬), the sister-in-law of Mr. Li, Li Yaohong (李耀紅), the sister of Mr. Li, and Yang Xuyan (楊旭艷), the sister-in-law of Mr. Li, all are Independent Third Parties. Pai Dui Pai is one of the Registered Shareholders and holds 20.0568% equity interest of Yun Ai Group
"PRC Consolidated Affiliated Entities"	namely, our School Sponsors and our PRC Operating Schools, each a consolidated affiliated entity of our Company
"PRC Operating Schools"	our consolidated affiliated entities, namely, Yunnan School and Guizhou School
"Prospectus"	the prospectus of the Company dated April 5, 2017
"Registered Shareholders"	the shareholders of Yun Ai Group, namely Mr. Li, Pai Dui Pai, Ba Mu Pu, Daai Partnership, Huihuang Investment, Chengxin Investment, Shanghai Taifu and Zhongyi Company
"Reporting Period"	the year ended December 31, 2016
"RMB" or "Renminbi"	Renminbi, the lawful currency for the time being of the PRC
"School Sponsors"	the current school sponsor, Yun Ai Group, and the future school sponsors, Haxuan Company, Enchang Company and Bei Ai Company

"School Sponsors' and Directors' Rights Entrustment Agreement"	the school sponsors' and directors' rights entrustment agreement entered into by and among Yun Ai Group, Bei Ai Company, the PRC Operating Schools, the directors of each PRC Operating School and Huihuang Company dated September 8, 2016
"School Sponsors' Powers of Attorney"	the school sponsors' power of attorney executed by the School Sponsors in favor of Huihuang Company dated September 8, 2016
"SFC" or "Securities and Futures Commission"	the Securities and Futures Commission of Hong Kong
"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
"Shanghai Taifu"	Shanghai Taifu Xiangyi Equity Investment Fund Limited Partnership* (上海太富祥屹股權投資基金合夥企業(有限合夥)), a limited partnership established under the laws of the PRC on December 15, 2015 with Shenzhen Pingan Decheng Investment Co., Ltd. (深圳市平安德成投資有限公司) acting as its general partner. Shenzhen Pingan Decheng Investment Co., Ltd.* (深圳市平安德成投資有限公司) is wholly owned by Shenzhen Pingan Financial Technology Consulting Co., Ltd.* (深圳平安金融科技諮詢有限公司), which in turn is owned as to 96.52% by Ping An Insurance (Group) Company of China, Ltd. (中國平安保險(集團)股份有限公司), a joint-stock company incorporated in the PRC and listed on the Main Board of the Stock Exchange (stock code: 2318) and the Shanghai Stock Exchange (stock code: 601318) and as to 6.38% by Shenzhen Pingan. Shanghai Taifu is one of the Registered Shareholders and owns 15.5265% equity interest of Yun Ai Group
"Share(s)"	ordinary share(s) of US$0.0001 each in the share capital of our Company
"Share Option Scheme"	the share option scheme conditionally adopted by our Company on March 20, 2017
"Shareholder(s)"	holder(s) of the Share(s)

"Shareholders' Powers of Attorney"	the shareholders' power of attorney executed by the Registered Shareholders and Yun Ai Group in favor of Huihuang Company dated September 8, 2016
"Shareholders' Rights Entrustment Agreement"	the shareholders' rights entrustment agreement entered into by and among the Registered Shareholders, the School Sponsors and Huihuang Company dated September 8, 2016
"Spouse Undertakings"	the spouse undertakings executed by Ms. Yang, the spouse of Mr. Li, dated September 8, 2016
"Stock Exchange" or "Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Structured Contracts"	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 Sponsors' and Directors' Rights Entrustment Agreement, the School Sponsors' Powers of Attorney, the Directors' Powers of Attorney, the Shareholders' Powers of Attorney, the Loan Agreement and the Spouse Undertakings
"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 Sponsors
"substantial Shareholder(s)"	has the meaning ascribed to it under the Listing Rules
"Yun Ai Group"	Yunnan Einsun Education Investment Group Co., Ltd.* (雲南愛因森教育投資集團有限公司) (formerly known as "Yunnan Einsun Investment Co., Ltd.* (雲南愛因森投資有限公司)" and "Yunnan Einsun Investment Group Co., Ltd.* (雲南愛因森投資集團有限公司)"), a limited liability company established under the laws of the PRC on September 19, 2005, which is owned as to 29.8806% by Mr. Li, 20.0568% by Pai Dui Pai, 5.7305% by Ba Mu Pu, 22.8102% by Daai Partnership, 1.2956% by Huihuang Investment, 1.32% by Chengxin Investment, 15.5265% by Shanghai Taifu and 3.3822% by Zhongyi Company. It is the school sponsor of the Yunnan School and the Guizhou School

"Yunnan School"	Yunnan Technology and Business University* (雲南工商學院) (formerly known as Yunnan Einsun Software Vocational College* (雲南愛因森軟件職業學院) ("Software College")), a private institution of formal higher education established under the laws of the PRC on September 29, 2005, of which the school sponsor's interest is wholly owned by Yun Ai Group and a consolidated affiliated entity of our Company
"Zhuan Xiu School"	Yunnan Einsun Science and Technology College* (雲南愛因森科技專修學院), a private education institution established under the laws of the PRC on December 31, 2011, of which the school sponsor's interest is wholly owned by an Independent Third Party
"2016 Amendments"	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 in November 2016, which will take effect on September 1, 2017
"%"	per cent