You should read the following discussion and analysis with our audited consolidated financial information, including the notes thereto, included in the Accountants' Report set out in Appendix I to this document. The Accountants' Report has been prepared in accordance with HKFRS, which may differ in material aspects from generally accepted accounting principles in other jurisdictions, including the United States.

The following discussion and analysis contain forward-looking statements that reflect our current views with respect to future events and financial performance. These statements are based on our assumptions and analysis in light of our experience and perception of historical trends, current conditions and expected future development, as well as other factors we believe are appropriate under the circumstances. However, whether actual outcomes and developments will meet our expectations and predictions depends on a number of risks and uncertainties. In evaluating our business, you should carefully consider the information provided in the sections headed "Risk Factors" and "Forward-Looking Statements" in this document.

For the purpose of this section, unless the context otherwise requires, references to 2016, 2017 and 2018 refer to our financial years ended December 31 of such years. Unless the context otherwise requires, financial information described in this section is described on a consolidated basis.

OVERVIEW

We are the largest vocational training education provider in China with a market share of approximately 1.7% in terms of average students enrolled and revenue for the year ended December 31, 2017, according to the Frost & Sullivan Report. We have a leading position in China in providing vocational training education services in three industry sectors, namely, culinary arts, auto services, and information technology and internet technology, where we ranked first in each sector in terms of average students enrolled, according to the Frost & Sullivan Report. We also provide secondary vocational education services through 26 out of the 145 Schools we had as of December 31, 2018.

Headquartered in Hefei, Anhui province, we had established a nationwide school network consisting of Schools as of December 31, 2018, spanning 29 of the 31 provinces in mainland China and Hong Kong. We operate our business and establish our Schools under five school brands, namely, New East Culinary Education, Omick Education of Western Cuisine and Pastry, Wontone Automotive Education, Xinhua Internet Technology Education and Wisezone Data Technology Education. For the year ended December 31, 2018, our average students enrolled were 69,141, 3,106, 19,323, 31,023 and 1,364, respectively, under these school brands. As of December 31, 2018, we also operated 18 customized catering experience centers under Cuisine Academy.

We derive revenue primarily from (i) tuition fees collected by our Schools; (ii) service fees collected by Cuisine Academy; and (iii) fees for other ancillary services we provide, such as test preparation and training for professional certificate examinations. We generally require students of long-term programs to pay tuition fees in advance for the next 12 months and students of short-term programs to pay in advance all of the tuition fees for the programs they are enrolled in. We also require customers of Cuisine Academy to pay service fees in advance for the programs they are registered. Tuition and service fees are recognized proportionately over the relevant periods of the applicable programs (not exceeding one year).

We experienced significant growth in our revenue, gross profit and our average students enrolled during the Track Record Period. Our revenue from continuing operations increased from RMB2,335.7 million for the year ended December 31, 2016 to RMB2,850.2 million for the year ended December 31, 2017, and further to RMB3,265.0 million for the year ended December 31, 2018, representing a CAGR of 18.2%. Our gross profit from continuing operations increased from RMB1,321.5 million for the year ended December 31, 2016 to RMB1,568.8 million for the year ended December 31, 2017, and further to RMB1,705.1 million for the year ended December 31, 2018, representing a CAGR of 13.7%. Our profit and total comprehensive income from continuing operations increased by 12.6% from RMB587.4 million for the year ended December 31, 2016 to RMB661.2 million for the year ended December 31, 2017. Our average students enrolled grew cumulatively from 105,095 for the year ended December 31, 2016 to 123,957 for the year ended December 31, 2018, representing a CAGR of 8.6%. Our profit and total comprehensive income from continuing operations decreased by 22.1% to RMB515.1 million for the year ended December 31, 2018, primarily due to a significant increase in our selling expenses to promote our brand name and facilitate the student recruitment of our newly established schools as well as a significant increase in our administrative expenses because we hired additional administrative staff and professional consultants to meet the needs of our expanded school network.

BASIS OF PRESENTATION

Our Company was incorporated in the Cayman Islands on October 4, 2018 and registered as an exempted company with limited liability under the Companies Law of the Cayman Islands. The Company is an investment holding company. The principal activities of its subsidiaries are in the operation of vocational education institutions.

We are restricted by the relevant PRC laws and regulations from independently or jointly operating the vocational training education business. Our wholly-owned subsidiary, Xinhua Chuangzhi, has entered into the Structured Contracts with Anhui Xinhua Education and the relevant equity holders. The Structured Contracts enable Xinhua Chuangzhi to exercise effective control over Anhui Xinhua Education and obtain substantially all economic returns generated by Anhui Xinhua Education in consideration for the business support, technical and consulting services provided by our Group. Consequently, we regard Anhui Xinhua Education as an indirect subsidiary of our Group.

Pursuant to the Corporate Reorganization as more fully explained in the paragraph under "Corporate Reorganization" in the sections headed "History and Corporate Structure" and "Structured Contracts" in this document, the Company became the holding company of the companies now comprising the Group on October 4, 2018. Since our Controlling Shareholders control all the companies now comprising the Group before and after the Corporate Reorganization, the Group comprising the Company and its subsidiaries is regarded as a continuing entity. The historical financial information for the Track Record Period has been prepared on the basis as if the Company had been the holding company of its subsidiaries since the beginning of the Track Record Period using the principle of merger accounting.

FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our results of operations have been, and are expected to continue to be, affected by a number of factors, which primarily include the following:

Demand for Private Vocational Education in China

Demand for private vocational education in China is a function of a number of factors, including the level of economic development and demographic changes. Our business has benefited from the growth of PRC economy and the increasing demand for private education in China. According to the Frost & Sullivan Report, as the PRC economy has continued to grow over the past five years, its real GDP has also increased at a fast pace. The per capita real GDP in China grew from RMB42,812.0 for 2013 to RMB54,829.4 for 2017 and is expected to reach RMB72,534.3 for 2022, representing a CAGR of 5.8% from 2017 to 2022. According to the Frost & Sullivan Report, the urban population in China is likely to grow due to the relaxation and termination of the "one-child policy" and the adoption of the universal "two-child policy," which in turn will likely affect the demand for private vocational education in China. Due to the rapid economic development and the influx of migrant workers from rural areas into developed areas, urban population in China has been steadily increasing since the 1990s, according to the Frost & Sullivan Report. China's urban population increased from 731.1 million in 2013 to 813.5 million in 2017, and is expected to further increase to 934.5 million by the end of 2022, according to the Frost & Sullivan Report. To address this shift in population distribution, the Central Committee of the Communist Party of China and the State Council promulgated the "National Plan on New Urbanization" ("國家新型城填化規劃(2014-2020年)") in 2014 to encourage rural workforce to receive appropriate education, acquire technical skills and get employed as skilled workers.

Information Technology and Internet Technology Industry

The economic growth in relevant industries will likely increase the demand for private vocational education. According to the Frost & Sullivan Report, the revenue of China's information technology and internet technology industry increased from RMB5,050.1 billion in 2013 to RMB8,337.8 billion in 2017, representing a CAGR of 13.4%; the employed population increased accordingly, rising from 6.9 million in 2013 to 8.8 million in 2017, representing a CAGR of 6.3%. As a result, the gap between the supply of and the demand for information technology and internet technology talents in China increased from 3.5 million in 2013 to 7.7 million in 2017, representing a CAGR of 21.8% from 2013 to 2017. With the rapid development of information technology and internet technology industry, information technology and internet technology training market also shows a positive growth trend. The demand for the information technology and internet technology talents is expected to continue to grow, thus driving the rapid development of information technology and internet technology training market. The revenue of the information technology and internet technology vocational training market has experienced rapid growth. From 2013 to 2017, the revenue of information technology and internet technology training market increased from RMB18.6 billion to RMB33.2 billion, representing a CAGR of 15.6%, and to RMB60.3 billion in 2022, realizing a CAGR of 12.7%.

Catering Industry

Additionally, according to the Frost & Sullivan Report, the revenue of China's catering industry increased from RMB2,636.8 billion in 2013 to RMB3,964.4 billion in 2017, representing a CAGR of 10.7%. With the prosperity of the catering industry, the supply and demand gap for skilled chefs in the catering industry is likely to grow from 2.2 million for 2017 to 3.1 million for 2022, representing a CAGR of 7.1%. Driven by the flourishing catering industry, government support as well as the attractive salary package of professional chefs, there are an increasing number of students enrolled in culinary vocational training programs. The total revenue of culinary vocational training market has experienced rapid growth. From 2013 to 2017, total revenue of catering training market increased from RMB2.4 billion to RMB4.0 billion, representing a CAGR of 13.6%, and then to RMB6.4 billion in 2022, representing a CAGR of 9.9%.

Auto Services Industry

Furthermore, the employed population in auto services market in China has witnessed a rapid growth in last few years. The employed population increased from 3.0 million in 2013 to 4.4 million in 2017, representing a CAGR of 10.0% from 2013 to 2017. Going forward, the employed population market in China is forecasted to reach 6.8 million in 2022, which represents a CAGR of 8.9% from 2017 to 2022. Therefore, we anticipate the demand for private education in China, including private vocational education, to continue to increase. Accordingly, revenue generated by auto services vocational education in China increased from RMB1,140.0 million in 2013 to RMB2,104.5 million in 2017, representing a CAGR of 16.6%, according to the Frost & Sullivan Report.

The increase in economy and talent demands in relevant industries, together with the potential increase in PRC urban population, and the increasing PRC urban household income and wealth, has also played an important role in the increase in the demand for private vocational education in China.

Student Enrollment Levels

Our revenue primarily depends on the number of students enrolled at our Schools and the level of tuition fees we charge. During the Track Record Period, the average students enrolled at our Schools increased from 105,095 for the year ended December 31, 2016 to 116,603 for the year ended December 31, 2017, and further to 123,957 for the year ended December 31, 2018. Our student enrollment largely depends on a number of factors, including, but not limited to, our Schools' reputation, which is primarily reflected by the quality of education we provide. We believe the educational philosophy of our Schools, the practical educational curriculums we offer, and our high employment rates help us attract students who seek high-quality private education as a pathway to their career success in the future. Moreover, the quality of our teachers is also a major factor, and will continue to play an important role in the future in the success of our Schools. Accordingly, we enforce stringent teacher selection criteria and maintain rigorous training programs for our newly hired and experienced teachers, as well as regular teacher evaluation processes to assess and improve their performance.

Tuition Fees and Service Fees

Our results of operations are affected by the level of tuition fees and service fees we are able to charge. We require students and customers to pay tuition fees and service fees in advance prior to the commencement of each new program. We generally require students of long-term programs to pay tuition fees in advance for the next 12 months and students of short-term programs to pay in advance all of the tuition fees for the program they are enrolled in. We also require customers of Cuisine Academy to pay service fees in advance for the programs they are registered. Tuition fees charged by Schools that offer long-term courses also cover boarding services, and students have the option to live on-campus in dormitories we provide. See "Business — Pricing Policy" in this document. The tuition and service fees we charged are typically based on the demand for our programs, the cost of our operations, the geographic markets where we operate our Schools, the tuition and service fees charged by our competitors, our pricing strategy to gain market share and general economic conditions in China. During the Track Record Period, we raised tuition rates by optimizing our course offerings with more high-end courses with a high demand in the job market at a higher tuition rate. During the Track Record Period, our management department for each brand in our headquarters provides guidance on pricing range on an annual basis to adjust the tuition fee rates of the same program offered by our Schools. Each of our Schools or centers has discretion in determining the tuition rate and service fee rate for the current year which is subject to the approval of the respective management department in our headquarters. For our tuition and service fees information, see "Business — Pricing Policy". As a private vocational education service provider, we are not required to obtain any approval from the government to raise tuition rates. We have full discretion in our own pricing policy as long as we give public notification prior to tuition rate increases. New tuition will only be applicable to newly admitted students and the tuition levels for existing students remain unchanged. While we successfully increased tuition rates at a substantial portion of our Schools during the Track Record Period, there is no guarantee that we will be able to continue to raise tuition rates in the future. See "Risk Factors — Risks Relating to Our Business and Our Industry — Our business and results of operations depend on the level of tuition or service fees we are able to charge and our ability to maintain and raise tuition or service fees" in this document.

Ability to Control Operating Costs and Expenses

Our profitability also depends, in part, on our ability to control our operating costs and expenses. For the years ended December 31, 2016, 2017 and 2018, our cost of revenue represented 43.4%, 45.0% and 47.8% of our total revenue, respectively. Our cost of revenue primarily consists of teaching staff salaries and benefits, student and teaching activity related costs, leasing expenses, campus maintenance and renovation expenses, depreciation and amortization, utilities and office expenses. Our teaching staff salaries and benefits consist of salaries and benefits for our teaching staff. Teaching staff salaries and benefits constitute 30.1%, 29.4% and 30.9% of our total cost of revenue for the years ended December 31, 2016, 2017 and 2018, respectively. Our teaching related consumables and other costs mainly consist of costs of raw materials for skill training, costs of teaching materials, and other costs in relation to our students. Student and teaching activity related costs constitute 28.0%, 27.2% and 24.0% of our total cost of revenue for the years ended December 31, 2016, 2017 and 2018, respectively.

Furthermore, our operating expenses include two major components, namely, selling expenses and administrative expenses. For the years ended December 31, 2016, 2017 and 2018, the total amount of selling expenses and administrative expenses as a percentage of our total revenue from continuing operations was approximately 27.5%, 28.3% and 33.3% respectively. The percentage increased from 2017 to 2018 is primarily due to a significant increase in our selling expenses to promote our brand name and facilitate the student recruitment of our newly established schools as well as a significant increase in our administrative expenses because we hired additional administrative staff and professional consultants to meet the needs of our expanded school network. The operating expenses may continue to increase as we expand our business operations and become a public company. If we are unable to control our costs and expenses, our profitability may be materially and adversely affected.

Expansion of School Network

Our business has experienced significant growth in recent years. The number of our Schools increased from 90 as of December 31, 2016 to 145 as of December 31, 2018. We plan to continue to expand our operations in cities which have a population of over five million in densely populated provinces such as Guangdong, Zhejiang, Jiangsu, Hunan, Hebei, Sichuan, Inner Mongolia and Heilongjiang, which we believe have significant unmet demand for skilled workers in culinary arts, auto services, and information technology and internet technology in China. Establishing new schools poses challenges and requires us to make investments in management, capital expenditures, marketing expenses and other resources. The average payback period and average breakeven period for our new schools range from three to four years and two to three years, respectively. See "Business — Our Business Strategies — Expand school and center net work domestically and internationally" for more details.

During the ramp-up period of a new school, we incur fixed costs relating to staff compensation, costs relating to student and teaching activities, rent, maintenance and renovation, depreciation and amortization, and other miscellaneous expenses, while our revenue is relatively limited because student enrollment numbers are usually low at the initial stage and it takes time to gradually increase the utilization rate of a new school. As a result, new schools negatively impact our overall profitability during their ramp-up periods.

Preferential Tax Treatment

Our results of operations are affected by the preferential tax treatment we receive. During the Track Record Period, our subsidiaries are subject to the PRC EIT at the standard rate of 25%, except for those which were either exempted or entitled to different preferential tax rates pursuant to relevant PRC policies, laws, rules and regulations. Some of our subsidiaries are exempted from EIT according to the *Implementation Rules for the Law for Promoting Private Education*, which allows private schools for which the school sponsors do not require reasonable returns to enjoy the same preferential tax treatment as public schools. 31 subsidiaries are eligible to enjoy the 15% preferential tax rate because they are located in the western region of China pursuant to the "Western Region Development Plan" (西部大開發計劃) promulgated by the State Council of the PRC, or because they were recognized as "high and new technology enterprises" by relevant authorities.

The discontinuation of any preferential tax treatment currently available to us would cause our effective tax rate to increase, which would increase our tax expenses and reduce our net profit. See "Risk Factors — Risks Relating to Conducting Business in China — The discontinuation of any preferential tax treatments currently available to us, in particular the tax exempt status of certain of our Schools, could materially and adversely affect our results of operations." in this document for details. In addition, our overseas school and future overseas expansion plan may subject us to tax obligations in foreign jurisdictions and potentially affect our results of operations.

CRITICAL ACCOUNTING POLICIES, JUDGMENTS AND ESTIMATES

The methods, estimates and judgments we use in applying our accounting policies have a significant impact on our financial position and operating results. Some of the accounting policies require us to apply estimates and judgments on matters that are inherently uncertain. We have consistently applied the accounting policies issued by the HKICPA which are effective for the financial year beginning on January 1, 2018 throughout the Track Record Period. We have adopted HKFRS 9 "Financial Instruments" and HKFRS 15 "Revenue from Contracts with Customers" on a consistent basis throughout the Track Record Period. Our Directors are of the view that the HKFRS 9 and HKFRS 15 had no significant impact on the financial position and performance of our Group when compared to that of HKAS 39 "Financial Instruments: Recognition and Measurement" and HKAS 18 "Revenue". Set forth below are discussions of the accounting policies applied in preparing our financial information that we believe are most dependent on the application of these estimates and judgments and, in addition, certain other accounting policies that we believe are material to an understanding of our financial information. For details of these critical accounting policies, judgements and estimates, and other significant accounting policies, judgements and estimates we applied in preparing our financial information, see Accountants' Report of the Group in Appendix I to this document.

Revenue Recognition

Revenue is recognized to reflect the transfer of promised services to customers in an amount that reflects the consideration to which we expect to be entitled in exchange for our services. We recognize revenue when (or as) a performance obligation is satisfied, i.e., when "control" of the services underlying the particular performance obligation representing tuition and ancillary services are transferred to the students.

Tuition and service fees are generally paid in advance at the beginning of each program, and are initially recorded as contract liabilities. Tuition and service fees are recognized over time with reference to the progress towards complete satisfaction of the relevant performance obligation regarding the applicable courses regardless of the length of the program. The portion of tuition and service fee payments received from students and customers but not earned is recorded as contract liabilities and is reflected as a current liability as such amounts represent revenue that we expect to earn within one year. We have tuition fee refund policies in place at our Schools for students who withdraw from our courses. See "Business — Pricing Policy — Student/Customer Withdrawal and Refund Policy" for details.

Property and Equipment

Property and equipment, including buildings, held for use in the production or supply of services or for administrative purposes (other than properties under construction as described below) are stated at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognized impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalized in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognized so as to write off the cost of items of property and equipment, other than construction in progress, less their residual values over their estimated useful lives using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis. During the Track Record Period, we did not have any material write off.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from "profit before tax" as reported in the consolidated statement of profit or loss and other comprehensive income because it excludes items of income and expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the 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 asset to be recovered.

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

Government Grants

Government grants are not recognized until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognized in profit or loss on a systematic basis over the periods in which the Group recognizes as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognized as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognized in profit or loss in the period in which they become receivable. See "— Key Components of Our Results of Operations — Continuing Operations — Other Income" in this section for details.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Operating lease payments, including the cost of acquiring land held under operating leases, are recognized as an expense on a straight-line basis over the lease term.

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortized over the lease term on a straight-line basis. When the payments cannot be allocated reliably between the leasehold land and building elements, the entire property is generally classified as if the leasehold land is under finance lease.

RESULTS OF OPERATIONS

The following table presents our consolidated statements of profit or loss and other comprehensive income for the years indicated:

	Year ended December 31,		
	2016	2017	2018
	(RMB'000)	*(RMB'000)*	*(RMB'000)*
Continuing operations			
Revenue	2,335,730	2,850,165	3,264,964
Cost of revenue	(1,014,265)	(1,281,339)	(1,559,856)
Gross profit	1,321,465	1,568,826	1,705,108
Other income	21,578	34,403	61,827
Other gains and losses	26,704	59,809	58,089
Selling expenses	(363,889)	(456,926)	(648,032)
Administrative expenses	(277,798)	(349,936)	437,863
[**REDACTED**]	—	—	(23,873)
Research and development expenses	(8,403)	(24,021)	(28,252)
Profit before taxation	719,657	832,155	687,004
Income tax expense	(132,278)	(170,965)	(171,863)
Profit and total comprehensive income for the year from continuing operations	587,379	661,190	515,141
Discontinued operation			
Loss and total comprehensive expense for the year from discontinued operation	(21,901)	(19,569)	(5,048)
Profit and total comprehensive income for the year	565,478	641,621	510,093
Profit (loss) and total comprehensive income (expenses) for the year attributable to owners of the Company			
— from continuing operations	587,379	661,190	515,141
— from discontinued operation	(21,901)	(19,569)	(5,048)
	565,478	641,621	510,093

Our new Schools and centers generally incur significant fixed costs while their initial revenue is limited due to the relatively small number of student enrollment or customer registration in their ramp-up periods, which typically range from two to three years on average. Therefore, new Schools and centers generally have a negative impact on our gross profit, net profit and the relevant profit margins which may give the investors an inaccurate impression of the performance of our Schools and centers. In the table below, new Schools and centers in a period mainly represent Schools and centers that began to generate revenue for the first time during the period. The following table is presented because our management believes that such information will be helpful for investors to assess our performance and the profitability of our Schools and centers that had been in relatively stable operations for an extended period of time.

	Year ended December 31,		
	2016	2017	2018
	(RMB'000)	*(RMB'000)*	*(RMB'000)*
Profit and total comprehensive income for the year from continuing operations	587,379	661,190	515,141
Profit/(loss) in relation to new schools/centers:			
Aggregate net profit/(loss) of new Schools/centers that commenced to generate revenue in 2015(1)	(10,912)	5,864	11,431
Aggregate net profit/(loss) of new Schools/centers that commenced to generate revenue in 2016(1)	(21,373)	(7,505)	(37,727)
Aggregate net profit/(loss) of new Schools/centers that commenced to generate revenue in 2017(1)	—	(116,314)	(115,592)
Aggregate net profit/(loss) of Schools/centers that commenced to generate revenue in 2018(1)	—	—	(81,324)

Notes:

(1) These new Schools disclosed in the above table does not take into account the 11 technical schools (技工學校) that commenced to generate revenue from 2015 to 2018 as they did not go through the initial ramp-up period ranging from six months to 18 months.

Our new Schools/centers that commenced to generate revenue in 2015 incurred net losses for 2016, began to generate a net profit for 2017 and their profitability continued to improve in 2018 compared with 2017. Our new Schools/centers that commenced operations in 2016 recorded a decrease in net loss for 2017 but had an increase in net losses for 2018 primarily because we opened 16 new Schools under our Wisezone brand in 2016 and the profitability of these Wisezone schools decreased between these periods. The growth rates of the fixed costs incurred by these new Schools were much higher than the growth rate of revenue during the Track Record Period. See "— Key Components of Our Results of Operations — Continuing Operations — Gross Profit and Gross Profit Margin" below for details.

We had 32 Schools of New East Culinary Education, 19 Schools of Xinhua Internet Technology Education and 12 Schools of Wontone Automotive Education, which commenced operations before 2015. We did not operate any Schools or centers under Omick Education of Western Cuisine and Pastry, Wisezone Data Technology Education and Cuisine Academy before 2015. The following table sets forth a breakdown of the gross profit and gross profit margin of the Schools that commenced operations before 2015 by brand for the years indicated:

	Year ended December 31,					
	2016		2017		2018	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
		%		%		%
	(RMB'000 except percentages)					
Gross profit from continuing operations						
New East[1]	746,735	57.3	914,188	60.2	855,830	55.7
Xinhua Internet[2]	253,661	51.7	279,078	51.6	343,745	56.7
Wontone[3]	184,456	52.9	190,269	51.5	198,159	53.1
Total	1,184,852	55.3	1,383,535	57.0	1,397,734	55.6

Notes:

(1) The gross profit margin of New East Culinary Education increased from 2016 to 2017 primarily because the operations of newly established Schools became mature after the initial ramp-up period, and decreased in 2018 primarily because the rent and amortisation of construction cost of certain Schools increased slightly but the revenue generated remained relatively stable.

(2) The gross profit margin of Xinhua Internet Technology Education increased from 2017 to 2018 primarily due to increases in the average students enrolled and the tuition fee rates, which resulted in increases in our revenue while our cost of revenue remained relatively stable.

(3) The gross profit margin of Wontone Automotive Education decreased from 2016 to 2017, primarily due to the growth of our new student enrollment slowed down but cost of revenue increased due to the expansion, and increased in 2018 primarily due to a decrease in cost of revenue and other expenses as we enhanced our cost control measures, including budget control measures and strengthened cost management at the group level.

KEY COMPONENTS OF OUR RESULTS OF OPERATIONS

Continuing Operations

Revenue

During the Track Record Period, we derived revenue primarily from (i) tuition fees paid by students from each of our Schools, which include, as applicable, boarding services and test preparation and training services for professional certificate examinations; (ii) service fees collected by Cuisine Academy from customers; and (iii) fees for other ancillary services we provide, including staff outsourcing services and logistics management services. Generally, we require students of long-term programs to pay tuition fees in advance for the next 12 months and students of short-term programs to pay in advance all of the tuition fees for the programs they are enrolled in. We also require customers of Cuisine Academy to pay service fees in advance for the programs they are registered. For the years ended December 31, 2016, 2017 and 2018, we generated total revenue from continuing operations of RMB2,335.7 million, RMB2,850.2 million, and RMB3,265.0 million, respectively.

During the Track Record Period, we operated our business under five school brands, namely, New East Culinary Education, Xinhua Internet Technology Education, Wontone Automotive Education, Omick Education of Western Cuisine and Pastry and Wisezone Data Technology Education. We also offered customized catering experience services through Cuisine Academy. The following table sets forth a breakdown of our revenue from continuing operations by business segment for the periods indicated:

	Year ended December 31,					
	2016		2017		2018	
	Revenue	% of Total	Revenue	% of Total	Revenue	% of Total
	(RMB'000 except percentages)					
Revenue from continuing operations						
New East	1,432,112	61.3	1,738,743	61.0	1,900,126	58.2
Xinhua Internet	480,533	20.6	542,249	19.0	604,413	18.5
Wontone	354,256	15.2	419,347	14.7	444,305	13.6
Omick	—	—	74,838	2.6	213,256	6.5
Wisezone	53,188	2.3	64,139	2.3	70,076	2.2
Cuisine Academy	—	—	333	—	20,797	0.6
Other Miscellaneous Businesses[1]	15,641	0.6	10,516	0.4	11,991	0.4
Total[2]	2,335,730	100	2,850,165	100	3,264,964	100

Notes:

(1) Other miscellaneous businesses primarily include revenue from the internet technology solution and staff outsourcing services provided by Langjie Technology to Independent Third Parties.

(2) The total revenue and percentages do not include inter-segment sales which are eliminated upon consolidation.

The following table sets forth a breakdown of our revenue from continuing operations by source for the periods indicated:

	Year ended December 31,					
	2016		2017		2018	
	Revenue	% of Total	Revenue	% of Total	Revenue	% of Total
	(RMB'000 except percentages)					
Revenue from continuing operations						
Tuition fees and service fees[1]	2,320,089	99.3	2,839,649	99.6	3,252,973	99.6
Other miscellaneous businesses[2]	15,641	0.7	10,516	0.4	11,991	0.4
Total	2,335,730	100	2,850,165	100	3,264,964	100

Notes:

(1) Tuition fees are primarily generated from our vocational education services. Service fees are mainly generated from customized catering experience services offered by Cuisine Academy.

(2) Other miscellaneous businesses primarily include revenue from the internet technology solution and staff outsourcing services provided by Langjie Technology to Independent Third Parties.

The following table sets forth the new student enrollments in our long-term programs and short-term programs under each brand for the years ended December 31, 2016, 2017 and 2018:

		Year ended December 31,		
Segments and Brands	**New Student Enrollment[1]**	**2016**	**2017**	**2018**
CULINARY ARTS				
New East	Long-term	38,645	40,929	35,939
	— One to less than two years	9,350	8,669	7,274
	— Two to less than three years	27,001	28,725	23,310
	— Three years	2,294	3,535	5,355
	Short-term[2]	26,661	31,013	35,396
	Subtotal	**65,306**	**71,942**	**71,335**
Omick	Short-term[2]	—	2,788	9,180
	Subtotal	**—**	**2,788**	**9,180**

Segments and Brands	New Student Enrollment[1]	Year ended December 31, 2016	2017	2018
INFORMATION TECHNOLOGY AND INTERNET TECHNOLOGY				
Xinhua Internet	Long-Term	14,409	15,815	21,380
	— One to less than two years	633	1,103	1,203
	— Two to less than three years	8,664	8,203	11,604
	— Three years	5,112	6,509	9,113
	Short-term[2]	2,834	3,554	3,035
	Subtotal	**17,243**	**19,369**	**24,415**
Wisezone	Short-term[2]	3,465	3,573	4,558
	Subtotal	**3,465**	**3,573**	**4,558**
AUTO SERVICES				
Wontone	Long-term	9,805	9,685	11,780
	— One to less than two years	2,436	2,340	2,291
	— Two to less than three years	5,179	5,254	5,604
	— Three years	2,190	2,091	3,885
	Short-term[2]	4,644	6,518	8,483
	Subtotal	**14,449**	**16,203**	**20,263**
Total	Long-Term	62,859	66,429	69,099
	— One to less than two years	12,419	12,112	10,768
	— Two to less than three years	40,844	42,182	39,978
	— Three years	9,596	12,135	18,353
	Short-term[2]	37,604	47,446	60,652
	Total	**100,463**	**113,875**	**129,751**
Cuisine Academy[2]	Number of new customers	—	146	5,778

Notes:

(1) New student enrollment represents the total number of students newly enrolled at our operating schools during the period indicated. We use new student enrollment to assess our ability of student recruitment and the popularity of our programs.

(2) We commenced operations of Cuisine Academy in 2017. Number of new customers represent the total number of new customers attending our customized catering experience programs of Cuisine Academy during the period indicated.

For the year ended December 31, 2018, 5,778 new customers, respectively, participated in the customized catering experience centers under Cuisine Academy.

The following table sets forth the average students enrolled in our long-term programs and short-term programs for the years indicated:

Segments and Brands	Average Students Enrolled[1]	Year ended December 31, 2016	2017	2018
CULINARY ARTS				
New East	Long-term	54,846	64,549	64,376
	— One to less than two years	9,210	9,252	7,596
	— Two to less than three years	43,670	51,609	50,496
	— Three years	1,966	3,688	6,284
	Short-term[2]	7,276	6,631	4,765
	Subtotal	**62,122**	**71,180**	**69,141**[3]
Omick	Short-term[2]	—	1,114	3,106
	Subtotal	**—**	**1,114**	**3,106**
INFORMATION TECHNOLOGY AND INTERNET TECHNOLOGY				
Xinhua Internet	Long-term	22,798	24,234	30,356
	— One to less than two years	809	950	1,189
	— Two to less than three years	15,624	14,840	16,087
	— Three years	6,365	8,444	13,080
	Short-term[2]	966	747	667
	Subtotal	**23,764**	**24,981**	**31,023**
Wisezone	Short-term[2]	1,138	1,165	1,364
	Subtotal	**1,138**	**1,165**	**1,364**

Segments and Brands	Average Students Enrolled[1]	Year ended December 31, 2016	2017	2018
AUTO SERVICES				
Wontone	Long-term	16,693	16,347	17,511
	— One to less than two years	2,802	2,241	2,653
	— Two to less than three years	10,748	10,169	10,055
	— Three years	3,143	3,937	4,803
	Short-term[2]	1,378	1,753	1,812
	Subtotal	**18,071**	**18,100**	**19,323**
Total	Long-term	94,337	105,130	112,243
	— One to less than two years	12,821	12,443	11,438
	— Two to less than three years	70,042	76,618	76,638
	— Three years	11,474	16,069	24,167
	Short-term[2]	10,758	11,410	11,714
	Total	**105,095**	**116,540**	**123,957**
Cuisine Academy	Average number of customers registered[3]	—	63	577

Note:

(1) As our Schools provide various vocational training education programs during a year and the course length and commencement of our long-term and short-term programs are different, we believe that the average students enrolled is a measure that is comparable to that of our competitors and therefore can more fairly present our ranking and market position in the industry. Our average students enrolled for a year is only an approximation, representing the sum of the number of students enrolled at our operating Schools at the end of each month divided by the number of months during such period, without taking into account any transfer or withdrawal.

(2) The average students enrolled of short-term programs include students enrolled in programs shorter than one month which are regarded as one-month programs for the calculation.

(3) The average students enrolled under New East Culinary Education decreased from 71,180 for the year ended December 31, 2017 to 69,141 for the year ended December 31, 2018 is primarily due to a decrease in average students enrolled of short-term programs. For the decrease in short-term programs, it was because the number of students enrolled of short-term programs longer than three months decreased.

(4) Our average number of customers registered for a year represents the sum of the number of customers registered at Cuisine Academy at the end of each month divided by the number of months during such period, without taking into account any withdrawal.

For the year ended December 31, 2018, we had an average of 577 customers participating in the customized catering experience centers under Cuisine Academy.

Due to the different income and consumption levels in different areas of China, the tuition fee rates and service fee rates we charge vary across geographical markets. The following table sets forth ranges of our tuition fee rates under each school brand and service fee rates of Cuisine Academy for the years indicated:

Segments and Brands		Tuition/Service fees 2016[(1)]	2017[(1)]	2018[(1)]
		(RMB per year for long-term program, RMB per program for short-term program/program in Cuisine Academy, unless otherwise indicated)		
CULINARY ARTS				
New East	**Long-term**	10,400-34,500	11,400-36,800	5,600-76,000
	Short-term[(2)]	1,200-18,100	1,200-58,000[(3)]	800-58,000[(3)]
Omick	**Short-term[(2)]**	—	9,000-47,000	5,000-50,000
INFORMATION TECHNOLOGY AND INTERNET TECHNOLOGY				
Xinhua Internet	**Long-term**	5,980-35,800	6,680-39,800	6,680-37,800[(4)]
	Short-term[(2)]	1,900-22,590	800-28,800	800-29,300
Wisezone	**Short-term[(2)]**	2,000-14,800	2,000-29,800	999-26,800
AUTO SERVICES				
Wontone	**Long-term**	12,800-36,800	6,680-38,500	4,800-38,500
	Short-term[(2)]	680-32,600	680-37,400	800-37,400
Cuisine Academy[(4)]	**Customized catering experience program**	—	360-16,000	1,980-18,800

Notes:

(1) We charge tuition fees to students enrolled at our schools. Tuition fees of our long-term programs are charged based on the yearly tuition standards of different programs that students enrolled in such year.

(2) Tuition fees of our short-term programs are charged by each program that students enrolled in.

(3) Tuition fees of our HK New Oriental generally ranged from HKD500 to HKD27,500 in 2017 and from HKD580 to HKD28,500 in 2018.

(4) The high-end of the tuition fee we charged for the long-term programs of Xinhua Internet decreased from RMB39,800 in 2017 to RMB37,800 in 2018 mainly because we ceased to offer the course which charged RMB39,800 per year in 2018.

(5) We charge customers service fees by each program they registered in Cuisine Academy.

Cost of Revenue

Our cost of revenue consists of teaching staff salaries and benefits, teaching related consumables and other costs, leasing expenses, campus maintenance and depreciation, utilities and office expenses. Teaching staff salary and benefits consist of salaries and benefits for our teaching staff. Teaching related consumables and other costs primarily consist of costs of raw materials for skills training, costs of teaching materials, and other costs in relation to our students. Leasing expenses primarily consist of rental fees we pay to rent the premises of our Schools. Campus maintenance and depreciation primarily consist of expenses we incur for the maintenance and renovation of our school campuses and facilities as well as depreciation and amortization for our school facilities and teaching equipment. Utilities represent the utility costs incurred by our Schools. Office expenses primarily consisted of office equipment expenses, meeting expenses and other office overhead costs. Our cost of revenue was RMB1,014.3 million, RMB1,281.3 million and RMB1,559.9 million for the years ended December 31, 2016, 2017 and 2018, respectively.

The following table sets forth a breakdown of our cost of revenue for the periods indicated:

	Year ended December 31,					
	2016		2017		2018	
	Cost	% of Total	Cost	% of Total	Cost	% of Total
	(RMB'000 except percentages)					
Teaching staff salaries and benefits	305,784	30.1	376,417	29.4	481,354	30.9
Teaching related consumables and other costs	283,679	28.0	348,354	27.2	374,495	24.0
Leasing expenses	158,268	15.6	217,042	16.9	274,154	17.6
Campus maintenance and depreciation	178,500	17.6	239,728	18.7	317,866	20.4
Utilities	40,788	4.0	52,300	4.1	71,523	4.6
Office expenses	47,246	4.7	47,498	3.7	40,464	2.5
Total	1,014,265	100.0	1,281,339	100.0	1,559,856	100.0

Sensitivity Analysis

The following table sets out a sensitivity analysis of: (i) the effect of the fluctuations of tuition fees and service fees during the Track Record Period, and (ii) the effect of the fluctuations of our teaching staff salaries and benefits during the Track Record Period, assuming no change of depreciation and amortization or any other costs. The sensitivity analysis involving tuition fees, service fees, teaching staff salaries and benefits is hypothetical in nature and we assume that all other variables remain constant. The following sensitivity analysis is for illustrative purposes only, which indicates the potential impact on our profitability during the Track Record Period if the relevant variables increased or decreased to the extent illustrated. To illustrate the potential effect on our financial performance, the sensitivity analysis below shows the potential impact on our profit for the year with a 5% and 10% increase or decrease in revenue from tuition fees, service fees, teaching staff salaries and benefits. While none of the hypothetical fluctuation ratios applied in the sensitivity analysis equals the historical fluctuations of the tuition, service fees, teaching related costs, we believe that the application of hypothetical fluctuations of 5% and 10% in the tuition and service fees income and teaching staff costs presents a meaningful analysis of the potential impact of changes in the tuition, service fees, teaching staff salaries and benefits on our revenue and profitability.

	Year ended December 31,		
	2016	2017	2018
		(RMB'000)	
Tuition and service fees income (decrease)/increase	**Impact on our profit for the year**		
(10)%	(232,009)	(283,965)	(325,297)
(5)%	(116,004)	(141,982)	(162,649)
5%	116,004	141,982	162,649
10%	232,009	283,965	325,297
Teaching staff salaries and benefits (decrease)/increase	**Impact on our profit for the year**		
(10)%	30,578	37,642	48,135
(5)%	15,289	18,821	24,068
5%	(15,289)	(18,821)	(24,068)
10%	(30,578)	(37,642)	(48,135)

Gross Profit and Gross Profit Margin

Gross profit represents our revenue less cost of revenue. Our gross profit margin represents our gross profit as a percentage of our revenue. For the years ended December 31, 2016, 2017 and 2018, our gross profit was RMB1,321.5 million, RMB1,568.8 million, and RMB1,705.1 million, respectively, and our gross profit margin was 56.6%, 55.0% and 52.2%, respectively. Our gross profit margin decreased from 56.6% for the year ended December 31, 2016 to 55.0% for the year ended December 31, 2017 and further to 52.2% for the year ended December 31, 2018 as we operated 36 new Schools and six centers for the year ended December 31, 2017 and 19 new Schools and 12 new centers for the year ended December 31, 2018. Generally, the establishment of new schools has a negative impact on our gross profit margin. During the initial ramp-up period after a new school commences operations, we incur substantial fixed costs for teaching staff salaries and benefits, leasing expenses, and other fixed costs while initial revenue from the new school is limited due to the relatively small beginning number of student enrollment.

The table below sets forth a breakdown of our gross profit and gross profit margin by brand for the years indicated:

	Year ended December 31,					
	2016		2017		2018	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	(RMB'000 except percentages)					
Continuing operations						
New East	826,305	57.7%	1,029,223	59.2%	1,073,709	56.5%
Xinhua Internet	266,272	55.4%	302,337	55.8%	362,584	60.0%
Wontone	197,890	55.9%	216,611	51.7%	197,652	44.5%
Omick	—	—	5,890	7.9%	73,354	34.4%
Wisezone	22,390	42.1%	13,342	20.8%	3,297	4.7%
Cuisine Academy	—	—	(2,664)	-800.0%	(10,257)	-49.3%
Other Miscellaneous Businesses(1)	8,608	55.0%	4,087	38.9%	4,769	39.8%
Total	1,321,465	56.6%	1,568,826	55.0%	1,705,108	52.2%

(1) Other miscellaneous businesses primarily include gross profit derived from the internet technology solution and staff outsourcing services provided by Langjie Technology to Independent Third Parties.

New East Culinary Education's gross profit margin increased from 57.7% in 2016 to 59.2% in 2017 because the growth in its revenue outpaced the increase in its cost of revenue due to the improvement of its operational efficiency. New East Culinary Education's gross profit margin decreased from 59.2% for 2017 to 56.5% for 2018 primarily because in addition to the five newly established Schools that commenced operations in 2017, four newly established Schools in this segment began operations in 2018 and negatively impacted the gross profit margin.

Xinhua Internet Technology Education's gross profit margin remained relatively stable from 2016 to 2017 because its Schools generally have relatively long operating histories and stable results of operations. Xinhua Internet Technology Education's gross profit margin increased from 55.8% for 2017 to 60.0% for 2018 primarily because the average students enrolled increase from 24,981 for the year ended December 31, 2017 to 31,023 for the year ended December 31, 2018.

Wontone Automotive Education's gross profit margin decreased from 55.9% for 2016 to 51.7% for 2017 primarily because in 2017 eight newly established Schools in this segment began operations and negatively impacted the gross profit margin in 2017. Wontone Automotive Education's gross profit margin decreased from 51.7% for 2017 to 44.5% for 2018 primarily because in addition to the eight newly established Schools that commenced operations in 2017, four newly established Schools in this segment began operations in 2018 and negatively impacted the gross profit margin for the relevant period in 2018.

Omick Education of Western Cuisine and Pastry's gross profit margin increased from 7.9% for 2017 to 34.4% for 2018 primarily because of the increase of average students enrolled as a result of the commencement of operations of new Schools and more investment in advertisement for this brand.

Wisezone Data Technology Education's gross profit margin fluctuated during the Track Record Period because this business segment was still evolving and had limited operational record and brand awareness. Wisezone Data Technology Education's gross profit margin decreased from 42.1% for the year ended December 31, 2016 to 20.8% for the year ended December 31, 2017, and further decreased to 4.7% for the year ended December 31, 2018, primarily as a result of increases in staff costs and rental fees for school premises. Wisezone Data Technology Education leased additional school premises and hired more teachers to expand its business. As a result the fixed costs increased significantly but revenue was relatively limited at the initial stage, resulting in a decrease in gross profit margin. The following table sets forth the main items of the fixed costs incurred and revenue generated from Wisezone Data Technology Education for the years indicated:

	Year Ended December 31,		
	2016	**2017**	**2018**
		(RMB'000)	
Fixed costs			
Staff salaries and benefits.	9,903	20,051	25,846
Leasing expenses..	7,165	11,910	17,284
Depreciation and amortization	699	3,553	5,310
Revenue			
Wisezone Data Technology Education	53,188	64,139	70,076

We made continuous investments in the brand of Wisezone Data Technology Education during the Track Record Period to promote its future development and drive sustainable, profitable growth for our Group. However, due to the fierce competition and limited brand awareness of Wisezone Data Technology Education in the vocational training market, the growth rates of the fixed costs incurred were much higher than the growth rate of revenue during the Track Record Period. For example, the staff salaries and benefits increased 102.5% from 2016 to 2017, and further increased 28.9% in 2018. However, the revenue generated from Wisezone Data Technology Education increased 20.6% from 2016 to 2017, and further increased 9.3% in 2018. Going forward, we plan to enhance our cooperation with junior colleges, universities and enterprises to attract more students and train customized talents for enterprises.

Cuisine Academy incurred losses for 2017 and 2018 primarily because we commenced our operations of Cuisine Academy in 2017 and incurred significant fixed costs at the beginning but the revenue was still limited at the initial stage of operations.

Other Income

Other income consists of asset-related government grants, unconditional government grants, interest income from banks, interest income from related parties, interest income from third parties, and others. The following table sets forth the breakdown of our other income for the years indicated:

	Year ended December 31,		
	2016	2017	2018
		(RMB'000)	
Continuing operations			
Asset-related government grants	2,176	1,146	1,274
Unconditional government grants	8,781	15,076	35,519
Interest income from banks	9,034	16,959	23,954
Others[(1)]	1,587	1,222	1,080
Total	21,578	34,403	61,827

Note:

(1) Others primarily include income generated from disposal of waste products.

During the Track Record Period, we received certain asset-related government grants, which were granted to us for procuring land to build practical skills training facilities and to purchase practical skills training equipment. For the years ended December 31, 2016, 2017 and 2018, revenue derived from asset-related government grants was RMB2.2 million, RMB1.1 million and RMB1.3 million, respectively. During the Track Record Period, we also received certain unconditional government grants, which were used by local governments to encourage the development of vocational education in those areas. Certain local governments provided unconditional grants to vocational education providers like us for the numbers of student we trained each year. For the years ended December 31, 2016, 2017 and 2018, the amount of unconditional government grants was RMB8.8 million, RMB15.1 million and RMB35.5 million, respectively. The amount of unconditional government grants increased from RMB15.1 million for the year ended December 31, 2017 to RMB35.5 million for the year ended December 31, 2018 is primarily because of the increase of average students enrolled and more policies of government grants issued by local governments.

Other Gains and Losses

Our other gains and losses consist of net gain on financial assets at FVTPL and losses or gains on disposals of property and equipment. The following table sets forth the breakdown for the years indicated:

	Year ended December 31,		
	2016	**2017**	**2018**
		(RMB'000)	
Continuing operations			
Net gains on financial assets at FVTPL	27,457	61,077	58,003
(Losses) gains on disposals of property and equipment	(753)	(1,268)	86
Total	26,704	59,809	58,089

Selling Expenses

Selling expenses primarily consist of sales and marketing staff salaries and benefits, advertising expenses, sales and market costs, travel expenses, depreciation and amortization, and others. Sales and marketing staff salaries and benefits consist of salaries and benefits for our marketing staff, salespersons, and other staff in other marketing and publicity functions. Advertising expenses include expenses for our commercials placed on various platforms such as the internet, television, and outdoor billboards, as well as related costs such as website designing and maintenance expenses, and other expenses related to advertising activities. Student recruitment and office expenses are primarily for promotional brochures and other items used for sales and marketing activities. Travel expenses relate to expenses our sales and marketing staff incurred for business travel. Depreciation and amortization expenses relate to depreciation and amortization of our assets used for sales and marketing activities. Others primarily consist of other overhead expenses in connection with sales and marketing activities.

The following table sets forth the breakdown of our selling expenses for the years indicated:

	Year ended December 31,		
	2016	2017	2018
		(RMB'000)	
Sales and marketing staff salaries and benefits	115,988	159,151	249,303
Advertising expenses	224,622	263,695	354,451
Student recruitment and office expenses	13,562	21,294	26,440
Sales and marketing travel expenses	4,959	6,204	8,538
Depreciation and amortization	3,137	4,308	6,455
Others	1,621	2,274	2,845
Total	363,889	456,926	648,032

Administrative Expenses

Administrative expenses primarily consist of salaries and benefits for administrative staff, depreciation and amortization, administrative office expenses, professional consulting service expenses, transportation costs, meeting expenses, travel expenses, leasing expenses, bank charges and others. Salaries and benefits for administrative staff represent salaries and benefits paid to our staff in an administrative function. Depreciation and amortization expenses are for the depreciation and amortization of our assets used for general office administrative purposes. Professional consulting service expenses represent fees we paid to professional parties for consulting, legal and auditing services rendered. Transportation costs represent costs incurred for local transportation in connection with administrative activities. Meeting expenses represent expenses for various meetings we organized or participated in. Travel expenses represent expenses incurred by our administrative personnel for business travels. Leasing expenses are for renting our administrative offices. Bank charges represent miscellaneous charges by our banks. Others primarily include fees we paid to recruiting websites to recruit teachers and other staff and miscellaneous administrative tax expenses.

The following table sets forth the breakdown of our administrative expenses for the years indicated:

	Year ended December 31,		
	2016	2017	2018
		(RMB'000)	
Administrative staff salaries and benefits	173,605	213,101	271,573
Depreciation and amortization	27,639	38,921	54,308
Administrative office expenses	33,859	42,440	52,737
Professional consulting service expenses	3,841	5,391	8,027
Transportation costs	12,546	13,996	13,749
Meeting expenses	6,333	7,499	7,646
Travel expenses	9,762	11,587	11,537
Leasing expenses	3,812	6,624	4,811
Banking charges	2,454	3,433	5,142
Others (1)	3,947	6,944	8,333
Total	277,798	349,936	437,863

Note:

(1) Others primarily include fees we paid to recruiting websites to recruit teachers and other staff and miscellaneous administrative tax expenses.

[**REDACTED**]

We incurred RMB[**REDACTED**] of expenses in relation to the [**REDACTED**] for the year ended December 31, 2018, which primarily consist of fees paid to professional parties. We did not incur any [**REDACTED**] for the years ended December 31, 2016 and 2017.

Income Tax Expenses

PRC Income Tax

Our subsidiaries established in China were subject to the PRC EIT of 25% during the Track Record Period, except for subsidiaries which were either exempted from tax or entitled to different preferential tax rates during the Track Record Period. For further details, see note eight to the Accountants' Report set out in Appendix I to this document.

According to the Implementation Rules for the Law for Promoting Private Education, private schools for which the school sponsors do not require reasonable returns are eligible to enjoy the same preferential tax treatment as public schools. As a result, private schools, which are providing academic qualification education, are eligible to enjoy income tax exemption treatment if the school sponsors of such schools do not require reasonable returns. During the Track Record Period, our six existing not-for-profit private Schools located in Hebei, Jiangxi and Jiangsu provinces have received EIT exemption confirmations/approvals from relevant local tax authorities.

- Two subsidiaries of the Company are entitled to the preferential tax rate of 15% because they are recognized as the high and new technology enterprises by the local governments in China.

- 29 subsidiaries of the Company are entitled to the preferential tax rate of 15% because they are located in the western region of China.

Our effective tax rate was 18.4%, 20.5% and 25.0% for the years ended 2016, 2017 and 2018, respectively. Effective tax rate is calculated by dividing the income tax expenses by profit before tax. Our effective tax rate increased for the year ended December 31, 2017 compared to the year ended December 31, 2016 mainly because we operated 36 new Schools and six new centers in 2017 which incurred losses in their initial year of operations. The profit before tax of our Group was reduced by the losses incurred by the new Schools and centers, but profit generated from our existing profitable Schools and centers was still subject to EIT of the PRC without being affected by the losses incurred by our new Schools and centers. Our effective tax rate increased for the year ended December 31, 2018 compared to the year ended December 31, 2017 mainly because we operated 19 new Schools and 12 new centers in 2018. Together with the Schools and centers established in 2017 which incurred losses in 2018, there were more Schools and centers incurred losses for the year ended December 31, 2018 than that of 2017.

The following table sets forth our current PRC EIT from continuing operation and deferred tax charge information:

	Year ended December 31,		
	2016	**2017**	**2018**
		(RMB'000)	
Continuing operations			
PRC EIT			
— Current tax	132,917	171,235	171,010
Deferred tax charge (credit)	(639)	(270)	853
Total	132,278	170,965	171,863

Our current PRC EIT from continuing operation increased from RMB132.9 million for the year ended December 31, 2016 to RMB171.2 million for the year ended December 31, 2017, primarily due to the increases in our taxable profit. Our deferred tax credit increased from RMB0.3 million for the year ended December 31, 2017 to deferred tax charge of RMB0.9 million for the year ended December 31, 2018, primarily due to an increase in advertisement fees we incurred, which are tax deductible expenses.

According to the relevant laws and regulations promulgated by the State Administration of Taxation of the PRC that was effective from 2008 onwards, enterprises engaging in research and development activities are entitled to claim 150% of certain of research and development expenses so incurred as tax deductible expenses when determining their assessable profits for the year. We have made its best estimate for the additional deduction to be claimed for our entities in ascertaining their assessable profits during the Track Record Period.

Cayman Islands Income Tax

Our 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.

Hong Kong Profit Tax

No provision for Hong Kong profits tax has been made as we had no assessable profits derived from or earned in Hong Kong.

Discontinued Operation

We disposed of a group of subsidiaries consisting of (i) six companies located in Hefei, Nanjing, Xi'an, Chongqing and Changsha, respectively, which were all engaged in the operation of automobile driving training schools; and (ii) Miwei Technology, which operated two mobile applications at the time of its disposal. Except for Hefei Xin'an, the disposal of these companies were completed in or before December 2018. The disposal of Hefei Xin'an is expected to be completed before the [**REDACTED**]. We disposed of these businesses in order to focus our resources and management attention on our five primary brands and customized catering service centers. See "History and Corporate Structure – Corporate Reorganization – 3. Disposal of equity interests or school sponsor's interests in subsidiaries engaged in non-core businesses" in this document for details.

The results of the discontinued operation for the years are set out below:

	Year ended December 31,		
	2016	2017	2018
		(RMB'000)	
Revenue	52,702	40,184	24,269
Cost of revenue	(52,264)	(44,514)	(24,035)
Gross profit (loss)	438	(4,330)	234
Other income	(214)	267	392
Selling expenses	(9,829)	(7,139)	(4,256)
Administrative expenses	(12,671)	(8,367)	(5,776)
Loss before taxation from discontinued operation	(22,276)	(19,569)	(9,406)
Income tax credit	375	—	—
Loss for the year from discontinued operation	(21,901)	(19,569)	(9,406)
Loss for the year from discontinued operation include the followings:			
Staff costs			
— salaries and other allowances	30,450	23,963	13,459
— retirement benefit scheme contributions	3,727	3,382	1,969
Total staff costs	34,177	27,345	15,428
Depreciation of property and equipment	10,210	9,314	6,034
Purchase of property and equipment	6,451	3,367	847
Operating lease rental expenses in respect of rental premises	4,001	5,995	4,450

YEAR TO YEAR COMPARISON OF RESULTS OF OPERATIONS

Year Ended December 31, 2018 Compared to Year Ended December 31, 2017

Continuing Operations

Revenue

Our revenue increased by 14.6% from RMB2,850.2 million for the year ended December 31, 2017 to RMB3,265.0 million for the year ended December 31, 2018. This increase was primarily due to increases in revenue derived from our New East Culinary Education, Xinhua Internet Technology Education, Wontone Automotive Education, Omick Education of Western Cuisine and Pastry, and Cuisine Academy business segments.

Revenue generated from New East Culinary Education increased by RMB161.4 million, or 9.3%, from RMB1,738.7 million for the year ended December 31, 2017 to RMB1,900.1 million for the year ended December 31, 2018, primarily due to average students enrolled in long-term programs for three years increased from 3,688 for the year ended December 31, 2017 to 6,284 for the year ended December 31, 2018, which charge higher tuition rates.

Revenue generated from Xinhua Internet Technology Education increased by RMB62.2 million, or 11.5%, from RMB542.2 million for the year ended December 31, 2017 to RMB604.4 million for the year ended December 31, 2018 mainly due to increases in the average students enrolled. The average students enrolled for Xinhua Internet Technology Education increased from 24,981 for the year ended December 31, 2017 to approximately 31,023 for the year ended December 31, 2018.

Revenue generated from Wontone Automotive Education increased by RMB25.0 million, or 6.0%, from RMB419.3 million for the year ended December 31, 2017 to RMB444.3 million for the year ended December 31, 2018. The increase was primarily due to increases in the average students enrolled. The average students enrolled for Wontone Automotive Education increased from 18,100 for the year ended December 31, 2017 to 19,323 for the year ended December 31, 2018.

Revenue generated from Omick Education of Western Cuisine and Pastry increased by RMB138.4 million, or 185.0%, from RMB74.8 million for the year ended December 31, 2017 to RMB213.3 million for the year ended December 31, 2018 as a result of an increase in the average students enrolled from 1,114 for the year ended December 31, 2017 to 3,106 for the year ended December 31, 2018, which was primarily due to the commencement of operations of new Schools and more investment in advertisement for this brand.

Revenue generated from Wisezone Data Technology Education increased by RMB6.0 million, or 9.4%, from RMB64.1 million for the year ended December 31, 2017 to RMB70.1 million for the year ended December 31, 2018 primarily because the commencement of operations of new Schools led to an increase in the average students enrolled from 1,165 for the year ended December 31, 2017 to 1,364 for the year ended December 31, 2018.

Revenue generated from Cuisine Academy increased from RMB0.3 million for the year ended December 31, 2017 to RMB20.8 million for the year ended December 31, 2018 primarily because the commencement of operations of new centers led to an increase in the average number of customers registered from 63 for the year ended December 31, 2017 to 577 for the year ended December 31, 2018.

Revenue generated from others increased by RMB1.5 million, or 14.0%, from RMB10.5 million for the year ended December 31, 2017 to RMB12.0 million for the year ended December 31, 2018 because of the slight increase in revenue from the internet technology solution and staff outsourcing services and other miscellaneous businesses we provided.

Cost of Revenue

Cost of revenue increased by 21.7% from RMB1,281.3 million for the year ended December 31, 2017 to RMB1,559.9 million for the year ended December 31, 2018. This increase was primarily due to the increases in teaching staff salaries and benefits leasing expenses and campus maintenance and depreciation costs. We hired additional teaching staff to meet needs of the increased number of students and we increased our teaching staff's salary in 2018 as well. The increase in leasing expenses was mainly due to increased number of newly opened schools. The increase in campus maintenance and depreciation was mainly due to the increase in expenses for renovating school facilities in connection with the expansion of our school network.

Gross Profit and Gross Profit Margin

Gross profit increased by 8.7% from RMB1,568.8 million for the year ended December 31, 2017 to RMB1,705.1 million for the year ended December 31, 2018. Our gross profit margin decreased from 55.0% for the year ended December 31, 2017 to 52.2% for the year ended December 31, 2018, primarily because we operated 36 new Schools and six new centers in 2017 and 19 new Schools and 12 new centers in 2018. During the initial ramp-up period after a new school commences operations, it incurred the same fixed costs for staff compensation, rent and other fixed costs while its revenue is limited due to the relatively small beginning number of student enrollment. As a result, new schools during ramp-up period have a negative impact on our gross profit margin.

Other Income and Expenses

Other income increased by RMB27.4 million, or 79.7%, from RMB34.4 million for the year ended December 31, 2017 to RMB61.8 million for the year ended December 31, 2018, primarily due to an increase of RMB20.4 million in unconditional government grants pursuant to local government policies to encourage vocational education service providers like us to bring quality practical skill training to their areas. Also, we had an increase of RMB7.0 million in interest income from banks as a result of an increase in cash on bank deposit. In late 2016 and early 2017, we adopted a new cash management system across all our Schools in China, which allowed our headquarters to collect unutilized cash from local Schools and re-invest the cash based on decisions made by our central management team.

Other Gains and Losses

Our other gains decreased by 2.9% from RMB59.8 million for the year ended December 31, 2017 to RMB58.1 million for the year ended December 31, 2018, primarily due to a RMB3.1 million decrease in net gains on financial assets measured at FVTPL.

Selling Expenses

Selling expenses increased by 41.8% from RMB456.9 million for the year ended December 31, 2017 to RMB648.0 million for the year ended December 31, 2018, primarily due to the increase in sales and marketing staff salaries and benefits and advertising expenses. We increased our expenses relating to selling and marketing efforts to promote our brand name especially the brand of Omick Education of Western Cuisine and Pastry and facilitate the student recruitment of our newly established Schools in the year ended December 31, 2018.

Administrative Expenses

Our administrative expenses increased by 25.1% from RMB349.9 million for the year ended December 31, 2017 to RMB437.9 million for the year ended December 31, 2018, primarily due to increases in administrative staff salaries and benefits, depreciation and amortization and administrative office expenses. Such increases are primarily because we hired additional administrative staff and purchased additional office supplies and furnitures to meet the increasing needs due to the expansion of our school network and we adopted [**REDACTED**] Share Option in 2018.

Income Tax Expense

Our income tax expenses increased by 0.5% from RMB171.0 million for the year ended December 31, 2017 to RMB171.9 million for the year ended December 31, 2018, primarily because of the increase in our taxable income from December 31, 2017 to December 31, 2018.

Profit and Total Comprehensive Income for the Period from Continuing Operations

As a result of all the factors mentioned above, our profit and total comprehensive income for the year from continuing operations decreased by 22.1% from RMB661.2 million for the year ended December 31, 2017 to RMB515.1 million for the year ended December 31, 2018.

YEAR ENDED DECEMBER 31, 2017 COMPARED TO YEAR ENDED DECEMBER 31, 2016

Continuing Operations

Revenue

Our revenue increased by RMB514.5 million, or 22.0%, from RMB2,335.7 million for the year ended December 31, 2016 to RMB2,850.2 million for the year ended December 31, 2017, which was primarily driven by an increase in revenue from tuition fees as a result of the increase in the student enrollment. Our average students enrolled increased from 105,095 for 2016 to 116,540 for 2017.

Revenue generated from our New East Culinary Education brand increased by RMB306.6 million, or 21.4%, from RMB1,432.1 million for the year ended December 31, 2016 to RMB1,738.7 million for the year ended December 31, 2017, primarily as a result of an increase in tuition fees we received from our students. Under our New East Culinary Education brand, our average students enrolled increased from 62,122 for 2016 to 71,180 for 2017, and our tuition fee rate range increased from a range of RMB10,400-RMB34,500 in 2016 to RMB11,400-RMB36,800 in 2017 for long-term courses, and from a range of RMB1,200-RMB18,100 in 2016 to RMB1,200-RMB58,000 in 2017 for short-term courses.

Revenue generated from Xinhua Internet Technology Education increased by RMB61.7 million, or 12.8%, from RMB480.5 million for the year ended December 31, 2016 to RMB542.2 million for the year ended December 31, 2017, primarily due to the increase in tuition fees we received. Our average students enrolled increased from 23,764 for 2016 and 24,981 for 2017, and our tuition fee rate range increased from a range of RMB5,980-RMB35,800 in 2016 to RMB6,680-RMB39,800 in 2017 for long-term courses. As to our short-term courses, our tuition rate range was RMB1,900-RMB22,590 in 2016 and RMB800-RMB28,800 in 2017.

Revenue generated from Wontone Automotive Education increased by RMB65.0 million, or 18.3%, from RMB354.3 million for the year ended December 31, 2016 to RMB419.3 million for the year ended December 31, 2017 primarily as a result of the increase in tuition fees from our students. We established eight new Wontone Schools in 2017. The average students enrolled remained relatively stable with a total of 18,071 for 2016 and 18,100 for 2017, while new student enrollment increased from 14,449 for 2016 to approximately 16,203 for 2017. The tuition fee rate range was RMB12,800-RMB36,800 in 2016 to RMB6,680-RMB38,500 in 2017 for long-term courses, and a range of RMB680-RMB32,600 in 2016 and RMB680-RMB37,400 in 2017 for short-term courses.

Revenue generated from Omick Education of Western Cuisine and Pastry increased from zero for the year ended December 31, 2016 to RMB74.8 million for the year ended December 31, 2017 as a result of our newly establish Schools under this brand. We opened one new School under the Omick Education of Western Cuisine and Pastry brand in 2016 but did not admit any student in 2016. In 2017, we established two more Schools under this brand with approximately 1,114 average students enrolled for 2017.

Revenue generated from Wisezone Data Technology Education increased by RMB10.9 million, or 20.5%, from RMB53.2 million for the year ended December 31, 2016 to RMB64.1 million for the year ended December 31, 2017 primarily due to increase in tuition fees we received as a result of our increased new student enrollment and increased tuition fee rates. Our new student enrollment increased from 3,465 for 2016 to 3,573 for 2017. Our average students enrolled remained relatively stable, from a total of 1,138 for 2016 to 1,165 for 2017. Our tuition fee rate range increased from RMB2,000-RMB14,800 in 2016 to RMB2,000-RMB29,800 in 2017.

Revenue generated from Cuisine Academy increased from zero for the year ended December 31, 2016 to RMB0.3 million for the year ended December 31, 2017. Our Cuisine Academy brand commenced operations in 2017 and therefore had a relatively low revenue in 2017 and zero in the previous year.

Cost of Revenue

Cost of revenue increased by RMB267 million, or 26.3%, from RMB1,014.3 million for the year ended December 31, 2016 to RMB1,281.3 million for the year ended December 31, 2017. This increase was primarily due to increases in teaching staff salaries and benefits, student and teaching activity related costs, leasing expenses and campus maintenance and renovation expenses. Teaching staff salaries and benefits increased primarily due to our increasing number of newly hired teaching staff to meet the needs of our increased number of students. Also, we increased teaching staff's salary in 2017 to maintain our competitive teaching staff team. Teaching related consumables and other costs increased primarily due to the increase of average students enrolled from 105,095 for the year ended December 31, 2016 to 116,603 for the year ended December 31, 2017. As a result, we increased our expenses for procurement of raw materials related to practical training. Leasing expense increased primarily due to the expansion of our school network and we leased campuses for our newly opened Schools. Campus maintenance and depreciation increased primarily due to the increase in expenses for renovating school facilities in connection with the expansion of our school network.

Gross Profit and Gross Profit Margin

Gross profit increased by RMB247.3 million or 18.7% from RMB1,321.5 million for the year ended December 31, 2016 to RMB1,568.8 million for the year ended December 31, 2017. Our gross profit margin decreased from 56.6% for 2016 to 55.0% for 2017, primarily because our two brands, Omick Education of Western Cuisine and Pastry and Cuisine Academy, established new Schools/workshops and began operations in 2017, and we also added 39 more new Schools during 2017 compared with 2016. During the initial ramp-up period after a new School commences operations, it incurred substantial fixed costs for staff compensation, rent and other fixed costs while its revenue is limited due to the relatively small beginning number of student enrollment. As a result, new Schools during ramp-up period have a negative impact on our gross profit margin.

Other Income

Other income increased by RMB12.8 million, or 59.3%, from RMB21.6 million for the year ended December 31, 2016 to RMB34.4 million for the year ended December 31, 2017. The increase was primarily due to an increase of RMB6.3 million in unconditional government grants. We were eligible for such unconditional government grants pursuant to local government policies to encourage vocational education service providers like us to bring quality practical skill training to their areas. Also, we had an increase of RMB7.9 million in interest income from banks as a result of an increase in cash on bank deposit. In late 2016 and early 2017, we adopted a new cash management system across all our Schools in China, which allowed our headquarters to collect unutilized cash from local Schools and re-invest the cash based on decisions made by our central management team.

Other Gains and Losses

Other gains increased by RMB33.1 million, or 124.0%, from RMB26.7 million for the year ended December 31, 2016 to RMB59.8 million for the year ended December 31, 2017. The increase was primarily due to a RMB33.6 million increase in net gains on financial assets at FVTPL, which represent our investment in certain restricted low risk debt instruments arranged by banks for terms of less than one year. Each investment in such structured deposits was reviewed by our director of finance and accounting and ultimately signed off by our Chairman.

Selling Expenses

Selling expenses increased by RMB93.0 million, or 25.6%, from RMB363.9 million for the year ended December 31, 2016 to RMB456.9 million for the year ended December 31, 2017. The increase was primarily due to increases in sales and marketing staff salaries and benefits and advertising expenses to promote our market recognition and facilitate student recruitment.

Administrative Expenses

Our administrative expenses increased by RMB72.1 million, or 26.0%, from RMB277.8 million for the year ended December 31, 2016 to RMB349.9 million for the year ended December 31, 2017, primarily due to increases in administrative staff salaries and benefits and administrative office expenses. The administrative staff salaries and benefits increased due to the additional administrative staff we hired to meet the needs of our expanding school network. Our administrative office expenses increased as a result of the expansion of our school network.

Income Tax Expense

Income tax expense increased by 29.3% from RMB132.3 million for the year ended December 31, 2016 to RMB171.0 million for the year ended December 31, 2017, as a result of an increase in our taxable income.

Profit and Total Comprehensive Income for the Year from Continuing Operations

As a result of all the factors mentioned above, our profit and total comprehensive income for the year from continuing operations increased by 12.6% from RMB587.4 million for the year ended December 31, 2016 to RMB661.2 million for the year ended December 31, 2017.

DISCUSSION OF SELECTED ITEMS FROM THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Current Assets and Current Liabilities

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

	As of December 31,			As of March 31,
	2016	2017	2018	2019
		(RMB'000)		(Unaudited)
CURRENT ASSETS				
Inventories	26,896	29,899	37,138	39,626
Prepaid lease payments	2,010	2,940	2,940	3,374
Trade and other receivables	127,193	190,506	242,290	308,418
Tax recoverable	1,357	1,029	1,687	568
Bank balances and cash	1,738,599	2,034,750	986,293	227,726
Other finance assets				
– Measured at FVTPL	–	–	–	740,000
– Measured at amortised cost	–	–	–	100,000
TOTAL CURRENT ASSETS	1,896,055	2,259,124	1,270,348	1,419,712
CURRENT LIABILITIES				
Trade and other payables	308,010	471,082	507,643	421,384
Amounts due to the Controlling Equity Holders(1)	209,000	209,000	—	–
Dividend payable	—	—	34,112	–
Tax liabilities	81,085	101,566	108,167	133,191
Contract liabilities	955,170	1,089,507	1,233,230	1,288,966
Lease liabilities	–	–	–	146,707
TOTAL CURRENT LIABILITIES	1,553,265	1,871,155	1,883,152	1,990,248
NET CURRENT ASSETS/(LIABILITIES)	342,790	387,969	(612,804)	(570,536)

Note:

(1) Our Controlling Equity Holders refer to Mr. Wu Junbao, Mr. Wu Wei and Mr. Xiao Guoqing.

As of March 31, 2019, we had net current liabilities of RMB570.5 million, as compared to net current liabilities of RMB612.8 million, primarily because (i) we recorded lease liabilities of RMB146.7 million due to the adoption of HKFRS 16 and (ii) our bank balances and cash decreased RMB758.6 million primarily because we had RMB840.0 million of other finance assets which had not been redeemed. These were partially offset by (i) an increase of RMB66.1 million for trade and other receivables, (ii) an increase of RMB840.0 million in other finance assets; (iii) a decrease of RMB86.2 million for trade and other payables; and (iv) a decrease of RMB34.1 million for dividend payable.

As of December 31, 2018, we had net current liabilities of RMB612.8 million, as compared to net current assets of RMB388.0 million as of December 31, 2017, primarily because (i) RMB1,233.2 million of our contract liabilities representing revenue that we expect to earn within one year was treated as a current liability; (ii) we declared dividends of RMB907.9 million in 2018, of which RMB873.7 million were paid in cash and RMB34.1 million were recorded as dividend payable; (iii) we used RMB401.9 million to purchase the equity interests of the registered equity interest owners of Anhui Xinhua Education as part of Anhui Xinhua Education's internal shareholding restructuring. Please see "History and Corporate Structure—Corporate Reorganization—4. Changes in registered capital of Anhui Xinhua Education" in this section for details; and (iv) we invested cash generated from tuition fees and service fees in property and equipment for new Schools and centers, which are categorized as non-current assets. In 2018, there was (i) an increase of RMB143.7 million in contract liabilities as a result of the increase in our student enrollment and tuition fee payment; and (ii) an increase of RMB51.8 million in trade and other receivables primarily as a result of an increase of RMB30.8 million in prepayments for rental as we leased premises for new Schools during the expansion of our school network and an increase of RMB19.9 million in prepayments for advertisements as we increased our efforts to promote our brands and new Schools. We expect to further improve our net current liabilities position through (i) cash generated from our business operations and (ii) funds from the [**REDACTED**] from the [**REDACTED**]. During the Track Record Period, we utilized prepayment of the tuition and service fees we received from our students and customers which was recorded as current liabilities to finance the purchases of non-current assets such as property and equipment. In addition, we declared dividends of RMB907.9 million in 2018, of which RMB873.7 million were paid in cash, thereby reducing our cash position. Both of these factors contributed to our net current liabilities position as of December 31, 2018. We do not expect to make similar dividend payments and we intend to primarily use our [**REDACTED**] from the [**REDACTED**] to finance capital expenditures on non-current assets in the near future, which will help improve our net current liabilities position.

Our net current assets increased from RMB342.8 million as of December 31, 2016 to RMB388.0 million as of December 31, 2017, primarily as a result of (i) an increase in our bank balances and cash from RMB1,738.6 million as of December 31, 2016 to RMB2,034.8 million as of December 31, 2017, due to the increase in our average students enrolled and tuition fees received; in 2017, there was also an increase of RMB63.3 million in trade and other receivables due to increases in prepayments for consumables, prepayments for rental and prepayments for advertisements as a result of the growth of our business and expansion of our school network, which was partially offset by an increase of RMB163.1 million in trade and other payables which in turn primarily resulted from an increase in payable for property and equipment and an increase in payroll payable due to the expansion of our school network.

Trade and Other Receivables

Trade and other receivables consist of (i) trade receivables, which primarily represent receivables from local governments that purchased vocational education services for students and receivables from customers who purchased ancillary services other than vocational education services; (ii) prepayments for consumables, which primarily represent the prepayment we made to purchase consumables used in teaching activities and by students who board at our Schools; (iii) prepayments for rental, which primarily consist of the prepaid leasing expenses for our school premises; (iv) prepayments for services, which represent registration fees we paid on behalf of our students to third party enterprise partners for prepaid exam fees, prepaid student registration fees and prepaid technical service fees; (v) prepayments for advertisement, which represent repayments we made in connection with promotional and advertising activities to promote our brands; (vi) prepayments for [**REDACTED**]; (vii) value added tax recoverable, which represents value added tax payments we have made but are entitled to recover; (viii) advance to staff, which represents advances we made to relevant staff for business procurement, including purchases of teaching materials in small amount for our courses and sellers of which usually do not accept bank transfer by companies, and business travels. Each advance needs to be reviewed by relevant supervisors and receive approvals from them; (ix) deferred issue costs, which represent the portion of the [**REDACTED**] we incurred that will be capitalized and charged to share premium after the [**REDACTED**]; and (x) other receivables, which represent our small transactions with other parties, including, among others, deposits we made to utility companies, fee paid by other enterprises used our utilities, and the maintenance and repair expenses we made in order to receive prompt services in relation to our school premises and expected relevant landlords to reimburse us later.

The following table sets forth our trade and other receivables as of the dates indicated:

	As of December 31,		
	2016	**2017**	**2018**
		(RMB'000)	
Trade receivables			
— from government[(1)]	22,227	23,717	27,922
— from others[(2)]	4,891	7,242	6,427
	27,118	30,959	34,349
Prepayments for consumables	15,132	27,681	25,361
Prepayments for rental	39,325	71,778	102,569
Prepayments for services	11,286	16,959	15,440
Prepayments for advertisement	16,501	24,914	44,774
Prepayments for [**REDACTED**]	—	—	1,799
Value added tax recoverable	708	3,602	1,287
Advance to staff	10,586	8,758	4,386
Deferred issue costs	—	—	5,474
Other receivables	6,537	5,855	6,851
Total	127,193	190,506	242,290

Notes:

(1) The amounts represent receivables from local governments that purchased vocational education services for students.

(2) The amounts mainly represent receivables from customers who purchased ancillary services other than vocational education services. Trade receivables from others are primarily the receivables of non-educational services provided by our Schools and centers under Cuisine Academy.

Our trade and other receivables increased by 27.2% from RMB190.5 million as of December 31, 2017 to RMB242.3 million as of December 31, 2018, primarily due to increases of RMB30.8 million in prepayments for rental as we leased premises for new Schools and catering centers during the expansion of our school network and RMB19.9 million in prepayments for advertisement as we increased our efforts to promote our brands and new Schools.

Our trade and other receivables increased by 49.8% from RMB127.2 million as of December 31, 2016 to RMB190.5 million as of December 31, 2017, primarily reflecting increases of RMB32.5 million in prepayments for rental, RMB12.5 million in prepayments for consumables, and RMB8.4 million in prepayments for advertisement. These increases were due to the expansion of our school network resulting in significant prepayment made for renting school premises and purchasing consumables for new Schools as well as our increased efforts to promote our brands and new Schools.

As of December 31, 2016, 2017 and 2018, our trade receivables were RMB27.1 million, RMB31.0 million and RMB34.3 million, respectively, representing 1.2%, 1.1% and 1.1% of our Group's revenue from continuing operations for the same periods, respectively. Such trade receivables primarily consisted of grant subsidies to be paid by local governments who provided such grants to students. Their payment schedule depends on the government budget and approval process rather than our efforts to retrieve such amounts. Trade receivable balances which had been past due by over 90 days by the end of each year during the Track Record Period were not considered in default as these were payable by local governments with low credit risks.

The expected loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort.

We considered that the impairment loss was insignificant as there has not been a significant change in credit quality and amounts are considered recoverable at the end of each year and no impairment loss on expected credit losses is recognised during the Track Record Period.

We generally do not grant credit periods to our customers. We review and evaluate our trade receivables on an annual basis and use our best effort to collect those. If such trade receivables are virtually impossible to collect, we will write off accordingly following our approval procedure.

Trade and Other Payables

Trade and other payables consist of (i) trade payables, mainly consisting of payables relating to our procurement, rent for leasing our school premises and advertising costs; (ii) payables for property and equipment, which primarily relate to payables in connection with the renovation and construction of school facilities, including office buildings and classroom buildings; (iii) value added tax and other tax payable; (iv) payroll payable; (v) discretionary subsidies received on behalf of students, which we record as payables until all relevant conditions under the subsidies are met and we recognize the subsidies as revenue; (vi) miscellaneous deposits received from students within 12 months which primarily consist of public property damage deposits paid by our students during the Track Record Period as well as advance deposits for meal card in 2018; (vii) [**REDACTED**] and issue costs payable; and (viii) other payables, which primarily consists of all the remaining categories of small amount transactions we made with various business partners. The following table sets forth our trade and other payables as of the dates indicated:

	As of December 31,		
	2016	**2017**	**2018**
		(RMB'000)	
Trade payables	90,393	138,001	143,727
Payable for property and equipment	39,145	89,016	98,993
Value added tax and other taxes payable	8,859	25,877	7,382
Payroll payable	90,237	132,313	153,805
Discretionary subsidies received on behalf of students	18,972	16,021	22,235
Miscellaneous deposits received from students — within 12 months	32,398	41,900	51,472
[**REDACTED**] payable	—	—	4,562
Other payables	28,006	27,954	25,467
Total	308,010	471,082	507,643

We make payments to our trade creditors upon satisfaction of quality inspection and receipt of invoice. The credit period of trade creditors is normally within 90 days. The following is an aging analysis of trade payables presented based on the dates of delivery of goods/dates of rendering of services:

	As of December 31,		
	2016	2017	2018
		(RMB'000)	
Within 90 days	90,393	138,001	143,727

Our trade and other payables increased from RMB471.1 million as of December 31, 2017 to RMB507.6 million as of December 31, 2018, primarily reflecting (i) an increase of RMB21.5 million in payroll payable due to annual bonus payments; (ii) an increase of RMB10.0 million payable for property and equipment; and (iii) an increase of RMB9.6 million in miscellaneous deposits received from students-within 12 months primarily because in 2018 we began to implement a meal card system and received deposits from students for meals. These increases were partially offset by a decrease of RMB18.5 million in value added tax and other tax payable because the decrease in withholding personal income tax and a decrease of RMB2.5 million in other payables.

Our trade and other payables increased by 53.0% from RMB308.0 million as of December 31, 2016 to RMB471.1 million as of December 31, 2017, primarily as the result of a RMB47.6 million increase in trade payables, a RMB49.9 million increase in payable for property and equipment, and a RMB42.1 million increase in our payroll payable due to the significant expansion of our school network in 2017 compared to 2016.

Inventories

Inventories primarily consist of materials used in relation to our teaching and skills training, equipment and tools, school uniforms and beddings for students who board at our Schools. Due to the expansion of our school network, we procured in advance such school supplies in anticipation of the need from additional students. The following table sets forth our inventories as of the dates indicated:

	As of December 31,		
	2016	2017	2018
		(RMB'000)	
School materials and Consumables	26,896	29,899	37,138

We store a reasonable amount of inventories for a certain period of time due to the flexibility of beginning/end date of our programs and the variance of our program length. Most of our inventories are tools, cloths and beddings which are less likely to be aged in a short period of time. Our inventories increased from RMB29.9 million as of December 31, 2017 to RMB37.1 million as of December 31, 2018 is primarily due to the operations of 19 new Schools and 12 new centers in 2018.

Contract Liabilities

We generally require long-term course students to pay tuition fees in advance for the next 12 months and short-term course students to pay in advance all of the tuition fees for the courses they are enrolled in. We also require customers of Cuisine Academy to pay service fees in advance for the programs they are registered. We record tuition fees and service fees as contract liabilities when we initially receive advance tuition payments from our students and service fees from our customers. Tuition fees and service fees are recognized proportionately over the relevant periods of the applicable courses and programs. The portion of tuition payments received from students and service fees from our customers for which we expect to provide the corresponding services within 12 months is recorded as a current liability in our consolidated statements of financial position as such amounts represent deferred revenue that we expect to earn within one year. We recorded non-current liabilities from tuition fees during the Track Record Period primarily because some students chose to make one-time tuition payment for the full tuition amounts of their two-year programs as we offered a discount for such payments. The following table sets forth our contract liabilities as of the dates indicated:

	As of December 31,		
	2016	**2017**	**2018**
		(RMB'000)	
Tuition fees and service fees	982,116	1,125,824	1,289,331
Less: current liabilities	955,170	1,089,507	1,233,230
Non-current liabilities	26,946	36,317	56,101

Increases in our contract liability balances from December 31, 2016 to December 31, 2017 then to December 31, 2018 are in line with the increase in our average students enrolled, the expansion of our school network and the growth of our business.

LIQUIDITY AND CAPITAL RESOURCES

Our primary uses of cash have been to fund our working capital requirements and our capital expenditures, including purchases of property and equipment and payment of dividends. During the Track Record Period, we have funded our operations principally with cash generated from our operations. In the future, we believe that our liquidity requirements will be satisfied with a combination of cash flows generated from our operating activities, [**REDACTED**] from this [**REDACTED**] and other funds raised from the capital markets from time to time. Any significant decrease in our student enrollment or tuition fee rates may adversely impact our liquidity. As of December 31, 2016, 2017 and 2018, we had cash and cash equivalents of RMB1,738.6 million, RMB2,034.8 million, and RMB986.3 million, respectively.

We combine the results of our PRC Consolidated Affiliated Entities and our access to their cash balance or future earnings through our Structured Contracts with them. See "History and Corporate Structure" and "Structured Contracts" in this document.

Cash Flows

The following table sets forth a summary of our cash flows for the years indicated.

	Year ended December 31,		
	2016	2017	2018
		(RMB'000)	
OPERATING ACTIVITIES			
Net cash from operating activities	981,579	997,248	980,120
INVESTING ACTIVITIES			
Net cash from (used in) investing activities	(149,115)	(601,097)	(572,962)
FINANCING ACTIVITIES			
Net cash used in financing activities	—	(100,000)	(1,455,615)
Net increase (decrease) in cash and cash equivalents	832,464	296,151	(1,048,457)
Cash and cash equivalents at the beginning of the year	906,135	1,738,599	2,034,750
Cash and cash equivalents at the end of the year, representing bank balances and cash	1,738,599	2,034,750	986,293

Cash Flows from Operating Activities

Our cash inflow from operating activities is generated primarily from tuition and service fees. We generally require our students and customers to pay tuition and service fees in advance at the beginning of the programs they are enrolled in. Tuition fees are initially recorded under contract liabilities. Our cash outflow under operating activities is primarily for teaching staff salaries and benefits, teaching related consumables and other costs, selling expenses and administrative expenses.

Net cash from operating activities amounted to RMB980.1 million for the year ended December 31, 2018, primarily reflecting (i) operating cash flow before movements in working capital of RMB962.9 million, which resulted from (A) profit for the year of RMB510.1 million and (B) total positive adjustments of RMB452.8 million primarily including RMB171.9 million of positive adjustments for income tax expense, RMB24.0 million negative adjustments for interest income from banks, RMB357.5 million of positive adjustments for depreciation of property and equipment, and RMB58.0 million of negative adjustments for gains on structured deposits; and (ii) positive movements in working capital of RMB182.3 million as a result of a RMB191.4 million increase in contract liabilities and a RMB38.9 million increase in trade and other payables, as offset in part by a RMB19.4 million increase in trade and other receivables, a RMB17.5 million increase in prepayments for rental and a RMB7.3 million increase in inventories.

Net cash from operating activities amounted to RMB997.2 million for the year ended December 31, 2017, primarily reflecting (i) operating cash flow before movements in working capital of RMB977.2 million, which resulted from (A) profit for the year of RMB641.6 million and (B) total positive adjustments of RMB335.5 million primarily including RMB171.0 million of positive adjustments for income tax expense, RMB17.0 million of negative adjustments for interest income from banks, RMB239.5 million of positive adjustments for depreciation of property and equipment, and RMB61.1 million of negative adjustments for net gain on structured deposits; and (ii) positive movements in working capital of RMB170.5 million as a result of a RMB113.2 million increase in trade and other payables and a RMB143.7 million increase in contract liabilities, as offset in part by a RMB45.4 million increase in prepayments for rental, a RMB30.9 million increase in trade and other receivables and a RMB7.1 million increase in deposits for rental and utilities.

Net cash from operating activities amounted to RMB981.6 million for the year ended December 31, 2016, primarily reflecting (i) operating cash flow before movements in working capital of RMB832.9 million, which resulted from (A) profit for the year of RMB565.5 million and (B) total positive adjustments of RMB267.4 million primarily including RMB131.9 million of positive adjustments for income tax expense, RMB9.0 million of negative adjustments for interest income from banks, RMB171.4 million of positive adjustments for depreciation of property and equipment, and RMB27.5 million of negative adjustments for net gain on structured deposits; and (ii) positive movements in working capital of RMB200.5 million as a result of a RMB57.6 million increase in trade and other payables, and a RMB167.1 million increase in contract liabilities, as offset in part by a RMB6.6 million increase in inventories, a RMB3.7 million increase in trade and other receivables, a RMB4.3 million increase in prepayments for rental, and a RMB9.5 million increase in deposits for rental and utilities.

Cash Flows from/Used in Investing Activities

Our cash flows from and used in investing activities were primarily for the purchase of property and equipment, prepaid land lease payments, and purchase of structured deposits.

Net cash used in investing activities amounted to RMB573.0 million for the year ended December 31, 2018, primarily attributable to (i) RMB5,849.9 million used to purchase structured deposits; and (ii) RMB665.6 million used for purchases of property and equipment primarily relating to construction of school facilities in connection with the expansion of our school network, as partially offset by RMB5,907.9 million of cash inflow as a result of the redemption of structured deposits we purchased previously.

Net cash used in investing activities amounted to RMB601.1 million for the year ended December 31, 2017, primarily attributable to (i) RMB6,540.0 million used to purchase structured deposits; (ii) RMB643.6 million used to purchase items of property and equipment primarily relating to construction of school facilities in connection with the expansion of our school network; and (iii) RMB41.7 million in payment for prepaid lease payments, as partially offset by RMB6,601.1 million of cash inflow as a result of the redemption of structured deposits we purchased previously.

Net cash used in investing activities amounted to RMB149.1 million for the year ended December 31, 2016, primarily attributable to (i) RMB3,105.0 million used to purchase structured deposits; and (ii) RMB240.5 million used to purchase items of property and equipment primarily relating to construction of school facilities in connection with the expansion of our school network, as partially offset by RMB3,182.5 million of cash inflow as a result of the redemption of structured deposits we purchased previously.

Net Cash Used in Financing Activities

Our net cash used in financing activities were primarily consists of (i) dividends paid; (ii) reduction of paid-in capital; and (iii) repayment to the Controlling Equity Holders.

Net cash used in financing activities amounted to RMB1,455.6 million for the year ended December 31, 2018 as a result of the (i) RMB873.7 million of dividends paid; (ii) RMB401.9 million of reduction of paid-in capital; (iii) RMB209.0 million of repayment to the Controlling Equity Holders and (iv) RMB50.7 million received from the Controlling Equity Holders.

Net cash used in financing activities for the year ended December 31, 2017 amounted to RMB100.0 million as a result of the RMB100.0 million of dividends we paid out in 2017.

We did not have cash generated from or used in financing activities for the year ended December 31, 2016.

Working Capital

During the Track Record Period, we had net current assets of RMB342.8 million and RMB388.0 million as of December 31, 2016 and 2017, respectively. We had net current liabilities of RMB612.8 million as of December 31, 2018. Taking into account the financial resources available to our Group, including cash flows from operating activities and the estimated [**REDACTED**] from the [**REDACTED**], our Directors are of the view that, after due and careful inquiry, our Group has sufficient available working capital for our present requirements for at least the next 12 months from the date of this document.

CAPITAL EXPENDITURES

During the Track Record Period, our capital expenditures consisted of purchases of property and equipment and leasehold improvements, and amounted to RMB255.7 million, RMB693.5 million and RMB675.6 million, respectively, for the years ended December 31, 2016, 2017 and 2018. Our capital expenditure during the Track Record Period primarily related to renovation and maintenance of school premises and purchase of additional educational equipment.

We currently expect to incur approximately RMB892.3 million in capital expenditures in 2019 primarily for (i) the expansion of our school network; (ii) renovation and upgrade of school facilities; (iii) purchase of teaching equipment; and (iv) establishment of our five geographical regional centers which we expect to fund primarily through cash generated from operations and the [**REDACTED**] from the [**REDACTED**]. Our current capital expenditure plans for any future period are subject to change, and we may adjust our capital expenditures according to our future cash flows, results of operations and financial condition, our business plans, the market conditions and various other factors we believe to be appropriate.

CONTRACTUAL COMMITMENTS

Capital Commitments

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

	As of December 31,		
	2016	2017	2018
		(RMB'000)	
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of acquisition of property and equipment	65,903	107,468	40,468

As of December 31, 2016, 2017 and 2018, we had no significant authorized but not contracted capital commitment.

Operating Lease Commitments

Operating lease payments commitments represent rental payables for the premises we leased to use as classrooms and offices. The rental is fixed during the lease term. These leases are negotiated for terms of one to ten years. The following table sets forth our future minimum lease payments payable under non-cancellable operating leases as of the dates indicated:

	As of December 31,		
	2016	2017	2018
		(RMB'000)	
Within one year	163,142	244,172	289,716
In the second to fifth year inclusive	487,381	756,602	983,979
Over five years	626,216	811,087	1,028,486
Total	1,276,739	1,811,861	2,302,181

INDEBTEDNESS

Borrowings

The following table sets forth our borrowings as of December 31, 2016, 2017 and 2018 and March 31, 2019, being the latest practicable date for the purpose of the statement of indebtedness:

	As of December 31,			As of March 31,
	2016	2017	2018	2019
	(RMB'000)			
Amounts due to Controlling Equity Holders	209,000	209,000	—	—

Such borrowings are interest-free, unsecured, unguaranteed and have no fixed terms of repayment or covenant, which were fully repaid in November 2018.

Our Directors have confirmed that we have not had any material delay or default in payment with regard to any borrowings during the Track Record Period and up to the Latest Practicable Date.

Banking facilities

As of December 31, 2016, 2017 and 2018 and March 31, 2019, the amount of our utilized and unutilized banking facilities was zero.

During the Track Record Period, we did not obtain any banking facilities. Our Directors have confirmed that our Group did not experience any difficulty in obtaining credit facilities or withdrawal of facilities during the Track Record Period and up to the Latest Practicable Date.

To the best knowledge and belief of our Directors, we do not expect to have difficulties in obtaining banking facilities after the [**REDACTED**].

Lease obligations

As of March 31, 2019, our Group, as a lessee, had outstanding unpaid contractual lease payments, which represented the undiscounted amount after taking into account all embedded option and assessment under HKFRS 16, for the remainder of the relevant lease terms amounting to RMB2,372,949,000 in aggregate (excluding contingent rental arrangement), of which RMB1,527,623,000 are secured by rental deposits and the remaining are unsecured. All lease payments are unguaranteed.

Charges

During the Track Record Period and up to the Latest Practicable Date, we pledged our rental deposits to secure outstanding unpaid contractual lease payments.

Disclaimer

Except as disclosed above, we did not have any outstanding loan capital issued or agreed to be issued, debt securities, bank overdrafts, utilized or unutilized banking facilities, loans or other similar indebtedness, liabilities under acceptances or acceptable credits, debentures, mortgages, charges, lease liabilities, hire purchases commitments, guarantees or other material contingent liabilities as of March 31, 2019.

CONTINGENT LIABILITIES

As of March 31, 2019, 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 March 31, 2019.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As of the Latest Practicable Date, we had not entered into any off-balance sheet transactions.

RELATED PARTY TRANSACTIONS

During the Track Record Period, we entered into various transactions with related parties. The following table sets forth information relating to our transactions with our related parties during the years indicated:

	Year ended December 31,		
	2016	2017	2018
		(RMB'000)	
Service income			
Anhui Xinhua University	2,741	2,778	2,428
Rental income			
School of Clinical Medicine	—	—	545
Construction service			
Anhui Xinhua Boyi Landscape Engineering Co., Ltd. (安徽新華博藝景觀工程股份有限公司)	—	—	10,900
Total	—	—	13,873

Pursuant to the Service Agreements entered into by Anhui Xinhua University with each of our Anhui New East Culinary Institute* (安徽新東方烹飪專修學院) and Anhui Xinhua Computer Institute* (安徽新華電腦專修學院) on March 8, 2018, each of the Relevant Institute has agreed to assist Anhui Xinhua University in promoting its adult higher education program to students of the Relevant Institutes. The Relevant Institutes are entitled to certain amount of service fees under the Service Agreements. In addition, on December 25, 2018, Anhui New East Culinary Institute* (安徽新東方烹飪專修學院) as the landlord, and the School of Clinical Medicine, as the tenant, entered into the Tenancy Agreement for leasing to the School of Clinical Medicine a Premise to use as the campus of the School of Clinical Medicine. Pursuant to the Tenancy Agreement, the lease term is from January 1, 2019 to July 31, 2020, at a monthly rental of RMB600,000. For further details, please see "Connected Transactions — Non-exempt Continuing Connected Transactions" in this document. Such connected transactions are expected to continue pursuant to the Service Agreements and the Tenancy Agreement. As of the Latest Practicable Date, other than the abovementioned related parties transactions, all balances with related parties had been settled.

Our Directors believe that each of the related party transactions set out in note 34 to the Accountants' Report in Appendix I to this document was conducted in the ordinary course of business on an arm's length basis. Our Directors are also of the view that our related party transactions during the Track Record Period would not distort our track record results or make our historical results not reflective of our future performance.

[**REDACTED**]

We expect to incur a total of HK$[**REDACTED**] of [**REDACTED**] (assuming an [**REDACTED**] of HK$[**REDACTED**], being the mid-point of the indicative [**REDACTED**] range between HK$[**REDACTED**] and HK$[**REDACTED**], and assuming that the [**REDACTED**] is not exercised) until the completion of the [**REDACTED**], of which HK$[**REDACTED**] has been charged to our consolidated statements of profit or loss and other comprehensive income for the year ended December 31, 2018, and HK$[**REDACTED**] are expected to be charged to our consolidated statements of profit or loss and other comprehensive income for the year ending December 31, 2019, and HK$[**REDACTED**] is directly attributable to the issue of the Shares to the public and to be capitalized. [**REDACTED**] represent professional fees and other fees incurred in connection with the [**REDACTED**], including [**REDACTED**] but excluding discretionary bonus. The [**REDACTED**] above are the best estimate as of the Latest Practicable Date and for reference only and the actual amount may differ from this estimate. We do not expect these [**REDACTED**] to have a material impact on our results of operations for the year ending December 31, 2019.

FINANCIAL RATIOS

	As of/for the year ended December 31,		
	2016	2017	2018
Gross profit margin(1)	56.6%	55.0%	52.2%
Net profit margin(2)	25.1%	23.2%	15.8%
Return on assets(3)	22.2%	18.8%	18.3%
Current ratio(4)	1.22	1.21	0.67
Return on equity(5)	55.1%	41.2%	59.0%

Notes:

(1) Gross profit margin equals our gross profit divided by revenue for the year.

(2) Net profit margin equals our net profit after tax divided by revenue for the year.

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

(4) Current ratio equals our current assets divided by current liabilities as of the end of the year.

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

Analysis of Key Financial Ratios

Return on Assets

Our return on assets decreased from 22.2% for the year ended December 31, 2016 to 18.8% for the year ended December 31, 2017, primarily because our newly established Schools were still in the investment period in 2017, which had adversely affected our net profit margin in 2017. Our return on assets decreased to 18.3% for the year ended December 31, 2018, mainly due to a decrease in net profit margin as a number of new Schools established in 2017 and 2018 were still in the ramp-up period.

Current Ratio

Our current ratio decreased from 1.22 as of December 31, 2016 to 1.21 as of December 31, 2017, primarily attributable to our investments in establishing new Schools, which resulted in an increase in total non-current assets. Our current ratio further decreased to 0.67 as of December 31, 2018, mainly because (i) we declared dividends of RMB907.9 million; (ii) we deducted paid-in capital/share capital for RMB401.9 million; (iii) we invested cash generated from tuition fees and service fees in property and equipment for new Schools and centers, which are categorized as non-current assets and (iv) an increase of RMB143.7 million in contract liabilities and an increase of RMB51.8 million in trade and other receivables.

Return on Equity

Our return on equity decreased from 55.1% for the year ended December 31, 2016 to 41.2% for the year ended December 31, 2017 primarily because of a larger increase in our total equity compared to the increase in our profit for the year as a result of increases in our teaching staff salaries and benefits and students and teaching activities related costs. Our return on equity increased to 59.0% for the year ended December 31, 2018, mainly due to a decrease in total equity for RMB734.1 million as a result of declaring dividends of RMB907.9 million in 2018 and a decrease in paid-in capital/share capital for RMB401.9 million.

DISTRIBUTABLE RESERVES

Our Company was incorporated in the Cayman Islands and has not carried out any business since the date of its incorporation. Accordingly, our Company has no reserve available for distribution to the Shareholders as of December 31, 2018.

DIVIDEND POLICY

During the Track Record Period, we declared dividends of RMB100.0 million in 2017 and RMB907.9 million in 2018. We intend to adopt, after our [**REDACTED**], a general dividend policy of declaring and paying dividends on an annual basis of no less than 30% of our distributable net profit attributable to our Shareholders in the future but subject to, among other things, our future operation and earnings, capital requirements and surplus, financial condition, working capital requirements and other factors that our Directors consider relevant. Any declaration and payment as well as the amount of dividends will be subject to our constitutional documents and the relevant laws. There can be no assurance that we will be able to declare or distribute any dividend in the amount set out in any plan of the Board or at all.

DISCLOSURE REQUIRED UNDER CHAPTER 13 OF THE LISTING RULES

Our Directors have confirmed that, as of the Latest Practicable Date, there are no circumstances which, had we been required to comply with Rules 13.13 to 13.19 in Chapter 13 of the Listing Rules, would have given rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that, up to the date of this document, there has been no material adverse change in our financial or trading position since December 31, 2018 (being the date on which the latest audited consolidated financial information of our Group was prepared) and there is no event since December 31, 2018 which would materially affect the information shown in our consolidated financial statements included in the Accountants' Report in Appendix I to this document.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to a variety of market risks, including interest rate risk, credit risk and liquidity risk, as set out below. We manage and monitor policies to mitigate each of these risks to ensure appropriate measures are implemented in a timely and effective manner. For further details, including the relevant sensitivity analysis, see note 26 to the Accountants' Report set out in Appendix I to this document.

Interest Rate Risk

We are exposed to cash flow interest rate risk through the impact of rate changes on bank balances. Our cash flow interest rate risk is mainly concentrated on the fluctuation of Benchmark Borrowing Rate of the People's Bank of China.

Our Group will continue to monitor the exposure on cash flow interest risk and will consider hedging the interest rate should the need rise. Our Directors are of the view that we do not have material interest rate risk exposure and hence no sensitivity analysis is presented.

Credit Risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to us. At the end of the reporting period, our maximum exposure is arising from the carrying amount of the respective recognized financial assets as stated in the consolidated statement of financial position.

In order to minimize the credit risk on trade and other receivables, our management makes periodic collective assessments as well as individual assessment on the recoverability of trade and other receivables based on historical settlement records and past experience. Our directors believe that there is no material credit risk inherent in our outstanding balance of trade and other receivables.

The credit risk on bank balances and the structured deposit are limited because the counterparties are reputable financial institutions.

Liquidity risk

In the management of the liquidity risk, we monitor and maintain a level of cash and cash equivalents deemed adequate by the management to finance our operations and mitigate the effects of fluctuations in cash flows. We regularly review our major funding positions to ensure that we have adequate financial resources in meeting our financial obligations.

The following is the maturity analysis for financial assets and financial liabilities held by us which is based on undiscounted remaining contractual obligations:

	Weighted average interest rate	On demand or less than one year	Total undiscounted balances	Closing amount
		(RMB'000)		
On December 31, 2016				
Trade and other payables	—	208,914	208,914	208,914
Amounts due to Controlling Equity Holders	—	209,000	209,000	209,000
		417,914	417,914	417,914
On December 31, 2017				
Trade and other payables	—	312,892	312,892	312,892
Amounts due to Controlling Equity Holders	—	209,000	209,000	209,000
		521,892	521,892	521,892
On December 31, 2018				
Trade and other payables	—	346,456	346,456	346,456
Dividend payable	—	34,112	34,112	34,112
		380,568	380,568	380,568

UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following our unaudited pro forma statement of adjusted consolidated net tangible assets has been prepared in accordance with Rule 4.29 of the Listing Rules and with reference to Accounting Guideline 7 "Preparation of Unaudited Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the HKICPA for illustration purpose only, and is set out below to illustrate the effect of the [**REDACTED**] on our consolidated net tangible assets as of December 31, 2018 as if it had taken place on that date.

Our unaudited pro forma adjusted consolidated net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position of our Group had the [**REDACTED**] been completed as of December 31, 2018 or any future date. It is prepared based on our consolidated net tangible assets as of December 31, 2018 as set out in the Accountants' Report in Appendix I to this document, and adjusted as described below:

	Audited consolidated net tangible assets attributable to owners of our Company as of December 31, 2018(1)	Estimated [REDACTED] from the [REDACTED](2)	Unaudited pro forma adjusted consolidated net tangible assets	Unaudited pro forma adjusted consolidated net tangible assets per Share(3)	
		(RMB'000)		*RMB*	*HK$(4)*
Based on the [**REDACTED**] of HK$[**REDACTED**] per Share	872,631	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]
Based on the [**REDACTED**] of HK$[**REDACTED**] per Share	872,631	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]

Notes:

(1) The audited consolidated net tangible assets of the Group attributable to owners of the Company as at December 31, 2018 is extracted from the Accountants' Report as set out in Appendix I to this document.

(2) The estimated [**REDACTED**] from the [**REDACTED**] are based on [**REDACTED**] at the indicative [**REDACTED**] of HK$[**REDACTED**] (equivalent to RMB[**REDACTED**]) and HK$[**REDACTED**] (equivalent to RMB[**REDACTED**]) per [**REDACTED**], respectively, after deduction of [**REDACTED**] and [**REDACTED**] and other [**REDACTED**] paid/payable by the Company (excluding the [**REDACTED**] which has been charged to profit or loss up to December 31, 2018), and without taking into account of any shares (i) which may be allotted and issued upon the exercise of the [**REDACTED**] or (ii) which may be issued under the [**REDACTED**] Share Option Scheme or (iii) which may be allotted and issued or repurchased by our Company under the general mandates for the allotment and issue or repurchase of shares granted to the directors of the Company. For the purpose of the estimated [**REDACTED**] from the [**REDACTED**], the amount denominated in Hong Kong dollars has been converted into Renminbi at the rate of HK$1 to RMB0.8789, which was the exchange rate prevailing on Latest Practicable Date with reference to the rate published by the People's Bank of China. No representation is made that the HK$ amounts have been, could have been or may be converted to RMB, or vice versa, at that rate or any other rates or at all.

(3) The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company per Share is arrived at on the basis that [**REDACTED**] Shares were in issue assuming that the [**REDACTED**] had been completed on December 31, 2018 and without taking into account of any shares (i) which may be allotted and issued upon the exercise of the [**REDACTED**] or (ii) which may be issued under the [**REDACTED**] Share Option Scheme or (iii) which may be allotted and issued or repurchased by our Company under the general mandates for the allotment and issue or repurchase of shares granted to the directors of the Company.

(4) For the purpose of unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company per Share, the amount stated in RMB is converted into Hong Kong dollar at the rate of RMB0.8789 to HK$1, which was the exchange rate prevailing on Latest Practicable Date with reference to the rate published by the People's Bank of China. No representation is made that the RMB amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate or at all.

(5) No adjustment has been made to the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company as of December 31, 2018 to reflect any trading result or other transaction of the Group entered into subsequent to December 31, 2018.

PROPERTY INTERESTS AND PROPERTY VALUATION REPORT

The value of our property interests as of December 31, 2018 as valued by Cushman & Wakefield, an independent property valuation firm, was RMB17.33 million. The text of its letter and valuation certificate are set out in the Property Valuation Report as set forth in Appendix III to this document.

The following table presents the reconciliation of the net book value of the relevant property interests, as of December 31, 2018 to their market value as of March 31, 2019 attributed by Cushman & Wakefield as stated in the valuation certificate in the Property Valuation Report as set forth in Appendix III to this document:

	(RMB'000)
Net book value of the following properties as of December 31, 2018:	
Buildings and construction in progress included in property and equipment	409,288
Prepaid lease payments	126,349
Less: Property interests without commercial value	(530,641)
Less: Depreciation and amortisation for the three months ended March 31, 2019	(99)
Valuation surplus	12,403
Valuation as of March 31, 2019	17,300