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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)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 AUGUST 2018

HIGHLIGHTS

The Board has resolved to recommend the payment of a final dividend of RMB0.036 (equivalent to HK\$0.04) per share for the year ended 31 August 2018. Together with the interim dividend paid of RMB0.032 (equivalent to HK\$0.04) per share, the total dividend will be RMB0.068 (equivalent to HK\$0.08) per share for the year ended 31 August 2018 (for the year ended 31 August 2017: RMB0.05 (equivalent to HK\$0.057) per share).

	2017/2018 School Year	2016/2017 School Year	Change	Percentage Change
Total student enrolment	43,230	31,788	+11,442	+36.0%
	For the year ended 31 August			
	2018 RMB'000	2017 RMB'000	Change RMB'000	Percentage Change
Revenue	1,246,920	979,140	+267,780	+27.3%
Gross profit	544,866	449,851	+95,015	+21.1%
Adjusted gross profit <i>(Note 1)</i>	556,547	449,851	+106,696	+23.7%
Profit for the year	307,182	200,195	+106,987	+53.4%
Core net profit <i>(Note 2)</i>	321,967	248,517	+73,450	+29.6%
Basic earnings per share (RMB)	0.15	0.11	+0.04	+36.4%

Note 1: Adjusted gross profit is based on the gross profit after adjusting for amortisation of intangible assets arising from the acquisition of schools.

Note 2: For details of the reconciliation of profit for the year to core net profit of the Group, please refer to the section headed "Financial Review" in this announcement.

	As at 31 August			
	2018 RMB'000	2017 RMB'000	Change RMB'000	Percentage Change
Deferred revenue	617,023	436,778	+180,245	+41.3%

ANNUAL RESULTS FOR THE YEAR ENDED 31 AUGUST 2018

The board (the “**Board**”) of directors (the “**Directors**”) of Wisdom Education International Holdings Company Limited (the “**Company**”, together with its subsidiaries and consolidated affiliated entities, the “**Group**”) is pleased to announce the consolidated results of the Group for the year ended 31 August 2018. These annual results have been reviewed by the Company’s audit committee (the “**Audit Committee**”).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 AUGUST

	<i>Notes</i>	2018 <i>RMB’000</i>	2017 <i>RMB’000</i>
Revenue	4	1,246,920	979,140
Cost of revenue		(702,054)	(529,289)
Gross profit		544,866	449,851
Other income	5	54,053	10,999
Other gains and losses	6	(1,717)	(26,173)
Selling expenses		(19,455)	(17,063)
Administrative expenses		(220,916)	(125,765)
Listing expenses		—	(10,257)
Finance income	7	46,192	6,931
Finance costs	8	(57,462)	(18,216)
Profit before taxation		345,561	270,307
Taxation	9	(38,379)	(70,112)
Profit and total comprehensive income for the year	10	307,182	200,195
Attributable to			
Owners of the Company		310,390	200,233
Non-controlling interests		(3,208)	(38)
		307,182	200,195
Earnings per share			
Basic (<i>RMB</i>)	12	0.15	0.11
Diluted (<i>RMB</i>)	12	0.15	0.11

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 AUGUST 2018

	<i>Notes</i>	2018 RMB'000	2017 <i>RMB'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment		2,492,447	1,779,440
Prepaid lease payment		502,116	298,816
Intangible assets		15,801	—
Goodwill	13	88,320	—
Investment properties		20,600	20,100
Deferred tax assets		—	6,376
Deposits, prepayments and other receivables	14	519,532	425,311
Available-for-sale investments	15	364,500	—
Pledged bank deposits		—	197,919
		<u>4,003,316</u>	<u>2,727,962</u>
CURRENT ASSETS			
Inventories — goods for sale		5,489	8,816
Deposits, prepayments and other receivables	14	162,198	25,633
Amount due from a related party		—	6,901
Prepaid lease payment		12,439	7,324
Available-for-sale investments	15	95,234	—
Pledged bank deposits		281,577	177,540
Bank balances and cash		911,410	378,051
		<u>1,468,347</u>	<u>604,265</u>
CURRENT LIABILITIES			
Deferred revenue	16	617,023	423,115
Trade and other payables	17	616,226	393,351
Income tax payable		128,082	122,438
Borrowings	18	281,960	154,900
		<u>1,643,291</u>	<u>1,093,804</u>
NET CURRENT LIABILITIES		<u>(174,944)</u>	<u>(489,539)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>3,828,372</u>	<u>2,238,423</u>

	<i>Notes</i>	2018 RMB'000	2017 <i>RMB'000</i>
CAPITAL AND RESERVES			
Share capital		18,057	18,026
Reserves		1,893,008	1,727,864
		<hr/>	<hr/>
Equity attributable to owners of the Company		1,911,065	1,745,890
Non-controlling interests		66,276	(38)
		<hr/>	<hr/>
		1,977,341	1,745,852
		<hr/>	<hr/>
NON-CURRENT LIABILITIES			
Borrowings	18	1,425,260	466,900
Non-convertible component of convertible loan notes	19	140,266	—
Convertible component of convertible loan notes	19	281,877	—
Deferred revenue	16	—	13,663
Deferred tax liabilities		3,628	12,008
		<hr/>	<hr/>
		1,851,031	492,571
		<hr/>	<hr/>
		3,828,372	2,238,423
		<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL

The Company was incorporated in the Cayman Islands on 13 July 2010 as an exempted company with limited liability under the Companies Law Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”). Its parent is Bright Education (Holdings) Co. Limited (incorporated in the British Virgin Islands) and its ultimate controlling parties are Mr. Liu Xuebin (“**Mr. Liu**”), who has resigned as chairman effective from 28 September 2018 but retains as an executive director of the Company and Ms. Li Suwen (“**Ms. Li**”), who is appointed as the chairman of the board of the Company effective from 28 September 2018 and is also the chief executive officer and executive director of the Company. (Mr. Liu and Ms. Li collectively as the “**Controlling Equity Holders**”). The address of the registered office of the Company is Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands and the address of principal place of business of the Company is Room 3302, 33/F, Lee Garden One, 33 Hysan Avenue, Causeway Bay, Hong Kong.

The Company, an investment holding company, and its subsidiaries (collectively referred to as the “**Group**”) are mainly engaged in the provision of full spectrum private fundamental education, including primary, middle and high schools in the People’s Republic of China (“**PRC**”).

The consolidated financial statements are presented in Renminbi (“**RMB**”), which is also the functional currency of the Company.

2. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

As of 31 August 2018, the Group recorded net current liabilities of RMB174,944,000 (2017: RMB489,539,000). In view of these circumstances, the directors of the Company 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 consolidated financial statements have been prepared on a going concern basis because the directors of the Company are satisfied that the Group will 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 of RMB40,700,000 and the Group’s future capital expenditure in respect of its non-cancellable capital commitments.

3. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”)

Amendments to IFRSs that are mandatorily effective for the current year

The Group has applied the following amendments to IFRSs issued by the International Accounting Standards Board for the first time in the current year:

Amendments to IAS 7	Disclosure Initiative
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to IFRS 12	As part of the Annual Improvements to IFRS Standards 2014–2016 Cycle

Amendments to IAS 7 Disclosure Initiative

The Group has applied the amendments to IAS 7 Disclosure Initiative for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

Specifically, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

Other than the amendments to IAS 7, the application of the amendments to IFRSs in the current year has had no material impact on the Group’s financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

New and amendments to IFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to IFRSs that have been issued but are not yet effective:

IFRS 9	Financial Instruments ¹
IFRS 15	Revenue from Contracts with Customers and the related Amendments ¹
IFRS 16	Leases ²
IFRS 17	Insurance Contracts ⁴
IFRIC 22	Foreign Currency Transactions and Advance Consideration ¹
IFRIC 23	Uncertainty over Income Tax Treatments ²
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions ¹
Amendments to IFRS 3	Definition of a Business ⁵
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts ¹
Amendments to IFRS 9	Prepayment Features with Negative Compensation ²
Amendments to IAS 1 and IAS 8	Definition of Material ⁶
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement ²
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures ²
Amendments to IAS 28	As part of the Annual Improvements to IFRS Standards 2014–2016 Cycle ¹
Amendments to IAS 40	Transfers of Investment Property ¹
Amendments to IFRSs	Annual Improvements to IFRS Standards 2015–2017 Cycle ²

¹ Effective for annual periods beginning on or after 1 January 2018

² Effective for annual periods beginning on or after 1 January 2019

³ Effective for annual periods beginning on or after a date to be determined

⁴ Effective for annual periods beginning on or after 1 January 2021

⁵ Effective for business combination for which the acquisition date is on or after the beginning of the first annual periods beginning on or after 1 January 2020

⁶ Effective for annual periods beginning on or after 1 January 2020

4. REVENUE AND SEGMENT INFORMATION

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

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

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

Information reported to the CODM, for the purpose of resource allocation and assessment of segment performance is on a school by school basis. Each individual school constitutes an operating segment. The services provided and type of customers are similar in each operating segment, and each operating segment 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 for the year of the Group as presented in the consolidated statement of profit or loss and other comprehensive income. The accounting policies of the reportable segment are the same as the Group's accounting policies. 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:

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Tuition and boarding fees	841,243	671,170
Ancillary services	405,677	307,970
	<u>1,246,920</u>	<u>979,140</u>

Major customers

No single customer contributes over 10% or more of total revenue of the Group in both years.

Geographical information

The Group primarily operates in the PRC. Substantially all of the non-current assets of the Group are located in the PRC.

5. OTHER INCOME

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Rental income from investment properties	1,111	1,116
Government grants (<i>Note</i>)	40,980	1,858
Income from donations	6	50
Staff quarter income	4,529	2,581
Others	7,427	5,394
	<u>54,053</u>	<u>10,999</u>

Note: Government grants mainly represent non-conditional subsidies from government for organising schools activities, development of education services and outstanding academic performance of schools.

6. OTHER GAINS AND LOSSES

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Exchange gain (loss)	4,788	(26,081)
Loss on disposal of property, plant and equipment, net	(1,614)	(155)
Gain on change in fair value of investment properties	500	400
Loss on change in fair value of convertible loan notes — financial liability at fair value through profit or loss	(3,643)	—
Loss on change in fair value of convertible loan notes — derivative component	(301)	—
Others	(1,447)	(337)
	<u>(1,717)</u>	<u>(26,173)</u>

7. FINANCE INCOME

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Bank interest income	13,320	3,902
Interests on available-for-sale (“AFS”) investments	32,872	—
Imputed interest income on advances to Cinese Group	—	3,029
	<u>46,192</u>	<u>6,931</u>

8. FINANCE COSTS

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Effective interest expense on convertible loan notes	5,555	—
Interest expense on bank borrowings	87,381	26,251
	<u>92,936</u>	<u>26,251</u>
Less: amounts capitalised in the cost of qualifying assets	(35,474)	(8,035)
	<u>57,462</u>	<u>18,216</u>

9. TAXATION

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Taxation comprises:		
Current tax:		
PRC Enterprise Income Tax	33,807	65,185
PRC withholding income tax on royalty income	6,576	5,924
Deferred tax	<u>(2,004)</u>	<u>(997)</u>
	<u>38,379</u>	<u>70,112</u>

10. PROFIT FOR THE YEAR

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Profit for the year has been arrived at after charging:		
Staff costs, including directors' remuneration		
— salaries and other allowances	353,436	266,059
— retirement benefits scheme contributions	36,225	29,755
— share-based payment expenses	<u>3,948</u>	<u>5,304</u>
Total staff costs	<u>393,609</u>	<u>301,118</u>
Depreciation of property, plant and equipment	85,977	65,645
Amortisation of intangible assets (included on cost of revenue)	11,681	—
Release of prepaid lease payments (after deducting amount capitalised in construction-in-progress of RMB2,079,000 (2017: nil))	8,718	7,173
Cost of inventories recognised as an expense	164,809	128,265
Donations	4,142	850
Auditors' remuneration	<u>2,580</u>	<u>2,380</u>

11. DIVIDENDS

During the year ended 31 August 2018, an interim dividend of RMB0.032 (equivalent to HK\$0.04) per share (2017: RMB0.024 (equivalent to HK\$0.027 per share)) amounting to RMB67,971,000 (equivalent to HK\$81,566,000) (2017: RMB48,940,000 (equivalent to HK\$55,057,000)) was paid to the shareholders of the Company.

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 August 2018 of RMB0.036 per share (equivalent to HK\$0.04 per share) (2017: RMB0.026 per share (equivalent to HK\$0.03 per share)) amounting to RMB73,546,000 (equivalent to HK\$81,718,000). (2017: RMB53,589,000 (equivalent to HK\$61,175,000)), has been proposed by the directors of the Company and is subject to approval by the shareholders in the forthcoming general meeting.

12. 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:

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Earnings		
Profit for the year attributable to owners of the Company for the purposes of basic and diluted earnings per share	<u>310,390</u>	<u>200,233</u>
	2018 '000	2017 '000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	2,040,018	1,818,877
Effect of dilutive potential ordinary shares:		
Share options	5,250	2,353
Over-allotment option	<u>—</u>	<u>203</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>2,045,268</u>	<u>1,821,433</u>

The weighted average number of ordinary shares for the purpose of basic earnings per share shown above have been arrived at after deducting shares held by a share award scheme trust and adding conversion of shares in relation to the mandatory conversion of convertible loan notes.

The weighted average number of shares for the purpose of calculating basic and diluted earnings per share for the year ended 31 August 2017 has been adjusted for the effect of the issuance of ordinary shares as part of the group reorganisation and capitalisation issue.

The computation of diluted earnings per share does not assume the conversion of the Company's outstanding convertible loan notes since their assumed exercise would result in an increase in earnings per share.

13. GOODWILL

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Acquisitions of		
— Jieyang School*	61,781	—
— Weizhou School**	26,539	—
	<u>88,320</u>	<u>—</u>
Goodwill arising from acquisitions	<u>88,320</u>	<u>—</u>

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

** Weifang Weizhou Foreign Language School (濰坊市濰州外國語學校) (“Weizhou School”)

14. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Deposits paid for the acquisitions of new private schools	220,975	151,000
Other deposits	22,033	12,387
Staff advances	5,651	1,441
Other receivables	19,053	3,787
Temporary payments to government	21,315	—
Prepayments for construction to related companies	220,765	262,047
Prepayments for construction of properties	160,675	14,430
Other prepayments	11,263	5,852
	<u>681,730</u>	<u>450,944</u>
Current	162,198	25,633
Non-current	519,532	425,311
	<u>681,730</u>	<u>450,944</u>

15. AVAILABLE-FOR-SALE INVESTMENTS

The AFS investments were issued by financial institutions in the PRC as at 31 August 2018. The AFS investments are with expected rate of return (not guaranteed), depending on the returns of the underlying financial instruments.

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Current	95,234	—
Non-current	<u>364,500</u>	<u>—</u>
	<u><u>459,734</u></u>	<u><u>—</u></u>

16. DEFERRED REVENUE

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Tuition and boarding fees	553,368	383,632
Ancillary services	63,655	39,199
Government grants	<u>—</u>	<u>13,947</u>
	<u><u>617,023</u></u>	<u><u>436,778</u></u>

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Current	617,023	423,115
Non-current	<u>—</u>	<u>13,663</u>
	<u><u>617,023</u></u>	<u><u>436,778</u></u>

17. TRADE AND OTHER PAYABLES AND ACCRUED EXPENSES

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Trade and construction payables	104,574	54,200
Accruals for construction	238,884	190,600
Consideration payable for acquisitions of subsidiaries	120,000	4,000
Receipt in advance from a non-controlling shareholder	60,000	60,000
Accrued staff benefits and payroll	29,892	19,758
Payables for land use rights	7,948	7,948
Interest payables	7,841	1,010
Other tax payables	14,812	9,644
Discretionary government subsidies receipt in advance	5,635	5,506
Deposits received	5,645	3,074
Accrued listing expenses	—	17,499
Other payables	20,995	20,112
	<u>616,226</u>	<u>393,351</u>

18. BORROWINGS

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Secured borrowings	<u>1,707,220</u>	<u>621,800</u>
Carrying amounts repayable:		
— Within one year	281,960	154,900
— More than one year, but not exceeding two years	185,960	156,900
— More than two years, but not exceeding five years	1,089,880	212,200
— More than five years	149,420	97,800
	<u>1,707,220</u>	621,800
Less: Amounts due within one year shown under current liabilities	<u>(281,960)</u>	<u>(154,900)</u>
	<u>1,425,260</u>	<u>466,900</u>
The exposure of borrowings:		
— Fixed rate	500,000	155,000
— Variable rate	1,207,220	466,800
	<u>1,707,220</u>	<u>621,800</u>

19. CONVERTIBLE LOAN NOTES

On 22 June 2018, the Company entered into the credit agreement with PA Chokmah, an indirectly wholly owned subsidiary of China Ping An Insurance Overseas (Holdings) Limited, in relation to the provision of the convertible loan notes of the principal amount of up to HK\$500 million by PA Chokmah to the Company. On 16 July 2018, the Company issued 6.8% unsecured convertible loan notes at par value with principal amount of HK\$500 million. The convertible loan notes are denominated in HK\$ and matured in 2 years from date of issue the convertible loan notes. Interest of 6.8% per annum will be paid semi-annually up until the settlement date.

As at 31 August 2018, the carrying amount of RMB422,143,000 is classified as non-current as the convertible loan notes are expected to be repaid over 12 months.

20. EVENTS AFTER THE REPORTING PERIOD

New adoption of share award scheme

The Company has adopted the share award scheme with effect from 6 September 2018 (the “**Share Award Scheme**”) 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. Under the Share Award Scheme, the board of directors of the Company granted 8,400,000 of shares, which represents 0.4% of the total issued share capital, to eligible employees, including directors of the Company and its subsidiaries.

Acquisition of land for development of boarding school

Subsequent to the end of reporting date, the Group entered into the agreement with the Land Reserve Development Centre of Jun’an Town, Shunde District, Foshan City on 8 October 2018 in respect of the acquisition of the land, where is situated at Shunde District, Foshan City, Guangdong Province, at the consideration of approximately RMB276 million, and the proposed development of a boarding school on the land.

Acquisition of private schools

On 21 November 2018, the Group has completed the acquisition of the entire equity interest in an investment holding company who owns the entire sponsor’s interests in Zhang Pu Longcheng School* (漳浦龍成中學) and Zhang Pu Longcheng Primary School* (漳浦龍成中學附屬小學) (collectively referred to as “**Zhang Pu Longcheng Schools**”), which are located in Zhangzhou, Fujian Province, China, and the entire interest in a parcel of land with a site area of approximately 100 mu occupied by Zhang Pu Longcheng Schools, pursuant to the sale and purchase agreement on 20 August 2018.

* English name is for identification purpose only.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 August 2018 as set out in this preliminary announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on this preliminary announcement.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW FOR THE 2017/2018 SCHOOL YEAR

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. Our schools target students primarily from the middle class or above families in China.

Comparing with the year ended 31 August 2017, the total student enrolment increased by 36.0% to 43,230 students and the total student capacity of our schools increased by approximately 56.6% to 51,924 by the year ended 31 August 2018. During the year ended 31 August 2018, we acquired the controlling interest in a private school in Jieyang, Guangdong province and the entire interest in a private primary school in Weifang, Shandong province as detailed below.

Major Business Developments

(i) Addition of two schools in our school network

Huanan Shida Yuedong Preparatory School (華南師大粵東實驗學校) ("Jieyang School")*

In June 2017, the Group entered into agreements with independent third parties, pursuant to which the Group agreed to acquire 70% of the sponsor's interest in Jieyang School, being a private primary and secondary school located in Jieyang, Guangdong province with the 3,200 students at the relevant time, and 70% interest in the land, buildings and facilities thereon then occupied by Jieyang School. Please refer to the Company's announcement dated 19 June 2017 for further details of the transaction. Such acquisition was

completed in September 2017 and the financial statements of Jieyang School and the related assets have been consolidated in the financial statements of the Group since then.

*Weifang Weizhou Foreign Language School** (潍坊市潍州外国语學校)
(**“Weifang Weizhou School”**)

In April 2018, the Group entered into an agreement with an independent third party, pursuant to which the Group agreed to acquire the entire sponsor’s interest in Weifang Weizhou School, being a quality private primary school providing courses taught in English in Weifang, Shandong province with a parcel of land of approximately 38 mu (畝) (equivalent to approximately 25,300 square meters), school buildings, student dormitories and related facilities on the land and the then 2,050 students, from the independent third party. Weifang Weizhou School has no middle and high school sections, which is a good match as a feeder school to the middle school section of our Weifang Guangzheng Preparatory School. Such acquisition was completed on 31 May 2018 and the financial statements of Weifang Weizhou School have been consolidated in the financial statements of the Group since then.

(ii) Acquisition of an existing school campus for the expansion of our flagship schools

In July 2018, the Group entered into an agreement with an independent third party, pursuant to which the Group agreed to acquire all of the lands, buildings and related facilities on an existing school campus which is in close proximity to the Group’s Dongguan Guangming School and Dongguan Guangming Primary School (together, **“Dongguan Guangming Secondary and Primary Schools”**), being the Group’s flagship secondary and primary schools, from such independent third party. This school campus will be used to expand the student capacity of Dongguan Guangming Secondary and Primary Schools by approximately 1,500 students. The Group has obtained the relevant government approvals for the expansion of capacity with effect from the 2018/2019 school year.

(iii) New cooperation agreements signed for greenfield school projects

In November 2017 and January 2018, the Group entered into cooperation agreements with the local governments of Jiangmen and Chaozhou in Guangdong province respectively, in respect of the proposed establishment of a boarding school in each of these cities. As part of the Group’s expansion strategies, please refer to the details of these proposed schools in the section headed “Outlook” in this announcement.

(iv) New high school sections opened

In 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 year ended 31 August 2018, we operated eight schools, with three located in two campuses in Dongguan, one school located in Huizhou, one school located in Jieyang in Guangdong province, one school located in Panjin, Liaoning province and two schools located in Weifang, Shandong province.

The following table sets forth the category of education that we provide in each of our seven campuses:

	Primary School	Middle School	High School	International Programmes
Dongguan Guangming Secondary and Primary Schools	√	√	√	√
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
Weifang Weizhou School	√	N/A	N/A	N/A

Our primary and middle schools provide PRC curriculum education to students from grade 1 to 6 and students from grade 7 to 9 respectively. Our high schools mainly provide PRC curriculum education to students from grade 10 to 12.

We also offer international programmes 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 mainly designed to prepare high school students for the examinations required for obtaining the International General Certificate of Secondary Education and the United Kingdom General Certificate of Education Advanced Level qualification.

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 2017/2018 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.

Revenue

We derive our revenue from tuition fees and boarding fees collected from our students and from ancillary services provided to our students. As all the ancillary services are currently provided by the Company’s indirect wholly-owned subsidiaries and the management evaluated the performance of ancillary services based on service category, total revenue by school has not been presented accordingly.

<i>Revenue by Service</i>	For the year ended 31 August			
	2018	% of	2017	% of
	RMB’000	Total	RMB’000	Total
Tuition and boarding fees	841,243	67.5	671,170	68.5
Ancillary services	405,677	32.5	307,970	31.5
Total revenue	1,246,920	100	979,140	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 year ended 31 August 2017, tuition and boarding fees for the year ended 31 August 2018 increased by 25.3%, with 17.5% organic growth in our existing schools and 7.8% from the addition of schools during the year ended 31 August 2018.

Ancillary services

In order to enhance the quality of student life in our schools where our students normally live in our dormitories from Monday to Friday during school terms, our wholly-owned service companies provide our students with ancillary services, including various on-campus services and daily necessities for students.

Comparing with that for the year ended 31 August 2017, revenue from ancillary services for the year ended 31 August 2018 increased by 31.7% primarily due to the increase in overall student enrolment.

Student Enrolment

For both the 2017/2018 and 2016/2017 school years, the number of students withdrawn from our schools and the number of transferred students were insignificant. Accordingly, the student enrolment as of the beginning of the respective school year is indicative of the student enrolment for the respective school year and no average student enrolment is presented. The following tables set forth the student enrolment for the 2017/2018 and 2016/2017 school years:

<i>Student Enrolment by School</i>	For the School Year		Change	Percentage Change
	2017/2018	2016/2017		
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%
Addition of schools during the school year				
Jieyang School — Consolidated with effect from September 2017	4,501	N/A	4,501	N/A
Weifang Weizhou School — Consolidated with effect from June 2018	2,050	N/A	2,050	N/A
Sub-total	6,551	N/A	6,551	N/A
Total number of students	43,230	31,788	11,442	36.0%

Total student number increased by 36.0%, primarily due to the increase in student enrolment in Dongguan Guangzheng Preparatory School, Huizhou Guangzheng Preparatory School, and consolidation of Jieyang School and Weifang Weizhou School.

As the student enrolment of Weifang Weizhou School was consolidated to the Group's student enrolment with effect from June 2018, the normalised annual growth rate of the total student enrolment would have been adjusted to approximately 31.1%.

<i>Student Enrolment by Section</i>	For the School Year		Change	Percentage Change
	2017/2018	2016/2017		
High school	9,037	7,733	+1,304	+16.9%
Middle school	18,217	12,509	+5,708	+45.6%
Primary school	15,669	11,199	+4,470	+40.0%
International programmes	307	347	-40	-11.5%
Total number of students	<u>43,230</u>	<u>31,788</u>	<u>11,442</u>	<u>36.0%</u>

Comparing with those for the school year 2016/2017, the percentages of middle school and primary school students for the 2017/2018 school year increased sharply primarily due to the acquisition of Jieyang School where the majority of its students are middle school students and the acquisition of Weifang Weizhou School which is a primary school.

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 2017/2018 school year, approximately 88% of our primary school graduates enrolled in our middle schools, and approximately 50% of our middle school graduates enrolled in our high schools.

Average Tuition and Boarding Fees Per Student

<i>Average Annual Tuition and Boarding Fees per student by School</i>	For the year ended 31 August		Percentage Change
	2018	2017	
	<i>RMB (Note)</i>	<i>RMB (Note)</i>	
Dongguan Guangming Secondary and Primary Schools	22,930	22,199	+3.3%
Dongguan Guangzheng Preparatory School	22,716	21,809	+4.2%
Huizhou Guangzheng Preparatory School	19,459	19,261	+1.0%
Panjin Guangzheng Preparatory School	15,065	14,293	+5.4%
Weifang Guangzheng Preparatory School	14,504	12,769	+13.6%
Before addition of schools	21,512	21,114	+1.9%
Addition of schools during the school year			
Jieyang School — consolidated with effect from September 2017	10,212	N/A	N/A
Weifang Weizhou School — consolidated with effect from June 2018	3,046[#]	N/A	N/A
New schools	7,969	N/A	N/A
Overall	19,460	21,114	-7.8%

[#] Since the acquisition of Weifang Weizhou School was completed on 31 May 2018, the financial statements of Weifang Weizhou School have been consolidated in the Group's financial statements with effect from June 2018. Accordingly, only tuition and boarding fees of Weifang Weizhou School for the period from June to August 2018 were consolidated in the Group's total tuition and boarding fees, whereas the student enrolment of Weifang Weizhou School has been fully consolidated in the Group's total student enrolment. If we annualised the tuition and boarding fees of Weifang Weizhou School assuming that there was no material change in student enrolment during the year ended 31 August 2018, the normalised average annual tuition and boarding fees per student for Weifang Weizhou School would have been adjusted to approximately RMB12,184.

Note:

The average tuition and boarding fees per student is calculated by dividing the total tuition and boarding fees amount for the respective year by the number of student enrolment for the respective school year. For both the 2017/2018 and 2016/2017 school years, the number of students withdrawn from our schools and the number of transferred students were insignificant. Accordingly, the student enrolment as of the beginning of the respective school year is indicative of the student enrolment for the respective school year and no average student enrolment for the respective school year is presented for the calculation of the average tuition and boarding fees per student.

For the year ended 31 August 2018, the average tuition and boarding fees per student before taking into consideration of the acquisition of Jieyang School and Weifang Weizhou School increased by 1.9% to RMB21,512 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 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 year ended 31 August 2018.

The overall average tuition and boarding fees per student of the Group decreased by 7.8% to RMB19,460 primarily due to the acquisition of Jieyang School and Weifang Weizhou School where the average tuition and boarding fee per student of each is lower than those of other schools of the Group. If we annualised the tuition and boarding fees of Weifang Weizhou School assuming that there was no material change in student enrolment during the year ended 31 August 2018, the normalised overall average tuition and boarding fees would have been adjusted to approximately 19,893, representing a year-on-year decrease of 5.8%.

School Capacity and Utilization

As 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 for the relevant school year. The following tables set forth the capacity for students and the utilization of our schools for the 2017/2018 and 2016/2017 school years:

<i>Student Capacity and Utilization by School</i>	School Year 2017/2018		School Year 2016/2017	
	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%
Addition of schools during the school year				
Jieyang School				
— consolidated with effect from September 2017	5,000	90.0%	N/A	N/A
Weifang Weizhou School				
— consolidated with effect from June 2018	2,120	96.7%	N/A	N/A
Sub-total	7,120	92.0%	N/A	N/A
Overall	51,924	83.3%	33,152	95.9%

Total student capacity increased from 33,152 for the 2016/2017 school year to 51,924 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 and Weifang Weizhou School.

Teachers

For the 2017/2018 school year, over 80% of our PRC-qualified teachers held bachelors or higher degrees. The number of teachers increased from approximately 1,960 for the 2016/2017 school year to approximately 2,670 for the 2017/2018 school year, 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 and Weifang Weizhou School. The overall student-teacher ratio remained relatively stable.

Teacher turnover rate

For the 2017/2018 school year, the turnover rate of our teachers, including our termination, was approximately 7.0%.

RECENT BUSINESS UPDATE FOR THE 2018/2019 SCHOOL YEAR

Addition of a Boarding School in Fujian Province

Pursuant to an agreement entered into between the Group and independent third parties (the “**Sellers**”), on 20 August 2018, the Sellers conditionally agreed to transfer to the Group the entire equity interest in an investment holding company (“**Target Company**”) established in China (“**Transfer**”). The Target Company owns the entire sponsor’s interests in Zhang Pu Longcheng School* (漳浦龍成中學) and Zhang Pu Longcheng Primary School (漳浦龍成中學附屬小學) (collectively, “**Zhang Pu Longcheng Schools**”), which are located in Zhangzhou, Fujian Province, China, and the entire interest in a parcel of land with a site area of approximately 100 mu (畝) occupied by Zhang Pu Longcheng Schools.

Zhang Pu Longcheng Schools are private boarding schools established in accordance with the first-level of provincial standard, offering education for grade 1 to grade 12 students in China. Currently, Zhang Pu Longcheng Schools are operated in nearly full capacity with a total student enrolment of approximately 2,900.

On 21 November 2018, the Group completed the necessary registration procedures and obtained the relevant licences in relation to the operation of Zhang Pu Longcheng Schools and the other conditions precedent of the Transfer have been completed. The financial statements of the Target Company and Zhang Pu Longcheng Schools have been consolidated in the financial statements of the Group from the date of completion of the Transfer.

Student Enrolment Growth

<i>Student Enrolment by School</i>	2018/19 school year	2017/18 school year	Change	Percentage Change
Dongguan Guangming Secondary and Primary Schools	17,358	16,477	+881	+5.3%
Dongguan Guangzheng Preparatory School	12,645	10,620	+2,025	+19.1%
Huizhou Guangzheng Preparatory School	8,413	6,011	+2,402	+40.0%
Panjin Guangzheng Preparatory School	3,119	2,170	+949	+43.7%
Weifang Guangzheng Preparatory School	2,133	1,401	+732	+52.2%
Jieyang School	5,375	4,501	+874	+19.4%
Sub-total	49,043	41,180	+7,863	+19.1%
Addition of schools				
Weifang Weizhou School — consolidated with effect from June 2018	2,318	2,050	+268	+13.1%
Guang'an Guangzheng Preparatory School — New school opened in September 2018	159	N/A	+159	N/A
Zhang Pu Longcheng Schools — consolidated with effect from November 2018	2,900	N/A	+2,900	N/A
Sub-total	5,377	2,050	+3,327	+162.3%
Total number of students	54,420	43,230	+11,190	+25.9%

Major Tuition and Boarding Fees Increments

The Group has increased tuition and boarding fees for newly enrolled students of certain schools for the 2018/2019 school year. Based on the information currently available, the Group expects that the percentage increase in tuition and boarding fees income for the financial year ending 31 August 2019 will be higher than 25.1%, and hence will be outperforming the increase in student enrolment as indicated above.

Expansion of Schools' Capacity

Save as disclosed in the section headed "Major Business Developments" in this announcement, the Group has expanded the capacity of certain schools for the 2018/2019 school year to cope with the growth in student enrolment. Accordingly, the overall student capacity increased from approximately 52,000 for the 2017/2018 school year to approximately 63,000 for the 2018/2019 school year, representing a year-on-year growth of about 21.1%.

For details of the expansion of capacity for each of our schools, please refer to the section headed "Outlook" in this announcement.

Acquisition of Land in Foshan for Building a Boarding School

For the acquisition of a parcel of land in Foshan, Guangdong province, please refer to the section headed "Outlook" in this announcement for details.

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.

According to a commissioned report from Frost & Sullivan, the total number of private primary and secondary schools' students in China is expected to increase from 15.7 million in 2016 to 20.0 million in 2021, and the penetration rates of private primary, middle and secondary schools, in terms of student enrolment, are expected to increase from 7.6%, 12.3% and 11.8% in 2016, respectively, to 9.1%, 14.8% and 14.1% in 2021, respectively, indicating that more students will choose to attend private schools.

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 disposal income measured in 2015 prices range 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.

ii) China's Two-child Policy

The Chinese government has ended the one-child policy, allowing couples to have two children. 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 RMB8.99 trillion and the population was about 112 million in 2017, 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, namely Guangzhou, Shenzhen, Foshan, Dongguan, Huizhou, Zhuhai, Zhongshan, Jiangmen and Zhaoqing. The combined GDP of the Greater Bay Area reached United States Dollar 1.51 trillion in 2017, with an estimated population of 69.6 million.

The key initiative of developing Greater Bay Area is to connect the eleven cities where the resources of production, innovation and technology, financial and other services are expected to be shared.

We expect that the opening of the Guangzhou-Shenzhen-Hong Kong Express Rail Link and the Hong Kong-Zhuhai-Macao Bridge will further facilitate the flow of capital and provide more business opportunities in the Greater Bay Area which will attract more talents moving to Guangdong province with their children from other regions in China.

Our Growth Plan

Geographic Focus in Greater Bay Area

Thanks to our educational quality, we will continue to focus on expanding our school network in Guangdong province in order to enhance our brand influence. We intend to have a comprehensive school coverage across the Greater Bay Area. Apart from the existing schools in Dongguan and Huizhou, we have entered into cooperation or framework agreements with the local governments of Foshan, Jiangmen, Guangzhou and Zhaoqing, respectively, in respect of the proposed establishment of a private boarding school in each of these cities.

However, we will also consider any attractive expansion opportunities outside Guangdong province, such as Sichuan province and Fujian province.

Expansion Strategies

We have a proven track record in replicating our business leveraging our school brand. We will build more greenfield schools through more cooperation with local governments in respect of the allocation of land use rights for educational purposes or through bidding more land use rights for educational use in order to sustain our future growth.

We expect more greenfield school projects will be added in the pipeline and we will adjust our development plan from time to time according to the local governments' needs and requirements.

I) Building More Greenfield Schools

- a) New schools under development — Expected commencement in the 2019/2020 school year

Yunfu, Guangdong province

Subject to certain factors including the necessary government approvals, it is expected that the first phase of a boarding school in Yunfu (“**Yunfu Guangming School**”) will commence operation in the 2019/2020 school year. The local government of Yunfu city, Guangdong province, has allocated a parcel of land to the Group for educational purposes at a designated price. Yunfu Guangming School, which will be built by the Group by phases, is expected to have, among other things, primary, middle and high school sections with a target maximum capacity of approximately 10,680 students.

Foshan, Guangdong province

In October 2018, the Group made a successful bid for the land use rights of a parcel of land of approximately 98,800 square meters (equivalent to approximately 148 mu (畝)) with a term of 50 years, which is situated at Shunde District, Foshan in Guangdong province for educational purposes. The Group has entered into an agreement with the Land Reserve Development Centre of Jun'an Town, Shunde District in Foshan in respect of the acquisition of the land at the consideration of approximately RMB276 million, and the proposed development of a boarding school on the land.

Pursuant to the agreement, the Group is required to build a boarding school comprising, among other things, primary, middle and high school sections with a total capacity of no less than 4,440 students, subject to the relevant government approvals, and within 36 months from the transfer of the land, the Group is required to commence full operation of student recruitment and teaching activities which can be developed by phases according to the actual development status. However, the Group has to ensure that the first phase of student recruitment will commence before 1 September 2019. Please refer to the Company's announcement dated 8 October 2018 for further details of the transaction.

b) Proposed new schools under planning

Pursuant to the cooperation agreements entered into between the Group and the local governments of Jiangmen and Chaozhou in Guangdong province respectively, each of the local governments agreed to allocate a parcel of land to the Group for the proposed establishment of a boarding school comprising, among other things, primary, middle and high school sections, in each of the following cities:

City	Approximate land area for educational purposes	Estimated maximum student capacity
Chaozhou	200 mu (畝) or 133,000 square metres	8,000
Kaiping, Jiangmen	200 mu (畝) or 133,000 square metres	7,500

Each of these proposed boarding schools will be developed by phases and the commencement date of the first phase operation will be determined later, subject to certain conditions including the necessary government approvals.

c) Proposed new schools under negotiation

The Group has signed framework agreements with the local governments of Guangzhou and Zhaoqing in Guangdong province respectively, in respect of the proposed cooperation of the development of a boarding school in each of these cities.

We are still in the process of negotiating with these local governments on the terms of proposed cooperation including the provision of a parcel of land in each of these cities to the Group for educational purposes and the expected maximum student capacity. As at the date of this announcement, we have not signed any formal or legal-binding agreement in relation to the proposed cooperation.

II) Expanding Capacity of Our Schools

We will also evaluate our schools' student capacity from time to time in order to cope with our future growth in student enrolment. 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 and its target capacity:

Existing Schools	2017/2018 school year student capacity	2018/2019 school year estimated student capacity	Estimated Maximum Student Capacity (Notes)
Dongguan Guangming Secondary and Primary Schools	16,804	18,300	18,300
Dongguan Guangzheng Preparatory School	13,500	15,000	18,000 ⁽¹⁾
Huizhou Guangzheng Preparatory School	8,000	8,500	9,464 ⁽¹⁾
Panjin Guangzheng Preparatory School	2,500	4,000	6,200 ⁽¹⁾
Weifang Guangzheng Preparatory School	4,000	4,000	8,000 ⁽¹⁾
Jieyang School	5,000	7,000	18,000 ⁽²⁾
Weifang Weizhou School	2,120	2,200	2,200
Guang'an Guangzheng Preparatory School	N/A	1,000	9,280 ⁽³⁾
Zhang Pu Longcheng Schools	N/A	3,000	3,000
Sub-total	<u>51,924</u>	<u>63,000</u>	<u>92,444</u>
Greenfield Schools Under Development — Expected commencement in 2019/2020 school year			
Yunfu Guangming School	—	—	10,680 ⁽⁴⁾
A boarding school in Shunde district, Foshan	—	—	5,000 ⁽⁵⁾
Sub-total	<u>—</u>	<u>—</u>	<u>15,680</u>
Proposed New Schools Under Planning			
A boarding school in Chaozhou	—	—	8,000 ⁽⁴⁾
A boarding school in Kaiping, Jiangmen	—	—	7,500 ⁽⁴⁾
Sub-total	<u>—</u>	<u>—</u>	<u>15,500</u>
Total	<u><u>51,924</u></u>	<u><u>63,000</u></u>	<u><u>123,624</u></u>

Notes:

- (1) The estimated maximum 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 estimated maximum capacity for Guang'an Guangzheng Preparatory School 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 Guang'an Guangzheng Preparatory School's target student capacity is subject to adjustment, depending on the schools' actual student recruitment and capacity utilization.
- (4) The estimated maximum capacity for Yunfu Guangming School and each of the proposed schools in Chaozhou city and Kaiping, Jiangmen is based on the final total capacity for, among others, primary, middle and high school education as set forth in the relevant cooperation agreements. 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.
- (5) The estimated maximum capacity is estimated by the Group according to the site area of the land and the local government requirements on the minimum capacity for, among others, primary, middle and high school education. The expansion of the proposed school's target student capacity is subject to adjustment, depending on the proposed school's actual student recruitment and capacity utilization.

Future Capital Expenditure and Financing

During the year ended 31 August 2018, we raised borrowings from certain banks and obtained a credit facility of HK\$500 million from a subsidiary of China Ping An Insurance Overseas (Holdings) Limited (“**China Ping An Insurance Overseas**”) preparing for our potential acquisitions and the capital expenditure required for the development of certain greenfield schools and the expansion of our schools' capacity in the coming years.

As at 31 August 2018, certain bank and other borrowings raised were not utilized. In order to have a better use of our financial resources, the Group purchased certain available-for-sale investments during the year ended 31 August 2018. These available-for-sale investments are wealth management products under which the Group is allowed to early redeem such investments, in whole or in part, 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. Subsequent to the

year ended 31 August 2018 and up to the date of the announcement, the Group has redeemed part of the available-for-sale investments in the net amount of approximately RMB186 million.

We expect that the Group's future capital expenditure will primarily be financed by bank and other 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 increasing school brand influence 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.

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.

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

Use of Proceeds	% of the Net Proceeds	Proceeds Allocated (RMB 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	410.2	64.3
— 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	10.2	4.4
— Acquisition of schools to supplement our school network	18%	131.4	131.4	—
— Provision of scholarships and subsidies to our students	2%	14.6	4.7	9.9
— Working capital and general corporate purpose	5%	36.5	36.5	—
Total	100%	730.0	651.4	78.6

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 25.9% for the year

ended 31 August 2017 to 11.1% for the year ended 31 August 2018 primarily because all our schools are classified as not-for-profit schools where income from tuition and boarding fees is entitled to the same EIT exemption as public schools. For details, please refer to note 9 to the 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 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 2018.

Draft Amendments to the Implementation Rules for the Law for Promoting Private Education

On 10 August 2018, the Ministry of Justice of the PRC published the draft amendments to the Implementation Rules for the Law for Promoting Private Education (中華人民共和國民辦教育促進法實施條例(修訂草案)(送審稿)) (the “**Draft Amendments**”). Given that the Draft Amendments are only in draft form, which may remain subject to further revisions, the Company is of the view that it is still premature to assess the impact (if any) on the Group by virtue of the Draft Amendments, according to the provisions as contemplated or otherwise. The Group has not been affected by the Draft Amendments in any material respect as at the date of this announcement, and the Company currently does not expect that the Draft Amendments will have any material negative impact on the Group based on its preliminary assessment.

Qualification Requirement

Under the Sino-foreign School 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 announcement, 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 year ended 31 August 2018, total revenue increased by 27.3% to RMB1,246.9 million. Profit for the year and core net profit increased by 53.4% and 29.6%, respectively, to RMB307.2 million and RMB322.0 million, respectively, as compared to that for the year ended 31 August 2017.

Revenue

For the components of our revenue, please refer to the section headed “Business Review For The 2017/2018 School Year” above.

The Group’s total revenue increased by RMB267.8 million, or 27.3%, from RMB979.1 million for the year ended 31 August 2017 to RMB1,246.9 million for the year ended 31 August 2018.

Revenue from tuition and boarding fees increased by 25.3% from RMB671.2 million for the year ended 31 August 2017 to RMB841.2 million for the year ended 31 August 2018, largely due to the increase in total student enrolment. Total student enrolment increased by 36.0% from 31,788 for the 2016/2017 school year to 43,230 for the 2017/2018 school year, primarily due to the increase in student enrolment of Dongguan Guangzheng Preparatory School and Huizhou Guangzheng Preparatory School and the consolidation of Jieyang School and Weifang Weizhou School where the average tuition and boarding fees per student was lower than those of our other schools.

Revenue from ancillary services increased by 31.7% from RMB308.0 million for the year ended 31 August 2017 to RMB405.7 million for the year ended 31 August 2018, primarily due to the increase in overall student enrolment.

Cost of Revenue

Our cost of revenue primarily consists of (i) staff costs, which primarily consist of salaries and other benefits for our teachers, (ii) cost of provision of ancillary services, (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.

	For the year ended 31 August			
	2018 <i>RMB'000</i>	% of Revenue	2017 <i>RMB'000</i>	% of Revenue
Staff costs	314,748	25.2	248,158	25.3
Cost of provision of ancillary services	217,780	17.5	168,780	17.2
Amortisation of intangible assets	11,681	0.9	—	—
Depreciation and amortization	76,972	6.2	53,278	5.5
Utilities and maintenance	33,402	2.7	26,689	2.7
Education expenses	47,471	3.8	32,384	3.3
Total cost of revenue	<u>702,054</u>	<u>56.3</u>	<u>529,289</u>	<u>54.0</u>

Cost of revenue increased by RMB172.8 million, or 32.6%, from RMB529.3 million for the year ended 31 August 2017 to RMB702.1 million for the year ended 31 August 2018. The increase was largely due to increases in teaching staff costs, cost of provision of ancillary services, depreciation and amortization of intangible assets arising from the acquisition of Jieyang School and Weifang Weizhou School.

Staff costs increased mainly because the number of teachers increased from approximately 1,960 for the 2016/2017 school year to approximately 2,670 for the 2017/2018 school year, primarily attributable 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 and Weifang Weizhou School. There was no material increase in the salary rate of our teachers for the year ended 31 August 2018.

Cost of provision of ancillary service increased in line with the increase in revenue from ancillary services for the year ended 31 August 2018.

Increase in depreciation was primarily due 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.

During the year ended 31 August 2018, the Group recorded intangible assets of student roster, which has finite estimated useful live of 3 to 6 years, arising from the acquisitions of Jieyang School and Weifang Weizhou School. These intangible assets are amortised based on expected usage of student roster.

Gross Profit

As a result of the foregoing, gross profit increased by 21.1% from RMB449.9 million for the year ended 31 August 2017 to RMB544.9 million for the year ended 31 August 2018. Our gross margin decreased from 45.9% for the year ended 31 August 2017 to 43.7% for the year ended 31 August 2018, primarily due to the acquisition of Jeiyang School and Weifang Weizhou School where their gross profit margins were lower than some of our other schools and the amortisation of intangible assets arising from the acquisition of schools. The adjusted gross profit margin for the year ended 31 August 2018 was 44.6% after adjusting for amortisation of intangible assets of RMB11.7 million.

Other Income

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

Other income increased by RMB43.1 million from RMB11.0 million for the year ended 31 August 2017 to RMB54.1 million for the year ended 31 August 2018, primarily due to the increase in government grants by RMB39.1 million.

Other Gains and Losses

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

Other gains and losses recorded a loss of RMB1.7 million for the year ended 31 August 2018 as compared to a loss of RMB26.2 million for the year ended 31 August 2017. There was a net exchange gain of RMB4.8 million primarily resulting from the translation of bank deposits denominated in HK\$ recorded for the year ended 31 August 2018 as compared to a net exchange loss of RMB26.1 million for the corresponding last year.

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 14.0% from RMB17.1 million for the year ended 31 August 2017 to RMB19.5 million for the year ended 31 August 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 and Weifang Weizhou School. Selling expenses as a percentage of revenue slightly decreased from 1.7% for the year ended 31 August 2017 to 1.6% for the year ended 31 August 2018.

Administrative Expenses

Administrative expenses primarily consist of (i) salaries and other benefits for general and administrative staff, (ii) tax expenses in relation to the corporate management and educational management consultancy services, intellectual property licensing services and technical and business support services provided by the Group's subsidiaries to consolidated affiliated entities, (iii) depreciation of office buildings and equipment, (iv) rental expenses, (v) travel expenses, (vi) entertainment expenses and (vii) other expenses, which mainly consist of repair and maintenance expenses, utilities, legal and professional fees, cleaning expenses, and other administrative expenses.

Administrative expenses sharply increased by 75.6% from RMB125.8 million for the year ended 31 August 2017 to RMB220.9 million for the year ended 31 August 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 consolidation of Jieyang School and Weifang Weizhou School. Administrative expenses as a percentage of revenue increased from 12.8% for the year ended 31 August 2017 to 17.7% for year ended 31 August 2018.

Finance Income

Finance income consists of (i) interest income from bank deposits and (ii) interest income from available-for-sale investments.

Finance income increased from RMB6.9 million for the year ended 31 August 2017 to RMB46.2 million for the year ended 31 August 2018 primarily due to the increase in interest income from bank deposits and available-for-sale investments.

Finance Costs

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

Finance cost increased from RMB18.2 million for the year ended 31 August 2017 to RMB57.5 million for the year ended 31 August 2018, primarily due to the increase in bank borrowings during the year ended 31 August 2018.

Profit before Taxation

As a result of the foregoing, our profit before taxation increased by 27.9% from RMB270.3 million for the year ended 31 August 2017 to RMB345.6 million for the year ended 31 August 2018. Profit before taxation as a percentage of revenue of the Group was 27.7% for the year ended 31 August 2018 compared with 27.6% for the year ended 31 August 2017.

Taxation

Income tax expense of the Group decreased from RMB70.1 million for the year ended 31 August 2017 to RMB38.4 million for year ended 31 August 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 in accordance with the Decision. We have decided not to classify our high school sections as for-profit schools. The effective tax rate of the Group for each of the years ended 31 August 2018 and 31 August 2017 was 11.1% and 25.9%, respectively. The decrease in the Group's effective tax rates was primarily due to the classification of our schools as not-for-profit schools where income from tuition and boarding fees is entitled to the same EIT exemption as public schools since 1 September 2017. For details, please refer to the section headed "Regulatory Update" in this announcement and note 9 to the consolidated statement of profit or loss and other comprehensive income.

Profit for the Year

As a result of the above factors, profit for the year of the Group increased by 53.4% from RMB200.2 million for the year ended 31 August 2017 to RMB307.2 million for the year ended 31 August 2018.

Core Net Profit

The Group defines its core net profit as its profit for the year 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 for the year to core net profit for the two financial years presented below:

	For the year ended	
	31 August	
	2018	2017
	RMB'000	<i>RMB'000</i>
Profit for the year (<i>Note 1</i>)	307,182	200,195
Less:		
Exchange gain	(4,788)	—
Imputed interest income on advances to Cinese Group	—	(3,029)
Add:		
Finance costs in relation to advances to Cinese Group	—	9,709
Loss on change in fair value of convertible loan note	3,944	—
Share-based payments	3,948	5,304
Amortisation of intangible assets arising from acquisitions	11,681	—
Exchange loss	—	26,081
Listing expenses	—	10,257
	<hr/>	<hr/>
Core net profit	<u>321,967</u>	<u>248,517</u>

Core net profit for year ended 31 August 2018 increased by RMB73.5 million or 29.6% from RMB248.5 million for the year ended 31 August 2017 to RMB322.0 million for the year ended 31 August 2018. Core net profit margin slightly increased from 25.4% for the year ended 31 August 2017 to 25.8% for the year ended 31 August 2018.

Note:

- Profit for the year ended 31 August 2018 has been arrived at after charging charitable donation of approximate RMB4.1 million for the improvement in educational facilities in poorer regions in China.

Capital Expenditure

For the year ended 31 August 2018, the Group paid approximately RMB557.4 million for the acquisition of property, plant and equipment and paid approximately RMB101.5 million for the acquisition of prepaid lease primarily for the Group's expansion.

In addition, during the year ended 31 August 2018, the Group paid approximately RMB221.0 million for deposits for the acquisition of new schools.

Liquidity, Financial Resources and Capital Structure

The Group recorded a significant increase in net cash inflow from operating activities for the year ended 31 August 2018 as compared to that for previous year, which was mainly driven by the increase in deferred revenue of tuition and boarding fees received in advance, and the operating cash flows before movements in working capital.

During the year ended 31 August 2018, the capital expenditures for the acquisition of property, plant and equipment, prepaid lease payments and the deposits for the acquisition of new schools were mainly financed by the net proceeds from the Company's global offering in January 2017, and the net proceeds from bank borrowings and convertible loan notes.

The combined effect of the above resulted a net increase in cash and cash equivalents of RMB522.3 million for the year ended 31 August 2018, as compared to that of RMB290.2 million for the year ended 31 August 2017.

As at 31 August 2018, the Group's total pledged bank deposits, bank balances and cash amounted to RMB1,193.0 million, of which the majority were denominated in HK\$ and RMB.

As at 31 August 2018, the Group's total of bank and other borrowings amounted to RMB2,129.4 million comprising RMB282.0 million repayable within one year and RMB1,847.4 million repayable more than one year. Bank and other borrowings carried interest rates ranging from 4.4% to 7.5% per annum. All the bank borrowings were denominated in RMB and other borrowings were denominated in HK\$. During the year ended 31 August 2018, we raised certain borrowings from banks and obtained a credit facility of HK\$500 million from a subsidiary of China Ping An Insurance Overseas preparing for our potential acquisitions and the capital expenditure required for the development of certain greenfield schools and the expansion of our schools' capacity in the coming years.

As at 31 August 2018, certain bank and other borrowings raised were not utilized. In order to have a better use of our financial resources, the Group purchased certain available-for-sale investments during the year ended 31 August 2018. The available-for-sale investments were short-term wealth management products under which the Group is allowed to early redeem the investments, 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. Subsequent to the year ended 31 August 2018 and up to the date of this announcement, the Group has redeemed part of the available-for-sale investments in the net amount of RMB186 million.

The Group recorded net current liabilities of RMB174.9 million as at 31 August 2018 (31 August 2017: RMB489.5 million) primarily as a result of the recognition of tuition fees 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 total of bank and other borrowings, net of pledged bank deposits, bank balances and cash divided by the total of equity attributable to owners of the Company and non-controlling interests at the end of the relevant year. The Group's net gearing ratio as at 31 August 2018 was 47.4% whereas the Group was in a net cash position as at 31 August 2017.

As explained in the sections headed "Future Capital Expenditure and Financing" and Liquidity, Financial Resources and Capital Structure" above, as at 31 August 2018, certain bank and other borrowings raised were not utilized. In order to have a better use of our financial resources, the Group purchased certain available-for-sale investments. 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. Taking into consideration our intention of holding these available-for-sale investments of RMB459.7 million as at 31 August 2018 for short-term cash management purpose and the possibility of early redemption, the Group's adjusted net gearing ratio as at 31 August 2018 would have been reduced to 24.1%.

The increase in net gearing ratio was mainly due to the increase in bank and other borrowings raised during the year ended 31 August 2018 for our potential acquisitions and the capital expenditure required for the development of certain greenfield schools and the expansion of our schools' capacity in the coming years.

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 31 August 2018, certain bank balances and cash, pledged bank deposits and other borrowings 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 accrued thereon. As at the date of this announcement, the outcome of such legal proceedings was yet to be finalized. In the opinion of the Directors, after consultation with our external legal counsel, there is no reasonable ground to support the arguments of the plaintiff, and accordingly, no provision has been made in the financial statements.

Pledge of Assets

As at 31 August 2018, the Group's bank borrowings were secured by the bank deposits and the rights to receive the tuition fees and boarding fees of certain schools of the Group.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

Save for the acquisitions of Jieyang School and Weifang Weizhou School as disclosed above, the Group had no other material acquisition and disposal of subsidiaries, associates or joint ventures during the year ended 31 August 2018.

SIGNIFICANT INVESTMENTS HELD

As at 31 August 2018, the Group held certain available-for-sale investments of approximately RMB459.7 million in aggregate. For the reasons for holding these available-for-sale investments, please refer to the sections headed "Future Capital Expenditure and Financing" and "Liquidity, Financial Resources and Capital Structure" above.

EMPLOYEE BENEFITS

As at 31 August 2018, the Group had approximately 5,720 employees (as at 31 August 2017: approximately 4,150). The Group participates in various employee benefit plans, including provident fund, housing, pension, medical insurance and unemployment insurance. The Company has also adopted pre-IPO share option scheme, share option scheme and 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. Staff costs (including directors' remuneration) for the year ended 31 August 2018 amounted to approximately RMB393.6 million (2017: RMB301.1 million).

EVENTS AFTER THE REPORTING PERIOD

Save as the acquisition of the entire sponsors interest in Zhang Pu Longcheng School as disclosed in the section headed "Recent Business Update", the acquisition of land use rights in Shunde District, Foshan as disclosed in the section headed "Outlook" and the Board decision as disclosed in the "Share Award Scheme", the Group has no other significant event after the reporting period.

FINAL DIVIDEND

The Board has resolved to recommend the payment of a final dividend of RMB0.036 (equivalent to HK\$0.04) per share for year ended 31 August 2018 to the shareholders of the Company ("**Shareholders**") whose names appear on the register of members of the Company at the close of business on 16 January 2019 (Wednesday). Subject to the approval by Shareholders at the forthcoming annual general meeting ("**AGM**") to be held on 8 January 2019 (Tuesday), the proposed final dividend is expected to be paid on or about 25 January 2019 (Friday).

CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the AGM to be held on 8 January 2019 (Tuesday), the register of members of the Company will be closed from 3 January 2019 (Thursday) to 8 January 2019 (Tuesday), both days inclusive, during which period no transfer of shares will be registered. In order to be qualified for attending and voting at the AGM, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on 2 January 2019 (Wednesday).

For determining the entitlement to the proposed final dividend (subject to the approval by Shareholders at the AGM) for the year ended 31 August 2018, the register of members of the Company will be closed from 14 January 2019 (Monday) to 16 January 2019 (Wednesday), both days inclusive, during which period no transfer of shares will be registered. In order to be qualified for the proposed final 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 11 January 2019 (Friday).

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 (“**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 31 August 2018, the Trustee has purchased a total of 11,534,000 Shares (31 August 2017: 1,588,000 Shares) on the Stock Exchange. On 6 September 2018, the Board resolved to grant a total of not more than 8,400,000 Shares (“**Awarded Shares**”) to 12 Selected Participants. The Awarded Shares represent approximately 0.4% of the total issued shares of the Company as at the date of this announcement. Subject to the acceptance of grant of the Awarded Shares by the Selected Participants and the terms and conditions of the Scheme, the Awarded Shares will be vested in full in ten years according to the respective vesting schedule for the grant. Save for Mr. Li Jiuchang and Mr. Wang Yongchun, being executive Directors, who have been granted not more than 1,500,000 and not more than 1,200,000 Awarded Shares, respectively, none of the Selected Participants is a Director, chief executive or substantial shareholder of the Company, nor an associate (as defined in the Listing Rules) of a Director, chief executive or substantial shareholder of the Company.

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 year ended 31 August 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 year ended 31 August 2018.

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, save and except for code provision A.2.1 which stipulates that the roles of chairman and chief executive (“**CEO**”) should not be performed by the same individual.

Ms. Li Suwen (“**Ms. Li**”) was appointed as the chairperson of the Board (“**Chairperson**”) following the step down of Mr. Liu Xubin from the position of chairman of the Board on 28 September 2018. Ms. Li performs the dual roles of both Chairperson and CEO. The Board believes that it is in the interest of the Company and its Shareholders for Ms. Li to assume the responsibilities of such positions, given that Ms. Li is one of the co-founders of the Group and has extensive experience in the operation and management of the Group as an executive Director and CEO. The Board also considers that such arrangement will not impair the balance of power and authority between the Board and the management as the Board comprises six other experienced individuals including three other executive Directors and three independent non-executive Directors. In addition, for major decisions of the Group, the Company will consult Board committees and senior management as and when appropriate. The Board will review such arrangement from time to time and 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 audited consolidated financial statements of the Group for the year ended 31 August 2018 and has met with the independent auditor, Deloitte Touche Tohmatsu. 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.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, the Directors confirm that the Company has maintained the prescribed public float under the Listing Rules for the year ended 31 August 2018.

PUBLICATION OF THE ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This annual results announcement is published on the website of the Stock Exchange at www.hkexnews.hk and the website of the Company at www.wisdomeducationintl.com. The annual report of the Group for the year ended 31 August 2018 will be published on the aforesaid websites of the Stock Exchange and the Company and will be dispatched to the Shareholders in due course.

By Order of the Board
Wisdom Education International Holdings Company Limited
Li Suwen
Chairperson

Hong Kong, 27 November 2018

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