



**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**  
**Report 2018**



以誠心服務社會

以愛心培育人才



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# Corporate Information

## BOARD OF DIRECTORS

### Executive Directors

Mr. Liu Xuebin (*Chairman of the Board*)  
Ms. Li Suwen  
Mr. Li Jiuchang  
Mr. Wang Yongchun (*appointed on 8 January 2018*)  
Mr. Ng Cheuk Him (*retired on 8 January 2018*)

### Independent Non-executive Directors

Mr. Sun Kai Lit Cliff  
Mr. Tam King Ching Kenny  
Mr. Yau Sze Ka

## AUDIT COMMITTEE

Mr. Tam King Ching Kenny (*Chairman*)  
Mr. Sun Kai Lit Cliff  
Mr. Yau Sze Ka

## REMUNERATION COMMITTEE

Mr. Sun Kai Lit Cliff (*Chairman*)  
Mr. Yau Sze Ka  
Mr. Liu Xuebin

## NOMINATION COMMITTEE

Mr. Yau Sze Ka (*Chairman*)  
Mr. Tam King Ching Kenny  
Ms. Li Suwen

## COMPANY SECRETARY

Mr. Ng Cheuk Him

## AUTHORIZED REPRESENTATIVES

Mr. Liu Xuebin  
Mr. Ng Cheuk Him

## AUDITORS

**Deloitte Touche Tohmatsu**  
*Certified Public Accountants*

## LEGAL ADVISERS

As to Hong Kong law

**Allen & Overy**

As to PRC law

**Commerce & Finance Law Offices**

As to Cayman Islands law

**Conyers Dill & Pearman**

## COMPLIANCE ADVISER

**First Shanghai Capital Limited**

## PRINCIPAL BANKERS

**Bank of China**

**China Construction Bank**

**China Merchants Bank**

**Dongguan Rural Commercial Bank Co., Ltd.**

**Bank of China (Hong Kong) Limited**

**BNP Paribas Hong Kong Branch**

**Wing Lung Bank Limited**

### REGISTERED OFFICE

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

### HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

No. 68 Guangming Da Dao  
Dongcheng District  
Dongguan  
The PRC

### PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 3302, 33/F.,  
Lee Garden One  
33 Hysan Avenue  
Causeway Bay  
Hong Kong

### PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

### HONG KONG SHARE REGISTRAR

**Computershare Hong Kong Investor Services Limited**

Shops 1712–1716, 17/F.  
Hopewell Centre  
183 Queen's Road East  
Wanchai  
Hong Kong

### STOCK CODE

6068

### COMPANY WEBSITE

[www.wisdomeeducationintl.com](http://www.wisdomeeducationintl.com)

### INVESTOR RELATIONS

Mr. Wayne Li  
Mr. Derek Lau  
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# Operational and Financial Highlights



Operational Information	As at		Change	Percentage Change
	1 September 2017 (unaudited)	1 September 2016 (unaudited)		
Total number of students enrolled	41,180	31,788	+9,392	+29.5%
Total student capacity	49,804	33,152	+16,652	+50.2%
Overall school utilization	82.7%	95.9%	-13.2 pp	-13.8%
Total number of teachers	2,580	1,960	+620	+31.6%

Selected Financial Information RMB'000 (unless otherwise stated)	Six months ended		Change	Percentage Change
	28 February 2018 (unaudited)	28 February 2017 (unaudited)		
Revenue	591,995	498,142	+93,853	+18.8%
Gross profit	261,785	230,861	+30,924	+13.4%
Core net profit (Note)	162,701	120,662	+42,039	+34.8%
Gross profit margin	44.2%	46.3%	-2.1 pp	-4.5%
Interim dividend per share (HK\$)	0.04	0.027	+0.013	+48.1%

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. The reconciliation of the profit for the period to the core net profit of the Group is presented as follows:

	Six months ended	
	28 February 2018 (unaudited)	28 February 2017 (unaudited)
Profit for the period	145,620	107,280
Less: Imputed interest income on advances to Cinese Group and related parties	—	3,029
Add: Finance costs in relation to advances to Cinese Group and related parties	—	6,353
Listing expenses	—	7,172
Share-based payments	2,364	2,886
Unrealised exchange loss	12,555	—
Amortisation of intangible assets arising from acquisition	2,162	—
Core profit for the period	162,701	120,662

## Operational and Financial Highlights

Selected Financial Information RMB'000 (unless otherwise stated)	As at		Change	Percentage Change
	28 February 2018 (unaudited)	31 August 2017 (audited)		
Bank balances and cash (including pledged bank deposits)	870,375	753,510	+116,865	+15.5%
Bank borrowings	1,704,050	621,800	+1,082,250	+174.1%
Net gearing ratio*	14.9%	Net cash	N/A	N/A

\* Net gearing ratio is calculated as total interest-bearing bank borrowings less total pledged bank deposits, bank balances and cash and available-for-sale investments divided by total equity at the end of the relevant year/period end.

Selected Financial Information RMB'000 (unless otherwise stated)	Six months ended		Change	Percentage Change
	28 February 2018 (unaudited)	28 February 2017 (unaudited)		
Net cash from operating activities	147,459	146,107	+1,352	0.9%
Capital expenditure	419,578	203,978	+215,600	+105.7%



# Corporate Profile

## Overview

Established in 2003, we are one of the largest private education groups in South China operating premium primary and secondary schools as measured by student enrolment.

Comparing with the six months ended 28 February 2017, total student enrolment increased by 29.5% to 41,180 students and total capacity of our schools increased by approximately 50.2% to 49,804 students for the six months ended 28 February 2018. On 1 September 2017, we acquired the controlling interest in a private school located in Jieyang, Guangdong province, China as detailed below, and currently, we operate seven premium private schools in six campuses in China.

## Acquisition of Huanan Shida Yuedong Preparatory School\* (華南師大粵東實驗學校) (“Jieyang School”)

On 19 June 2017, a consolidated affiliated entity of the Company (“**Consolidated Entity**”) entered into an agreement with an independent third party (“**Seller A**”), pursuant to which the Consolidated Entity agreed to acquire and Seller A agreed to sell 70% of the school sponsor’s interest in Jieyang School at a consideration of RMB91 million. On the same day, the Consolidated Entity entered into another agreement with Seller A and another independent third party (collectively, the “**Sellers**”), pursuant to which the Consolidated Entity agreed to acquire and the Sellers agreed to sell 70% interest in the land, buildings and facilities thereon currently occupied by Jieyang School (“**Assets**”) at a consideration of RMB133 million. Jieyang School is a private school located in Jieyang, Guangdong province providing primary and secondary school education. Before the completion of acquisition, Jieyang School had approximately 3,200 students in the 2016/2017 school year. Please refer to the Company’s announcement dated 19 June 2017 for further details of the acquisition. Such acquisition was completed on 1 September 2017.

With effect from 1 September 2017, the financial statements of Jieyang School and the Assets were consolidated in the consolidated financial statements of the Group. The name of Jieyang School will be changed upon completion of the necessary procedures.

## New High School Sections Opened

With effect from 1 September 2017, a new high school section was opened in each of Panjin Guangzheng Preparatory School and Weifang Guangzheng Preparatory School.

## Our Schools and Educational Curriculum

During the six months ended 28 February 2018, three of our schools were located in two campuses in Dongguan, one school was located in Huizhou and one school was located in Jieyang in Guangdong province, one school was located in Panjin, Liaoning province and one school was located in Weifang, Shandong province.

Our schools target students primarily from the middle class or above families in China. The following table sets forth the category of education that we provide in each of our six campuses:

	Primary School	Middle School	High School	International Programmes
Dongguan Guangming School together with Dongguan Guangming Primary Schools (“ <b>Dongguan Guangming Secondary and Primary Schools</b> ”)	√	√	√	√
Dongguan Guangzheng Preparatory School	√	√	√	√
Huizhou Guangzheng Preparatory School	√	√	√	N/A
Panjin Guangzheng Preparatory School	√	√	√	N/A
Weifang Guangzheng Preparatory School	√	√	√	N/A
Jieyang School	√	√	√	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.

We also offer international programme to certain 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.



## Corporate Profile

### Our Educational Philosophy

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).

### Our School Characteristics

Our schools are boarding schools with on-campus student dormitories. 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 municipal and provincial championships and was the second runner-up in 2017 national high school basketball competition.

### Student Placement

For the 2016/2017 school year, over 90% of our high school graduates were admitted to universities in China, and over 20% 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 2017 PRC national higher education entrance examination, 10 of our high school graduates were admitted to Peking University and Tsinghua University.

## Our School Network in the PRC

### Panjin Guangzheng Preparatory School



- Established in 2014
- Primary, middle and high schools
- PRC curriculum
- Capacity: Approximately 2,500 students

### Weifang Guangzheng Preparatory School



- Established in 2016
- Primary, middle and high schools
- PRC curriculum
- Capacity: Approximately 4,000 students

### Huanan Shida Yuedong Preparatory School



- Acquired in 2017 (65% equity interest)
- Primary, middle and high schools
- PRC curriculum
- Capacity: Approximately 5,000 students



### Dongguan Guangming School



- Established in 2003
- Middle and high school
- PRC curriculum focus
- Capacity: Approximately 10,744 students

### Dongguan Guangming Primary School



- Established in 2004
- Primary school
- PRC curriculum
- Capacity: Approximately 6,060 students

### Dongguan Guangzheng Preparatory School



- Acquired in 2013
- Primary, middle and high schools
- PRC curriculum focus
- Capacity: Approximately 13,500 students

### Huizhou Guangzheng Preparatory School



- Established in 2014
- Primary, middle and high schools
- PRC curriculum
- Capacity: Approximately 8,000 students

# Management Discussion and Analysis

## Business review

### Total Revenue

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

Total Revenue by Service	For the six months ended 28 February			
	2018 RMB'000	% of Total	2017 RMB'000	% of Total
Tuition and boarding fees	417,409	70.5	335,794	67.4
Ancillary services	174,586	29.5	162,348	32.6
Total revenue	591,995	100	498,142	100

### 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 28 February 2017, tuition and boarding fees for the six months ended 28 February 2018 increased by 24.3%, with 17.4% from organic growth and 6.9% from the acquisition of Jieyang School.

### 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 the provision of on-campus canteens and supermarkets, the supply of school uniforms, the provision of school bus and study tours, for which we charge separately in addition to tuition and boarding fees.

Comparing with that for the six months ended 28 February 2017, revenue from ancillary services for the six months ended 28 February 2018 increased by only 7.5% primarily due to the following reason. For the financial year ended 31 August 2017, we provided school uniforms and certain necessities to our students in both the first and the second terms and we recognised the relevant revenue in both periods. For the six months ended 28 February 2018, no revenue has been recognised for the supply of school uniforms and certain necessities as, from the current financial year, we have adopted the practice that we will supply these goods in the second term to better accommodate the seasonal uniform requirement from the students and accordingly, we will recognize the relevant ancillary service revenue in the second half of each financial year. We expect that a significant amount of ancillary service revenue for the supply of school uniforms and certain necessities will be recognised in the second half of the year ending 31 August 2018.

## Management Discussion and Analysis

Total Revenue by School	For the six months ended 28 February			
	2018 RMB'000	% of Total	2017 RMB'000	% of Total
Dongguan Guangming Secondary and Primary Schools	272,883	46.1	274,499	55.1
Dongguan Guangzheng Preparatory School	164,931	27.9	145,283	29.2
Huizhou Guangzheng Preparatory School	80,149	13.5	54,034	10.8
Panjin Guangzheng Preparatory School	24,253	4.1	16,972	3.4
Weifang Guangzheng Preparatory School	13,433	2.3	7,354	1.5
Sub-total	555,649	93.9	498,142	100.0
Jieyang School — Acquired on 1 September 2017	36,346	6.1	N/A	N/A
Total	591,995	100.0	498,142	100.0

For the six months ended 28 February 2018, revenue from each of the Dongguan Guangzheng Preparatory School, Huizhou Guangzheng Preparatory School, Panjin Guangzheng Preparatory School and Weifang Guangzheng Preparatory School increased, largely due to the increase in tuition and boarding fees of the respective school resulting primarily from the increase in student enrolment. Revenue contribution from Huizhou Guangzheng Preparatory School, as a percentage of total revenue, increased primarily due to the significant increase in its student enrolment.

Total Revenue by Province	For the six months ended 28 February			
	2018 RMB'000	% of Total	2017 RMB'000	% of Total
Guangdong	554,309	93.6	473,816	95.1
Liaoning	24,253	4.1	16,972	3.4
Shandong	13,433	2.3	7,354	1.5
Total	591,995	100.0	498,142	100.0

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

## Management Discussion and Analysis

### Student Enrolment

For the past three school years, the number of students withdrawn from our schools was less than 1.0% 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 2017/2018 and 2016/2017 school years:

Student Enrolment by School	As at 1 September 2017	As at 1 September 2016	Change	Percentage Change
Dongguan Guangming Secondary and Primary Schools	16,477	16,483	-6	-0.1%
Dongguan Guangzheng Preparatory School	10,620	9,094	1,526	16.8%
Huizhou Guangzheng Preparatory School	6,011	3,903	2,108	54.0%
Panjin Guangzheng Preparatory School	2,170	1,590	580	36.5%
Weifang Guangzheng Preparatory School	1,401	718	683	95.1%
Sub-total	36,679	31,788	4,891	15.4%
Jieyang School — Acquired on 1 September 2017	4,501	N/A	4,501	N/A
Total number of students	41,180	31,788	9,392	29.5%

Total student number increased by 29.5%, due to 15.4% organic growth in student enrolment primarily in Dongguan Guangzheng Preparatory School and Huizhou Guangzheng Preparatory School and the remaining growth in student enrolment from the acquisition of Jieyang School. The student number of Dongguan Guangming Secondary and Primary Schools remained relatively stable as the campus land area has been almost fully utilized.

Student Enrolment by Section	As at 1 September 2017	% of Total	As at 1 September 2016	% of Total
High school	9,037	21.9	7,733	24.3
Middle school	18,217	44.2	12,509	39.4
Primary school	13,619	33.1	11,199	35.2
International programmes	307	0.8	347	1.1
Total number of students	41,180	100	31,788	100

## Management Discussion and Analysis

Comparing with the percentage of total students as at 1 September 2016, the percentage of middle school student as at 1 September 2017 increased whereas those of other sections' students decreased primarily due to the acquisition of Jieyang School where the the majority of its students are middle school students.

### 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 2016/2017 school year, approximately 90% of our primary school graduates enrolled in our middle schools, and approximately 60% of our middle school graduates enrolled in our high schools.

### Average Tuition and Boarding Fees Per Student

Tuition and Boarding Fees by School	For the six months ended 28 February			
	2018 Tuition and boarding fees RMB'000	2018 Average per student RMB (Note)	2017 Tuition and boarding fees RMB'000	2017 Average per student RMB (Note)
Dongguan Guangming Secondary and Primary Schools	187,795	11,397	183,713	11,146
Dongguan Guangzheng Preparatory School	120,939	11,388	99,023	10,889
Huizhou Guangzheng Preparatory School	59,134	9,838	37,456	9,597
Panjin Guangzheng Preparatory School	16,395	7,555	11,183	7,033
Weifang Guangzheng Preparatory School	9,937	7,093	4,419	6,155
Sub-total	394,200	10,747	335,794	10,564
Jieyang School — Acquired on 1 September 2017	23,209	5,156	N/A	N/A
Overall	417,409	10,136	335,794	10,564

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 1.0% of the total student enrolment for the past three school years, no average student enrolment for the respective six-month period is presented for the calculation of the average tuition and boarding fees per student.

## Management Discussion and Analysis

For the six months ended 28 February 2018, the average tuition and boarding fees per student without taking into consideration of the acquisition of Jieyang School increased by 1.7% to RMB10,747 primarily due to the increase in tuition and boarding fees for the new students in Panjin Guangzheng Preparatory School and Weifang Guangzheng Preparatory School. Except for the new students who were enrolled in our international programmes, there was no material increase in tuition and boarding fees for other new students in Dongguan Guangming Secondary and Primary Schools, Dongguan Guangzheng Preparatory School and Huizhou Guangzheng Preparatory School for the six months ended 28 February 2018.

However, the overall average tuition and boarding fees per student of the Group decreased by 4.0% to RMB10,136 primarily due to the acquisition of Jieyang School where the average tuition and boarding fee per student is lower than those of our other schools.

### 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 2017/2018 and 2016/2017:

Student Capacity and Utilization by School	As at 1 September 2017		As at 1 September 2016	
	Student Capacity	Utilization	Student Capacity	Utilization
Dongguan Guangming Secondary and Primary Schools	16,804	98.1%	16,804	98.1%
Dongguan Guangzheng Preparatory School	13,500	78.7%	9,706	93.7%
Huizhou Guangzheng Preparatory School	8,000	75.1%	4,024	97.0%
Panjin Guangzheng Preparatory School	2,500	86.8%	1,866	85.2%
Weifang Guangzheng Preparatory School	4,000	35.0%	752	95.5%
Sub-total	44,804	81.9%	33,152	95.9%
Jieyang School — Acquired on 1 September 2017	5,000	90.0%	N/A	N/A
Overall	49,804	82.7%	33,152	95.9%

Total student capacity increased from 33,152 as at 1 September 2016 (for the 2016/2017 school year) to 49,804 as at 1 September 2017 (for the 2017/2018 school year) primarily due to the expansion of capacity of Dongguan Guangzheng Preparatory School, Huizhou Guangzheng Preparatory School and Weifang Guangzheng Preparatory School, and the acquisition of Jieyang School.



## Management Discussion and Analysis

The student capacity and utilization for Dongguan Guangming Secondary and Primary Schools remained relatively stable as the campus land area has been almost fully utilized.

For details of the Group's expansion plan, please refer to the section headed "Outlook" below.

### Teachers

As at 1 September 2017, over 80% of our PRC-qualified teachers held bachelors or higher degrees. The number of teachers increased from 1,960 as at 1 September 2016 to 2,580 as at 1 September 2017 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 Weifang Guangzheng Preparatory School, and the acquisition of Jieyang 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. We also provide a good career development path for outstanding teachers. For the 2016/2017 school year, the turnover rate of our teachers, including our termination, was approximately 8.0%.

## 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% in 2020.

# Management Discussion and Analysis

## 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

### Key Growth Drivers of Premium Private Education in China

#### *i) Growing Number of Middle and High Income Class Families in China*

According to the report released by The Economist Intelligence Unit in 2016, it is expected that about 35% of China's population by 2030 will belong to the upper-middle income class and high income class whose annual personal disposable income measured in 2015 ranged from RMB67,000 to RMB200,000 and above RMB200,000, respectively.

We expect that the growth in the number of these middle and high income class families and the rise in their corresponding disposable income may drive their spending on premium private fundamental education. Parents from these families normally consider premium private education as a preferred choice of education for their children because premium private schools generally focus more on developing quality all-rounded education and provide better facilities and ancillary services, helping students to gain better access to top universities in China.

According to the Frost & Sullivan Report, the estimated total student enrolment of primary and secondary education in China for 2018 is about 167.8 million persons and it is expected that the penetration rate of private primary and secondary schools, in terms of student enrolment, will continue to increase from 9.3% in 2016 to 10.8% in 2020.

### *ii) China's Two-child Policy*

The Chinese government decided to end the one-child policy in October 2015 after more than three decades, and has amended the relevant laws and regulations to allow couples to have two children. According to the National Bureau of Statistics of China, the total number of live births in China in 2016 was approximately 17.9 million, representing an increase of more than 1 million compared with that of 2015. In particular, the number of newborn babies in Guangdong province in the same year was approximately 1.3 million, with a live birth rate of about 11.9%.

We expect that middle and high income class families will generally afford to have two children under this two-child policy and accordingly, this policy change will benefit premium private primary and secondary schools in the medium and long term.

### **The Development of Guangdong-Hong Kong-Macau Greater Bay Area**

According to the Chinese government statistics, the gross domestic product (“**GDP**”) of Guangdong province reached about RMB7.9 trillion and the population was about 109 million in 2016, both of which were ranked first in China. In March 2017, the Chinese government announced a plan for the development of a city cluster in the Guangdong-Hong Kong-Macau Greater Bay Area (“**Greater Bay Area**”). The Greater Bay Area, covering 56,500 square kilometres, includes nine cities in Guangdong province — Guangzhou, Shenzhen, Foshan, Dongguan, Huizhou, Zhuhai, Zhongshan, Jiangmen and Zhaoqing. The combined GDP of the Greater Bay Area reached United States Dollar 1.36 trillion in 2016, with an estimated population of 66.7 million.

The key initiative of developing Greater Bay Area is to connect the eleven cities which can combine resources in the areas of production, innovation and technology, financial and other services. It is expected that the development of the Greater Bay Area will further improve the transportation and the infrastructure in the relevant cities, facilitating the flow of capital and human resources from other regions in China to the Greater Bay Area. We expect that the Greater Bay Area development will boost the economy and provide more business opportunities for supporting social services such as premium private primary and secondary school education in Guangdong province.

### **Our Growth Plan**

#### *Geographic Focus in Greater Bay Area, Guangdong province*

When selecting a location for our expansion, we consider various factors including economic development, population, average household income, number of school-aged children, birth rate, social and cultural environment, government support, competition and the relevant costs and benefits for operating a private school in that location.

## Management Discussion and Analysis

We expect the opening of the Hong Kong-Zhuhai-Macao Bridge and the Guangzhou-Shenzhen-Hong Kong Express Rail Link in the near future will facilitate the development of the Greater Bay Area attracting more talents with their children from other provinces in China. As such, we believe the strong demand for private education in Guangdong province will continue and, therefore, we will focus on our expansion primarily in Guangdong province. However, we will not exclude any attractive expansion opportunity outside Guangdong province.

Apart from our existing schools in Dongguan city, Huizhou city and Jieyang city in Guangdong province, we will further strengthen our school network in different regions in Guangdong province, such as Chaozhou city in East Guangdong, Zhaoqing city in West Guangdong and Guangzhou city in South Guangdong.

### *Expansion Strategies*

In order to sustain our growth in a longer term, we intend to (i) expand our school network through acquisition of local private schools, (ii) establish more greenfield schools and (iii) increase the capacity of our schools.

Our school brands are well-received with proven track record. We believe our school properties are quality assets for running our large-scale schools in future decades and accordingly, we prefer to own our school properties.

#### *1) Acquisition of Local Private Schools*

##### **Jieyang School**

In September 2017, the Group completed the acquisition of 70% equity interest in Jieyang School. For details, please refer to the section headed "Business Review".

##### **Weifang Weizhou Foreign Language School**

On 16 April 2018, the Group entered into a sale and purchase agreement with an independent third party in relation to the acquisition by the Group (the "**Acquisition**") of the entire sponsor's interest in Weifang Weizhou Foreign Language School (濰坊市濰州外國語學校) ("**Weizhou School**") at the cash consideration of RMB111 million.

Established in 2012, the Weizhou School is one of the leading private primary schools located in Weifang city, Shandong province, providing quality compulsory education with English teaching features. The Weizhou School owns a parcel of land of approximately 38 mu (畝) (equivalent to approximately 25,300 square meters) on which school buildings, student dormitories and related facilities are located. Currently, the Weizhou School has a total of approximately 2,050 outstanding primary students and its utilization is about 97%.

As the Weizhou School does not have its own middle and high school sections, we believe the Weizhou School will be a good match as a feeder school to the middle school section of Weifang Guangzheng Preparatory School resulting in a strong synergistic effect upon completion of the Acquisition. For details of the Acquisition, please refer to the Company's announcement dated 16 April 2018.

We are in the process of negotiating with certain independent third parties to explore further opportunities for acquiring private primary and secondary schools. As at the date of this report, the Group has not entered into any formal or legal-binding agreement in relation to such proposed acquisitions. The proposed acquisitions may or may not proceed and further announcement(s) will be made as and when necessary.

### **II) Establishment of Greenfield Schools with Local Government**

#### *a) New schools under construction — Expected commencement in the 2018/2019 school year*

##### **Guang'an, Sichuan province**

On 4 May 2016, the Group entered into a cooperation agreement with the local government of Guang'an city in Sichuan province and the management committee of Guang'an Zaoshan Logistics and Trade Park to establish a boarding 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 city 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. Subject to certain factors including the necessary government approvals, the school is expected to commence operation in the 2018/2019 school year.

##### **Yunfu, Guangdong province**

On 19 July 2016, the Group entered into a cooperation agreement with the local government of Yunfu city in Guangdong province to establish a boarding school in Yunfu, providing, among other things, primary, middle and high school education, with a target maximum capacity of approximately 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 the Group is responsible for the construction of the school properties in several phases. Subject to certain factors including the necessary government approvals, the school is expected to commence operation in the 2018/2019 school year.

*b) Proposed new schools in the pipeline — Expected commencement after the 2018/2019 school year*

**Chaozhou, Guangdong province**

On 30 November 2017, the Group entered into a cooperation agreement with the local government of Chaozhou city in Guangdong province to establish a boarding school in Chaozhou city, providing, among other things, primary, middle and high school education, with a target maximum capacity of approximately 8,000 students. Pursuant to the cooperation agreement, the local government of Chaozhou city agreed to allocate a parcel of land of approximately 200 mu (畝) (equivalent to approximately 133,000 square meters) to the Group for educational purposes, classify the establishment of the proposed school as a key construction project in Chaozhou city (市級重點建設項目) 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. Subject to certain factors including the necessary government approvals, the proposed school is expected to commence operation after the 2018/2019 school year.

**Jiangmen city, Guangdong province**

In January 2018, to tie in with the development of the Greater Bay Area, the Group entered into a cooperation agreement with the local government of Kaiping, Jiangmen city, Guangdong province to establish a boarding school in Kaiping as a key construction project, providing, among other things, primary, middle and high school education, with a target maximum capacity of approximately 7,500 students. Pursuant to the cooperation agreement, the local government of Kaiping agreed to allocate a parcel of land of approximately 200 mu (畝) (equivalent to approximately 133,000 square meters) 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. Subject to certain factors including the necessary government approvals, the proposed school is expected to commence operation after the 2018/2019 school year.

*c) Exploring more opportunities in Guangdong province*

We are in the process of negotiating with certain local governments and independent third parties in the cooperation of the development of private primary and secondary schools in certain cities located in Guangdong province including Guangzhou city and Zhaoqing city. As at the date of this report, we have not signed any formal or legal-binding agreement in relation to the proposed cooperation.

### III) Expansion of Capacity of Our Schools

Except for that campus land area of Dongguan Guangming Secondary and Primary Schools has been almost fully utilized, we will continue to increase the capacity of other schools where their campuses have extra land areas for our expansion in order to cope with the future growth in student enrolment of the relevant schools.

However, the expansion of our schools' capacity is subject to adjustment, depending on their actual student recruitment and capacity utilization. The following table sets out the expansion of each school's capacity (excluding the Weizhou School's capacity) and its target capacity:

<b>Existing Schools</b>	<b>Student Capacity as at 1 September 2017</b>	<b>Estimated Student Capacity as at 1 September 2018</b>	<b>Target Student Capacity (Notes)</b>
Dongguan Guangming Secondary and Primary Schools	16,804	16,804	16,804
Dongguan Guangzheng Preparatory School	13,500	15,000	18,000 <sup>(1)</sup>
Huizhou Guangzheng Preparatory School	8,000	8,500	9,464 <sup>(1)</sup>
Panjin Guangzheng Preparatory School	2,500	4,000	6,200 <sup>(1)</sup>
Weifang Guangzheng Preparatory School	4,000	4,000	8,000 <sup>(1)</sup>
Jieyang School	5,000	7,000	18,000 <sup>(2)</sup>
<b>Sub-total</b>	<b>49,804</b>	<b>55,304</b>	<b>76,468</b>
<b>Greenfield Schools Under Construction</b>			
<b>— Expected commencement in 2018/2019 school year</b>			
Guang'an Guangzheng Preparatory School	—	3,000	9,280 <sup>(3)</sup>
Yunfu Guangzheng Preparatory School	—	2,000	10,680 <sup>(3)</sup>
<b>Sub-total</b>	<b>—</b>	<b>5,000</b>	<b>19,960</b>
<b>Proposed New Schools Under Planning</b>			
Chaozhou city	—	—	8,000 <sup>(4)</sup>
Kaiping, Jiangmen city	—	—	7,500 <sup>(4)</sup>
<b>Sub-total</b>	<b>—</b>	<b>—</b>	<b>15,500</b>
<b>Total</b>	<b>49,804</b>	<b>60,304</b>	<b>111,928</b>

## Notes:

- (1) The target student capacity for each of Dongguan Guangzheng Preparatory School, Huizhou Guangzheng Preparatory School, 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 by the 2020/2021 school year or earlier. The expansion of each school's target student capacity is subject to adjustment, depending on the actual student recruitment and the capacity utilization of the relevant school.
- (2) The People's Government of Jiedong agreed to provide support to the Group in the provision of additional land for the expansion of Jieyang School in the future with a view to accommodate the maximum student capacity of 18,000. The expansion of Jieyang School's target student capacity is subject to adjustment, depending on its actual student recruitment and capacity utilization.
- (3) The maximum capacity for each of Guang'an Guangzheng Preparatory School and Yunfu Guangzheng Preparatory School is estimated to be 9,280 students and 10,680 students respectively, which is based on the final total capacity for primary, middle and high school education, and international programme as set forth in the relevant cooperation agreement. The expansion of each of Guang'an Guangzheng Preparatory School and Yunfu Guangzheng Preparatory School's target student capacity is subject to adjustment, depending on the schools' actual student recruitment and capacity utilization.
- (4) The maximum capacity for each of the proposed schools in Chaozhou city and Kaiping, Jiangmen city is estimated to be 8,000 students and 7,500 students respectively, which is based on the final total capacity for, among others, primary, middle and high school education as set forth in the relevant cooperation agreement. The expansion of each of the proposed schools target student capacity is subject to adjustment, depending on the proposed schools' actual student recruitment and capacity utilization.

## Future Capital Expenditure and Financing

During the six months ended 28 February 2018, we raised borrowings from certain banks preparing for our potential acquisitions and the capital expenditure required for the development of certain greenfield schools for our future expansion. Certain bank borrowings raised were not utilized and, in order to have a better use of our financial resources, the Group purchased certain available-for-sale investments of approximately RMB550 million in aggregate during the six months ended 28 February 2018. These available-for-sale investments are wealth management products under which the Group is allowed to redeem such investments, in whole or in part, with one month's notice and the Group held these investments for short-term cash management purpose, though certain investments are classified as non-current assets by nature of the relevant products.

After the current interim period, the Group had applied for, and the relevant financial institution had accepted, our redemption of part of the available-for-sale investments in the amount of RMB50 million.

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 realize that importance of our teachers' quality in our expansion. In this regard, we cooperate with a number of well-known normal universities in China where we recruit talent graduates as our trainee teachers. We have a teacher mentoring program in which we train our outstanding teachers to prepare for the role of principal of our schools in the future. We normally assign some of our experienced teachers from the existing schools to involve in the operation of any new greenfield school or newly acquired school.

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 proven 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 in China.

# Management Discussion and Analysis

## 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 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 Company's prospectus dated 16 January 2017 (the "Prospectus").

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

Use of Proceeds	% of the Net Proceeds	Proceeds Allocated (RMB million)	Amount Utilized (RMB million)	Unutilized Balance (RMB million)
— Expansion of our school network, in particular, through the development of new schools	65%	474.5	302.2	172.3
— Further expansion of three existing schools, namely Dongguan Guangzheng Preparatory School, Huizhou Guangzheng Preparatory School, and Panjin Guangzheng Preparatory School	8%	58.4	58.4	—
— Maintenance, renovation and upgrade of two existing schools, namely Dongguan Guangming School and Dongguan Guangming Primary School	2%	14.6	5.3	9.3
— Acquisition of schools to supplement our school network	18%	131.4	91.0	40.4
— Provision of scholarships and subsidies to our students	2%	14.6	2.7	11.9
— Working capital and general corporate purpose	5%	36.5	36.5	—
<b>Total</b>	<b>100%</b>	<b>730.0</b>	<b>496.1</b>	<b>233.9</b>

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

## 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 were private schools with the school sponsors requiring reasonable returns classified under the Law for Promoting Private Education, our schools were subject to EIT of 25% before the effective date of The Decision on Amending the Law for Promoting Private Education of the PRC 《關於修改〈中華人民共和國民辦教育促進法〉的決定》) approved by the Standing Committee of the National People’s Congress on 7 November 2016 (“Decision”).

### The Decision on Amending the Law for Promoting Private Education

The Decision, which has been effective since 1 September 2017, made certain amendments to the Law for Promoting Private Education of the PRC. 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 Impact of the Decision on Our Taxation

Since 1 September 2017, all of our primary and middle schools providing compulsory education have been classified as not-for-profit schools according to the Decision and we have also decided to change our high schools to not-for-profit schools based on the cost and benefit considerations though implementation regulations in relation to the Decision have not been promulgated. Our effective tax rate of the Group, being the income tax divided by profit before taxation, was reduced from 27.4% for the six months ended 28 February 2017 to 8.0% for the six months ended 28 February 2018 primarily because all our schools are classified as not-for-profit schools where tuition and boarding fees are entitled to the same EIT exemption as public schools. For details, please refer to note 6 to the condensed consolidated statements of profit or loss and other comprehensive income. 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 (“**VIE**”) 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 adopted in the Group’s VIE structure.

## Draft Foreign Investment Law

PRC laws and regulations currently prohibit foreign ownership of primary and middle schools in the PRC and restrict the operation of high schools to Sino-foreign cooperation. Accordingly we conduct our private education business in the PRC through a “variable interest entity” structure, or VIE structure, through which we obtain control over and derive the economic benefits from our consolidated affiliated entities.

On 19 January 2015, the Ministry of Commerce of the PRC (中華人民共和國商務部) published the PRC Law on Foreign Investment (Draft for Comment) 《(外國投資法(草案徵求意見稿)》) (“**Draft Foreign Investment Law**”) and its accompanying explanatory notes (“**Explanatory Notes**”) proposing major changes to the PRC foreign investment regulatory regime, which was expected to have a significant impact on businesses operated in the PRC by foreign invested enterprises primarily through contractual arrangements, including our business conducted through the Contractual Arrangements.

Among other things, the Draft Foreign Investment Law purports to introduce the principle of “actual control” in determining whether a company is considered a foreign invested enterprise or a foreign invested entity (“**FIE**”). Under the Draft Foreign Investment Law, variable interest entities that are controlled via contractual arrangements would also be deemed as FIEs, if they are ultimately “controlled” by foreign investors. For companies with a VIE structure in an industry category that is in the “restricted category” on the “negative list”, it is possible that the existing VIE structure may be deemed legitimate only if the ultimate controlling person(s) is/are of PRC nationality (either PRC state-owned enterprises or agencies, or PRC citizens). Conversely, if the actual controlling person(s) is/are of foreign nationalities, then the variable interest entities will be treated as FIEs and any operation in the industry category on the “negative list” without market entry clearance may be considered as illegal.

As a measure to ensure the Contractual Arrangements remain a domestic investment and are compliant with the Draft Foreign Investment Law, Mr. Liu Xuebin and Ms. Li Suwen, as our controlling shareholders, have each given an undertaking in favour of our Company that, among other things, they will continue to maintain their Chinese nationality and citizenship. Please refer to the sections headed “Regulations” and “Contractual Arrangements” in the Prospectus for further details relating to the Draft Foreign Investment Law and the measures we have adopted to ensure compliance with the Draft Foreign Investment Law and its Explanatory Notes. The Company is not aware of any non-compliance with such measures for the year ended 31 August 2017.

### Qualification Requirement

Under the Sino-Foreign Regulation, foreign investors of Sino-foreign joint venture schools must be foreign educational institutions. According to the Sino-Foreign Regulation, such foreign investors must be foreign institutions with relevant qualifications and experience in a foreign country (“**Qualification Requirement**”). As part of our efforts to meet the Qualification Requirement, we entered into a memorandum of understanding with Dewey College on 10 February 2016 with respect to the parties’ proposed cooperation in setting up a private school in Ontario, Canada, as well as other proposed cooperation in international education. As at the date of this report, we have already established a subsidiary with Dewey International Holdings Limited for the potential development of the new school in Canada. Please refer to the section headed “Contractual Arrangements” in the Prospectus for further details of our efforts and actions undertaken to comply with the Qualification Requirement.

### Financial Review

For the six months ended 28 February 2018, total revenue increased by 18.8% to RMB592.0 million and core net profit increased by 34.8% to RMB162.7 million as compared with the corresponding period in 2017.

#### Revenue

For the components of our revenue, please refer to the section headed “Business Review” above.

The Group’s total revenue increased by RMB93.9 million, or 18.8%, from RMB498.1 million for the six months ended 28 February 2017 to RMB592.0 million for the six months ended 28 February 2018. The increase was attributable to the increase in revenue from tuition and boarding fees by RMB81.4 million and the increase in revenue from ancillary services by RMB12.5 million.

Revenue from tuition and boarding fees increased by 24.3% from RMB335.8 million for the six months ended 28 February 2017 to RMB417.4 million for the six months ended 28 February 2018, largely due to the increase in total student enrolment. Total student enrolment increased by 29.5% from 31,788 for the six months ended 28 February 2017 to 41,180 for the six months ended 28 February 2018, primarily due to 15.4% organic growth in student enrolment and 14.1% growth in student number from the acquisition of Jieyang School where the average tuition and boarding fees per student was lower than those of our other schools.

## Management Discussion and Analysis

Revenue from ancillary services increased by 7.5% from RMB162.3 million for the six months ended 28 February 2017 to RMB174.6 million for the six months ended 28 February 2018, primarily due to the acquisition of Jieyang School.

### 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 62.9 million, or 23.5%, from RMB267.3 million for the six months ended 28 February 2017 to RMB330.2 million for the six months ended 28 February 2018. The increase was largely due to the increases in teaching staff costs, depreciation and amortisation, and the acquisition of Jieyang School.

Staff costs increased mainly because the number of teachers increased by 31.6% from 1,960 as at 1 September 2016 to 2,580 as at 1 September 2017 primarily due to the expansion of Dongguan Guangzheng Preparatory School, Huizhou Guangzheng Preparatory School, Panjin Guangzheng Preparatory School and the Weifang Guangzheng Preparatory School, and the acquisition of Jieyang School. There were no material increase in the salary rate of our teachers for the six months ended 28 February 2018.

Increase in depreciation and amortisation was primarily to the enhancement and expansion of our Dongguan Guangzheng Preparatory School, Huizhou Guangzheng Preparatory School, Panjin Guangzheng Preparatory School, Weifang Guangzheng Preparatory School and Jieyang School.

### Gross Profit

As a result of the foregoing, gross profit increased by 13.4% from RMB230.9 million for the six months ended 28 February 2017 to RMB261.8 million for the six months ended 28 February 2018. Our gross profit margin decreased from 46.3% for the six months ended 28 February 2017 to 44.2% for the six months ended 28 February 2018, primarily due to the acquisition of Jieyang School where its gross profit margin is lower than certain gross profit margin of our schools.

### 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, and (iii) staff quarter income, which consists of rental income from the staff quarters provided to our teachers and other staff.

Other income increased by 494.7% from RMB3.8 million for the six months ended 28 February 2017 to RMB22.6 million for the six months ended 28 February 2018, primarily due to the increase in government grants by RMB18.0 million.

### Other Gains and Losses

Other gains and losses primarily consist of (i) gains on change in fair value of investment properties, and (ii) unrealised exchange loss resulting from the translation of bank deposits denominated in Hong Kong dollars (HK\$).

Other gains and losses decreased from a gain of RMB0.2 million for the six months ended 28 February 2017 to a loss of RMB12.9 million for the six months ended 28 February 2018. The decrease was mainly attributable to the net exchange loss of RMB12.6 million primarily resulting from the translation of bank deposits denominated in Hong Kong dollars.

### 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 38.7% from RMB13.2 million for the six months ended 28 February 2017 to RMB18.3 million for the six months ended 28 February 2018, primarily as a result of increased advertising expenses in relation to the marketing and promotion of our Panjin Guangzheng Preparatory School, Weifang Guangzheng Preparatory School and the acquisition of Jieyang School. Selling expenses as a percentage of revenue increased from 2.7% for the six months ended 28 February 2017 to 3.1% for the six months ended 28 February 2018.

### 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, and other administrative expenses.

Administrative expenses increased by 54.4% from RMB63.3 million for the six months ended 28 February 2017 to RMB97.8 million for the six months ended 28 February 2018, primarily as a result of the increase in salaries and other benefits, rental expenses, professional fees, office expenses and charitable donations in line with the Group's expansion plan and the acquisition of Jieyang School. Administrative expenses as a percentage of revenue increased from 12.7% for the six months ended 28 February 2017 to 16.5% for the six months ended 28 February 2018.

# Management Discussion and Analysis

## Finance Income

Finance income consists of (i) imputed interest income on advances to Cinese Group Company Limited (富盈集團有限公司) (“**Cinese Group**”) and other related parties; and (ii) interest income from bank deposits and (iii) interest income from available-for-sale investments.

Finance income increased from RMB3.1 million for the six months ended 28 February 2017 to RMB13.6 million for the six months ended 28 February 2018 primarily due to the increase in interest income from bank deposits and available-for-sale investments.

As all advances to Cinese Group and other related parties have been settled, no imputed interest income was recognised for the six months ended 28 February 2018.

## Finance Costs

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

Finance cost increased from RMB6.4 million for the six months ended 28 February 2017 to RMB10.6 million for the six months ended 28 February 2018 primarily due to the increase in bank borrowings during the current interim period.

## Profit before Taxation

As a result of the foregoing, our profit before taxation increased from RMB147.8 million for the six months ended 28 February 2017 to RMB158.3 million for the six months ended 28 February 2018. Profit before taxation as a percentage of revenue of the Group was 26.7% for the six months ended 28 February 2018 compared with 29.7% for the six months ended 28 February 2017.

## Taxation

Income tax expense of the Group decreased by 68.7% from RMB40.5 million for the six months ended 28 February 2017 to RMB12.7 million for the six months ended 28 February 2018. All of our schools were classified as private schools with the school sponsors requiring reasonable returns, which were subject to EIT of 25% before the Decision becomes effective on 1 September 2017. All of our primary and middle school sections are required to be classified as not-for-profit schools since 1 September 2017. We have decided not to classify our high school sections as for-profit schools. The effective tax rate of the Group for the six months ended 28 February 2018 and the six months ended 28 February 2017 was 8.0% and 27.4%, respectively. The decrease in the Group's effective tax rates was primarily due to the classification of all our schools as not-for-profit schools where tuition and boarding fees are entitled to the same EIT exemption as public schools since 1 September 2017. For details, please refer to note 6 to the condensed consolidated statement of profit or loss and other comprehensive income.

# Management Discussion and Analysis

## Profit for the Period

As a result of the above factors, profit for the period of the Group increased by 35.7% from RMB107.3 million for the six months ended 28 February 2017 to RMB145.6 million for the six months ended 28 February 2018.

## 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	
	2018 RMB'000 (unaudited)	2017 RMB'000 (unaudited)
Profit for the period (Note)	145,620	107,280
Less:		
Imputed interest income on advances to Cinese Group	—	3,029
Add:		
Finance costs in relation to advances to Cinese Group	—	6,353
Listing expenses	—	7,172
Share-based payments	2,364	2,886
Unrealised exchange loss	12,555	—
Amortisation of intangible assets arising from acquisition	2,162	—
Core net profit	162,701	120,662

Core net profit for the six months ended 28 February 2018 increased by RMB42.0 million or 34.8%. Core net profit margin increased from 24.2% for the six months ended 28 February 2017 to 27.5% for the six months ended 28 February 2018.

Note: Profit for the period for the six months ended 28 February 2018 has been arrived at after charging charitable donation of approximate RMB4.0 million for the improvement in educational facilities in poorer regions in China.

## Capital Expenditure

During the six months ended 28 February 2018, the Group paid approximately RMB318.5 million for the acquisition of property, plant and equipment and paid approximately RMB101.1 million for the acquisition of prepaid lease for the further expansion of our schools.

# Management Discussion and Analysis

## 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	
	2018 RMB'000 (unaudited)	2017 RMB'000 (unaudited)
Net cash from operating activities	147,459	146,107
Net cash from (used in) investing activities	(1,136,457)	349,935
Net cash from financing activities	967,653	170,102
Net (decrease)/increase in cash and cash equivalents	(21,345)	666,144
Cash and cash equivalents at beginning of the period	378,051	103,705
Effect of foreign exchange rate change	(11,015)	—
Cash and cash equivalents at end of the period	345,691	769,849

As at 28 February 2018, the Group's total pledged bank deposits, bank balances and cash amounted to RMB870.4 million, of which the majority were denominated in HK\$ and RMB.

As at 28 February 2018, the Group's total bank borrowings amounted to RMB1,704.1 million comprising RMB326.6 million repayable within one year and RMB1,377.5 million repayable more than one year. Bank borrowings carried interest rates ranging from 4.4% to 7.3% per annum and all the bank borrowings were denominated in RMB. During the six months ended 28 February 2018, we raised borrowings from banks preparing for our potential acquisitions and the capital expenditure required for the development of certain greenfield schools for our future expansion.

As at 28 February 2018, certain bank borrowings raised were not utilized. In order to have a better use of our financial resources, the Group purchased certain available-for-sale investments of approximately RMB550 million in aggregate during the six months ended 28 February 2018. These available-for-sale investments are wealth management products under which the Group is allowed to redeem the investments, in whole or in part, with one month's notice and the Group held these investments is for short-term cash management purpose, though certain investments are classified as non-current assets by nature of the relevant products.

The Group recorded net current liabilities of RMB388.7 million as of 28 February 2018 (31 August 2017: RMB489.5 million) primarily as a result of the recognition of tuition and boarding fees received in advance as deferred revenue which was included in current liabilities.

### Net Gearing Ratio

The Group's net gearing ratio is calculated as interest-bearing bank borrowings less total pledged bank deposits, bank balances and cash divided by total equity at the end of the relevant year/period end. The Group's net gearing ratio at 28 February 2018 was 44.4% whereas the Group had a net cash of approximately RMB131.7 million as at 31 August 2017.

The increase in net gearing ratio was mainly due to the increase in bank borrowings raised during the six months ended 28 February 2018 for financing our potential acquisitions and the capital expenditure required for the development of certain greenfield schools for our future expansion.

As explained in the sections headed "Future Capital Expenditure and Financing" and "Liquidity, Financial Resources and Capital Structure" above, as at 28 February 2018, certain bank borrowings raised were not utilized and, in order to have a better use of our financial resources, the Group purchased certain available-for-sale investments of approximately RMB550 million in aggregate. These available-for-sale investments are wealth management products under which the Group is allowed to redeem such investments, in whole or in part, with one month's notice and our intention of holding these investments is for short-term cash management purpose though certain investments are classified as non-current assets by nature of the relevant products. Taking into consideration our intention of holding these wealth management products for short-term cash management purpose and the possibility of early redemption, the Group's net gearing ratio as at 28 February 2018 would have been reduced to 14.9%.

### 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 income and expenditures are denominated in HK\$. As at 28 February 2018, certain bank balances and cash and bank deposits 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 RMB5,000,000 and the interests thereof. As at the date of this report, 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 2018, the Group's bank borrowings were secured by the rights to receive the sale proceeds from disposal of certain prepaid lease payments and buildings, bank deposits and the rights to receive the tuition fees and boarding fees of certain schools of the Group.

# Management Discussion and Analysis

## Capital Commitment

	At 28 February 2018 RMB'000 (unaudited)	At 31 August 2017 RMB'000 (audited)
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of the acquisition of property, plant and equipment	346,793	427,572

## Material Acquisitions and Disposals of Subsidiaries, Associates and Joint Ventures

Save for the acquisition of Jieyang School and the Acquisition as disclosed above, the Group had no other material acquisition and disposal of subsidiaries, associates or joint ventures during the six months ended 28 February 2018.

## Significant Investments Held

As at 28 February 2018, the Group held certain available-for-sale investments of approximately RMB554.1 million in aggregate, which represent the fair value of the Group's investments in wealth management products issued by the financial institutions in the PRC. As at 28 February 2018, the carrying amount of such investments accounted for approximately 12.4% of the total assets of the Group. For the reasons for holding these available-for-sale investments, please refer to the sections headed "Future Capital Expenditure and Financing", "Liquidity, Financial Resources and Capital Structure" and "Net Gearing Ratio" above. Looking ahead, the Group expects to receive investment income from these investments in accordance with the terms of the wealth management products.

### Employee Benefits

As at 28 February 2018, the Group had approximately 4,710 employees (as at 28 February 2017: approximately 3,650). 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, a share option scheme and a share award 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 2018 amounted to approximately RMB199.2 million (for the six months ended 28 February 2017: RMB152.6 million).

### Events after the Reporting Period

After the current interim period, in addition to the events set out in note 26 "Event after the reporting period" to the condensed consolidated financial statements, the Group had applied for, and the relevant financial institution had accepted, our redemption of part of the available-for-sale investments in the amount of RMB50 million.

# Other Information

## Interim Dividend

The Board has resolved to declare the payment of an interim dividend of RMB0.032 (equivalent to HK\$0.04) per share for the six months ended 28 February 2018 (six months ended 28 February 2017: RMB0.024 (equivalent to HK\$0.027) per share) to the shareholders of the Company (“**Shareholders**”) whose names appear on the register of members of the Company at the close of business on 18 May 2018. The interim dividend is expected to be paid on or about 31 May 2018.

## Closure of Register of Members

For determining the entitlement to the interim dividend for the six months ended 28 February 2018, the register of members of the Company will be closed from 17 May 2018 to 18 May 2018, 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 16 May 2018.

## Share Award Scheme

On 7 June 2017, the Company adopted a share award scheme (the “**Scheme**”) as a means to recognise the contribution of, and provide incentives, for the key management personnel including Directors and senior management and employees of the Group. The shares (“**Shares**”) to be awarded under the Scheme will be purchased by a trustee (the “**Trustee**”) from the open market or subscribed from the Company as new Shares out of cash contributed by the Group and be held on trust for the selected participants until such Shares are vested with the relevant selected participants in accordance with the provisions of the Scheme. The Scheme shall be subject to administration of the Board and the Trustee in accordance with the Scheme rules and the trust deed dated 7 June 2017.

As at 28 February 2018, the Trustee has purchased a total of 10,834,000 Shares (31 August 2017: 1,588,000 Shares) on the Stock Exchange at the aggregate consideration of approximately HK\$44.5 million and no Shares under the Scheme has been granted as at 28 February 2018.

## Purchase, Sale or Redemption of the Company’s Listed Securities

Save for the purchases made by the Trustee pursuant to the Scheme as disclosed in the section headed “Share Award Scheme” above, during the six months ended 28 February 2018, 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 six months ended 28 February 2018.

### Directors' and Chief Executive's Interest and Short Positions in the Shares, Underlying Shares and Debentures of the Company and Its Associated Corporation

As at 28 February 2018, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”), Chapter 571 of the Laws of Hong Kong) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they have taken, or are deemed to have taken, under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be recorded in the register required to be kept by the Company; or (c) were required, pursuant to the Model Code as set out in Appendix 10 to the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

#### Long positions in Shares and underlying Shares of the Company

Name of Director/ chief executive	Capacity	Interest in Shares	Interest in underlying Shares	Total interest in Shares and underlying Shares	Approximate percentage of shareholding
Mr. Liu Xuebin (“Mr. Liu”) (Note 1)	Interest of controlled corporation	930,000,000 (Note 2)	—	930,000,000	45.54%
Ms. Li Suwen (“Ms. Li”) (Note 1)	Interest of controlled corporation	570,000,000 (Note 3)	—	570,000,000	27.91%

Notes:

- Mr. Liu and Ms. Li are co-founders of the Group and are parties acting in concert with each other.
- Mr. Liu holds the entire issued capital of Bright Education (Holdings) Co. Limited (“Bright Education Holdings”), a company incorporated in the British Virgins Islands, and is therefore deemed to be interested in 930,000,000 Shares held by Bright Education Holdings.
- Ms. Li holds the entire issued capital of Bright Education Investment Co. Limited (“Bright Education Investment”), a company incorporated in the British Virgins Islands, and is therefore deemed to be interested in 570,000,000 Shares held by Bright Education Investment.

### Substantial Shareholders' Interests and Short Positions in the Shares and Underlying Shares of the Company

As at 28 February 2018, the following persons or corporations, other than the Directors or the chief executive of the Company, had interests or short positions in the Shares or underlying Shares as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

#### Long positions

Name of Shareholder	Capacity	Total interest in Shares and underlying Shares	Approximate percentage of interest in the Company
Bright Education Holdings (Note 1)	Beneficial Interest	930,000,000	45.54%
Bright Education Investment (Note 2)	Beneficial Interest	570,000,000	27.91%

Notes:

- (1) Bright Education Holdings is wholly-owned by Mr. Liu, and has a direct beneficial interest of 45.54% in the Company.
- (2) Bright Education Investment is wholly-owned by Ms. Li and has a direct beneficial interest of 27.91% in the Company.

Save as disclosed above, as at 28 February 2018, no other person or corporation, other than the Directors or the chief executive of the Company, had an interest or short position in the Shares or underlying Shares as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

#### Share Option Schemes

In order to provide incentives to our Directors, senior management, employees and other eligible persons for their contribution to the Group and to attract and retain suitable personnel of our Group, we adopted a pre-IPO share option scheme ("**Pre-IPO Share Option Scheme**") and a share option scheme ("**Share Option Scheme**") on 3 January 2017.

For details of the terms of the Pre-IPO Share Option Scheme and the Share Option Scheme, please refer to Appendix V to the Prospectus.

### Pre-IPO Share Option Scheme

The following table discloses movements in the outstanding options granted to a grantee under the Pre-IPO Share Option Scheme.

Grantee	Date of Grant	Outstanding Share options as at 1 September 2017	Exercised during the period	Outstanding Share Options as at 28 February 2018	Vesting Date(s)	Exercisable Period	Exercise Price
Employee	3 January 2017	6,000,000	(2,800,000)	3,200,000	(i) 30% of the share options were vested on 26 January 2017  (ii) 30% of the share options shall be vested: on 26 January 2018  (iii) 40% of the share options shall be vested on 26 January 2019	From the relevant vesting date to 25 January 2026	HK\$0.51, which represented a discount of 70% to the final offer price per share of the Company in its initial public offering in January 2017
Total		6,000,000	(2,800,000)	3,200,000			

Save as disclosed above, since the date of adoption of the Pre-IPO Share Option Scheme and up to 28 February 2018, no share options were granted, exercised, cancelled or lapsed under the Pre-IPO Option Scheme.

## Other Information

### Share Option Scheme

The following table discloses movements in the outstanding options granted to a grantee under the Share Option Scheme.

<b>Grantee</b>	<b>Date of Grant</b>	<b>Outstanding Share Options as at 1 September 2017 and 28 February 2018</b>	<b>Vesting Date(s) and Exercisable Period</b>	<b>Exercise Price</b>
Employee	14 March 2017	3,000,000	(i) 1,000,000 share options will be vested on the first anniversary of the date of grant and will be exercisable within five years from the first anniversary of the date of grant  (ii) 1,000,000 share options will be vested on the second anniversary of the date of grant and will be exercisable within five years from the second anniversary of the date of grant  (iii) 1,000,000 share options will be vested on the third anniversary of the date of grant and will be exercisable within five years from the third anniversary of the date of grant	HK\$1.96 (Note)
Total		<u>3,000,000</u>		

Note: The closing price of the shares of the Company immediately before the grant of such share options was HK\$1.96 per share.

Save as disclosed above, since the date of adoption of the Share Option Scheme and up to 28 February 2018, no share options were granted, exercised, cancelled or lapsed under the Share Option Scheme.

### 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. 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 2018 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.

As disclosed in the Prospectus, we did not make full contributions to the social insurance plans and the housing provident fund for our employees in previous years. We are already making such contributions for all of our employees in the PRC and have started to make full contributions to the social insurance plans and the housing provident fund for some of our employees. Also, we had obtained some land use right certificates for the several parcels of land used by our Dongguan Guangming Primary School and the construction permits for the buildings built on such land after listing. Please refer to the section headed “Business” in the Prospectus for further details of such historical non-compliance matters.

We are making steady progress in rectifying such matters since the date of the Prospectus. We intend to continue rectifying the above matters as soon as reasonably practicable.

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

Hong Kong, 26 April 2018

# Report on Review of Condensed Consolidated Financial Statements

TO THE BOARD OF DIRECTORS OF  
**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)

## Introduction

We have reviewed the condensed consolidated financial statements of Wisdom Education International Holdings Company Limited (the “**Company**”) and its subsidiaries (collectively referred to as the “**Group**”) set out on pages 44 to 71, which comprise the condensed consolidated statement of financial position as of 28 February 2018 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 “Interim Financial Reporting” (“**IAS 34**”) issued by the International Accounting Standards Board. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the International Auditing and Assurance Standards Board. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

# Report on Review of Condensed Consolidated Financial Statements

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

**Deloitte Touche Tohmatsu**  
*Certified Public Accountants*  
Hong Kong  
26 April 2018

# Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 28 February 2018

	NOTES	Six months ended	
		28 February 2018 RMB'000 (unaudited)	28 February 2017 RMB'000 (unaudited)
Revenue	3	591,995	498,142
Cost of revenue		(330,210)	(267,281)
Gross profit		261,785	230,861
Other income	4	22,567	3,797
Other gains and losses	5	(12,900)	157
Selling expenses		(18,329)	(13,212)
Administrative expenses		(97,828)	(63,343)
Listing expenses		—	(7,172)
Finance income		13,648	3,094
Finance costs		(10,646)	(6,372)
Profit before taxation		158,297	147,810
Taxation	6	(12,677)	(40,530)
Profit and total comprehensive income for the period	7	145,620	107,280
Attributable to:			
Owners of the Company		145,017	107,304
Non-controlling interests		603	(24)
		145,620	107,280
<b>EARNINGS PER SHARE</b>			
Basic (RMB)	9	0.07	0.07
Diluted (RMB)	9	0.07	0.07

# Condensed Consolidated Statement of Financial Position

For the six months ended 28 February 2018

	NOTES	At 28 February 2018 RMB'000 (unaudited)	At 28 August 2017 RMB'000 (audited)
<b>Non-current Assets</b>			
Property, plant and equipment	10	2,080,230	1,779,440
Prepaid lease payments	10	476,426	298,816
Investment properties		20,200	20,100
Goodwill	11	61,781	—
Intangible assets	12	20,600	—
Deferred tax assets		—	6,376
Deposits, prepayments and other receivables	13	341,475	425,311
Available-for-sale investments	15	450,000	—
Pledged bank deposits		198,088	197,919
		<b>3,648,800</b>	2,727,962
<b>Current Assets</b>			
Inventories — goods for sale		7,426	8,816
Deposits, prepayments and other receivables	13	35,472	25,633
Amount due from a related party	14	6,540	6,901
Prepaid lease payments	10	9,872	7,324
Available-for-sale investments	15	104,147	—
Pledged bank deposits		326,596	177,540
Bank balances and cash	16	345,691	378,051
		<b>835,744</b>	604,265
<b>Current Liabilities</b>			
Deferred revenue	17	433,476	423,115
Trade and other payables	18	361,286	393,351
Income tax payable		103,119	122,438
Borrowings	19	326,560	154,900
		<b>1,224,441</b>	1,093,804
<b>Net Current Liabilities</b>		<b>(388,697)</b>	(489,539)
<b>Total Assets Less Current Liabilities</b>		<b>3,260,103</b>	2,238,423

# Condensed Consolidated Statement of Financial Position

For the six months ended 28 February 2018

	NOTES	At 28 February 2018 RMB'000 (unaudited)	At 28 August 2017 RMB'000 (audited)
<b>Capital and Reserves</b>			
Share capital	20	18,049	18,026
Reserves		1,791,155	1,727,864
Equity attributable to owners of the Company		1,809,204	1,745,890
Non-controlling interests		70,087	(38)
		1,879,291	1,745,852
<b>Non-current Liabilities</b>			
Borrowings	19	1,377,490	466,900
Deferred revenue	17	—	13,663
Deferred tax liabilities		3,322	12,008
		1,380,812	492,571
		3,260,103	2,238,423

# Condensed Consolidated Statement of Changes in Equity

For the six months ended 28 February 2018

	Attributable to owners of the Company											
	Share capital	Share premium	Capital reserve	Merger reserve	Share option reserve	Discretionary special reserve	Statutory surplus reserve	Shares held for share award scheme	Accumulated profits	Total	Non-controlling interests	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000 (Note i)	RMB'000 (Note ii)	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 September 2016	—	—	85,000	83,400	—	182,519	241,907	—	237,949	830,775	—	830,775
Profit and total comprehensive income for the period	—	—	—	—	—	—	—	—	107,304	107,304	(24)	107,280
Transfer	—	—	—	—	—	32,255	17,880	—	(50,135)	—	—	—
Recognition of share-based payment expenses (note 21)	—	—	—	—	2,886	—	—	—	—	2,886	—	2,886
Issuance of ordinary shares	1	—	—	—	—	—	—	—	—	1	—	1
Capitalisation issue	13,259	(13,259)	—	—	—	—	—	—	—	—	—	—
Issuance of ordinary shares upon listing and exercise of over-allotment option	4,748	802,486	—	—	—	—	—	—	—	807,234	—	807,234
Expenses incurred in connection with the issuance of ordinary shares	—	(45,228)	—	—	—	—	—	—	—	(45,228)	—	(45,228)
At 28 February 2017 (unaudited)	18,008	743,999	85,000	83,400	2,886	214,774	259,787	—	295,118	1,702,972	(24)	1,702,948
At 1 September 2017	<b>18,026</b>	<b>697,257</b>	<b>85,000</b>	<b>83,400</b>	<b>3,299</b>	<b>247,290</b>	<b>279,354</b>	<b>(3,700)</b>	<b>335,964</b>	<b>1,745,890</b>	<b>(38)</b>	<b>1,745,852</b>
Profit and total comprehensive income for the period	—	—	—	—	—	—	—	—	145,017	145,017	603	145,620
Transfer	—	—	—	—	—	43,633	5,866	—	(49,499)	—	—	—
Recognition of share-based payment expenses (note 21)	—	—	—	—	2,364	—	—	—	—	2,364	—	2,364
Exercise of share options (note 20(ii))	23	2,506	—	—	(1,359)	—	—	—	—	1,170	—	1,170
Dividend recognised as distribution (note 8)	—	(53,018)	—	—	—	—	—	—	—	(53,018)	—	(53,018)
Shares purchased for share award scheme	—	—	—	—	—	—	—	(32,219)	—	(32,219)	—	(32,219)
Non-controlling interest arose from acquisition	—	—	—	—	—	—	—	—	—	—	69,522	69,522
At 28 February 2018 (unaudited)	<b>18,049</b>	<b>646,745</b>	<b>85,000</b>	<b>83,400</b>	<b>4,304</b>	<b>290,923</b>	<b>285,220</b>	<b>(35,919)</b>	<b>431,482</b>	<b>1,809,204</b>	<b>70,087</b>	<b>1,879,291</b>

# Condensed Consolidated Statement of Changes in Equity

For the six months ended 28 February 2018

Notes:

- i. Discretionary special reserve represents the accumulated surplus in the school campus canteen operations specifically set aside by the Group for the improvement and enhancement of the services and conditions of the school campus canteens. This reserve is non-distributable to equity holders during the school operating period. Upon liquidation or wind-up of the schools, the underlying assets and liabilities of the special reserve shall be used for the operation of other not-for profit schools. Upon the establishment of a special reserve committee in May 2016, the Group has transferred all the retained earnings of its on-campus canteens since the operation thereof to the discretionary special reserve. During the six months ended 28 February 2018, surplus in the school campus canteen operations amounted to RMB43,633,000 (2017: RMB32,255,000) had been transferred to the discretionary special reserve.
- ii. Pursuant to the relevant laws in the People's Republic of China (the "PRC"), the Company's subsidiaries in the PRC shall make appropriations from after-tax profit to non-distributable reserve funds as determined by the board of directors of the relevant PRC subsidiaries. These reserves include (a) general reserve of the limited liabilities companies and (b) the development fund of schools.
  - (a) For PRC subsidiaries with limited liability, they are required to make annual appropriations to general reserve of 10% of after-tax profits as determined under the PRC laws and regulations at each year-end until the balance reaches 50% of the relevant PRC entity's registered capital.
  - (b) According to the relevant PRC laws and regulations, for private school that requires for reasonable return, it is required to appropriate to development fund of not less than 25% of the net income of the relevant schools as determined in accordance with generally accepted accounting principles in the PRC. The development fund shall be used for the construction or maintenance of the schools or procurement or upgrading of educational equipment.

# Condensed Consolidated Statement of Cash Flows

For the six months ended 28 February 2018

	NOTES	Six months ended	
		28 February 2018 RMB'000 (unaudited)	28 February 2017 RMB'000 (unaudited)
Net cash from operating activities		<b>147,459</b>	146,107
INVESTING ACTIVITIES			
Interest received		<b>7,652</b>	54
Placement of pledged bank deposits		<b>(149,225)</b>	—
Payments for acquisition of property, plant and equipment		<b>(318,492)</b>	(195,418)
Payments for acquisition of prepaid lease		<b>(101,086)</b>	(8,560)
Payment for purchase of available-for-sale investments		<b>(550,000)</b>	—
Interest income received from available-for-sale investments		<b>1,849</b>	—
Repayments of advance to related parties		<b>361</b>	53,659
Repayment of advance to Cinese Group		<b>—</b>	500,200
Deposits for acquisition of Weifang School	13	<b>(20,000)</b>	—
Net cash outflow for acquisition of a subsidiary	11	<b>(7,516)</b>	—
NET CASH (USED IN) FROM INVESTING ACTIVITIES		<b>(1,136,457)</b>	349,935
FINANCING ACTIVITIES			
Proceeds from issue of ordinary shares		<b>—</b>	807,234
Proceeds from bank borrowings		<b>1,234,600</b>	217,700
Repayment of bank borrowings		<b>(152,350)</b>	(500,200)
Repayments to related parties		<b>—</b>	(377,213)
Interest paid		<b>(26,815)</b>	(11,861)
Issue costs paid		<b>(3,715)</b>	(25,558)
Receipt of advance from an independent third party		<b>—</b>	60,000
Payments for repurchase of ordinary shares under the share award scheme		<b>(32,219)</b>	—
Dividend paid		<b>(53,018)</b>	—
Proceeds from exercise of share options		<b>1,170</b>	—
NET CASH FROM FINANCING ACTIVITIES		<b>967,653</b>	170,102
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		<b>(21,345)</b>	666,144
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD		<b>378,051</b>	103,705
Effect of foreign exchange rate changes		<b>(11,015)</b>	—
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD, represented by bank balances and cash		<b>345,691</b>	769,849

# Notes to the Consolidated Financial Statements

For the six months ended 28 February 2018

## 1. BASIS OF PREPARATION

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**").

As of 28 February 2018, the Group recorded net current liabilities of RMB388,697,000 (as of 31 August 2017: RMB489,539,000). In view of these circumstances, the directors of the Company (the "**Directors**") have given consideration of the future liquidity and performance of the Group and its available sources of finance in assessing whether the Group will have sufficient financial resources to continue as a going concern.

The condensed consolidated financial statements have been prepared on a going concern basis because the Directors are satisfied that the Group have sufficient financial resources to meet its financial obligations as they fall due in the next twelve months by taking into account the Group's cash flow projection, unutilised bank facilities and the Group's future capital expenditure in respect of its non-cancellable capital commitments.

## 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 2018 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 August 2017.

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.

# Notes to the Consolidated Financial Statements

For the six months ended 28 February 2018

## 2. PRINCIPAL ACCOUNTING POLICIES (continued)

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

### Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net amount of the identifiable assets acquired and the liabilities assumed as at acquisition date.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary's net assets in the event of liquidation are initially measured at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets.

### Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

# Notes to the Consolidated Financial Statements

For the six months ended 28 February 2018

## 2. PRINCIPAL ACCOUNTING POLICIES (continued)

### Goodwill (continued)

A cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit (or group of cash-generating units). Impairment loss made on goodwill is not reversed in the subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal (or any of the cash-generating units within the group of cash-generating units in which the Group monitors goodwill).

### Intangible assets

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at revalued amounts, being their fair value at the date of the revaluation less subsequent accumulated amortisation and any accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

# Notes to the Consolidated Financial Statements

For the six months ended 28 February 2018

## 2. PRINCIPAL ACCOUNTING POLICIES (continued)

### Financial instruments

#### *Available-for-sale ("AFS") financial assets*

AFS financial assets are non-derivatives that are either designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss. The Group designated unlisted debts instruments in the PRC as AFS financial assets on initial recognition of those items.

Debt securities held by the Group that are classified as AFS financial assets are measured at fair value at the end of each reporting period. Changes in the carrying amount of AFS debt instruments relating to interest income calculated using the effective interest method, are recognised in profit or loss. Other changes in the carrying amount of AFS financial assets are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

#### *Impairment of AFS financial assets*

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

In respect of AFS debt investments, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

## 3. REVENUE AND SEGMENT INFORMATION

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

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.

## Notes to the Consolidated Financial Statements

For the six months ended 28 February 2018

### 3. REVENUE AND SEGMENT INFORMATION (continued)

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 is 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 2018 RMB'000 (unaudited)	28 February 2017 RMB'000 (unaudited)
Tuition and boarding fees	417,409	335,794
Ancillary services	174,586	162,348
	591,995	498,142

### 4. OTHER INCOME

	Six months ended	
	28 February 2018 RMB'000 (unaudited)	28 February 2017 RMB'000 (unaudited)
Rental income from investment properties	558	558
Government grants (Note)	19,168	1,185
Donations	5	37
Staff quarter income	1,309	1,220
Others	1,527	797
	22,567	3,797

Note: Government grants mainly represent non-conditional subsidies from government for organising schools activities, developing of school and outstanding academic performance of the schools.

# Notes to the Consolidated Financial Statements

For the six months ended 28 February 2018

## 5. OTHER GAINS AND LOSSES

	Six months ended	
	28 February 2018 RMB'000 (unaudited)	28 February 2017 RMB'000 (unaudited)
Exchange (loss) gain	(12,555)	738
Gain on change in fair value of investment properties	100	300
Penalties and late surcharges	(463)	—
Others	18	(881)
	(12,900)	157

## 6. TAXATION

	Six months ended	
	28 February 2018 RMB'000 (unaudited)	28 February 2017 RMB'000 (unaudited)
The income tax expense comprises		
Current tax:		
PRC Enterprise Income Tax ("PRC EIT")	14,987	40,262
Deferred tax	(2,310)	268
	12,677	40,530

# Notes to the Consolidated Financial Statements

For the six months ended 28 February 2018

## 6. TAXATION (continued)

The Company was incorporated in the Cayman Islands and Bright Education Co. Limited, a subsidiary of the Company, was incorporated in the British Virgin Islands (“BVI”) that are tax exempted as no business carried out in Cayman Islands and BVI under the tax laws of the Cayman Islands and the BVI.

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.

Withholding income tax has been provided at 10% of the royalty income paid from PRC subsidiaries of the Group to a subsidiary incorporated outside the PRC.

According to the Law for Promoting Private Education (the “Law”), with effective from 1 September 2017, private schools treated as not-for-profit schools, for which the school sponsors are not allowed to distribute or receive any profits from schools, are eligible to enjoy the same preferential tax treatment as public schools. As a result, qualified income obtained by not-for-profit schools, which are providing academic qualification education, are eligible to enjoy income tax exemption treatment. In the opinion of legal counsel, according to the amendments of the memorandum and article of associations, the school sponsors do not request for reasonable returns from the schools under the Group, including Dongguan Guangming School, Dongguan Guangming Primary School, Dongguan Guangzheng Preparatory School (“**Dongguan School**”), Huizhou Guangzheng Preparatory School (“**Huizhou School**”), Panjin Guangzheng Preparatory School (“**Panjin School**”), Weifang Guangzheng Preparatory School (“**Weifang School**”) and Huanan Shida Yuedong Preparatory School (華南師大粵東實驗學校) (“**Jieyang School**”), which are treated as not-for-profit schools under the Law and accordingly, all not-for-profit schools for the Group are exempt from income tax on the tuition income and boarding fee. For the six months ended 28 February 2018, the non-taxable income amounted to RMB417,409,000. Subsidiaries of the Company established in the PRC are subject to the PRC EIT of 25% for the six months period 28 February 2017.

# Notes to the Consolidated Financial Statements

For the six months ended 28 February 2018

## 7. PROFIT FOR THE PERIOD

	Six months ended	
	28 February 2018 RMB'000 (unaudited)	28 February 2017 RMB'000 (unaudited)
Profit for the period has been arrived at after charging (crediting):		
Staff costs, including directors' remuneration		
— salaries and other allowances	181,108	138,195
— retirement benefit scheme contributions	15,731	11,519
— share-based payments	2,364	2,886
Total staff costs	199,203	152,600
Depreciation of property, plant and equipment	33,208	26,710
Release of prepaid lease payment	4,855	3,015
Amortization of intangible assets (included in cost of revenue)	2,162	—
Auditors' remuneration	880	680
Bank interest income	(7,652)	(65)
Interest income from AFS investments (included in finance income)	(5,996)	—
Imputed interest income on advance to Cinese Group (included in finance income)	—	(3,029)

## 8. DIVIDENDS

Subsequent to the end of the reporting period, an interim dividend in respect of the six months ended 28 February 2018 of RMB0.032 (equivalent to HK\$0.04) per share (2017: RMB0.024 (equivalent to HK\$0.027 per share) amounting to RMB65,375,000 (equivalent to HK\$81,718,000) (2017: RMB48,940,000 (equivalent to HK\$55,057,000)), has been proposed by the Directors. During the six months ended 28 February 2018, a final dividend in respect of the year ended 31 August 2017 of RMB0.026 per share amounting to RMB53,018,000 was paid to the shareholders of the Company.

## Notes to the Consolidated Financial Statements

For the six months ended 28 February 2018

### 9. 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 2018 RMB'000 (unaudited)	28 February 2017 RMB'000 (unaudited)
<b>Earnings</b>		
Profit for the period attributable to owners of the Company for the purposes of basic and diluted earnings per share	<b>145,017</b>	107,304

	Six months ended	
	28 February 2018 '000 (unaudited)	28 February 2017 '000 (unaudited)
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purpose of basic earnings per share	<b>2,032,203</b>	1,595,360
Effect of dilutive potential ordinary shares:		
Share options	<b>6,116</b>	606
Over-allotment options	—	89
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<b>2,038,319</b>	1,596,055

The weighted average number of ordinary shares for the six months ended 28 February 2018 shown above have been arrived at after deducting 10,834,000 shares (six months ended 28 February 2017: nil) held by a share award scheme trust.

# Notes to the Consolidated Financial Statements

For the six months ended 28 February 2018

## 10. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT/PREPAID LEASE PAYMENTS

No material disposal was made during the six months ended 28 February 2018 and 2017.

Additions of property, plant and equipment and prepaid lease payments amounted to approximately RMB333,998,000 and RMB185,013,000, respectively were recognised for the six months ended 28 February 2018 (six months ended 28 February 2017: RMB189,106,000 and RMB8,560,000, respectively), including RMB126,482,000 of buildings and facilities and RMB83,927,000 of prepaid lease payments through acquisition of 70% of the interest in Jieyang School (six months ended 28 February 2017: nil) and RMB18,516,000 was transferred from prepayments from construction to construction in progress to property, plant and equipment, with reference to the progress of the construction of school premises in Yunfu and Guangan (six months ended 28 February 2017: 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 (six months ended 28 February 2017: RMB23,169,000).

## 11. ACQUISITION OF A BUSINESS

On 19 June 2017, the Group entered into agreements with independent third parties to acquire 70% of the school sponsor's interest in Jieyang School and a land parcel and all the buildings and facilities thereon currently occupied by Jieyang School with an area of approximately 190 mu (equivalent to approximately 127,000 square metres) at a total consideration of RMB224,000,000 (the "**Acquisition**"). The transaction was completed on 1 September 2017.

Jieyang School is principally engaged in the provision of full spectrum private fundamental education, including primary and secondary school in the PRC. The Acquisition has been accounted for using the purchase method. The Directors are of the view that the Acquisition allows the Group to further expand its school network in Guangdong province, a major market of the Group's operation, and to enhance the Group's revenue base.

The excess of the total consideration over the fair value of the net identifiable assets acquired resulted in goodwill of RMB61,781,000 which is tax deductible at the time when the business is disposed of. The acquired assets and liabilities have been included in the condensed consolidated financial statements since the date of acquisition.

# Notes to the Consolidated Financial Statements

For the six months ended 28 February 2018

## 11. ACQUISITION OF A BUSINESS (continued)

### Consideration transferred

	RMB'000 (unaudited)
Cash	224,000

### Assets recognised and liabilities recognised at the date of acquisition are as follows:

	RMB'000 (unaudited)
Property, plant and equipment	126,482
Prepaid lease payment	83,927
Intangible assets	22,762
Prepayments and other receivables	616
Bank balances and cash	20,484
Deferred revenue	(19,682)
Trade and other payables	(2,848)
	231,741

The fair value of other receivables at the date of acquisition amounted to RMB430,000, which is also the gross contractual amounts of other receivables.

### Goodwill arising on acquisition:

	RMB'000 (unaudited)
Consideration transferred	224,000
Non-controlling interests	69,522
Less: fair value of net assets acquired	(231,741)
Goodwill arising on acquisition	61,781

The non-controlling interests in Jieyang School recognised at the acquisition date was measured at its proportionate share of net assets acquired and amounted to RMB69,522,000.

# Notes to the Consolidated Financial Statements

For the six months ended 28 February 2018

## 11. ACQUISITION OF A BUSINESS (continued)

Goodwill arose in the Acquisition because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to better geographic arrangement and networking effect as the benefit of expected synergies, revenue growth, future market development and the assembled workforce of Jieyang School. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

### Net cash outflow on acquisition of Jieyang School

	RMB'000 (unaudited)
Cash consideration	224,000
Less: consideration payable (note 18)	(45,000)
Less: cash consideration paid during the year ended 31 August 2017	(151,000)
Less: cash and cash equivalents acquired	(20,484)
	<hr/> 7,516

Included in the profit for the period is RMB2,129,000 attributable to the additional business generated by Jieyang School. Revenue for the period includes RMB30,241,000 generated from Jieyang School.

## 12. INTANGIBLE ASSETS

Additions of intangible assets amounted to approximately RMB22,762,000 was recognised for the six months ended 28 February 2018 (six months ended 28 February 2017: Nil) in which including students roster through acquisition of 70% equity interest in Jieyang School. Student roster has finite estimated useful lives and it is amortised based on expected usage of student roster.

## Notes to the Consolidated Financial Statements

For the six months ended 28 February 2018

### 13. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	At 28 February 2018 RMB'000 (unaudited)	At 31 August 2017 RMB'000 (audited)
Deposits paid for construction of properties	70,650	14,430
Other deposits	12,334	12,387
Staff advances	5,653	1,441
Other receivables	11,036	3,787
Prepayments	6,449	5,852
Deposits paid for the acquisition of new private schools (Note i)	20,000	151,000
Prepayments for construction to a related company (Note ii)	250,825	262,047
	<b>376,947</b>	450,944
Current	<b>35,472</b>	25,633
Non-current	<b>341,475</b>	425,311
	<b>376,947</b>	450,944

Notes:

- i. During the six months ended 28 February 2018, a deposit of RMB20,000,000 was made to an independent third party in relation to the proposed acquisition of 100% school sponsor's interest in 濰坊市濰州外國語學校 ("Weizhou School"), a private school established in the PRC and a land parcel occupied by Weifang School.

During the year ended 31 August 2017, deposits of RMB151,000,000 were made to independent third parties in relation to the acquisition of 70% school sponsor's interest in Jieyang School, a private school established in the PRC and 70% equity interest in a land parcel occupied by Jieyang School. The deposits were fully utilised upon the completion of the acquisition of Jieyang School on 1 September 2017. The details of the acquisition of Jieyang School are set out in the note 11.

- ii. Based on the construction progress of the schools, RMB169,175,000 (as at 31 August 2017: RMB157,953,000) has been recognised as construction-in-progress as at 28 February 2018, out of the total prepayment amount of RMB420,000,000 (as at 31 August 2017: RMB420,000,000). During the six months ended 28 February 2018, based on the agreed construction progress of the schools, instead of settling the construction payables through the prepayments to a related party, the Group has made payments to the construction suppliers directly amounting to RMB34,772,000 (for the year ended 31 August 2017: RMB92,661,000).

As at 28 February 2018, RMB250,825,000 (at 31 August 2017: RMB262,047,000) remains as prepayments to a related company.

# Notes to the Consolidated Financial Statements

For the six months ended 28 February 2018

## 14. AMOUNT DUE FROM A RELATED PARTY

The amount due from a related party, which is a director of the Company, is non-trade in nature, unsecured, non-interest bearing and repayable on demand.

## 15. AVAILABLE-FOR-SALE INVESTMENTS

The AFS investments as at 28 February 2018 of RMB554,147,000 represented investments in various instruments issued by financial institutions in the PRC, with expected rate of return (not guaranteed), depending on the returns of the underlying borrowings to companies which are engaged in property development, debt instruments and a pool of assets, including bank deposits, money market funds, bills and trust products. The Directors consider the fair values of the AFS investments are measured by discounting the expected future cash flows using appropriate discount rates. Certain AFS investments are classified as non-current, which have duration over 12 months after the end of the reporting period. Certain AFS investments are classified as current, when the Group has the unconditional rights to early redeem and the Directors expect the investments will be redeemed within 12 months after the end of the reporting period.

	<b>At 28 February 2018 RMB'000 (unaudited)</b>	At 31 August 2017 RMB'000 (audited)
Current	<b>104,147</b>	—
Non-current	<b>450,000</b>	—
	<b>554,147</b>	—

## Notes to the Consolidated Financial Statements

For the six months ended 28 February 2018

### 16. BANK BALANCES AND CASH

Bank balances and cash comprise cash and short-term deposits held by the Group with an original maturity of three months or less.

As at 28 February 2018, the Group's bank deposits carried interests ranging from 0.01% to 4.1% (As at 31 August 2017: ranging from 0.01% to 4.1%) per annum.

### 17. DEFERRED REVENUE

	<b>At 28 February 2018 RMB'000 (unaudited)</b>	At 31 August 2017 RMB'000 (audited)
Tuition and boarding fees	<b>393,681</b>	383,632
Ancillary services	<b>39,795</b>	39,199
Government grants (Note)	<b>—</b>	13,947
	<b>433,476</b>	436,778
Current	<b>433,476</b>	423,115
Non-current	<b>—</b>	13,663
	<b>433,476</b>	436,778

Note:

At 31 August 2017, government grants mainly represent subsidies from government granted to a subsidiary of the Company and classified as deferred revenue. Subsequently, with receipts of the relevant government authority's notice on 10 January 2018, the government grants have been recognised as other income for the purpose of giving immediate financial support to the Group during the six months ended 28 February 2018.

# Notes to the Consolidated Financial Statements

For the six months ended 28 February 2018

## 18. TRADE AND OTHER PAYABLES

	At 28 February 2018 RMB'000 (unaudited)	At 31 August 2017 RMB'000 (audited)
Trade and construction payables (Note i)	76,659	54,200
Accruals for construction	92,395	190,600
Receipt in advance (Note ii)	60,000	60,000
Accrued staff benefits and payroll	22,462	19,758
Payables for land use right (Note iii)	7,948	7,948
Other payables	24,415	21,122
Other tax payables	7,737	9,644
Consideration payable for the acquisition of a subsidiary (Note iii)	49,000	4,000
Deposits received	3,940	3,074
Discretionary government subsidies receipt in advance	5,657	5,506
Accrued listing expenses	11,073	17,499
	<b>361,286</b>	393,351

Notes:

- i. The credit period granted by suppliers on purchase of goods and construction is 30 to 180 days. The Group has financial risk management policies to settle payables within the credit timeframe. As at 28 February 2018 and 31 August 2017, the trade payables were aged within 180 days.
- ii. In August 2016, a subsidiary of the Group has entered into an investment agreement with an independent third party to set up a new subsidiary to the Group. In January 2017, the Group received an advance payment of RMB60,000,000. 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 Group.
- iii. The amounts were interest free, unsecured and repayable on demand except for the consideration payable amounting to RMB45,000,000 (as at 31 August 2017: Nil), in relation to the Acquisition (as disclosed in note 11).

## 19. BORROWINGS

During the current interim period, the Group obtained new borrowings amounting to RMB1,234,600,000 (31 August 2017: RMB566,200,000). The borrowings carry interest with reference to the benchmark borrowing rate of The People's Bank of China ranged from 4.4% to 7.3% (31 August 2017: 4.4% to 5.9%).

The Group's borrowings are secured by the rights to receive the tuition fees and boarding fees of Dongguan School, Huizhou School, Panjin School and Weifang School, the rights to receive the sale proceeds from disposal of certain prepaid lease payments and buildings, and pledged bank deposits.

## Notes to the Consolidated Financial Statements

For the six months ended 28 February 2018

### 20. SHARE CAPITAL

	Par value	Number of shares	Nominal amount	
			US\$	HK\$
<b>Ordinary shares</b>				
Authorised:				
At 1 September 2016 (audited)	US\$1	50,000	50,000	—
Cancellation	US\$1	(50,000)	(50,000)	—
Increase	HK\$0.01	10,000,000,000	—	100,000,000
At 28 February 2017 (unaudited)				
31 August 2017 (audited) and 28 February 2018 (unaudited)	HK\$0.01	10,000,000,000	—	100,000,000

	Par value	Number of shares	Nominal amount		Nominal amount equivalent to RMB	Shown in the condensed consolidated financial statements as RMB'000
			US\$	HK\$		
Issued and fully paid:						
At 1 September 2016 (audited)	US\$1	100	100	—	650	—
Share repurchased and cancelled	US\$1	(100)	(100)	—	(650)	—
Issuance of ordinary shares	HK\$0.01	78,000	—	780	690	1
Capitalisation issued	HK\$0.01	1,499,922,000	—	14,999,220	13,259,310	13,259
Issuance of ordinary shares upon listing	HK\$0.01	500,000,000	—	5,000,000	4,420,000	4,420
Exercise of over-allotment option	HK\$0.01	37,154,000	—	371,540	328,441	328
At 28 February 2017 (unaudited)	HK\$0.01	2,037,154,000	—	20,371,540	18,008,441	18,008
Issuance of shares on exercise of share options						
	HK\$0.01	2,000,000	—	20,000	17,750	18
At 31 August 2017 (audited) and 1 September 2017 (audited)						
	HK\$0.01	2,039,154,000	—	20,391,540	18,026,191	18,026
Issuance of shares on exercise of share options (Note i)						
	HK\$0.01	2,800,000	—	28,000	22,932	23
At 28 February 2018 (unaudited)						
	HK\$0.01	2,041,954,000	—	20,419,540	18,049,123	18,049

Note:

- Share options to subscribe for 2,800,000 ordinary shares of HK\$0.01 were exercised at HK\$0.51 per share. These shares rank pari passu with other shares in issue in all respect.

# Notes to the Consolidated Financial Statements

For the six months ended 28 February 2018

## 21. SHARE-BASED PAYMENTS

### Share Award Scheme

The Company has adopted the share award scheme with effect from 7 June 2017 as means to recognise the contribution of and provide incentives for the key management personnel including directors and senior management and employees of the Group.

For the six months ended 28 February 2018, the trustee purchased 10,834,000 shares (six months ended 28 February 2017: nil) of the Company on The Stock Exchange of Hong Kong Limited in a total consideration of HK\$40,060,000 (equivalent to RMB32,219,000) for the Share Award Scheme. No awarded shares have been granted under the share award scheme during the six months ended 28 February 2018 and 2017.

### Share Option Scheme

The Company adopted a share option scheme on 26 January 2017 to provide incentives or rewards to eligible persons for their contributions to the Group

Share-based payment expenses amounted to RMB2,364,000 was recognised during the six months period ended 28 February 2018 in relation to share options granted by the Company (six months ended 28 February 2017: RMB2,886,000).

## 22. CAPITAL COMMITMENTS

	<b>At 28 February 2018 RMB'000 (unaudited)</b>	At 31 August 2017 RMB'000 (audited)
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of the acquisition of property, plant and equipment	<b>346,793</b>	427,572

## 23. CONTINGENT LIABILITY

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 a subsidiary of the Group during its establishment for a total amount of RMB5,000,000 and the interests thereof. As of the date of these condensed consolidated financial statements, the outcome of this legal proceeding was yet to be finalised. In the opinion of the Directors, after consultation of the external legal counsel, there is no reasonable ground to support the arguments of the plaintiff, and accordingly, no provision is made in these condensed consolidated financial statements.

## Notes to the Consolidated Financial Statements

For the six months ended 28 February 2018

### 24. RELATED PARTY TRANSACTIONS

During the periods, in addition to the balances disclosed in notes 13 and 14, the Group entered into the following significant transactions with related parties:

Related party	Relationship	Nature of transactions	Six months ended	
			28 February 2018 RMB'000 (unaudited)	28 February 2017 RMB'000 (unaudited)
Dongguan Chinese Hotel	Controlled by Mr. Liu	Hospitality expenses	580	452
Dongguan Wenfeng	Controlled by a close family member of Mr. Liu	Construction expenses	6,291	18,614
Dongguan Chinese Real Estate	Controlled by Mr. Liu	Management Service fees for constructions	18,516	23,169

During the six months ended 28 February 2018, the Group entered into the following construction contracts with a related party, which is controlled by Mr. Liu:

Related party	Relationship	Nature of transactions	Six months ended	
			28 February 2018 RMB'000 (unaudited)	28 February 2017 RMB'000 (unaudited)
Dongguan Chinese Real Estate	Controlled by Mr. Liu	Contract amounts entered	—	50,000

## Notes to the Consolidated Financial Statements

For the six months ended 28 February 2018

### 24. RELATED PARTY TRANSACTIONS (continued)

#### Compensation of key management personnel

The remuneration of directors and other members of key management during the period is as follows:

	Six months ended	
	28 February 2018 RMB'000 (unaudited)	28 February 2017 RMB'000 (unaudited)
Short-term benefits	4,764	1,835
Post-employment benefits	85	76
Share-based payments	2,364	2,886
	<b>7,213</b>	4,797

### 25. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

This note provides information about how the Group determines fair values of various financial assets. Some of the Group's financial instruments are measured at fair value for financial reporting purposes. In estimating the fair value, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Directors have consider the appropriate valuation techniques and inputs for fair value measurements and the fair value of the AFS investments based on their expected return rate.

Some of the Group's financial assets are measured at fair value at the end of each reporting period. The Group has acquired RMB554,147,000 of AFS investments at level 3 under the Fair value hierarchy for the six months ended 28 February 2018 (during the year ended 31 August 2017: Nil).

Financial assets	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)
	28 February 2018 RMB'000 (unaudited)	31 August 2017 RMB'000 (unaudited)		
AFS investments	554,147	—	Level 3	Discounted cash flow was used to capture the present value of the expected future economic benefits that will flow to the Group arising from the investments based on an appropriate discount rate.

# Notes to the Consolidated Financial Statements

For the six months ended 28 February 2018

## 25. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (continued)

### Reconciliation of Level 3 fair value measurements

	AFS investments RMB'000
At 1 September 2017 (audited)	—
Purchases	550,000
Interest income recognised in profit or loss	5,996
Interest income received	(1,849)
At 28 February 2018 (unaudited)	554,147

The Directors consider that the carrying amounts of other financial assets and financial liabilities recognised in the condensed consolidated financial statements approximate their fair values.

## 26. EVENT AFTER THE REPORTING PERIOD

Subsequent to the end of the reporting period, the Group entered into an agreement to acquire 100% school sponsor's interest in Weizhou School and a land parcel and all the buildings and facilities thereon currently occupied by Weizhou School with an area of approximately 38 mu (equivalent to 25,300 square metres) from an independent third party, at a total consideration of RMB111,000,000. At the date of the issuance of these condensed consolidated financial statements, the aforementioned transaction has not been completed.

Weizhou School is principally engaged in the provision of private primary school education in the PRC.