SHANGHAI GENCH EDUCATION GROUP LIMITED

上海建橋教育集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1525)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

ANNUAL RESULTS

The Board of Directors of Shanghai Gench Education Group Limited is pleased to announce the audited consolidated financial results of the Company, its subsidiaries and affiliated entities for the year ended 31 December 2019, together with the comparative figures for the year ended 31 December 2018.

HIGHLIGHTS

	Year ended 31 December		**Percentage**
	2019	2018	**change**
	RMB'000	*RMB'000*	
Revenue	**501,442**	424,587	18.1%
Gross profit	**279,913**	222,215	26.0%
Profit before tax	**126,285**	110,173	14.6%
Profit for the year	**125,420**	108,575	15.5%
Adjusted net profit for the year(1)	**150,814**	116,670	29.3%

Note:

(1) The adjusted net profit, which is unaudited in nature, is presented because our management believes such non-IFRS measure provides useful information to investors in understanding and evaluating our results of operations in the same manner as it helps our management and in comparing financial results across accounting periods and to those of our peer companies.

CONSOLIDATED STATEMENT PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	2019 RMB'000	2018 RMB'000
REVENUE	5	**501,442**	424,587
Cost of sales		**(221,529)**	(202,372)
GROSS PROFIT		**279,913**	222,215
Other income and gains	5	**9,191**	24,428
Selling and distribution expenses		**(3,570)**	(3,040)
Administrative expenses		**(109,894)**	(75,086)
Impairment losses on financial assets		**(464)**	(180)
Other expenses		**(170)**	(957)
Finance costs	6	**(48,721)**	(57,207)
PROFIT BEFORE TAX	7	**126,285**	110,173
Income tax expenses	8	**(865)**	(1,598)
PROFIT FOR THE YEAR		**125,420**	108,575
Attributable to:			
Owners of the parent		**125,420**	108,575
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	10		
Basic and diluted		**RMB0.42**	RMB0.36
PROFIT FOR THE YEAR		**125,420**	108,575
OTHER COMPREHENSIVE INCOME			
Other comprehensive income will not be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**(337)**	—
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods		**(337)**	—
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**(337)**	—
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**125,083**	108,575
Attributable to:			
Owners of the parent		**125,083**	108,575

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**2019** **RMB'000**	2018 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**1,820,421**	1,651,527
Right-of-use assets		**658,320**	—
Prepaid land lease payments		**—**	658,320
Other intangible assets		**1,853**	1,862
Long-term prepayments		**9,926**	12,528
Deferred tax assets		**346**	67
Total non-current assets		**2,490,866**	2,324,304
CURRENT ASSETS			
Accounts receivable	*11*	**4,984**	3,921
Prepayments and other receivables		**9,007**	24,324
Cash and cash equivalents		**334,867**	442,078
Total current assets		**348,858**	470,323
CURRENT LIABILITIES			
Other payables and accruals	*12*	**196,282**	279,921
Due to a related company		**—**	821
Interest-bearing bank and other borrowings		**275,000**	175,400
Contract liabilities	*13*	**307,208**	260,108
Tax payable		**147,592**	4,096
Deferred income		**17,065**	—
Total current liabilities		**943,147**	720,346
NET CURRENT LIABILITIES		**(594,289)**	(250,023)
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,896,577**	2,074,281

	2019	2018
	RMB'000	*RMB'000*
NON-CURRENT LIABILITIES		
Interest-bearing bank and other borrowings	**856,280**	951,280
Deferred income	**25,322**	85,913
Tax payable	**—**	147,196
Total non-current liabilities	**881,602**	1,184,389
NET ASSETS	**1,014,975**	889,892
EQUITY		
Equity attributable to owners of the parent		
Share capital	**—**	—
Reserves	**1,014,975**	889,892
TOTAL EQUITY	**1,014,975**	889,892

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

The Company was incorporated in Cayman Islands on 8 May 2018 as an exempted company with limited liability under the laws of the Cayman Islands. The registered office address of the Company is Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

The Company is an investment holding company. During the year, the Company and its subsidiaries (collectively referred to as the "**Group**") principally provided higher education services (collectively the "**Listing Business**") in the People's Republic of China (the "**PRC**").

The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 16 January 2020 (the "**Listing Date**").

Information about subsidiaries

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

Name	*Notes*	Place and date of incorporation/ establishment and place of operations	Nominal value of registered share capital	Percentage of equity attributable to the Company	Principal activities
Directly held:					
Shanghai Gench Education Holdings Limited	*(1)*	British Virgin Islands ("**BVI**") 15 May 2018	USD1	100%	Investment holding
Indirectly held:					
Gench Education Group (Hong Kong) Limited ("**Gench HK**")	*(1)*	Hong Kong 1 June 2018	HKD1	100%	Investment holding
Gench Education Group US, Inc ("**Gench US**")	*(1)*	United States 13 August 2018	No par value	100%	Degree-granting higher education institution
Wangting Education Technology (Shanghai) Limited 望亭教育科技（上海）有限公司 ("**Gench WFOE**")*	*(1),(3)*	PRC/Mainland China 31 October 2018	RMB10,000,000	100%	Investment holding
Shanghai Jianqiao (Group) Co., Ltd. 上海建橋（集團）有限公司 ("**Jian Qiao Group**")	*(1),(2),(3)*	PRC/Mainland China 7 November 2000	RMB175,000,000	100%	Investment holding
Shanghai Jian Qiao Investment Development Co., Ltd. 上海建橋投資發展有限公司 ("**Jian Qiao Investment**")	*(1),(2),(3)*	PRC/Mainland China 3 August 1999	RMB37,500,000	100%	Investment holding
Shanghai Jian Qiao University 上海建橋學院 ("**Jian Qiao University**")	*(1),(2),(3)*	PRC/Mainland China 28 June 2000	RMB50,000,000	100%	Provision of common undergraduate education services

* The entity is registered as a wholly-foreign-owned enterprise under PRC law.

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

(2) These entities are owned through contractual arrangements.

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

2. BASIS OF PRESENTATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("**IFRSs**") promulgated by the International Accounting Standards Board ("**IASB**") and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for equity investments which have been measured at fair value. These financial statements are presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand except when otherwise indicated.

The Group recorded net current liabilities of RMB594,289,000 as at 31 December 2019 (2018: RMB250,023,000). Included therein were contract liabilities recorded by the Group of RMB307,208,000 as at 31 December 2019 (2018: RMB260,108,000).

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

As at 31 December 2019, the Group had bank facilities of RMB178,400,000 which have not been utilised. On the Listing Date, 100,000,000 new shares with nominal value of HKD0.01 each of the Company were issued at a price of HKD6.05 per share in connection with the Company's initial public offering on the Stock Exchange. On 11 February 2020, the Company further issued 15,000,000 ordinary shares of HKD0.01 each at a subscription price of HKD6.05 per share pursuant to the exercise of over-allotment options. The net proceeds received by the Company from the global offering were approximately HKD666.0 million (equivalent to approximately RMB589.8 million), after deducting underwriting commissions and all related expenses.

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

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

Basis of consolidation

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

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

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

(b) rights arising from other contractual arrangements; and

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

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

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

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

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

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

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

Except for the amendments to IFRS 9, IAS 19 and IAS 28, and *Annual Improvements to IFRSs 2015–2017 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised IFRSs are described below:

(a) IFRS 16 replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases — Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors continue to classify leases as either operating or finance leases using similar principles as in IAS 17.

IFRS 16 did not have any significant impact on leases where the Group is the lessor.

The Group has adopted IFRS 16 using the modified retrospective method with the date of initial application of 1 January 2019. Under this method, the standard has been applied retrospectively with the cumulative effect of initial adoption recognised as an adjustment to the opening balance of retained profits at 1 January 2019, and the comparative information for 2018 was not restated and continued to be reported under IAS 17 and related interpretations.

New definition of a lease

Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

As a lessee — Leases previously classified as operating leases

Nature of the effect of adoption of IFRS 16

The Group has lease contracts for various items of property, vehicles and other equipment. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under IFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low-value assets (elected on a lease-by-lease basis) and leases with a lease term of 12 months or less ("**short-term leases**") (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 January 2019, the Group recognises depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

Impact on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and included in interest-bearing bank and other borrowings. The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019.

All these assets were assessed for any impairment based on IAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position.

The Group has used the following elective practical expedients when applying IFRS 16 at 1 January 2019:

- Applying the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application

- Using hindsight in determining the lease term where the contract contains options to extend/terminate the lease

Financial impact at 1 January 2019

The impact arising from the adoption of IFRS 16 at 1 January 2019 was as follows:

	Increase/ (decrease) *RMB'000*
Assets	
Right-of-use assets	673,454
Prepaid land lease payments	(658,320)
Prepayments and other receivables	(15,134)
Total assets	—

(b) IFRIC 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of IAS 12 (often referred to as "**uncertain tax positions**"). The interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. Upon adoption of the interpretation, the Group considered whether it has any uncertain tax positions arising from the transfer pricing on its intergroup sales. Based on the Group's tax compliance and transfer pricing study, the Group determined that it is probable that its transfer pricing policy will be accepted by the tax authorities. Accordingly, the interpretation did not have any impact on the financial position or performance of the Group.

4. OPERATING SEGMENT INFORMATION

The Group principally provides higher education services in the PRC.

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

Geographical information

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

Information about major customers

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

5. REVENUE, OTHER INCOME AND GAINS

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

	2019	2018
	RMB'000	*RMB'000*
Revenue from contracts with customers		
Tuition fees	**429,583**	365,647
Boarding fees	**66,002**	53,495
Others	**5,857**	5,445
Total revenue from contracts with customers	**501,442**	424,587

(i) Disaggregated revenue information

	2019	2018
	RMB'000	*RMB'000*
Recognised over time		
Tuition fees	**429,583**	365,647
Boarding fees	**66,002**	53,495
Total revenue from contracts with customers	**495,585**	419,142
Recognised at a point in time		
Education related services	**5,857**	5,445

(ii) Performance Obligation-education services

The performance obligation is satisfied over time as services are rendered and tuition and boarding fees and education related services are generally paid in advance prior to the beginning of each academic year.

	2019	2018
	RMB'000	*RMB'000*
Other income and gains		
Gain on disposal of items of property, plant and equipment	**—**	256
Bank interest income	**859**	1,353
Operating lease income from operators of supermarkets, snap shops, etc. in the school campus	**5,855**	7,726
Government grants	**2,477**	15,071
Others	**—**	22
	9,191	24,428

6. FINANCE COSTS

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

	2019 *RMB'000*	2018 *RMB'000*
Interest on bank loans	**56,328**	59,218
Less: Interest charged to an ultimate Shareholder	**—**	(3,312)
Interest on a finance lease	**—**	2,291
Total interest expense on financial liabilities not at fair value through profit or loss	**56,328**	58,197
Less: Interest capitalised	**(7,607)**	(990)
	48,721	57,207

7. PROFIT BEFORE TAX

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

	2019 *RMB'000*	2018 *RMB'000*
Employee benefit expense (including Directors' and chief executive's remuneration):		
Wages, salaries and other allowances	**148,105**	123,185
Pension scheme contributions and social welfare	**19,709**	14,589
	167,814	137,774
Depreciation of property, plant and equipment	**51,249**	47,004
Depreciation of right-of-use assets (2018: amortisation of land lease payments)	**15,134**	15,134
Amortisation of other intangible assets	**549**	474
Listing expense	**25,394**	8,095
Auditors' remuneration	**2,130**	820
Impairment of accounts receivable	**464**	180

8. INCOME TAX

The Company is 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 from business carried in the Cayman Islands.

The Company's directly held subsidiary is incorporated in the BVI as an exempted company with limited liability under the Companies Law of the BVI and accordingly is not subject to income tax from business carried in the BVI.

The Group was not liable for income tax in Hong Kong and the United States as the Group had no assessable profits derived from or earned in Hong Kong and the United States during the year.

According to the Implementation Rules for the Law for Promoting Private Education (the "**Implementation Rules**"), private schools for which the school sponsors do not require reasonable returns are eligible to enjoy the same preferential tax treatment as public schools. The preferential tax treatment policies applicable to private schools requiring reasonable returns are to be separately formulated by the financing authority, taxation authority and other authorities under the State Council. During the year and up to the date of this announcement, no separate policies, regulations or rules have been promulgated by such authorities in this regard. In accordance with the historical tax returns filed to the relevant tax authorities and the compliance confirmation obtained therefrom, the Group's university did not pay corporate income tax for the provision of formal educational services and has enjoyed the preferential tax treatment since its establishment. As a result, no income tax expense was recognised for the income from the provision of formal educational services during the year.

The non-academic education services provided by the university of the Group subject to corporate income tax at a rate of 25%.

All of the Group's non-school subsidiaries operating in Mainland China are subject to the PRC corporate income tax of 25% during the year.

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

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

	2019	2018
	RMB'000	*RMB'000*
Current — Mainland China:	**1,144**	1,575
Deferred	**(279)**	23
Total tax charge for the year	**865**	1,598

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

	2019	2018
	RMB'000	*RMB'000*
Profit before tax	**126,285**	110,173
At the statutory income tax rate	**37,569**	27,543
Expenses not deductible for tax	**79**	380
Profits arising from school not subject to tax	**(38,084)**	(25,488)
Tax losses utilised from previous years	**(3)**	(1,223)
Tax losses not recognised	**1,304**	386
Tax charge at the Group's effective rate	**865**	1,598

9. DIVIDENDS

The directors do not recommend the payment of any dividend in respect of the year (2018: Nil).

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

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 300,000,000 (2018: 299,996,521) in issue during the year, as adjusted for the assumption that 299,990,000 new shares issued pursuant to the Capitalisation Issue (as defined in note 14) had been issued on 1 January 2018, which is made to be consistent with the basis of presentation of the financial statements for the year ended 31 December 2018.

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2019 and 2018.

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

	2019	2018
	RMB'000	*RMB'000*
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculations	**125,420**	108,575
Shares		
Issue of shares on 8 May 2018	**10,000**	6,521
Effect of Capitalisation Issue on 16 January 2020	**299,990,000**	299,990,000
Weighted average number of ordinary shares used in the basic and diluted earnings per share calculation	**300,000,000**	299,996,521

11. ACCOUNTS RECEIVABLE

	2019	2018
	RMB'000	*RMB'000*
Tuition and boarding fees receivable	**5,664**	4,187
Impairment	**(680)**	(266)
	4,984	3,921

The Group's students are required to pay tuition fees and boarding fees in advance for the upcoming school year, which normally commences in August. The outstanding receivables represent amounts related to students who have applied for student loans. There is no fixed term for delayed payments. The Group does not hold any collateral or other credit enhancements over its accounts receivable balances. Accounts receivable are non-interest-bearing.

An ageing analysis of the accounts receivable as at the end of the reporting period, based on the transaction date and net of loss allowance, is as follows:

	2019	2018
	RMB'000	*RMB'000*
Trade receivables:		
Within 1 year	**2,205**	2,325
1 to 2 years	**1,953**	893
2 to 3 years	**647**	605
Over 3 years	**179**	98
	4,984	3,921

The movements in the loss allowance for impairment of accounts receivable are as follows:

	2019	2018
	RMB'000	*RMB'000*
At beginning of year	**266**	124
Impairment losses, net	**464**	180
Amount written off as uncollectible	**(50)**	(38)
At end of year	**680**	266

The increase (2018: increase) in the loss allowance was due to the following significant changes in the gross carrying amount:

(i) Increase in the loss allowance of RMB347,000 (2018: RMB104,000) as a result of a net increase (2018: increase) in the gross carrying amount after the settlement of trade receivables and origination of new trade receivables; and

(ii) Increase in the loss allowance of RMB117,000 (2018: RMB76,000) as a result of an increase (2018: increase) in trade receivables which past due.

The outstanding receivables represent amounts related to students who have applied for the delayed payment of tuition fees and boarding fees. There is no fixed term for delayed payments. In view of the aforementioned and the fact that the Group's accounts receivable related to a large number of individual students, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its accounts receivable balances.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

Set out below is the information about the credit risk exposure on the Group's accounts receivable using a provision matrix:

Tuition fees receivable

31 December 2019

Collective assessment	**<12 months** *RMB'000*	**13–24 months** *RMB'000*	**25–36 months** *RMB'000*	**>36 months** *RMB'000*	**Total** *RMB'000*
Expected credit loss rate	**0.84%**	**9.01%**	**24.07%**	**69.83%**	**14.06%**
Gross carrying amount	**1,556**	**2,035**	**730**	**422**	**4,743**
Expected credit loss	**13**	**183**	**176**	**295**	**667**

31 December 2018

Collective assessment	<12 months *RMB'000*	13–24 months *RMB'000*	25–36 months *RMB'000*	>36 months *RMB'000*	Total *RMB'000*
Expected credit loss rate	2.16%	2.80%	3.41%	68.87%	6.79%
Gross carrying amount	2,261	802	560	251	3,874
Expected credit loss	49	22	19	173	263

Boarding fees receivable

31 December 2019

Collective assessment	**<12 months** *RMB'000*	**13–24 months** *RMB'000*	**25–36 months** *RMB'000*	**>36 months** *RMB'000*	**Total** *RMB'000*
Expected credit loss rate	**0.15%**	**1.00%**	**2.42%**	**14.81%**	**1.41%**
Gross carrying amount	**663**	**102**	**95**	**61**	**921**
Expected credit loss	**1**	**1**	**2**	**9**	**13**

31 December 2018

Collective assessment	<12 months *RMB'000*	13–24 months *RMB'000*	25–36 months *RMB'000*	>36 months *RMB'000*	Total *RMB'000*
Expected credit loss rate	0.79%	0.95%	1.13%	1.13%	0.96%
Gross carrying amount	114	114	65	20	313
Expected credit loss	1	1	1	—	3

12. OTHER PAYABLES AND ACCRUALS

	Note	**2019** ***RMB'000***	2018 *RMB'000*
Payables for purchase of property, plant and equipment		**3,633**	1,455
Payables for construction projects		**112,824**	214,390
Other tax payable (other than income tax and land appreciate tax)		**1,011**	1,773
Miscellaneous advances received from students	*(i)*	**30,641**	29,599
Accrued bonuses and other employee benefits		**27,890**	27,388
Accrued interest expenses		**1,518**	1,250
Other payables		**18,765**	4,066
		196,282	279,921

(i) The advances represented expenses relating to textbooks, military training, medical examination, insurance, etc. collected from students which will be paid on behalf of students.

The above balances are unsecured, non-interest-bearing and repayable on demand.

13. CONTRACT LIABILITIES

The Group recognised the following revenue-related contract liabilities, which represented the unsatisfied performance obligation as at 31 December 2019, and will be expected to be recognised as revenue within one year:

	2019 ***RMB'000***	2018 *RMB'000*
Tuition fees	**257,661**	221,170
Boarding fees	**49,547**	38,938
Total contract liabilities	**307,208**	260,108

The Group receives tuition and boarding fees from students in advance prior to the beginning of each academic year. Tuition and boarding fees are recognised proportionately over the relevant period of the respective program. The students are entitled to the refund of payments in relation to the proportionate services not yet rendered.

Significant changes in contract liabilities during the year are as follows:

	2019	2018
	RMB'000	*RMB'000*
At the beginning of the year	**260,108**	220,221
Revenue recognised that was included in the contract liabilities at the beginning of the year	**(260,108)**	(220,221)
Increase due to cash received, excluding amounts recognised as revenue during the year	**307,208**	260,108
At the end of the year	**307,208**	260,108

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

14. EVENTS AFTER THE REPORTING PERIOD

a) Pursuant to a written resolution of the Shareholders of the Company passed on 19 December 2019, a total of 299,990,000 shares of HKD0.01 each were allotted and issued at par value to the Shareholders whose names were on the register of members of the Company immediately prior to the global offering and such shares to be allotted and issued by way of capitalisation of HKD2,999,900 (the "**Capitalisation Issue**") standing to the credit of the Company's share premium account as a result of the global offering.

   On the Listing Date, 100,000,000 new shares were issued at a price of HKD6.05 per share in connection with the Company's initial public offering on the Stock Exchange.

   On 11 February 2020, the Company further issued 15,000,000 ordinary shares of HKD0.01 each at a subscription price of HKD6.05 per share pursuant to the exercise of over-allotment options.

   The net proceeds from the global offering, after deducting the underwriting commission and related listing expenses payable by the Company in the global offering, was estimated to be approximately HKD666.0 million (equivalent to approximately RMB589.8 million).

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

   In view of the implementation of the above mentioned action plans, the management has assessed and preliminarily concluded that at this stage, there was no significant impact on the financial position of the Group subsequent to the year ended 31 December 2019 and up to the date of this announcement. The Group will keep continuous attention on the situation of the COVID-19 and all react actively to its impacts on the operation and financial position of the Group, and in the event that there are any significant financial impacts, the Company will release further announcement as and when appropriate, and reflect it in the Group's 2020 interim and annual financial statements.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW

We operate the leading private university in Shanghai, which is also a leading private university in the entire Yangtze River Delta, as measured by the total number of full-time students enrolled. Our Shanghai Jian Qiao University (上海建橋學院 "**our University**") was:

- the largest private university in Shanghai in terms of full-time student enrollment in the 2018/19 school year,
- the fourth largest in the Yangtze River Delta in terms of full-time student enrollment in the 2018/19 school year, and
- the fastest growing university in terms of full-time student enrollment among the top five largest private universities in the Yangtze River Delta from 2015 to 2018.

THE UNIVERSITY

Our University provides high-quality education to our students with a focus on applied sciences. Our comprehensive curriculums, which encompass a broad range of practical major offerings, are designed to equip our students with practical skills and enable them to meet the demands of the rapidly evolving job market. We develop our courses and majors based on extensive market research we conduct to determine demand in the job market. As at 30 September 2019, our University offered 54 majors and concentrations in its formal undergraduate program in a wide range of areas, and an additional 13 majors and concentrations in its junior college program. We collaborate closely with enterprise partners and have established school-industry collaboration programs, including two MOE industrial and education integrated innovation bases, to help our students acquire readily applicable skills and find desirable employment.

The following table sets forth tuition fee information for our full-time programs for the school years indicated:

			Tuition Fee(1)		
	2015/2016 school year	2016/2017 school year	2017/2018 school year	2018/2019 school year	2019/2020 school year
			RMB		
Undergraduate program(2)	15,000–27,000	15,000–30,000	15,000–30,000	23,000–30,000(3)	23,000–30,000
Junior college program	12,000	12,000–18,000	15,000–18,000(3)	15,000–18,000	15,000–18,000
Junior college/undergraduate program	15,000	15,000	15,000–27,000(4)	23,000–27,000(4)	23,000–27,000(4)

Notes:

(1) Tuition fees shown above are applicable to full-time students enrolled in the relevant school years only, excluding tuition fees charged for part-time students in our continuing education program.

(2) The tuition fee range of the undergraduate program includes (i) the undergraduate program; and (ii) the undergraduate program under the international program. It excludes tuition fee rate for the international design college, which was RMB80,000 per school year, the tuition fee rate for the bilingual-lectured digital media technology program, which was RMB58,000 per school year, and the tuition fee rate for the international program with Vaughn College of Aeronautics and Technology, which was RMB45,000 per school year for each school year in the three years ended 31 December 2016, 2017 and 2018, and the six months ended 30 June 2019.

(3) Tuition fee rates for our undergraduate program and junior college program were raised in the 2015/2016 school year, which only applied to newly admitted students from the 2015/2016 school year onwards. Such a tuition fee rate raise was reflected in increases of the low end of the tuition rate range for our junior college program in the 2017/2018 school year, and for our undergraduate program in the 2018/2019 school year at which point students enrolled in our University prior to the 2015/2016 school year had all graduated.

(4) In the 2017/2018, 2018/2019 and 2019/2020 school years, the tuition rate for our product design (jewelry design) major was RMB27,000 per school year. All other majors under our junior college/undergraduate program had a tuition fee rate of RMB23,000 per school year.

Enrollment and Utilization

The table below sets forth the number of students and utilization rate of the group for the school years from 2015/2016 to 2019/2020:

School Year	Student Enrollment[1]	School Capacity[2]	School Utilization Rate[3] (%)
2015/2016	14,299	18,008	79.4
2016/2017	15,146	18,008	84.1
2017/2018	16,562	18,008	92.0
2018/2019	17,808	18,008	98.9
2019/2020	19,857	22,008	90.2

Notes:

(1) The student enrollment information was based on the internal records of our University.

(2) We generally require all full-time students of our University to live on campus. The school capacity is presented as the number of beds available in student dormitories at our University for the relevant school years.

(3) The school utilization rate equals to the total student enrollment for a school year divided general by the school capacity for the same school year multiplied by 100.

OUTLOOK AND BUSINESS STRATEGIES

We believe that the Group's stable position as the largest private higher education group in Shanghai puts us in a favourable position to benefit from the increasingly growing demand of private higher education. The University is located in Lingang New City area, Pudong New Area, with obvious regional advantages. In August 2019, the State Council announced the establishment of Lingang New Area in China (Shanghai) Pilot Free Trade Zone. Since then, the Management Committee of the Lingang New Area has issued 16 policies to promote industrial development, as well as a total of 40 supporting measures for the development of four key industries: integrated circuits, artificial intelligence, biomedicine, and aerospace, and a series of talent policies such as Talents Development Measures of Lingang New Area in China (Shanghai) Pilot Free Trade Zone (中國(上海)自由貿易試驗區臨港新片區支持人才發展若干措施).

As an important part of the "Integration for Yangtze River Delta" action plan, Lingang New City area will help consolidate the Group's leading advantage in the Yangtze River Delta region. In November 2019, our school signed a comprehensive school-enterprise cooperation strategic framework agreement with Lingang Economic Development (Group) Co., Ltd.. The two parties will deeply explore the respective advantages and resources of the industry and universities, and carry out in-depth cooperation on the joint training of high-skilled talents, cooperation in production, education and research, and employment promotion.

With the supporting of industrial policies and location advantages, the Group will continue to focus on providing market-oriented courses for students, introducing outstanding talents, optimizing campus environment and school conditions, and enhancing social influence. Looking ahead, we will utilize the following four strategies to promote business development and build the University into a first-class private university with distinctive characteristics and international influence in China.

Enhance our profitability by optimizing our pricing and increasing student enrollment at our University

The level of tuition and boarding fees we charge is a significant factor affecting profitability. The tuition for approximately one quarter of the majors and concentrations offered by our University increased from RMB23,000 to RMB30,000 per student per school year, starting in the 2019/2020 school year. Such increase corresponded to our efforts to upgrade these subjects by offering a more comprehensive curriculum and international teaching methods. Going forward, we plan to review tuition rates on an ongoing basis and adjust them as appropriate.

In addition, we charge students who are living in the two dormitory buildings of phase two of our construction plan RMB5,800 per student per school year, which is approximately 60% higher than our previous boarding fee rate. For the dormitory building of the phase one of the construction plan, we increased the level of accommodation fees from RMB3,600 to RMB4,800 for new students entering the University in 2020.

We believe continuing to increase student enrollment is also important to our success. We intend to continue to increase our investments in new construction projects to build academic, administrative, and boarding facilities that can meet the needs of our expansion in the years to come. Phase two of our campus construction plan was put to use at the end of August 2019. This construction project includes a multi-function building with over 10,000 sq.m. of gross floor area specifically designed for our college of gemology, dormitory buildings with approximately an aggregate of 4,000 beds, which will increase our school capacity, and an ancillary dormitory building for boarding related services, such as laundry rooms, as well as an underground garage.

Expand our school network and increase our market penetration

We intend to pursue suitable opportunities to acquire or invest in additional schools in China to expand our school network and increase our market share. We intend to prioritize private higher institutions, the school sponsors of which have elected them to be or intend to elect them to be for-profit schools, in particular universities offering bachelor's degree programs that are focused on applied sciences. We anticipate that suitable target schools will have student enrollment of at least 5,000 and revenue of at least RMB100 million. In terms of geographic locations, we intend to prioritize suitable target schools in east China, particularly in the Yangtze River Delta, which we believe will enhance our profile and create synergies in this region. According to the Frost & Sullivan Report, there were approximately 50 to 80 private higher education institutions in the Yangtze River Delta region meeting the aforementioned standards as at the end of 2018.

We are currently studying and negotiating projects, and the Group will make disclosures on mergers and acquisitions in due course.

Further expand our educational service offerings to capture growth opportunities

We believe the quality of our education services is the foundation of our business. We intend to continue expanding and diversifying our course offerings in response to industry trends and market demand, including offering new majors based on market developments. We plan to further solidify our competitive advantages in providing well-rounded education with an applied science focus. We established two new majors for our undergraduate program, (i) pre-school education and (ii) nursing in the 2019/2020 school year. We believe the establishment of these two majors are responsive to market needs, particularly with the "two-child policy" in effect, the Shanghai local employment market has seen increasing demand for quality pre-school teachers. Nursing professionals and elderly-care givers are also in high demand, due to the aging local population in Shanghai.

We also plan to establish two new majors for our undergraduate program (i) health services and management and (ii) art and technology in the 2020/2021 school year. We believe that these professions will further expand our specialty categories and meet the increasing needs of the health service and cultural and creative industries. In addition, we also have plans to submit an application for our own postgraduate courses in 2020 to further enhance the school's educational level.

We also plan to expand our continuing education college. We believe that as the demand for continuing education among the employed population continues to increase, the number of our part-time student enrollment will also continue to maintain a growth trend. As at 30 September 2019, we have school facilities and entered into arrangements for the use of facilities of six Independent Third Party training or tutoring service providers in Shanghai to provide certain continuing education courses at their premises. We plan to establish about four similar off-campus education centers in various districts in Shanghai to provide more location options and save travel time for potential non-full-time students.

Strengthen international standard and improve international influence

As Shanghai is one of the most international cities in China, we will make full utilization of its favourable location to provide students with more international projects to increase their experience, challenges to be faced, and broaden their worldviews and make them more mature. This will also help strengthen the University's reputation and enhance its overall quality and appeals. The launch of sino-foreign cooperation projects also helps us optimize professional positioning.

In order to accelerate the progress of expansion in overseas, the Group will also consider merger and acquisition of some target schools. The addition of overseas networks can increase the overseas study destination selections for students, and also help us further attract overseas students to study at the University.

LATEST REGULATORY DEVELOPMENT

On 20 April 2018, the MOE issued the Implementing Regulations for the Law for Promoting Private Education of the PRC (the Draft Revision) (the Consultation Version) (《中華人民共和國民辦教育促進法實施條例(修訂草案)(徵求意見稿)》) (the "**MOE Draft for Comments**") to solicit public views. On 10 August 2018, the Ministry of Justice of the PRC announced the Implementing Regulations for the Law for Promoting Private Education of the PRC (Revised Draft) (Draft for Review) (《中華人民共和國民辦教育促進法實施條例(修訂草案)(送審稿)》) (the "**MOJ Draft for Review**") for consultation on the basis of the aforesaid MOE Draft for Comments issued by the MOE. For more details, please refer to the section headed "Business — Potential Implications of the 2016 Decision and Related Implementing Rules and Regulations — Potential implications of the MOJ Draft for Review if it becomes effective" in the Prospectus. As at the date of this announcement, the MOJ Draft for Review has yet to be promulgated or enacted in the PRC, the Company will continue to monitor developments of the MOJ Draft for Review and related laws and regulations.

Pursuant to the Decision on Amending the Law for Promoting Private Education of the PRC (《關於修改〈中華人民共和國民辦教育促進法〉的決定》) (the "**2016 Decision**") which took effect on 1 September 2017, school sponsor(s) of a private school may choose for the school to be a for-profit private school or a non-profit private school, with the exception that schools providing nine-year compulsory education must be non-profit. On 26 December 2017, the People's Government of Shanghai promulgated the Implementation Opinions of Shanghai Municipal People's Government on Promoting the Healthy Development of Private Education (《上海市人民政府關於促進民辦教育健康發展的實施意見》) and the Administration Measures of Shanghai Municipality on Classification of Licensing and Registration of Private Schools (《上海市民辦學校分類許可登記管理辦法》), pursuant to which further requirements are implemented in light of the 2016 Decision, which include but are not limited to, the requirement that school sponsors of private schools (other than schools providing compulsory education) established and registered in Shanghai prior to 7 November 2016 shall submit in writing their decisions to convert into for-profit or non-profit schools by 31 December 2018 and complete the conversion to a non-profit school by 31 December 2019 and to a for-profit school by 31 December 2021 for higher education institutions. Under the existing regulatory environment and based on the interpretation of the 2016 Decision and related implementing rules and the existing ownership structure of our University, in December 2018, the School Sponsors of our University have submitted their decision to the Shanghai Municipal Education Commission to register as a for-profit private school. Pursuant to the 2016 Decision, school sponsor(s) of a private school may freely at its own discretion choose for the school to be a for-profit private school or a non-profit private school, with the exception that schools providing nine-year compulsory education must be non-profit. Our PRC Legal Advisors are thus of the view that our University would be able to be registered as a for-profit private school.

In addition, on 15 March 2019, the Law of the People's Republic of China on Foreign Investment* (《中華人民共和國外商投資法》) (the "**Foreign Investment Law**") was formally passed by the 13th National People's Congress of the PRC and has been taken effect on 1 January 2020.

The Foreign Investment Law stipulates three forms of foreign investment. However, the Foreign Investment Law does not explicitly stipulate the contractual arrangements as a form of foreign investment. As advised by our PRC Legal Advisors, since contractual arrangements are not specified as foreign investment under the Foreign Investment Law, and if the future laws, administrative regulations or provisions prescribed by the State Council do not incorporate contractual arrangements as a form of foreign investment and the operation of higher education is still in the Special Administrative Measures for Access of Foreign Investment (Negative List)(2019 Edition) (《外商投資準入特別管理措施(負面清單)》(2019年版)), our Contractual Arrangements (as defined in the Prospectus) as a whole and each of the agreements comprising the Contractual Arrangements will not be affected and will continue to be legal, valid and binding on the parties. Notwithstanding the above, the Foreign Investment Law stipulates that foreign investment includes "*foreign investors invest in China through any other methods under laws, administrative regulations, or provisions prescribed by the State Council*". Therefore, there are possibilities that future laws, administrative regulations or provisions of the State Council may stipulate contractual arrangements as a way of foreign investment, and then whether our Contractual Arrangements will be recognized as foreign investment, whether our Contractual Arrangements will be deemed to be in violation of the foreign investment access requirements and how our Contractual Arrangements will be handled are uncertain.

As at the date of this announcement, the Group's operations have not been affected by the above law, decision, implementing regulations and rules and administration measures. Based on the current conditions and Company's preliminary assessment, the Board is of the view that above law, decision, implementing regulations and rules and administration measures do not have an immediate material adverse impact on the Group's business operations, business plans and financial conditions.

The Company will continue to monitor developments of above law, decision, implementing regulations and rules, administration measures and related laws and regulations, and will make further announcements in respect thereof in accordance with the Listing Rules as and when appropriate.

FINANCIAL REVIEW

Revenue

Revenue represents the value of services rendered during the Reporting Period. The Group derives revenue from tuition fees, boarding fees and other education related services its University collect from students.

Revenue increased by RMB76.8 million, or 18.1%, from RMB424.6 million for the year ended 31 December 2018 to RMB501.4 million for the year ended 31 December 2019. This increase was primarily due to: (i) revenue from tuition fees increasing by RMB64.0 million, or 17.5%, from RMB365.6 million for the year ended 31 December 2018 to RMB429.6 million for the year ended 31 December 2019; and (ii) revenue from boarding fees increasing by RMB12.5 million, or 23.4%, from RMB53.5 million for the year ended 31 December 2018 to RMB66.0 million for the year ended 31 December 2019. The tuition fees increased mainly because: (i) the increase in the total number of full-time students enrolled in the Group's University for the 2019/2020 school year, and (ii) the increase of tuition fee rates in 2019/2020 school year, which were applicable to newly admitted students. The boarding fees increased as a result of the expansion of the student enrollment. In addition, the Group charged students who are living in the new dormitory buildings RMB5,800 per student per school year, which is approximately 60% higher than previous boarding fee rate.

Cost of Sales

Cost of sales primarily consisted of salary costs, depreciation and amortization, student-related expenses, cooperative education expenses, teaching material expenses and maintenance expenses, along with training expenses, research and development costs, travel expenses, office expenses, and others.

Cost of sales increased by RMB19.1 million, or 9.5%, from RMB202.4 million for the year ended 31 December 2018 to RMB221.5 million for the year ended 31 December 2019. This increase was primarily due to: (i) staff costs increased by RMB12.2 million, or 13.2%, from RMB92.3 million for the year ended 31 December 2018 to RMB104.4 million for the year ended 31 December 2019, primarily as a result of the combined effect of increased salaries and benefits payable to the Group's teachers and increased headcount of the Group's teachers. (ii) depreciation and amortisation increased by RMB4.4 million, or 7.1%, from RMB61.9 million for the year ended 31 December 2018 to RMB66.4 million for the year ended 31 December 2019, mainly as a result of the increase in buildings and boarding equipment, which was put into use after the completion of phase two of the construction of Shanghai Jian Qiao University campus in 2019.

Gross Profit and Gross Profit Margin

Gross profit represents our revenue less cost of sales. Gross profit margin represents the Group's gross profit as a percentage of the revenue.

Gross profit increased by RMB57.7 million, or 26.0% from RMB222.2 million for the year ended 31 December 2018 to RMB279.9 million for the year ended 31 December 2019, which was in line with the growth of the Group's business. Gross profit margin increased from 52.3% for the year ended 31 December 2018 to 55.8% for the year ended 31 December 2019. This increase was primarily due to increasing average tuition fees, boarding fees and various efforts of cost control.

Other Income and Gains

Other income and gains primarily consist of government grants, rental income, bank interest income, gain on disposal of items of property, plant and equipment, and others.

Other income and gains decreased significantly from RMB24.4 million for the year ended 31 December 2018 to RMB9.2 million for the year ended 31 December 2019. This decrease was primarily due to that the governmental grants decreased from RMB15.1 million for the year ended 31 December 2018 to RMB2.5 million for the year ended 31

December 2019. Such government grants mainly were in relation to incentivizing the development of the local economy, primarily coming in the form of refunds from the local government of Shanghai Pudong New Area on income tax and value-added tax we paid which was in relation to our disposal of land and buildings on our previous campus.

Selling and Distribution Expenses

Selling and distribution expenses primarily consist of expenses incurred for relevant advertising of the University, including the cost of promotional brochures, transportation expenses, telecommunication expenses and business entertainment expenses, etc.

Selling and distribution expenses increased by RMB0.6 million, or approximately 17.4%, from RMB3.0 million for the year ended 31 December 2018 to RMB3.6 million for the year ended 31 December 2019, which was in line with the growth of the Group's business.

Administrative Expenses

Administrative expenses consisted of salary expenses for administrative staff, logistic expenses, depreciation of vehicle and equipment for administrative purposes, professional service expenses which mainly consisted of listing expenses, travel expenses, entertainment expenses, office expenses, and others.

The listing expenses of RMB25.4 million recognised for the year ended 31 December 2019, which increased by RMB17.3 million compared to the amount for the year ended 31 December 2018. Eliminated the effect of listing-related expenses, which is a non-recurring item, administrative expenses increased by RMB17.5 million, or 26.1%, from RMB67.0 million for the year ended 31 December 2018 to RMB84.5 million for the year ended 31 December 2019, which was mainly due to: (i) the increased staff costs, as a result of the combined effect of increased headcount of the Group's administrative staff and the increased salaries and benefits payable to them, and (ii) the increase in professional service expenses, office expenses and other miscellaneous expenses, which was in line with the growth of the Group's business.

Finance Costs

Finance costs primarily consist of the interest expenses for the bank loans. Finance costs decreased by RMB8.5 million, or 14.9%, from RMB57.2 million for the year ended 31 December 2018 to RMB48.7 million for the year ended 31 December 2019, which was mainly due to: (i) certain bank loan was borrowed for the phase two of the construction of the school premises, and RMB7.6 million corresponding interest was capitalised for the year ended 31 December 2019, which increased by RMB6.6 million compared with the capitalised interest for the year ended 31 December 2018; and (ii) compared with the average interest-bearing bank and other borrowings in 2018, the average interest-bearing bank and other borrowings in 2019 decreased RMB118.2 million, or 9.5%, from RMB1,247.1 million in 2018 to RMB1,128.9 million in 2019, which resulted in the decrease of interest expenses accordingly.

Profit Before Tax

For the year ended 31 December 2019, the Group recorded a profit before tax of approximately RMB126.3 million, representing an increase of approximately 14.6% year-on-year from approximately RMB110.2 million for the same period of last year.

Income Tax Expense

For the year ended 31 December 2019, the Group recorded approximately RMB0.9 million in taxation, representing a decrease of approximately 43.8% year-on-year from approximately RMB1.6 million for the same period of last year. This decrease was mainly a result of a decrease in our taxable income, specifically income from our non-formal higher education program.

Profit for the Year

As a result of the combined effects of the above income, costs and expenses, the Group recorded a profit of RMB125.4 million for the year ended 31 December 2019, representing an increase of 15.5% as compared with RMB108.6 million for the year ended 31 December 2018.

Adjusted Net Profit

To supplement our consolidated statements of profit or loss and other comprehensive income which are presented in accordance with IFRS, we also use adjusted net profit as an additional financial measure. We present this financial measure because it is used by our management to evaluate our operating performance. We also believe that such non-IFRS measure provides useful information to investors in understanding and evaluating our results of operations in the same manner as it helps our management and in comparing financial results across accounting periods and to those of our peer companies.

Adjusted net profit eliminates the effect of listing-related expenses, which is a non-recurring item. The term of adjusted net profit is not defined under IFRS. The use of adjusted net profit has material limitations as an analytical tool, as adjusted net profit does not include all items that impact our net profit for the year. We compensate for these limitations by reconciling this financial measure to the nearest IFRS performance measure, which should be considered when evaluating our performance.

Adjusted net profit is determined by adjusting profit for the year from continuing operations of approximately RMB125.4 million (2018: approximately RMB108.6 million) for the effect of listing expenses of approximately RMB25.4 million (2018: approximately

RMB8.1 million). The Group's adjusted net profit increased significantly by approximately 29.3% from approximately RMB116.7 million for the year ended 31 December 2018 to approximately RMB150.8 million for the year ended 31 December 2019.

Current Assets and Current Liabilities

As at 31 December 2019, we had net current liabilities of RMB594.3 million compared to net current liabilities of RMB250.0 million as at 31 December 2018. Our net current liabilities as at 31 December 2019 increased by 137.7% from as at 31 December 2018, primarily due to that:

(i) Contract liabilities increased to RMB307.2 million as at 31 December 2019 from RMB260.1 million as at 31 December 2018, which were mainly due to the increase in tuition fees and boarding fees for the 2018/2019 school year as a result of the increase in the number of students enrolled in the University.

(ii) Bank and other borrowings increased to RMB275.0 million as at 31 December 2019 from RMB175.4 million as at 31 December 2018, which were mainly used to supplement working capital and finance capital expenditures.

(iii) Income tax payable increased to RMB147.6 million as at 31 December 2019 from RMB4.1 million as at 31 December 2018, mainly due to the fact that the Group shall pay RMB147.2 million within 5 years (which is permitted to be deferred up to 2020) for income tax payable on disposal of old school buildings and transfer of land to an Independent Third Party in August 2015 in accordance with the relevant tax rules.

Liquidity and Capital Resources

Our primary uses of cash were to fund our working capital requirements, our purchase of property, plant and equipment and to repay bank and other borrowings and related interest expenses. During the Reporting Period, we funded our operations principally with cash generated from our operations and bank and other borrowings. In the future, we believe that our liquidity requirements will be satisfied with a combination of cash flows generated from our operating activities, bank and other borrowings and the net proceeds from the initial public offering of the Company and other funds raised from the capital markets from time to time.

Property, Plant and Equipment

As at 31 December 2019, the Group's property, plant and equipment amounted to approximately RMB1,820.4 million, representing an increase of approximately 10.2% year-on-year from approximately RMB1,651.5 million recorded as at 31 December 2018. Such an increase was due to the phase two of the construction of the school premises.

Cash and Cash Equivalents

As at 31 December 2019, the Group's cash and cash equivalents was approximately RMB334.9 million, representing an decrease of approximately 24.2% year-on-year from approximately RMB442.1 million for the same period of last year. The decrease was mainly attributable to repayment of bank loans and payment for construction of phase two of our campus.

Bank and Other Borrowings

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

We primarily borrowed loans from banks and financial institutions to supplement our working capital and finance our capital expenditure. Our bank and other borrowings amounted to RMB1,131.3 million as at 31 December 2019 were all denominated in Renminbi. As at 31 December 2019, our bank and other borrowings bore effective interest rates ranging from 4.35% to 5.94% per annum.

Capital Expenditures

Capital expenditures during the Reporting Period primarily related to the phase two of the construction of the school premises, maintaining and upgrading existing school premises and purchasing additional educational facilities and equipment for the University. For the year ended 31 December 2019, the Group's capital expenditures were RMB351.2 million.

Contractual Commitments

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

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Contracted, but not provided for: Property, plant, and equipment	**800**	144,912

Contingent Liabilities

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

Key Financial Ratios

	As at/for the year ended 31 December	
	2019	2018
Gross profit margin(1)	**55.8%**	52.3%
Net profit margin(2)	**25.0%**	25.6%
Return on assets(3)	**4.4%**	3.9%
Return on equity(4)	**12.4%**	12.2%
Current ratio(5)	**0.4**	0.7
Interest coverage ratio(6)	**3.6**	2.9
Net debt to equity ratio(7)	**0.8**	0.8
Gearing ratio(8)	**1.1**	1.3
Total debt to assets ratio(9)	**0.4**	0.4

Notes:

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

(2) Net profit margin equals our profit and total comprehensive income after tax divided by revenue for the year.

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

(4) Return on equity equals net profit/(annualized net profit) for the year divided by total equity amounts as at the end of the year.

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

(6) Interest coverage ratio equals profit before interest and tax of one year divided by finance cost of the same year.

(7) Net debt to equity ratio equals total interest-bearing bank loans and other borrowings net of cash and cash equivalents at the end of the year divided by total equity at the end of the year.

(8) Gearing ratio equals total debt as at the end of the year divided by total equity as at the end of the year. Total debt includes all interest-bearing bank loans and other borrowings.

(9) Total debt to assets ratio equals total interest-bearing bank and other borrowings at the end of the year divided by total assets at the end of the year.

Gearing Ratio

Compared with the gearing ratio for the year ended 31 December 2018, the gearing ratio for the year ended 31 December 2019 decreased form 1.3 to 1.1, which was mainly due to an increase of our equity in relation to our increasing business performance.

FOREIGN EXCHANGE RISK MANAGEMENT

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

SIGNIFICANT INVESTMENTS, ACQUISITIONS AND DISPOSALS, FUTURE PLAN FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

There were no significant investments held as at 31 December 2019, nor other material acquisitions and disposals of subsidiaries and associated companies. Save as disclosed in this announcement, as at 31 December 2019, the Group did not have any immediate plans for material investments and capital assets.

PLEDGE OF ASSETS

As at 31 December 2019, the Group's bank borrowings of RMB766.3 million were secured by the Group's rights over tuition fees and boarding fees.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2019, the Group had 1,173 full-time employees (as at 31 December 2018: 988 employees). The remuneration policy and package of the Group's employees are periodically reviewed in accordance with industry practice and result performance of the Group. The Group provides external and internal training programs to its employees. The Group participates in various employee social security plans for its employees that are administered by local governments, including housing, pension, medical insurance, occupational injury insurance, maternity insurance and unemployment insurance. The total remuneration cost incurred by the Group for the year ended 31 December 2019 was RMB167.8 million (as at 31 December 2018: RMB137.8 million).

ANNUAL GENERAL MEETING

The AGM will be held on Friday, 12 June 2020 and a notice convening the AGM will be published and despatched to the Shareholders in due course.

FINAL DIVIDEND

The Board did not recommend the payment of a final dividend for the year ended 31 December 2019. There is no arrangement that a Shareholder has waived or agreed to waive any dividend.

CLOSURE OF THE REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the AGM to be held on Friday, 12 June 2020, the register of members of the Company will be closed from Tuesday, 9 June 2020 to Friday, 12 June 2020, both days inclusive, during which period no transfer of shares will be registered. In order to be qualified for attending and voting at the AGM, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Monday, 8 June 2020.

COMPLIANCE WITH CG CODE

The Company has adopted the code provisions set out in the CG Code as its own code of corporate governance. The Company has complied with all applicable code provisions under the CG Code during the period from the Listing Date to the date of this announcement. The Board will continue to review and monitor its corporate governance practices to ensure compliance with the CG Code.

COMPLIANCE WITH MODEL CODE

As the Company's Shares had not been listed on the Stock Exchange as at 31 December 2019, related rules under the Listing Rules concerning the Model Code that Directors shall observe did not apply to the Company for the year ended 31 December 2019.

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding Directors' securities transactions since its Listing on 16 January 2020. Having made specific enquiries of all the Directors, each of the Directors has confirmed that he/she has complied with the Model Code during the period from the Listing Date to the date of this announcement.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Save for the Company's initial public offering (including the full exercise of the over-allotment option) as described in the Company's Prospectus from which the Company received net proceeds of approximately HKD666.0 million, after deducting underwriting fee and relevant expenses, there is no other issue of shares by the Company, and neither the Company nor any of its subsidiaries had purchased, sold or redeemed any other listed securities of the Company during the period from the Listing Date to the date of this announcement.

AUDIT COMMITTEE AND REVIEW OF ANNUAL FINANCIAL INFORMATION

The Audit Committee has reviewed the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters. The Audit Committee, together with the Board and external auditor, have reviewed the Group's audited consolidated financial statements for the year ended 31 December 2019.

SCOPE OF WORK FOR ANNUAL RESULTS ANNOUNCEMENT BY AUDITORS

The financial information set out in this announcement does not constitute the Group's audited accounts for the year ended 31 December 2019, but represents an extract from the consolidated financial statements for the year ended 31 December 2019 which have been audited by the auditor of the Company, Ernst & Young in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. The financial information has been reviewed by the Audit Committee and approved by the Board.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (http://www.genchedugroup.com). The annual report for the year ended 31 December 2019 containing all the information required by Appendix 16 to the Listing Rules will be dispatched to Shareholders and available on the same websites in due course.

DEFINITION

In this announcement, the following expressions shall have the following meanings unless the context requires otherwise:

"AGM"	the annual general meeting of the Company
"Audit Committee"	the audit committee of the Company
"Board"	the board of Directors of the Company
"CG Code"	the Corporate Governance Code as set out in Appendix 14 to the Listing Rule
"China" or "PRC"	the People's Republic of China excluding for the purpose of this announcement, Hong Kong, the Macau Special Administrative Region and Taiwan
"Company" or "our Company"	Shanghai Gench Education Group Limited

"Director(s)"	the director(s) of the Company
"Frost & Sullivan Report"	an independent market research report, commissioned by our Company on the PRC private education market and prepared by Frost & Sullivan (Beijing) Inc., Shanghai Branch Co.
"Group", "our Group", "we" or "us"	the Company, its subsidiaries and PRC Affiliated Entities from time to time, or, where the context so requires in respect of the period before the Company became the holding company of our present subsidiaries, the entities which carried on the business of the present Group at the relevant time
"HKD"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Third Party(ies)"	an individual(s) or a company(ies) who or which is/are independent of and not connected with (within the meaning of the Listing Rules) any Director, chief executive or substantial shareholder (within the meaning of the Listing Rules) of the Company, its subsidiaries or any of their respective associates
"Listing"	the listing of our Shares on the Main Board of the Stock Exchange
"Listing Date"	16 January 2020, since which our Shares have been listed on the Main Board of the Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange, as amended from time to time
"Main Board"	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with the GEM of the Stock Exchange
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers
"MOE"	the Ministry of Education of the PRC
"PRC Affiliated Entities"	namely, the University and the School Sponsors, each an affiliated entity of the Company
"PRC Legal Advisors"	Commerce & Finance Law Offices, our legal advisors as to the laws of the PRC

"Prospectus"	the prospectus of the Company dated 31 December 2019
"Reporting Period"	the year ended 31 December 2019
"RMB" or "Renminbi"	Renminbi, the lawful currency for the time being of the PRC
"School Sponsors"	the school sponsors of the University, namely, Shanghai Jian Qiao (Group) Limited* (上海建橋(集團)有限公司) and Shanghai Jian Qiao Investment and Development Limited* (上海建橋投資發展有限公司)
"Shareholder(s)"	holder(s) of the Share(s)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"University", "our University" or "Shanghai Jian Qiao University"	Shanghai Jian Qiao University (上海建橋學院), a private institution of formal higher education established under the laws of the PRC on 28 June 2000. It is an affiliated entity of the Company
"USD"	United States dollars, the lawful currency for the time being of the United States
"Yangtze River Delta"	comprises Jiangsu, Zhejiang, Anhui and Shanghai in the PRC
"%"	percent

By order of the Board of
Shanghai Gench Education Group Limited
Zhou Xingzeng
Chairman

Hong Kong, 30 March 2020

As at the date of this announcement, our executive Directors are Mr. Zhou Xingzeng, Mr. Zheng Xiangzhan and Mr. Shi Yinjie, our non-executive Director is Mr. Zhao Donghui and our independent non-executive Directors are Mr. Chen Baizhu, Mr. Hu Rongen and Ms. Liu Tao.

* *The English translation of company names in Chinese is for identification purposes only. If there is any inconsistency between the Chinese names of entities or enterprises established in China and their English translations, the Chinese names shall prevail.*