

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



Wisdom Education International Holdings Company Limited

睿見教育國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 6068)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 28 FEBRUARY 2017

HIGHLIGHTS

The Board has resolved to recommend the payment of an interim dividend of RMB0.024 (equivalent to HK\$0.027) per share for the six months ended 28 February 2017 (for the six months ended 29 February 2016: Nil).

	As at		Change	Percentage Change
	1 September 2016	1 September 2015		
Total number of students enrolled	31,788	27,644	+4,144	+15.0%
	Six months ended		Change	Percentage Change
	28 February 2017	29 February 2016		
	RMB'000	RMB'000	RMB'000	
	(unaudited)	(unaudited)		
Revenue	498,142	354,283	+143,859	+40.6%
Gross profit	230,861	166,184	+64,677	+38.9%
Profit for the period	107,280	85,620	+21,660	+25.3%
Core net profit (Note)	120,662	92,603	+28,059	+30.3%

Note: Core net profit is defined as the profit for the period of the Group after adjusting for those items which are not indicative of the Group's operating performance. For details of the reconciliation of the profit for the period to the core net profit of the Group, please refer to the section headed "Financial Review" in this announcement.

INTERIM RESULTS FOR THE SIX MONTHS ENDED 28 FEBRUARY 2017

The board (the “**Board**”) of directors (the “**Directors**”) of Wisdom Education International Holdings Company Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) is pleased to announce the unaudited condensed consolidated interim results of the Group for the six months ended 28 February 2017. These interim results have been reviewed by the Company’s audit committee (the “**Audit Committee**”) and the Company’s external auditor, Deloitte Touche Tohmatsu.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 28 FEBRUARY 2017

		Six months ended	
		28 February 2017	29 February 2016
	NOTES	RMB'000 (unaudited)	RMB'000 (unaudited)
Revenue	3	498,142	354,283
Cost of revenue		<u>(267,281)</u>	<u>(188,099)</u>
Gross profit		230,861	166,184
Other income	4	3,797	3,135
Other gains and losses		157	(4,649)
Selling expenses		(13,212)	(7,323)
Administrative expenses		(63,343)	(46,255)
Listing expenses		(7,172)	(12,867)
Finance income		3,094	51,797
Finance costs		<u>(6,372)</u>	<u>(44,985)</u>
Profit before taxation		147,810	105,037
Taxation	5	<u>(40,530)</u>	<u>(19,417)</u>
Profit and total comprehensive income for the period	6	<u>107,280</u>	<u>85,620</u>
Attributable to:			
Owners of the Company		107,304	85,624
Non-controlling interests		<u>(24)</u>	<u>(4)</u>
		<u>107,280</u>	<u>85,620</u>
EARNINGS PER SHARE			
Basic (RMB)	8	<u>0.07</u>	<u>0.06</u>
Diluted (RMB)	8	<u>0.07</u>	<u>0.06</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 28 FEBRUARY 2017

		At 28 February 2017 <i>RMB'000</i> (unaudited)	At 31 August 2016 <i>RMB'000</i> (audited)
	<i>NOTES</i>		
Non-current Assets			
Property, plant and equipment	9	1,511,800	1,344,405
Prepaid lease payments		231,557	226,324
Investment properties		20,000	19,700
Deferred tax assets		3,832	2,775
Prepayments for construction to a related company		197,075	170,000
		<u>1,964,264</u>	<u>1,763,204</u>
Current Assets			
Inventories — goods for sale		8,350	4,522
Deposits, prepayments and other receivables		32,872	30,416
Amounts due from related parties	13	—	550,830
Prepaid lease payments		6,010	5,698
Bank balances and cash		769,849	103,705
		<u>817,081</u>	<u>695,171</u>
Current Liabilities			
Deferred revenue	10	365,639	365,005
Trade payables	11	61,803	39,936
Other payables and accrued expenses	12	233,710	207,549
Amounts due to related parties	13	—	339,788
Income tax payable		81,316	58,218
Borrowings	14	63,500	142,279
		<u>805,968</u>	<u>1,152,775</u>
Net Current Assets (Liabilities)		<u>11,113</u>	<u>(457,604)</u>
Total Assets Less Current Liabilities		<u>1,975,377</u>	<u>1,305,600</u>
Capital and Reserves			
Share capital		18,008	—
Reserves		1,684,964	830,775
Equity attributable to owners of the Company		1,702,972	830,775
Non-controlling interests		(24)	—
		<u>1,702,948</u>	<u>830,775</u>
Non-Current Liabilities			
Borrowings	14	261,700	465,421
Deferred tax liabilities		10,729	9,404
		<u>272,429</u>	<u>474,825</u>
		<u>1,975,377</u>	<u>1,305,600</u>

1. BASIS OF PREPARATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under Companies Law Chapter 22 of the Cayman Islands on 13 July 2010. Its shares have been listed (“**Listing**”) on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) since 26 January 2017 (“**Listing Date**”).

The condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 (“**IAS 34**”) *Interim Financial Reporting* issued by the International Accounting Standards Board as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for investment properties and certain financial instruments, which are measured at fair values.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 28 February 2017 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 August 2016.

In the current interim period, the Group has applied, for the first time, certain amendments to International Financial Reporting Standards (“**IFRSs**”) issued by the International Accounting Standards Board that are mandatorily effective for the current interim period. The application of these amendments to IFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

In addition, the Group has applied the following accounting policy during the current interim period:

Share-based payment arrangements

Share options granted to employees

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group’s estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share option reserve). At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share option reserve. For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

3. REVENUE AND SEGMENT INFORMATION

The Group is mainly engaged in the provision of education services in the People’s Republic of China (the “**PRC**” or “**China**”).

Revenue represents service income from tuition fees, boarding fees and ancillary services less returns, discounts and sales related tax.

The Group’s chief operating decision maker (“**CODM**”) has been identified as the chief executive officer who reviews revenue analysis of the Group as a whole.

Information reported to the CODM, for the purpose of resource allocation and assessment of segment performance is on a school by school basis. Each individual school constitutes an operating segment. The services provided and type of customers are similar in each operating segment, and each operating segment are subject to similar regulatory environment. Accordingly, their segment information is aggregated as a single reportable segment. The management

of the Group assesses the performance of the reportable segment based on the revenue and gross profit of the Group. No analysis of the Group's assets and liabilities is regularly provided to the management of the Group for review.

The revenues attributable to the Group's service lines are as follows:

	Six months ended	
	28 February 2017 <i>RMB'000</i> (unaudited)	29 February 2016 <i>RMB'000</i> (unaudited)
Tuition fees	298,168	242,737
Boarding fees	37,626	32,088
Ancillary services	162,348	79,458
	<u>498,142</u>	<u>354,283</u>

4. OTHER INCOME

	Six months ended	
	28 February 2017 <i>RMB'000</i> (unaudited)	29 February 2016 <i>RMB'000</i> (unaudited)
Rental income from investment properties	558	392
Government grants	1,185	606
Donations	37	40
Staff quarter income	1,220	1,410
Others	797	687
	<u>3,797</u>	<u>3,135</u>

5. TAXATION

	Six months ended	
	28 February 2017 <i>RMB'000</i> (unaudited)	29 February 2016 <i>RMB'000</i> (unaudited)
The income tax expense comprises		
Current tax:		
PRC Enterprise Income Tax ("EIT")	40,262	18,042
Deferred tax	268	1,375
	<u>40,530</u>	<u>19,417</u>

The Company was incorporated in the Cayman Islands and Bright Education Co. Limited was incorporated in the British Virgin Islands ("BVI") and such companies are tax exempted as no business has been carried out in Cayman Islands and BVI under the tax laws of the Cayman Islands and the BVI, respectively.

No provision for Hong Kong Profits Tax has been made as the Group's operation in Hong Kong had no assessable profit for both periods.

All subsidiaries of the Company established in the PRC are subject to the PRC EIT of 25% for both periods.

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the condensed consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

6. PROFIT FOR THE PERIOD

	Six months ended	
	28 February 2017 <i>RMB'000</i> (unaudited)	29 February 2016 <i>RMB'000</i> (unaudited)
Profit for the period has been arrived at after charging:		
Staff costs, including directors' remuneration		
— salaries and other allowances	138,195	123,869
— retirement benefit scheme contributions	11,519	9,673
— share-based payments	2,886	—
	<hr/>	<hr/>
Total staff costs	152,600	133,542
	<hr/>	<hr/>
Depreciation of property, plant and equipment	26,710	22,496
Release of prepaid lease payments	3,015	2,842
Imputed interest income on advances to 富盈集團有限公司 (“Cinese Group”)	(3,029)	(51,788)
Net exchange (gain) loss	(738)	98
	<hr/> <hr/>	<hr/> <hr/>

7. DIVIDENDS

Subsequent to the end of the current interim period, the directors of the Company have determined that an interim dividend of RMB0.024 per share (equivalent to HK\$0.027) amounting to RMB48,940,000 (equivalent to HK\$55,057,000) will be paid to the owners of the Company.

8. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the owners of the company is based on the following data:

	Six months ended	
	28 February 2017 RMB'000 (unaudited)	29 February 2016 RMB'000 (unaudited)
Earnings		
Profit for the period attributable to owners of the Company for the purposes of basic and diluted earnings per share	107,304	85,624
	Six months ended	
	28 February 2017 '000 (unaudited)	29 February 2016 '000 (unaudited)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,595,360	1,500,000
Effect of dilutive potential ordinary shares:		
Share options	606	—
Over-allotment option	89	—
Weighted average number of ordinary shares for the purpose of diluted earnings per share	1,596,055	1,500,000

The weighted average number of shares for the purpose of calculating basic earnings per share and diluted earnings per share for the six months ended 29 February 2016 has been retrospectively adjusted for the effect of the issuance of ordinary shares and capitalisation issue.

No diluted earnings per share is presented for the six months ended 29 February 2016 as the Group had no dilutive potential ordinary shares in issue during the period.

9. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the six months ended 29 February 2016, the Group disposed of certain equipment with an aggregate carrying amount of RMB942,000 with no cash proceeds, resulting in a loss on disposal of RMB942,000. No disposal was made during the six months ended 28 February 2017.

Addition of property, plant and equipment amounted to approximately RMB189,106,000 was recognised for the six months ended 28 February 2017 (six months ended 29 February 2016: RMB57,830,000) in which RMB23,169,000 was transferred to construction in progress with reference to the construction progress of school premises in Weifang under the agreements with 東莞市富盈房地產開發有限公司 (Dongguan Chinese Real Estate Development Co. Ltd.) (“**Dongguan Chinese Real Estate**”), a related company controlled by Mr. Liu Xuebin, chairman and executive director of the Company (six months ended 29 February 2016: nil).

10. DEFERRED REVENUE

	At 28 February 2017 <i>RMB'000</i> (unaudited)	At 31 August 2016 <i>RMB'000</i> (audited)
Tuition fees	299,234	297,690
Boarding fees	37,330	37,804
Ancillary services	29,075	29,511
	<u>365,639</u>	<u>365,005</u>

11. TRADE PAYABLES

The credit period granted by suppliers on purchase of goods is 30 to 180 days. The Group has financial risk management policies to settle payables within the credit time frame. As at 28 February 2017 and 31 August 2016, the trade payables were aged within 180 days.

12. OTHER PAYABLES AND ACCRUED EXPENSES

	At 28 February 2017 RMB'000 (unaudited)	At 31 August 2016 RMB'000 (audited)
Accruals for construction	85,732	115,213
Receipt in advance (<i>note i</i>)	60,000	—
Accrued listing expenses	22,092	20,037
Accrued staff benefits and payroll	21,047	24,044
Payables for land use right (<i>note ii</i>)	12,448	12,448
Other payables	10,504	8,597
Other tax payables	7,891	6,304
Consideration payable for the acquisition of a subsidiary in previous years (<i>note ii</i>)	4,000	4,000
Accrued operating expenses	3,653	4,751
Receipt on behalf of ancillary services providers	2,639	1,958
Deposits received	1,295	2,693
Payables to an independent third party relating to international programmes	1,033	1,285
Discretionary government subsidies receipt in advance	871	5,224
Interest payable	505	995
	<u>233,710</u>	<u>207,549</u>

Notes:

- i. In August 2016, a subsidiary of the Company has entered into an investment agreement with a non-controlling shareholder of a subsidiary to set up a new subsidiary which will engage in provision of middle school and primary school full time education. In January 2017, the Group received an advance payment of RMB60,000,000 from the non-controlling shareholder of a subsidiary. The advance payment is unsecured, non-interest bearing and has no fixed repayment terms. The advance payment received by the Group will be used partially as the share capital and the working capital for the potential joint development of the new subsidiary of the Company.
- ii. The amounts were interest free, unsecured and repayable on demand.

13. AMOUNTS DUE FROM (TO) RELATED PARTIES

Included in the amounts due from (to) related parties are (i) amounts due from (to) directors, (ii) borrowings provided by the Group to Cinese Group and amounts due from (to) Cinese Group, (iii) amounts due from (to) other related parties in non-trade nature and (iv) amounts due from (to) other related parties in trade nature. The balances of amounts due from (to) related parties has been fully settled during the six months ended 28 February 2017.

14. BORROWINGS

During the current interim period, the Group obtained a new unsecured and variable — rate borrowing amounting to RMB217,700,000 (31 August 2016: RMB50,000,000). The borrowing carries interest with reference to the Benchmark Borrowing Rate of The People's Bank of China is 5.9% and are repayable in instalments over a period of 10 years.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Established in 2003, we were the largest private education group in South China operating premium primary and secondary schools, as measured by student enrolment as at 1 September 2015, according to the report commissioned by Frost & Sullivan (“**Frost & Sullivan Report**”) for the purpose of the Company’s prospectus dated 16 January 2017 (“**Prospectus**”). As at 1 September 2016, we operated 6 premium private schools in 5 campuses with a total student enrolment of 31,788 students.

Our Schools and Educational Curriculum

Currently, 4 of our schools are located in Guangdong province, 1 school is located in Liaoning province and 1 school is located in Shandong province. All of our schools are boarding schools with student dormitories. The following table sets forth the types of education that we provide in each of our schools:

	Primary School	Middle School	High School	International Programmes
Dongguan Guangming School	N/A	√	√	√
Dongguan Guangming Primary School	√	N/A	N/A	N/A
Dongguan Guangzheng Preparatory School	√	√	√	√
Huizhou Guangzheng Preparatory School	√	√	√	N/A
Panjin Guangzheng Preparatory School	√	√	N/A	N/A
Weifang Guangzheng Preparatory School	√	√	N/A	N/A

Our primary and middle schools provide PRC curriculum education to students from grade 1 to 6 and students from grade 7 to 9 respectively. Our high schools mainly provide PRC curriculum education to students from grade 10 to 12. Panjin Guangzheng Preparatory School and Weifang Guangzheng Preparatory School commenced operations in 2014 and 2016 respectively and accordingly, we have not yet operated high schools in these schools.

We also offer international programmes to certain high school students who aim to pursue higher education overseas. For instance, the international programme of Dongguan Guangzheng Preparatory School was authorized by the London Examination Board, offering courses designed to prepare high school students for the examinations required for obtaining the International General Certificate of Secondary Education (“**IGCSE**”) and the United Kingdom General Certificate of Education Advanced Level (“**A Level**”) qualification.

Our educational objectives are “to serve the society with honesty and integrity through our services” and “to cultivate talents with a warm and loving heart” (以誠心服務社會，以愛心培育人才). To achieve our objectives, we have established the following educational philosophy: enhance morality and foster talents; nurture worthy and capable, sincere and upright graduates (賢良方正，立德樹人).

Well-rounded Quality Education

To promote the well-rounded development of our students, we offer a wide-range of school-based elective courses, including courses for sports, art, music and Chinese culture. Our students have made significant achievements in areas such as basketball, track and field, martial arts, music, dance and Chinese calligraphy. For instance, our Dongguan Guangming School high school male basketball

team has won various national, provincial and municipal championships. Our Dongguan Guangming School high male basketball team has recently become one of the top four teams in the 2017 national Chinese high school basketball competition and will compete for the championship in October 2017.

Student Placement

For the 2015/2016 school year, approximately 95% of our high school graduates were admitted to universities in China, and 23% of our high school graduates were admitted to first-tier universities in China identified in the “University Application and Enrolment Guidelines for Guangdong Province” issued by the Education Examinations Authority of Guangdong Province. In the 2016 PRC national higher education entrance examination, one of our high school graduates was ranked in the top 10 and one was ranked in the top 20 in Guangdong province in terms of the total exam scores achieved, and 10 of our high school graduates were admitted to Peking University and Tsinghua University.

Revenue

We derive our revenue from tuition fees and boarding fees collected from our students and from ancillary services provided to our students.

	For the six months ended			
	28 February 2017 RMB'000	% of Total	29 February 2016 RMB'000	% of Total
<i>Revenue by Service</i>				
Tuition fees	298,168	59.9	242,737	68.5
Boarding fees	37,626	7.5	32,088	9.1
Ancillary services	162,348	32.6	79,458	22.4
Total revenue	<u>498,142</u>	<u>100</u>	<u>354,283</u>	<u>100</u>

Tuition and boarding fees

Our school year normally runs from 1 September to 31 August (including a summer vacation) and each school year is divided into two school terms. Our tuition and boarding fees are generally paid in advance prior to the commencement of each school term, and we initially record such payments as deferred revenue. We then recognize tuition and boarding fees as revenue proportionately over the relevant period in each school year.

Comparing with that for the six months ended 29 February 2016, tuition and boarding fees for the six months ended 28 February 2017 increased mainly because our overall student enrolment increased and we increased the rates of tuition and boarding fees for certain of our schools where the newly admitted students are subject to the increased fee rates with effect from the 2015/2016 school year.

Ancillary services

In order to enhance the quality of student life on campus where our students normally live in our dormitories from Monday to Friday during school terms, we provide our students with ancillary services, including on-campus canteens, supermarkets and medical rooms, for which we charge separately in addition to tuition and boarding fees. During the six months ended 28 February 2017, we commenced to provide additional services to our students, including the arrangement of school bus and the provision of school uniform and study tours.

Comparing with that for the six months ended 29 February 2016, revenue from ancillary services for the six months ended 28 February 2017 increased significantly, primarily due to the provision of additional services to our students and the increase in the number of students who spent for the relevant services at our schools.

<i>Revenue by School</i>	For the six months ended			
	28 February 2017 RMB'000	% of Total	29 February 2016 RMB'000	% of Total
Dongguan Guangming School	199,466	40.0	161,428	45.6
Dongguan Guangming Primary School	75,033	15.1	57,189	16.1
Dongguan Guangzheng Preparatory School	145,283	29.2	98,242	27.7
Huizhou Guangzheng Preparatory School	54,034	10.8	29,012	8.2
Panjin Guangzheng Preparatory School	16,972	3.4	8,412	2.4
Weifang Guangzheng Preparatory School	7,354	1.5	—	—
Total	<u>498,142</u>	<u>100.0</u>	<u>354,283</u>	<u>100.0</u>

<i>Revenue by Province</i>	For the six months ended			
	28 February 2017 RMB'000	% of Total	29 February 2016 RMB'000	% of Total
Guangdong	473,816	95.1	345,871	97.6
Liaoning	16,972	3.4	8,412	2.4
Shandong	7,354	1.5	—	—
Total	<u>498,142</u>	<u>100.0</u>	<u>354,283</u>	<u>100.0</u>

For the six months ended 28 February 2017, revenue from all of our schools increased primarily due to the increase in student enrolment of the respective school. In addition, with effect from the 2016/2017 school year, we increased the tuition and boarding fees for Dongguan Guangming School, Dongguan Guangming Primary School, Dongguan Guangzheng Preparatory School and Huizhou Guangzheng Preparatory School where the newly admitted students are subject to the increased fee rates.

Revenue contributions from Dongguan Guangzheng Preparatory School and Huizhou Guangzheng Preparatory School, as a percentage of total revenue, increased significantly primarily due to the significant increase in student enrolment of these schools. Weifang Guangzheng Preparatory School commenced its operation in September 2016.

Our schools in Guangdong province remained as the major revenue contributors in both interim periods.

Student Enrolment

For each of the past three school years 2013/2014, 2014/2015 and 2015/2016, the number of students withdrawn from our schools was less than 0.9% of the total student enrolment as at the beginning of the respective school year. The following tables set forth the student enrolment as at the beginning of each of the 2016/2017 and 2015/2016 school years:

<i>Student Enrolment by School</i>	As at 1 September 2016	As at 1 September 2015	Change	Percentage Change
Dongguan Guangming School	10,510	10,417	93	0.9%
Dongguan Guangming Primary School	5,973	5,959	14	0.2%
Dongguan Guangzheng Preparatory School	9,094	7,768	1,326	17.1%
Huizhou Guangzheng Preparatory School	3,903	2,500	1,403	56.1%
Panjin Guangzheng Preparatory School	1,590	1,000	590	59.0%
Weifang Guangzheng Preparatory School	718	—	718	N/A
Total number of students	31,788	27,644	4,144	15.0%

<i>Student Enrolment by Category</i>	As at 1 September 2016	As at 1 September 2015	Change	Percentage Change
High school	7,733	6,834	899	13.2%
Middle school	12,509	10,748	1,761	16.4%
Primary school	11,199	9,759	1,440	14.8%
International programmes	347	303	44	14.5%
Total number of students	31,788	27,644	4,144	15.0%

Our total student number increased and the number of our primary and middle school students increased significantly primarily due to the expansion of capacity for Dongguan Guangzheng Preparatory School and Huizhou Guangzheng Preparatory School and the commencement of primary and middle school operation of Weifang Guangzheng Preparatory School with effect from 1 September 2016. The student number of each of Dongguan Guangming School and Dongguan Guangming Primary School remained relatively stable as the campus has been almost fully utilized.

As at 1 September 2016, the percentages of high school, middle school, primary schools and international programmes were approximately 24.3%, 39.4%, 35.2% and 1.1% of the total number of students, respectively, which remained relatively stable comparing with those as at 1 September 2015.

Student Recruitment

For recruiting our high school students, we participate in the unified admission procedure administered by the relevant Educational Bureau in the PRC and generally admit middle school graduates who have applied to our schools through the unified admission system and have reached or exceeded the standardized test scores required by us. We also recruit a limited number of specialty students who have sports, music or art talents for our high schools each school year and administer additional tests to evaluate applicants' skills in the respective specialty area. For recruiting our middle school

students, we generally admit primary school graduates who have achieved the requisite scores in admission tests administered by us. For recruiting our primary school students, we require applicants to participate in on-campus interviews.

For the 2015/2016 school year, approximately 83% of our primary school graduates enrolled in our middle schools, and approximately 59% of our middle school graduates enrolled in our high schools.

Average Tuition and Boarding Fees Per Student

<i>Tuition and Boarding Fees by School</i>	For the six months ended			
	28 February 2017		29 February 2016	
	Tuition and boarding fees	Average per student	Tuition and boarding fees	Average per student
	RMB'000	RMB	RMB'000	RMB
		<i>(Note)</i>		<i>(Note)</i>
Dongguan Guangming School	123,486	11,749	109,724	10,533
Dongguan Guangming Primary School	60,227	10,083	57,189	9,597
Dongguan Guangzheng Preparatory School	99,023	10,889	77,830	10,019
Huizhou Guangzheng Preparatory School	37,456	9,597	23,176	9,270
Panjin Guangzheng Preparatory School	11,183	7,033	6,906	6,906
Weifang Guangzheng Preparatory School	4,419	6,155	—	—
Overall	335,794	10,564	274,825	9,942

<i>Tuition and Boarding Fees by Category</i>	For the six months ended			
	28 February 2017		29 February 2016	
	Tuition and boarding fees	Average per student	Tuition and boarding fees	Average per student
	RMB'000	RMB	RMB'000	RMB
		<i>(Note)</i>		<i>(Note)</i>
High school	86,434	11,177	68,727	10,057
Middle school	132,239	10,572	106,846	9,941
Primary school	105,562	9,426	88,973	9,117

Note:

The average tuition and boarding fees per student is calculated by dividing the total tuition and boarding fees amount for the respective six-month period by the number of student enrolment as at the beginning of the respective school year. As the number of students withdrawn from our schools was less than 0.9% of the total student enrolment as at the beginning of each of the past three school years 2013/2014, 2014/2015 and 2015/2016, no average student enrolment for the respective six-month period is presented for the calculation of the average tuition and boarding fees per student.

The average tuition and boarding fees per student for each of Dongguan Guangming School, Dongguan Guangming Primary School, Dongguan Guangzheng Preparatory School and Huizhou Guangzheng Preparatory School increased for the six months ended 28 February 2017, primarily due to the increase in the tuition and boarding fees for the newly admitted students in these schools with effect from the 2016/2017 school year.

School Capacity and Utilization

As all of our schools are boarding schools, the capacity for students is calculated based on the approximate number of beds available in student dormitories according to the respective school's internal records and calculations. School utilization rate is calculated by dividing the number of students enrolled by the student capacity at the beginning of relevant school year. The following tables set forth the capacity for students and utilization of our schools as at the beginning of each of the school years 2016/2017 and 2015/2016:

<i>Student Capacity and Utilization by School</i>	As at 1 September 2016		As at 1 September 2015	
	Student Capacity	Utilization	Student Capacity	Utilization
Dongguan Guangming School	10,744	97.8%	10,532	98.9%
Dongguan Guangming Primary School	6,060	98.6%	6,062	98.3%
Dongguan Guangzheng Preparatory School	9,706	93.7%	9,038	85.9%
Huizhou Guangzheng Preparatory School	4,024	97.0%	3,465	72.2%
Panjin Guangzheng Preparatory School	1,866	85.2%	1,455	68.7%
Weifang Guangzheng Preparatory School	752	95.5%	—	—
Overall	<u>33,152</u>	<u>95.9%</u>	<u>30,552</u>	<u>90.5%</u>

<i>Student Capacity and Utilization by Category</i>	As at 1 September 2016		As at 1 September 2015	
	Student Capacity	Utilization	Student Capacity	Utilization
High school	8,294	93.2%	8,112	84.2%
Middle school	12,924	96.8%	11,288	95.2%
Primary school	11,554	96.9%	10,836	90.1%
International programmes	380	91.3%	316	95.9%
Overall	<u>33,152</u>	<u>95.9%</u>	<u>30,552</u>	<u>90.5%</u>

Total student capacity increased from 30,552 as at 1 September 2015 (2015/2016 school year) to 33,152 as at 1 September 2016 (2016/2017 school year) primarily due to the commencement of operation of Weifang Guangzheng Preparatory School in the 2016/2017 school year and an increase in capacity of Dongguan Guangzheng Preparatory School and Huizhou Guangzheng Preparatory School. The student capacity and utilization for each of Dongguan Guangming School and Dongguan Guangming Primary School remained relatively stable as the campus has been almost fully utilized. The overall utilization increased mainly because the student enrolment of each of our schools increased.

For details of the Group's expansion plan of its school capacity, please refer to the section headed "Outlook" in this announcement.

Teachers

As at 1 September 2016, over 79% of our PRC-qualified teachers held bachelors or higher degrees. The number of teachers increased from 1,666 as at 1 September 2015 to 1,960 as at 1 September 2016 primarily due to the recruitment of additional teachers for the expansion of Dongguan Guangzheng Preparatory School, Huizhou Guangzheng Preparatory School, Panjin Guangzheng Preparatory School and the opening of Weifang Guangzheng Preparatory School. The overall student-teacher ratio remained relatively stable.

Teacher turnover rate

To attract and retain high-quality teachers, we believe we offer a relatively competitive salary and benefits package and generally offer free or low cost accommodation on campus or close to our schools. For the 2015/2016 school year, the turnover rate of our teachers was approximately 12%.

MARKET REVIEW

Private education was first allowed in China by law in early 1980s to bridge the shortage of public education resources. Private education has experienced rapid growth and become an important segment in the PRC education system.

Student Enrolment of Overall Primary and Secondary Education in China

According to the Frost & Sullivan Report, the total number of public and private primary and secondary schools' students in China is expected to increase from 166.0 million students in 2016 to 171.8 million students in 2020.

Student Enrolment of Private Primary and Secondary Education in China

According to the Frost & Sullivan Report, the total number of private primary and secondary schools' students in China is expected to increase from 15.3 million students in 2016 to 18.5 million students in 2020. Accordingly, the penetration rate of private primary and secondary schools, in terms of student enrolment, is expected to increase from 9.3% in 2016 to 10.8% to 2020.

Our Market Position in South China

According to the Frost & Sullivan Report, the total number of private primary and secondary schools' students in South China is expected to increase from 3.4 million in 2016 to 4.0 million in 2020.

Premium private schools in China are defined to include private schools whose annual tuition fee is higher than the average per student public fiscal budget on education of the province they operate in, and these schools generally offer higher quality education, more advanced educational facilities and a more satisfying environment to students through higher tuition fees than non-premium private schools, according to the Frost & Sullivan Report

In the 2015/2016 school year, the number of students enrolled in premium private primary and secondary schools in South China accounted for approximately 29% of the total student number in private primary and secondary schools in South China, and we were the largest provider of premium private primary and secondary education in South China, in terms of student enrolment, with a market share of approximately 2.8%, according to the Frost & Sullivan Report,

OUTLOOK

Growth Drivers of Premium Private Education in China

It is expected that the growth in the number of middle class families and the rise in their corresponding disposable income may drive their spending on premium private fundamental education, as parents from these families normally consider that good education background could benefit their children in the long run and premium private schools generally pay more attention to develop quality all-rounded education curriculum for students, helping students to gain better access to top universities. Accordingly, they usually treat premium private education as a preferred choice of their children's study.

Generally, it is difficult for local students to get enrolled in quality public schools in China due to limited public education resources and local limitation policies such as those relating to students' registered permanent residence. Furthermore, education resources in public schools are generally not distributed equally. Premium private schools usually have more flexible enrolment plan and less restricted admission requirements.

As the Chinese government has cancelled the long-established one-child policy and unveils two-child policy, it is expected that this policy change will benefit premium private fundamental education in the medium and long term and the student enrolment of premium primary and secondary school education will continue to increase rapidly.

Development Strategies

We intend to strengthen our leading position in the Pearl River Delta economic zone with a focus on Guangdong province and intend to expand into the West Delta economic zone, while our schools are currently located in three of the five major economic zones, namely, the Pearl River Delta economic zone, the Northeast Three Provinces economic zone and the Bohai Economic Rim economic zone.

Given that the demand for premium private primary and secondary education is expected to continue to grow in China, we intend to (i) increase the capacity of certain existing schools, (ii) expand our school network through acquisition of local private schools, and (iii) establish more of our own schools, in order to sustain our growth. We are in discussions with the government authorities of various cities in Guangdong and Sichuan provinces to explore the possibility of establishing new schools in the relevant cities. We plan to establish new schools primarily through constructing our own schools with government support. When selecting the location for our new schools, we consider various factors including geographic location, economic development, social and cultural environment, population, number of school-aged children, birth rate, average household income, government support and competition. Moreover, we generally choose to establish new schools in regions that we believe to have high growth potential and relatively less competition in the premium private education market.

1) Expansion of Capacity of Existing Schools

We plan to continue to increase the capacity of each of Dongguan Guangzheng Preparatory School, Huizhou Guangzheng Preparatory School, Panjin Guangzheng Preparatory School and Weifang Guangzheng Preparatory School campus. Please refer to the section headed "Estimated student capacity" below.

II) Acquisition of Local Private Schools

We are in the process of negotiating with an independent third party to acquire a school providing compulsory education, with approximately 3,200 students, in Guangdong province. We target to complete the proposed acquisition before September 2017 but, as at the date of this announcement, the Group has not entered into any formal or legal-binding agreement in relation to the proposed acquisition. The proposed acquisition may or may not proceed and further announcement will be made if necessary.

III) Establishment of Own New Schools with Local Government

a) New School under Construction — Expected Date of Commencement in September 2017

Guang'an, Sichuan province

On 4 May 2016, the Group entered into a cooperation agreement with the local government of Guang'an, Sichuan province and the management committee of Guang'an Zaoshan Logistics and Trade Park to establish a new school in Guang'an, providing, among other things, primary, middle and high school education, as well as international programmes, with a target maximum capacity of approximately 9,280 students. Pursuant to the cooperation agreement, the local government of Guang'an agreed to allocate a parcel of land to the Group for educational purposes and provide certain preferential policies and assistance to the school to facilitate its construction, whereas the Group is responsible for the construction of the school in several phases. The school is expected to commence operation in September 2017.

b) Major New Schools in the Pipeline — Expected Date of Commencement in September 2018

Yunfu, Guangdong province

On 19 July 2016, the Group entered into a cooperation agreement with the local government of Yunfu, Guangdong province to establish a school in Yunfu, providing, among other things, primary, middle and high school education, with a target maximum capacity of 10,680 students. Pursuant to the cooperation agreement, the local government of Yunfu agreed to allocate a parcel of land to the Group for educational purposes at a designated price and provide certain preferential policies and assistance to the school to facilitate its construction and operation, whereas Group is responsible for the construction of the school properties in several phases. It is originally expected that the school will commence operation in September 2017. However, since that the local government of Yunfu has recently identified another parcel of land with a larger site area and a better location than the original one allocated to the Group, the Group and the local government of Yunfu, from a future expansion perspective, have agreed to reschedule the commencement date of the school to September 2018.

Ziyang, Sichuan province

On 10 April 2017, the Group entered into a cooperation agreement (as supplemented) with the People's Government of Anyue County (安岳縣人民政府) (the "Anyue Government") in relation to the establishment, operation and management of a boarding school in Anyue County, Ziyang, Sichuan province. Pursuant to the cooperation agreement (as supplemented), the Anyue Government agreed to (i) allocate a parcel of land with a total site area of approximately 250–300 mu (equivalent to approximately 166,700–200,000 square metres) to

the Group for educational purposes; and (ii) provide certain preferential treatment and assistance to facilitate the operation of the proposed school. The development and operation of the proposed school is subject to the Anyue Government's assistance in obtaining the necessary approvals and completion of the preparatory process and the proposed school is expected to commence operations in September 2018. It is expected that the Group will develop the proposed school in several phases, with a target capacity of approximately 10,000 students for, among other things, high school, middle school and primary school education. Please refer to the Company's announcement dated 10 April 2017 for further details of the agreement.

c) *Major New Schools under Planning — Framework Agreement with Local Government Authority*

Zhaoqing, Guangdong province

On 15 December 2016, the Group entered into a framework agreement with the local government of Dinghu District, Zhaoqing, Guangdong province for the potential cooperation between the parties for the establishment of Zhaoqing Guangming Preparatory School, which will offer, among other things, primary and middle school education. Under the framework agreement, we will obtain the land use right for the construction of the proposed school pursuant to the relevant laws and regulations, and the local government will provide us with certain preferential policies and assistance to facilitate the construction and operations of the proposed school. We are in the process of negotiating with the local government and we will enter into further agreement(s) with the local government as and when appropriate.

Guangzhou, Guangdong province

On 28 March 2017, the Group entered into a framework cooperation agreement with the People's Government of Zengcheng, Guangzhou (廣州市增城區人民政府) ("**Zengcheng Government**") in relation to their proposed cooperation in the establishment of an educational and cultural industry park (教育文化產業園) in Zengcheng, Guangzhou ("**Project**"). The Project will involve the construction of (i) a campus proposed to be established by the Group providing, among others, high school, middle school and primary school education and international programmes; and (ii) certain buildings, comprising, among other things, an office tower, a research centre for fundamental education and a training centre for teachers.

Pursuant to the agreement, the Group will be responsible for the planning and construction work under the Project, and the Zengcheng Government will provide full support for the Project and provide the Group with the preferential treatment in the provision of land for the Project. The progress of the Project is subject to further agreement(s) and investment proposal(s) to be made between the Group and the Zengcheng Government. Please refer to the Company's announcement dated 28 March 2017 for further details regarding the agreement.

Estimated Student Capacity

	Existing Student Capacity	Estimated Student Capacity in the 2017/2018 school year	Target Student Capacity
Existing Schools			
Dongguan Guangming School	10,744	10,744	10,744
Dongguan Guangming Primary School	6,060	6,060	6,060
Dongguan Guangzheng Preparatory School	9,706	13,500 ⁽¹⁾	15,226 ⁽¹⁾
Huizhou Guangzheng Preparatory School	4,024	8,000 ⁽¹⁾	9,464 ⁽¹⁾
Panjin Guangzheng Preparatory School	1,866	2,500 ⁽²⁾	5,100 ⁽²⁾
Weifang Guangzheng Preparatory School	752	4,000 ⁽²⁾	7,200 ⁽²⁾
Sub-total	33,152	44,804	53,794
New School under Construction			
Guang'an Guangzheng Preparatory School	—	1,000 ⁽³⁾	7,860 ⁽³⁾
New Schools in The Pipeline			
Yunfu Guangzheng Preparatory School	—	— ⁽⁴⁾	7,000 ⁽⁴⁾
Anyue Guangzheng Preparatory School	—	—	6,800 ⁽⁵⁾
Sub-total	—	—	13,800
Total	33,152	45,804	75,454

Notes:

- (1) The estimated student capacity for each of Dongguan Guangzheng Preparatory School and Huizhou Guangzheng Preparatory School in the 2017/2018 school year is calculated based on the estimated number of beds in the student dormitories of the respective school according to the current construction plan which is subject to adjustment. The target student capacity for each of Dongguan Guangzheng Preparatory School and Huizhou Guangzheng Preparatory School is calculated based on the estimated number of students that the student dormitories of the respective school were designed to accommodate according to the relevant school expansion plans in the next few years.
- (2) The estimated student capacity for each of Panjin Guangzheng Preparatory School and Weifang Guangzheng Preparatory School in the 2017/2018 school year is calculated based on the estimated number of beds in the student dormitories of the respective school according to the current construction plan which is subject to adjustment. The target student capacity for each of Panjin Guangzheng Preparatory School and Weifang Guangzheng Preparatory School is calculated based on the estimated number of students that the student dormitories of the respective school were designed to accommodate according to the relevant school expansion plans in the next few years.
- (3) The estimated student capacity for Guang'an Guangzheng Preparatory School is calculated based on the estimated number of beds in the student dormitories on-campus according to the current development plan which is subject to adjustment. The target student capacity for Guang'an Guangzheng Preparatory School is based on the target capacity for primary school, middle schools and international programme students as set forth in the cooperation agreement with the relevant local government authority. The maximum capacity for Guang'an Guangzheng Preparatory School is estimated to be 9,280 students, which is based on the target total capacity for primary, middle and high school education, and international programme as set forth in the relevant cooperation agreement.

- (4) It is originally expected that Yunfu Guangzheng Preparatory School will commence operation in September 2017. However, since that the local government of Yunfu has recently identified another parcel of land with a larger site area and a better location than the original one allocated to the Group, the Group and the local government of Yunfu, in view of its future expansion, have agreed to reschedule the commencement date of Yunfu Guangzheng Preparatory School to September 2018. The target student capacity for Yunfu Preparatory School is based on the target capacity for primary school, middle schools and international programme students as set forth in the cooperation agreement with the relevant local government authority. The maximum capacity for Yunfu Preparatory School is estimated to be 10,680 students, which is based on the target total capacity for primary, middle and high school education, and international programme as set forth in the relevant cooperation agreement.
- (5) The target student capacity of Anyue Guangzheng Preparatory School is based on the target capacity within five years from the opening of the school as set forth in the cooperation agreement with the relevant local government authority. The maximum capacity for Anyue Guangzheng Preparatory School is estimated to be 10,000 students.

Future Capital Expenditure and Financing

We expect that the Group's future capital expenditure will primarily be financed by its net proceeds from the Listing (see the paragraph headed "Use of Proceeds" below), bank borrowings, cash flow generated from operating activities, and/or other financing options available from capital markets if necessary.

Teacher's Recruitment, Training and Retention

We employ our teachers through different channels and methods, including campus recruitment, general public recruitment, candidate self-nominations and the use of online recruiting websites. Our newly hired teachers undergo training programmes in which they familiarize themselves with the requirements and expectations of their respective school and our Group, and get to know their work environment and colleagues. We also provide on-going training programmes for our teachers such as discussion groups, cross-school teacher seminars and outdoor training camps, where our teachers share experiences, enhance teaching skills and improve teamwork.

We reward teachers with high performance evaluations and require teachers who do not meet our expectations to improve within a prescribed period of time. We implement strict rules prohibiting our teachers from accepting gifts of monetary value from parents and students.

Conclusion

With our successful expansion track record and our solid development strategies, we are confident to maintain our leading position, in terms of student enrolment, as a premium private primary and secondary school education provider in South China, and increase our market share in other regions including West Delta economic zone.

USE OF PROCEEDS

The net proceeds from the Listing (including the partial exercise of the over-allotment option) of approximately HK\$824.9 million (equivalent to approximately RMB730 million), after deducting the underwriting fees, commissions and expenses as currently estimated in relation to the Listing, are intended to be applied in the manner as set out in the section headed "Future Plans and Use of Proceeds" of the Prospectus.

As at the date of this announcement, the Company has applied the net proceeds as follows:

Use of Proceeds	% of the Net Proceeds	Proceeds Allocated RMB'000	Amount Utilized RMB'000	Unutilized Balance RMB'000
— Expansion of our school network, in particular, through the development of new schools	65%	474.5	—	474.5
— Further expansion of three existing schools, namely Dongguan Guangzheng Preparatory School, Huizhou Guangzheng Preparatory School, and Panjin Guangzheng Preparatory School	8%	58.4	5.4	53.0
— Maintenance, renovation and upgrade of two existing schools, namely Dongguan Guangming School and Dongguan Guangming Primary School	2%	14.6	—	14.6
— Acquisition of schools to supplement our school network	18%	131.4	—	131.4
— Provision of scholarships and subsidies to our students	2%	14.6	—	14.6
— Working capital and general corporate purpose	5%	36.5	36.5	—
Total	100%	730.0	41.9	688.1

The unutilized net proceeds are generally placed in licensed financial institutions as short-term interest-bearing deposits in Hong Kong.

REGULATORY UPDATE

Our Schools under the Law for Promoting Private Education

According to the Law for Promoting Private Education (which was effective on 1 September 2003 and was subsequently amended on 29 June 2013) and its implementing rules (which were effective on 1 April 2004) in the PRC, school sponsors of private schools may or may not require reasonable return. Private schools with school sponsors not requiring reasonable returns should be eligible for tax incentives that are the same as public schools, such as enterprise income tax (“EIT”) exemption, subject to the local government and tax bureau’s approval. On the other hand, any preferential tax treatment policies for private schools with school sponsors requiring reasonable returns shall be separately formulated by the relevant authorities. However, there were no formal PRC tax rules or regulations elaborating the tax incentives applicable to private schools with school sponsors requiring reasonable returns and there were no formula or guidelines for determining what constitutes a

reasonable return. As such, even though all of our schools are private schools with the school sponsors requiring reasonable returns classified under the Law for Promoting Private Education, our schools are subject to EIT of 25%.

The Decision on Amending the Law for Promoting Private Education

On 7 November 2016, 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》), was approved by the Standing Committee of the National People's Congress (“**Decision**”). The Decision has made certain amendments to the Law for Promoting Private Education of the PRC and will become effective on 1 September 2017. The Decision removed the article that school sponsors of private schools may choose to require reasonable returns. According to the Decision, school sponsors of private schools can choose to establish schools as not-for-profit or for-profit entities, except that schools which provide compulsory education (i.e. primary and middle schools offering PRC curriculum) can only be established as not-for-profit entities, and sponsors of not-for-profit schools are not entitled to any distribution of profits from the schools they operate. All operation surplus of not-for-profit schools shall be used for the operation of the schools. Not-for-profit schools are entitled to enjoy EIT exemption as public schools.

The Decision Has No Material Impact on Our Business and Operation

When the Decision becomes effective on 1 September 2017, all of our primary and middle schools providing compulsory education will be classified as not-for-profit schools under the Decision. Currently, we have no definitive plan to change our high schools to for-profit schools when the Decision becomes effective mainly because implementation regulations in relation to the Decision have not been promulgated. Whether we will change our high schools to for-profit schools all depends on the cost and benefit considerations if all the details of the Decision become clear. However, we expect our effective tax rate of the Group, being the income tax divided by profit before taxation, will be reduced after the Decision becomes effective if all our schools are not-for-profit schools which are entitled to same EIT exemption as public schools. Other than those mentioned above, we do not expect the Decision will have material impact on our business and operation.

The Decision Has No Material Impact on Our Group Structure

Our PRC legal adviser has advised us that, the Decision has no material impact on the contractual arrangements (“**Contractual Arrangements**”) adopted in our Group's variable interest entity structure and that the Contractual Arrangements will remain legal and effective (including the payment of fees pursuant thereunder) after the Decision becomes effective, if the Regulation on Operating Sino-foreign Schools of the PRC (《中華人民共和國中外合作辦學條例》) (“**Sino foreign Schools Regulation**”), the Foreign Investment Industries Guidance Catalog (Amended in 2015) (《外商投資產業指導目錄》(2015年修訂)) (“**Guidance Catalog**”) and other relevant PRC laws remain unchanged by then, because (i) the Sino-foreign Schools Regulation and the Guidance Catalog still prohibit foreign ownership of primary and middle schools in the PRC and restrict the operation of high schools to Sino-foreign cooperation; and (ii) the Decision does not prohibit the Contractual Arrangements in relation to schools operating in the PRC, and does not prohibit the payment of service fees by private schools operating in the PRC to their service providers, including the payment of fees pursuant to the Contractual Arrangements.

FINANCIAL REVIEW

Revenue

For the components of our revenue, please refer to the section headed “Management Discussion and Analysis” above.

The Group’s total revenue increased by RMB143.9 million, or 40.6%, from RMB354.3 million for the six months ended 29 February 2016 to RMB498.1 million for the six months ended 28 February 2017. The increase was attributable to the increase in revenue from tuition and boarding fees by RMB61.0 million and the increase in revenue from ancillary services by RMB82.9 million.

Revenue from tuition and boarding fees increased by 22.2% from RMB274.8 million for the six months ended 29 February 2016 to RMB335.8 million for the six months ended 28 February 2017, largely due to the increase in total student enrolment by 15.0% from 27,644 as at 1 September 2015 to 31,788 as at 1 September 2016 and the increase in tuition and boarding fee rates of Dongguan Guangming School, Dongguan Guangming Primary School and Dongguan Guangzheng Preparatory School with effect from the 2016/2017 school year.

Revenue from ancillary services increased by 104.3% from RMB79.5 million for the six months ended 29 February 2016 to RMB162.3 million for the six months ended 28 February 2017, primarily due to the provision of additional services to our students and the increase in the total student enrolment.

Cost of Revenue

Our cost of revenue primarily consists of (i) staff costs, which primarily consist of salaries and other benefits for our teachers, (ii) cost of goods sold for ancillary services, which primarily consist of cost of goods sold at our on-campus canteens, (iii) depreciation and amortization on property, plant and equipment and land and buildings used by our schools, (iv) utilities and maintenance costs for our schools and (v) education expenses, which primarily consist of expenses related to educational activities, including teaching material expenses, scholarships and student activity expenses.

Cost of revenue increased by 79.2 million, or 42.1%, from RMB188.1 million for the six months ended 29 February 2016 to RMB267.3 million for the six months ended 28 February 2017. The increase was largely due to increases in teaching staff costs and depreciation and amortisation.

Increase in staff costs was mainly because the number of teachers increased by 17.6% from 1,666 as at 1 September 2015 to 1,960 as at 1 September 2016 primarily attributable to the expansion of Dongguan Guangzheng Preparatory School, Huizhou Guangzheng Preparatory School, Panjin Guangzheng Preparatory School and the new opening of Weifang Guangzheng Preparatory School. There were no material increase in the salary rate of our teachers for the six months ended 28 February 2017.

Increase in depreciation and amortisation was primarily to the enhancement and expansion of our Dongguan Guangzheng Preparatory School, Huizhou Guangzheng Preparatory School and Panjin Guangzheng Preparatory School, and the opening of Weifang Guangzheng Preparatory School with effect from September 2016.

Gross Profit

As a result of the foregoing, gross profit increased by 38.9% from RMB166.2 million for the six months ended 29 February 2016 to RMB230.9 million for the six months ended 28 February 2017. Our gross margin decreased slightly from 46.9% for six months ended 29 February 2016 to 46.3% for the six months ended 28 February 2017, primarily due to the change in revenue mix in which the proportion of our revenue from ancillary services increased.

Other Income

Other income primarily consists of (i) rental income from investment properties, (ii) government grants, which primarily consists of discretionary and non-conditional subsidies we received from the PRC government authorities for organizing school activities and outstanding academic performance of our schools, (iii) donations and (iv) staff quarter income, which consists of rental income from the staff quarters provided to our teachers and other staff.

Other income increased by 21.1% from RMB3.1 million for the six months ended 29 February 2016 to RMB3.8 million for the six months ended 28 February 2017, primarily due to the increase in government grants by RMB0.6 million.

Other Gains and Losses

Other gains and losses primarily consist of (i) net losses recognised upon the disposal of property, plant and equipment, (ii) gains arising from change in fair value of investment properties, (iii) penalties and late surcharges, which consist of the late payment surcharge imposed by tax authorities and a penalty imposed by a government authority, (v) losses recognised upon the disposal of subsidiaries.

Other gains and losses increased from a loss of RMB4.6 million for the six months ended 29 February 2016 to a gain of RMB0.2 million for the six months ended 28 February 2017. The increase was mainly attributable to there was a loss on disposal of subsidiaries of RMB2.4 million recorded for the six months ended 29 February 2016.

Selling Expenses

Selling expenses primarily consist of (i) advertising expenses, which primarily comprise expenses for advertising our schools in newspapers and other media and public relations expenses, (ii) salaries for our marketing staff and (iii) other marketing expenses, which primarily comprise student recruitment bonuses, travelling expenses and miscellaneous expenses relating to student recruitment and the marketing of our schools.

Selling expenses increased by 80.4% from RMB7.3 million for the six months ended 29 February 2016 to RMB13.2 million for the six months ended 28 February 2017, primarily as a result of increased advertising expenses in relation to the marketing and promotion of our Panjin Guangzheng Preparatory School, as well as our Weifang Guangzheng Preparatory School, which commenced operations in September 2016. Selling expenses as a percentage of revenue increased from 2.1% for the six months ended 29 February 2016 to 2.7% for the six months ended 28 February 2017.

Administrative Expenses

Administrative expenses primarily consist of (i) salaries and other benefits for general and administrative staff, (ii) rental expenses, (iii) depreciation of office buildings and equipment, (iv) office expenses, (v) travel expenses, (vi) entertainment expenses and (vii) other expenses, which mainly consist of repair and maintenance expenses, utilities, legal and professional fees, cleaning expenses, and other administrative expenses.

Administrative expenses increased by 36.9% from RMB46.3 million for the six months ended 29 February 2016 to RMB63.3 million for the six months ended 28 February 2017, primarily as a result of the increase in salaries and other benefits in line with the Group's expansion plan. Administrative expenses as a percentage of revenue, however, decreased from 13.1% for the six months ended 29 February 2016 to 12.7% for the six months ended 28 February 2017.

Finance Income

Finance income consists of (i) imputed interest income on advances to Cinese Group; (ii) imputed interest income on advances to other related parties; (iii) interest income from deposits paid to a local government to secure a school building project; and (iv) interest income from bank deposits.

Finance income decreased from RMB51.8 million for the six months ended 29 February 2016 to RMB3.1 million primarily due to the decrease in imputed interest income on advances to Cinese Group and related parties as a result of the decrease in advances to these parties during the current interim period.

Finance Costs

Finance costs consist of the interest expenses for our bank and other borrowings less interest capitalized in the cost of property, plant and equipment.

Finance cost decreased from RMB45.0 million for the six months ended 29 February 2016 to RMB6.4 million for the six months ended 28 February 2017 primarily due to the decrease in bank borrowings during the current interim period.

Profit before Taxation

As a result of the foregoing, our profit before taxation increased by 40.7% from RMB105.0 million for the six months ended 29 February 2016 to RMB147.8 million for the six months ended 28 February 2017. Profit before taxation as a percentage of revenue of the Group was 29.7% for the six months ended 28 February 2017 compared with 29.6% for the six months ended 29 February 2016.

Taxation

Income tax expense of the Group increased from RMB19.4 million for the six months ended 29 February 2016 to RMB40.5 million for the six months ended 28 February 2017, mainly due to the increase in assessable profit of certain subsidiaries of the Company. All of our schools are classified as private schools with the school sponsors requiring reasonable returns before the Decision becomes effective on 1 September 2017. The effective tax rate of the Group for the six months ended 28 February 2017 and the six months ended 26 February 2016 was 27.4% and 18.5%, respectively. The increase in the Group's effective tax rates was primarily due to the decrease in imputed interest income on advances to Cinese Group and related parties which is non-taxable.

Profit for the Period

As a result of the above factors, profit for the period of the Group increased by 25.3% from RMB85.6 million for the six months ended 29 February 2016 to RMB107.3 million for the six months ended 28 February 2017.

Core Net Profit

The Group defines its core net profit (formerly known as adjusted net profit in the Prospectus) as its profit for the period after adjusting for those items which are not indicative of the Group's operating performances as presented in the table below. This is not an IFRSs measure. The Group has presented this item because the Group considers it an important supplemental measure of the Group's operational performance used by the Group's management as well as analysts or investors. The following table reconciles from profit of the Group to adjusted net profit for the periods presented below:

	Six months ended	
	28 February 2017 RMB'000 (unaudited)	29 February 2016 RMB'000 (unaudited)
Profit for the period	107,280	85,620
Less:		
Imputed interest income on advances to Cinese Group	3,029	51,788
Add:		
Finance costs in relation to advances to Cinese Group	6,353	43,551
Listing expenses	7,172	12,867
Loss on disposal of subsidiaries	—	2,353
Share-based payments	2,886	—
Core net profit	<u>120,662</u>	<u>92,603</u>

Core net profit for the six months ended 28 February 2017 increased by RMB28.1 million or 30.3%. Core net profit margin decreased from 26.1% for the six months ended 29 February 2016 to 24.2% for the six months ended 28 February 2017.

Capital Expenditure

During the six months ended 28 February 2017, the Group paid RMB195.4 million for the acquisition of property, plant and equipment and paid RMB8.6 million for the acquisition of prepaid lease for the further expansion of our existing schools.

Liquidity, Financial Resources and Capital Structure

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

	Six months ended	
	28 February 2017 <i>RMB'000</i> (unaudited)	29 February 2016 <i>RMB'000</i> (unaudited)
Net cash from operating activities	165,854	145,459
Net cash from (used in) investing activities	349,935	(299,546)
Net cash from financing activities	150,355	165,646
Net increase in cash and cash equivalents	666,144	11,559
Cash and cash equivalents at beginning of the period	103,705	12,229
Cash and cash equivalents at end of the period	<u>769,849</u>	<u>23,788</u>

As at 28 February 2017, the Group's total bank balances and cash amounted to RMB769.8 million, of which the majority were denominated in HK\$. Bank balances and cash increased primarily due to the net proceeds from the Listing.

As at 28 February 2017, the Group's total bank borrowings amounted to RMB325.2 million comprising RMB63.5 million repayable within one year and RMB261.7 million repayable more than one year but not more than five years. Bank borrowings carried interest rates ranging from 5.2% to 6.65% per annum and all the bank borrowings were denominated in RMB.

Gearing Ratio

The Group's gearing ratio is calculated as total interest-bearing and other borrowings divided by total equity at the end of the relevant year/period end. The Group's gearing ratio decreased from 73.1% as at 31 August 2016 to 19.1% as at 28 February 2017 mainly because the Group repaid certain bank loans subsequent to 31 August 2016 and its total equity increased primarily due to the issue of new shares of the Company in relation to the Listing.

Foreign Exchange Exposure

The majority of the Group's revenue and expenditures are denominated in RMB, the functional currency of the Company, except that certain expenditures are denominated in HK\$. As at 28 February 2017, certain bank balances and cash were denominated in HK\$. The Group did not enter into any financial instrument for hedging purpose as it is expected that foreign exchange exposure will not be material.

Contingent Liabilities

On 19 March 2015, an individual, who is an independent third party, initiated court proceedings in relation to the advances he made on behalf of one of our schools during its establishment for a total amount of RMB5 million and the interests thereon. As at the date of this announcement, the outcome

of such legal proceedings was yet to be finalized. In the opinion of the Directors, after consultation with our external legal counsel, there is no reasonable ground to support the arguments of the plaintiff, and accordingly, no provision has been made in the financial statements.

Pledge of Assets

As at 28 February 2017, the Group's bank borrowings were secured by the rights to receive the tuition fees and boarding fees of certain schools of the Group.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

During the six months ended 28 February 2017, the Group had no material acquisition and disposal of subsidiaries, associates or joint ventures.

SIGNIFICANT INVESTMENTS HELD

As at 28 February 2017, there was no significant investment held by the Group.

EMPLOYEE BENEFITS

As at 28 February 2017, the Group had approximately 3,650 employees (as at 29 February 2016: approximately 3,260). The Group participates in various employee benefit plans, including provident fund, housing, pension, medical insurance and unemployment insurance. The Company has also adopted a pre-IPO share option scheme and a share option scheme for its employees and other eligible persons. Salaries and other benefits of the Groups' employees are generally reviewed on a regular basis in accordance with individual qualifications and performance, result performance of the Group and other relevant market conditions. The Group also provides internal and external training programs to its employees. Total employee remuneration (including directors' remuneration) for the six months ended 28 February 2017 amounted to approximately RMB152.6 million (for the six months ended 29 February 2016: RMB133.5 million) .

EVENTS AFTER THE REPORTING PERIOD

On 14 March 2017, the Company granted share options to an employee of the Company to subscribe for a total of 3,000,000 ordinary shares of HK\$0.01 each in the capital of the Company under the share option scheme adopted by the Company on 3 January 2017. One third of the share options will be vested on the first, second and third anniversary of the date of grant respectively and the exercise price of the share options is HK\$1.96 per share. The estimated fair value of these share options as at grant date was approximately RMB2,000,000 based on the management's best estimation.

The Group entered into a framework cooperation agreement with the Zengcheng Government on 28 March 2017 and a cooperation agreement with the Anyue Government on 10 April 2017. For details, please refer to the above section headed "Outlook".

INTERIM DIVIDEND

The Board has resolved to declare the payment of an interim dividend of RMB0.024 (equivalent to HK\$0.027) per share for the six months ended 28 February 2017 (six months ended 29 February 2016: Nil) to the shareholders of the Company ("Shareholders") whose names appear on the register of members of the Company at the close of business on 16 May 2017 (Tuesday). The interim dividend are expected to be paid on or about 25 May 2017 (Thursday).

CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to the interim dividend for the six months ended 28 February 2017, the register of members of the Company will be closed from 15 May 2017 (Monday) to 16 May 2017 (Tuesday), both days inclusive, during which period no transfer of shares will be registered. In order to be qualified for the interim dividend, 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 12 May 2017 (Friday).

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

During the period from the Listing Date to 28 February 2017, neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed securities of the Company.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 to the Listing Rules as the Company's code for dealings in securities of the Company by the Directors. Having made specific enquiry to all the Directors, they have confirmed that they have complied with the Model Code during the period from the Listing Date to 28 February 2017.

CORPORATE GOVERNANCE

The Board has committed to achieving high corporate governance standards in order to safeguard the interests of Shareholders and to enhance corporate value and accountability. Since the Listing Date, the Company has applied the principles as set out in the Corporate Governance Code and Corporate Governance Report (the “**CG Code**”) contained in Appendix 14 to the Listing Rules and has complied with all the applicable code provisions. The Board will continue to review and monitor the corporate governance practices of the Company for the purpose of maintaining high corporate governance standards.

AUDIT COMMITTEE

The Company has established the Audit Committee with written terms of reference in accordance with the Listing Rules and the CG Code. The primary duties of the Audit Committee are to assist the Board by providing an independent view of the effectiveness of the financial reporting process, internal control procedures and risk management system of the Group, overseeing the audit process and performing other duties and responsibilities as assigned by the Board. The Audit Committee comprises three members, namely, Mr. Tam King Ching Kenny, Mr. Sun Kai Lit Cliff and Mr. Yau Sze Ka, all being independent non-executive Directors of the Company. Mr. Tam King Ching Kenny is the chairman of the Audit Committee.

The Audit Committee has reviewed the unaudited condensed consolidated financial statements of the Group for the six months ended 28 February 2017 and has met with the independent auditor, Deloitte Touche Tohmatsu, who has reviewed the interim financial statements in accordance with International Standard on Review Engagement 2410. The Audit Committee has also discussed matters with respect to the accounting policies and practices adopted by the Company and internal control with senior management members of the Company.

PUBLICATION OF THE INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement is published on the website of the Stock Exchange at www.hkexnews.hk and the website of the Company at www.wisdomeducationintl.com. The interim report of the Group for the six months ended 28 February 2017 will be published on the aforesaid websites of the Stock Exchange and the Company and will be dispatched to Shareholders in due course.

By Order of the Board
Wisdom Education International Holdings Company Limited
Liu Xuebin
Chairman

Hong Kong, 26 April 2017

As at the date of this announcement, the executive Directors of the Company are Mr. Liu Xuebin, Ms. Li Suwen, Mr. Li Jiuchang and Mr. Ng Cheuk Him; and the independent non-executive Directors of the Company are Mr. Sun Kai Lit Cliff, Mr. Tam King Ching Kenny and Mr. Yau Sze Ka.