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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 2019

HIGHLIGHTS

The Board has resolved to recommend the payment of a final dividend of RMB0.042 (equivalent to HK\$0.049) per share for the year ended 31 August 2019. (For the year ended 31 August 2018: RMB0.036 (equivalent to HK\$0.04) per share).

	2018/2019 School Year	2017/2018 School Year	Change	Percentage Change
Total student enrolment	54,420	43,230	+11,190	+25.9%
	For the year ended 31 August			
	2019 RMB'000	2018 RMB'000	Change RMB'000	Percentage Change
Revenue	1,681,530	1,246,920	+434,610	+34.9%
Gross profit	741,694	544,866	+196,828	+36.1%
Adjusted gross profit <i>(Note 1)</i>	767,284	556,547	+210,737	+37.9%
Core net profit <i>(Note 2)</i>	428,610	321,967	+106,643	+33.1%
Profit for the year	353,578	307,182	+46,396	+15.1%
Basic earnings per share (RMB)	0.17	0.15	+0.02	+13.3%

	As at 31 August		Change <i>RMB'000</i>	Percentage Change
	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>		
Total contract liabilities and deferred revenue	750,820	617,023	133,797	21.7%
<i>Note 1:</i>	Adjusted gross profit is based on the gross profit after adjusting for amortisation of intangible assets arising from the acquisition of schools.			
<i>Note 2:</i>	Core net profit was derived from the profit for the year after adjusting for those items which are not indicative of the Group's operating performances. Please refer to the following reconciliation and the section headed "Financial Review" in this announcement for details.			
			For the year ended 31 August	
			2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Profit for the year			353,578	307,182
Less:				
Exchange gain			–	(4,788)
Add:				
Exchange loss			16,748	—
Loss on change in fair value of convertible loan notes			786	3,944
Share-based payments			8,708	3,948
Amortisation of intangible assets arising from the acquisition of schools			25,590	11,681
Adjusted interest expenses on convertible loan notes based on actual coupon rate <i>(Note 3)</i>			23,200	—
Core net profit			<u>428,610</u>	<u>321,967</u>
<i>Note 3:</i>	The adjustment represented the difference of (a) the actual interest payable by the Group for the HK\$500 million convertible loan notes with coupon rate of 6.8% of approximately RMB30.2 million, whereas the difference for the year ended 31 August 2018 was immaterial and (b) the interest charged to "Finance costs" in profit and loss of approximately RMB53.4 million based on the theoretical effective interest rate of 12.2% by using effective interest method as disclosed in note 20 to the consolidated financial statements.			

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 2019. 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>	2019 RMB’000	2018 <i>RMB’000</i>
Revenue	4	1,681,530	1,246,920
Cost of revenue		<u>(939,836)</u>	<u>(702,054)</u>
Gross profit		741,694	544,866
Other income	5	33,390	54,053
Other gains and losses	6	(176)	(1,717)
Selling expenses		(25,783)	(19,455)
Administrative expenses		(252,987)	(220,916)
Finance income	7	20,254	46,192
Finance costs	8	<u>(107,117)</u>	<u>(57,462)</u>
Profit before taxation		409,275	345,561
Taxation	9	<u>(55,697)</u>	<u>(38,379)</u>
Profit and total comprehensive income for the year	10	<u>353,578</u>	<u>307,182</u>
Attributable to:			
Owners of the Company		359,462	310,390
Non-controlling interests		<u>(5,884)</u>	<u>(3,208)</u>
		<u>353,578</u>	<u>307,182</u>
Earnings per share			
Basic (RMB)	12	<u>0.17</u>	<u>0.15</u>
Diluted (RMB)	12	<u>0.17</u>	<u>0.15</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 August

	NOTES	2019 RMB'000	2018 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		3,035,707	2,492,447
Prepaid lease payments		781,494	502,116
Intangible assets		26,471	15,801
Goodwill		149,592	88,320
Investment properties		22,000	20,600
Deposits, prepayments and other receivables	13	630,826	519,532
Financial assets at fair value through profit or loss	14	30,000	—
Available-for-sale investments	15	—	364,500
		<u>4,676,090</u>	<u>4,003,316</u>
CURRENT ASSETS			
Inventories — goods for sale		6,182	5,489
Deposits, prepayments and other receivables	13	97,056	162,198
Prepaid lease payments		18,555	12,439
Financial assets at fair value through profit or loss	14	312,000	—
Available-for-sale investments	15	—	95,234
Pledged bank deposits		498,958	281,577
Bank balances and cash		662,454	911,410
		<u>1,595,205</u>	<u>1,468,347</u>
CURRENT LIABILITIES			
Contract liabilities	16	750,820	—
Deferred revenue	17	—	617,023
Trade and other payables and accrued expenses	18	502,974	616,226
Income tax payable		117,844	128,082
Borrowings	19	628,960	281,960
Convertible loan notes	20	479,134	—
		<u>2,479,732</u>	<u>1,643,291</u>
NET CURRENT LIABILITIES		<u>(884,527)</u>	<u>(174,944)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u><u>3,791,563</u></u>	<u><u>3,828,372</u></u>

	<i>NOTES</i>	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
CAPITAL AND RESERVES			
Share capital		18,093	18,057
Reserves		2,143,205	1,893,008
		<hr/>	<hr/>
Equity attributable to owners of the Company		2,161,298	1,911,065
Non-controlling interests		85,517	66,276
		<hr/>	<hr/>
		2,246,815	1,977,341
		<hr/>	<hr/>
NON-CURRENT LIABILITIES			
Borrowings	<i>19</i>	1,540,470	1,425,260
Convertible loan notes	<i>20</i>	—	422,143
Deferred tax liabilities		4,278	3,628
		<hr/>	<hr/>
		1,544,748	1,851,031
		<hr/>	<hr/>
		3,791,563	3,828,372
		<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL

Wisdom Education International Holdings Company Limited (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 (“**Bright Education BVI**”) (incorporated in the British Virgin Islands) and its ultimate controlling parties are Mr. Liu Xuebin (“**Mr. Liu**”), who is executive director of the Company and Ms. Li Suwen (“**Ms. Li**”), who is the chairman of the board of the Company, 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 2019, the Group recorded net current liabilities of RMB884,527,000 (2018: RMB174,944,000). 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 RMB768,930,000 available as at 31 August 2019 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”)

New and Amendments to IFRSs that are mandatorily effective for the current year

The Group has applied the following new and amendments to IFRSs issued by the International Accounting Standard Board (“IASB”) for the first time in the current year:

IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers and the related Amendments
IFRIC Interpretation (“IFRIC”) 22	Foreign Currency Transactions and Advance Consideration
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
Amendments to International Accounting Standard (“IAS”) 28	As part of the Annual Improvements to IFRSs 2014–2016 Cycle
Amendments to IAS 40	Transfers of Investment Property

Except as described below, the application of the new and 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.

3.1 IFRS 15 Revenue from Contracts with Customers

The Group has applied IFRS 15 for the first time in the current year. IFRS 15 superseded IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related interpretations.

The Group has applied IFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, 1 September 2018. Any difference at the date of initial application is recognised in the opening accumulated profits (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in IFRS 15, the Group has elected to apply the standard retrospectively only to contracts that are not completed at 1 September 2018 and has used the practical expedient for all contract modifications that occurred before the date of initial application, the aggregate effect of all of the modifications was reflected at the date of initial application. Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 18 *Revenue* and IAS 11 *Construction Contracts* and the related interpretations.

The Group recognises revenue from the following major sources which arise from contracts with customers:

- Tuition and boarding fees
- Ancillary services

Information about the Group’s performance obligations and the accounting policies resulting from application of IFRS 15 are disclosed in note 4.

Summary of effects arising from initial application of IFRS 15

The transition to IFRS 15 has no material impacts on accumulated profits at 1 September 2018. The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 September 2018. Line items that were not affected by the changes have not been included.

	Carrying amounts previous reported at 31 August 2018 RMB'000	Reclassification RMB'000	Carrying amounts under IFRS 15 at 1 September 2018 RMB'000
Current liabilities			
Deferred revenue	617,023	(617,023)	—
Contract liabilities	—	610,575	610,575
Trade and other payables and accrued expenses	616,226	6,448	622,674

Note: As at 1 September 2018, deferred revenue of RMB610,575,000, in respect of tuition and boarding fees and ancillary services, received in advance from customers previously included in deferred revenue are reclassified to contract liabilities. For amounts received in advance from students pre-charged into charge cards at 1 September 2018, the amount is reclassified from deferred revenue to other payables.

The following tables summarise the impacts of applying IFRS 15 on the Group's consolidated statement of financial position as at 31 August 2019 and its consolidated statement of profit or loss and other comprehensive income for the current year for each of the line items affected. Line items that were not affected by the changes have not been included.

Impact on the consolidated statement of financial position

	<i>Note</i>	As reported RMB'000	Reclassification RMB'000	Amounts without application of IFRS 15 RMB'000
Current liabilities				
Deferred revenue	<i>(i)</i>	—	760,954	760,954
Contract liabilities	<i>(i)</i>	750,820	(750,820)	—
Trade and other payables and accrued expenses	<i>(i)</i>	502,974	(10,134)	492,840

Impact on the consolidated statement of cash flows

		As reported	Reclassification	Amounts without application of IFRS 15
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Operating activities				
Increase in deferred revenue	<i>(i)</i>	—	127,245	127,245
Increase in contract liabilities	<i>(i)</i>	123,559	(123,559)	—
Decrease in trade and other payables and accrued expenses	<i>(i)</i>	(80,378)	(3,686)	(84,064)

Note:

- (i) The tuition and boarding fees and ancillary services fees receipts in advance from customers previously classified as deferred revenue are reclassified to contract liabilities and other payables upon adoption of IFRS 15. For the advance payments from students pre-charged into charge cards, the corresponding balances are reclassified into other payables.

3.2 IFRS 9 Financial Instruments

In the current year, the Group has applied IFRS 9 *Financial Instruments* and the related consequential amendments to other IFRSs. IFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses (“ECL”) for financial assets and 3) general hedge accounting.

The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1 September 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 September 2018. The difference between carrying amounts as at 31 August 2018 and the carrying amounts as at 1 September 2018 are recognised in the opening accumulated profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 39 *Financial Instruments: Recognition and Measurement*.

Summary of effects arising from initial application of IFRS 9

The table below illustrates the classification and measurement of financial assets and financial liabilities and other items subject to ECL under IFRS 9 and IAS 39 at the date of initial application, 1 September 2018.

	<i>Note</i>	Available-for-sale investments RMB'000	Financial assets at FVTPL RMB'000
Closing balance at 31 August 2018			
— IAS 39			
— non-current		364,500	—
— current		95,234	—
Effect arising from initial application of IFRS 9 :	<i>(a)</i>		
Reclassification from available-for-sale investments			
— non-current		(364,500)	364,500
— current		(95,234)	95,234
Opening balance at 1 September 2018			
— non-current		—	364,500
— current		—	95,234
		<u> </u>	<u> </u>

Note:

(a) Available-for-sale (“AFS”) investments

From AFS investments to fair value through profit or loss (“FVTPL”)

At the date of initial application of IFRS 9, the Group’s financial assets with a fair value of RMB459,734,000 were reclassified from AFS investments to financial assets at FVTPL. This is because even though the Group’s business model is to hold financial assets in order to collect contractual cash flows, the cash flows of these investments do not meet the IFRS 9 criteria as solely payments of principal and interest on the principal amount outstanding. There is no material difference between the fair value of these investments as at 1 September 2018 and their previously carrying amounts measured under IAS 39.

(b) Impairment under ECL model

The Group assessed ECL for all financial assets on 12-month ECL (“12m ECL”) basis as there had been no significant increase in credit risk since initial recognition.

Most of the banks which the Group placed deposits at are graded with top credit ratings. Therefore, these deposits are considered to be low credit risk investments and the loss allowance is measured on 12m ECL basis.

Loss allowances for other financial assets at amortised cost mainly comprise of deposits and other receivables, pledged bank deposits and the bank balances, other than graded in the top credit rating agencies, are measured on 12m ECL basis and there had been no significant increase in credit risk since initial recognition.

Based on the assessment by the directors of the Company, there would be no material impact on the accumulated amount of impairment loss to be recognised by the Group as at 1 September 2018 as compared to the accumulated amount recognised under IAS 39 upon the application of the ECL model of IFRS 9.

3.3 Impacts on opening consolidated statement of financial position arising from the application of all new standards

As a result of the changes in the Group’s accounting policies above, the opening consolidated statement of financial position had to be restated. The following table show the adjustments recognised for each of the line items affected. Line items that were not affected by the changes have not been included.

	At 31 August 2018 RMB’000 (Audited)	IFRS 15 RMB’000	IFRS 9 RMB’000	At 1 September 2018 RMB’000 (Restated)
Non-current assets				
AFS investments	364,500	—	(364,500)	—
Financial assets at FVTPL	—	—	364,500	364,500
Current assets				
AFS investments	95,234	—	(95,234)	—
Financial assets at FVTPL	—	—	95,234	95,234
Current liabilities				
Deferred revenue	617,023	(617,023)	—	—
Contract liabilities	—	610,575	—	610,575
Trade and other payables and accrued expenses	616,226	6,448	—	622,674

Note: For the purposes of reporting cash flows from operating activities under indirect method for the year ended 31 August 2019, movements in working capital have been computed based on opening consolidated statement of financial position as at 1 September 2018 as disclosed above.

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 16	Leases ¹
IFRS 17	Insurance Contracts ³
IFRIC 23	Uncertainty over Income Tax Treatments ¹
Amendments to IFRS 3	Definition of a Business ⁴
Amendments to IFRS 9	Prepayment Features with Negative Compensation ¹
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ²
Amendments to IAS 1 and IAS 8	Definition of Material ⁵
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement ¹
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures ¹
Amendments to IFRSs	Annual Improvements to IFRSs 2015–2017 Cycle ¹
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform ⁵

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

² Effective for annual periods beginning on or after a date to be determined

³ Effective for annual periods beginning on or after 1 January 2021

⁴ Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020

⁵ Effective for annual periods beginning on or after 1 January 2020

Except for IFRS 16 and amendments to IFRS 3, the directors of the Company anticipate that the application of all other new and amendments to IFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

4. REVENUE AND SEGMENT INFORMATION

The Group is mainly engaged in the provision of full spectrum private fundamental education, including primary, middle and high schools 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 purposes 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:

	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Tuition and boarding fees	1,145,461	841,243
Ancillary services (<i>Note</i>)	536,069	405,677
	<u>1,681,530</u>	<u>1,246,920</u>

Note: Revenue from ancillary services mainly includes the provision of extracurricular activities, sales of school campus canteen operations, arrangement of school buses, and study tours.

For the year ended 31 August 2019

(i) Disaggregation of revenue from contracts with customers

The following is an analysis of the Group's revenue from its major services:

	2019
	<i>RMB'000</i>
Recognised at a point of time	
— Ancillary services	374,749
Recognised over time	
— Tuition and boarding fees	1,145,461
— Ancillary services	<u>161,320</u>
Total	<u>1,681,530</u>

(ii) Performance obligation for contracts with customers

Tuition and boarding fees (revenue recognised over time)

Tuition and boarding fees received from primary schools, middle schools and high schools are generally paid in advance at the beginning of school term, and are initially recorded as contract liabilities. Tuition and boarding fees are recognised proportionately over the relevant period of the applicable program. The portion of tuition and boarding payments received from students but not earned is recorded as contract liabilities and is reflected as a current liability as such amounts represent revenue that the Group expects to release to profit or loss within one year.

The directors of the Company have determined that the performance obligation of providing tuition and boarding services is satisfied over time as customers simultaneously receive and consume the benefits of these services throughout the service period. Under the Group's standard contract terms for tuition and boarding services, students would have the right to refund during the service period. The Group estimates the refund liabilities by considered the historical experience. Revenue is recognised for the amount of consideration to which the Group expects to be entitled. A contract liability is recognised for fee received in which revenue has not yet been recognised.

Revenue from ancillary services (revenue recognised over time)

Ancillary services revenue includes extracurricular activities program, campus canteens from primary students and school buses service are recognised over time. These services are mainly paid in advance for a fixed fee prior to the service. The directors of the Company have determined that the performance obligations of these services are satisfied over time as customers simultaneously receive and consume the benefits of these services throughout the service period. The Group estimates the refund liabilities by considering the historical experience. Revenue is recognised for the amount of consideration to which the Group expects to be entitled. A contract liability is recognised for fee received in which revenue has not yet been recognised.

Revenue from ancillary services (revenue recognised at a point in time)

The Group sales daily necessities and other educational materials to students at school campus, and provides campus canteens service to students of middle and high schools. The Group recognises revenue from sales of daily necessities, and other educational materials and the campus canteens service to students of middle and high schools at a point in time when the control of the goods are passed or upon the campus canteens services provided to students. Payment for the sales of daily necessities and other educational materials and campus canteens service are made upon the transaction occurred.

(iii) Transaction price allocated to the remaining performance obligation for contracts with customers

The contracts for provision of education services are for periods of one year or less. As permitted under IFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

Information about 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

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Rental income from investment properties	1,169	1,111
Government grants (<i>Note</i>)	25,507	40,980
Income from donations	14	6
Staff quarter income	3,710	4,529
Others	2,990	7,427
	<u>33,390</u>	<u>54,053</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

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Exchange (loss) gain	(16,748)	4,788
Loss on disposal of property, plant and equipment, net	(602)	(1,614)
Gain on change in fair value of investment properties	1,400	500
Loss on change in fair value of convertible loan notes — embedded derivatives component	(786)	(3,944)
Gain on change in fair value of financial assets at FVTPL (<i>Note</i>)	18,370	—
Others	(1,810)	(1,447)
	<u>(176)</u>	<u>(1,717)</u>

Note: The gain on change in fair value of financial assets at FVTPL is arising from the interest income from the investment products issued by financial institutions in the PRC upon adoption of IFRS 9. In previous year, the income earned from the investment products issued by financial institutions in the PRC which is classified as interest income under finance income in profit or loss.

7. FINANCE INCOME

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Bank interest income	20,254	13,320
Interests on AFS investments	—	32,872
	<u>20,254</u>	<u>46,192</u>

Investment income earned from financial assets not designated as at FVTPL, by category of asset is as follows:

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
AFS investments	—	32,872
Financial assets at amortised cost	20,254	—
Loans and receivables (including cash and cash equivalents)	—	13,320
	<u>20,254</u>	<u>46,192</u>

8. FINANCE COSTS

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Effective interest expense on convertible loan notes	53,391	5,555
Interest expense on bank borrowings	121,774	87,381
	<u>175,165</u>	<u>92,936</u>
Less: amounts capitalised in the cost of qualifying assets	<u>(68,048)</u>	<u>(35,474)</u>
	<u>107,117</u>	<u>57,462</u>

Borrowing costs capitalised during the year ended 31 August 2019 arose on the general borrowing pool and are calculated by applying a capitalisation rate of 7.5% (2018: 6.7%) per annum to expenditure on property, plant and equipment (construction in progress).

9. TAXATION

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Taxation comprises:		
Current tax:		
PRC Enterprise Income Tax (“PRC EIT”)	46,778	33,807
PRC withholding income tax on royalty income	8,269	6,576
Deferred tax charge (credit)	<u>650</u>	<u>(2,004)</u>
	<u><u>55,697</u></u>	<u><u>38,379</u></u>

10. PROFIT FOR THE YEAR

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Profit for the year has been arrived at after charging:		
Staff costs, including directors’ remuneration		
— salaries and other allowances	538,546	353,436
— retirement benefits scheme contributions	60,170	36,225
— share-based payment expenses	<u>8,708</u>	<u>3,948</u>
Total staff costs	<u><u>607,424</u></u>	<u><u>393,609</u></u>
Depreciation of property, plant and equipment	113,689	85,977
Amortisation of intangible assets arising from the acquisition of schools (included on cost of revenue)	25,590	11,681
Release of prepaid lease payments (after deducting amount capitalised in construction-in-progress of RMB8,253,000 (2018: RMB2,079,000))	9,757	8,718
Cost of inventories recognised as an expense	224,060	164,809
Donations	5,733	4,142
Auditors’ remuneration	<u><u>3,200</u></u>	<u><u>2,580</u></u>

11. DIVIDENDS

During the year ended 31 August 2019, an interim dividend of RMB0.042 (equivalent to HK\$0.049) per share (2018: RMB0.032 (equivalent to HK\$0.04 per share)) amounting to RMB 85,407,000 (equivalent to HK\$99,737,000) (2018: RMB69,914,000 (equivalent to HK\$81,566,000)) 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 2019 of RMB0.042 per share (equivalent to HK\$0.049 per share) (2018: RMB0.036 (equivalent to HK\$0.04 per share)) amounting to RMB85,980,000 (equivalent to HK\$100,310,000) (2018: RMB73,546,000 (equivalent to HK\$81,718,000)), 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:

	2019 <i>RMB'000</i>	2018 <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>359,462</u>	<u>310,390</u>
	2019 '000	2018 '000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	2,093,989	2,040,018
Effect of dilutive potential ordinary shares:		
Share options	1,845	5,250
Share award scheme	<u>1,054</u>	<u>—</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>2,096,888</u>	<u>2,045,268</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 computation of diluted earnings per share does not assume the discretionary conversion of the Company's outstanding convertible loan notes since their assumed exercise would result in an increase in earnings per share.

13. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Deposits paid for the acquisitions of new private schools	200,880	220,975
Other deposits	43,545	22,033
Staff advances	3,210	5,651
Other receivables	27,811	19,053
Temporary payments to government	1,315	21,315
Prepayments for construction to a related company	197,234	220,765
Prepayments for construction of schools	232,712	160,675
Other prepayments	21,175	11,263
	<u>727,882</u>	<u>681,730</u>
Current	97,056	162,198
Non-current	<u>630,826</u>	<u>519,532</u>
	<u>727,882</u>	<u>681,730</u>

14. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2019 <i>RMB'000</i>	At 1 September 2018* <i>RMB'000</i>
Current	312,000	95,234
Non-current	<u>30,000</u>	<u>364,500</u>
	<u>342,000</u>	<u>459,734</u>

* The amounts in this column are after the adjustments from the application of IFRS 9.

The financial assets were issued by financial institutions in the PRC as at 31 August 2019. The financial assets are with expected rate of return (not guaranteed), depending on the returns of the underlying financial instruments.

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>
Current	95,234
Non-current	<u>364,500</u>
	<u><u>459,734</u></u>

16. CONTRACT LIABILITIES

	2019 <i>RMB'000</i>	At 1 September 2018* <i>RMB'000</i>
Tuition and boarding fees	671,067	553,368
Ancillary services	79,753	<u>57,207</u>
	<u>750,820</u>	<u><u>610,575</u></u>

* The amounts in this column are after the adjustments from the application of IFRS 15.

Contract liabilities are classified as current based on the Group's earliest obligation to transfer goods/ services to the customers.

The contract liabilities at 1 September 2018 were fully recognised as revenue in the current year.

Typical payment terms which impact on the amount of contract liabilities recognised are as follows:

— Tuition and boarding fees

When the Group receives tuition and boarding fees in advance from students, this will give rise to contract liabilities, until revenue is recognised when the students simultaneously receives and consumes the benefits provided by the Group's performance over the relevant period of the applicable program. The Group typically receives a 100% tuition and boarding fees prior to the commencement of each academic semester (two academic semesters each academic year).

— Ancillary services

Contract liability is recognised by the Group for the portion of fees that the Group collected from the customers in relation to performance obligations that have not been satisfied.

17. DEFERRED REVENUE

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Tuition and boarding fees	—	553,368
Ancillary services	—	63,655
	<u>—</u>	<u>617,023</u>
	<u><u>—</u></u>	<u><u>617,023</u></u>
	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Current	—	617,023
Non-current	—	—
	<u>—</u>	<u>—</u>
	<u><u>—</u></u>	<u><u>617,023</u></u>

18. TRADE AND OTHER PAYABLES AND ACCRUED EXPENSES

	2019	At 1 September 2018*	2018
	<i>RMB'000</i>	<i>RMB'000</i> (Restated)	<i>RMB'000</i>
Trade and construction payables	159,146	104,574	104,574
Accruals for construction	107,012	238,884	238,884
Consideration payable for acquisitions of subsidiaries	102,720	120,000	120,000
Receipt in advance from a non-controlling shareholder	—	60,000	60,000
Accrued staff benefits and payroll	42,504	29,892	29,892
Receipts in advance from students' prepaid charge cards	10,134	6,448	—
Payables for land use rights	7,948	7,948	7,948
Interest payables	4,499	7,841	7,841
Other tax payables	30,138	14,812	14,812
Discretionary government subsidies receipt in advance	5,349	5,635	5,635
Deposits received	14,168	5,645	5,645
Other payables	19,356	20,995	20,995
	<u>502,974</u>	<u>622,674</u>	<u>616,226</u>

* The amounts in this column are after the adjustments from the application of IFRS 15.

19. BORROWINGS

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Secured bank borrowings	<u>2,169,430</u>	<u>1,707,220</u>
Carrying amounts repayable:		
— Within one year	628,960	281,960
— More than one year, but not exceeding two years	195,960	185,960
— More than two years, but not exceeding five years	951,248	1,089,880
— More than five years	<u>393,262</u>	<u>149,420</u>
	2,169,430	1,707,220
Less: Amounts due within one year shown under current liabilities	<u>(628,960)</u>	<u>(281,960)</u>
	<u>1,540,470</u>	<u>1,425,260</u>
The exposure of borrowings:		
— Fixed rate	700,000	500,000
— Variable rate	<u>1,469,430</u>	<u>1,207,220</u>
	<u>2,169,430</u>	<u>1,707,220</u>

The Group has variable-rate borrowings which carry interest with reference to the Benchmark Borrowing Rate of The People's Bank of China. The ranges of effective interest rates (which are also equal to contracted interest rates) on the Group's borrowing are as follows:

	2019	2018
Effective interest rate:		
Fixed rates bank borrowings	4.4%–6.0%	6%
Variable-rate bank borrowings	4.4%–7.3%	4.4%–7.5%

The Group's bank borrowings are secured by the rights to receive the tuition fees and boarding fees of Guangming Schools, Dongguan School, Panjin School, Weifang School, Huizhou School, Zhangpu Longcheng Primary School, Yunfu School and the revenue arising from the operating income of Foshan Shunde Guangzheng Preparatory School to be established and pledged bank deposits.

The borrowings are also guaranteed by the Company, Guangdong Guangzheng Education Group Co., Dongguan Ruixing Business Service Co., Ltd. and certain related parties at no cost. The guarantee amounts provided by the related parties at 31 August 2019 and 2018 are as follows:

Name of related parties	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Mr. Liu	377,600	448,200
Mr. Liu and Ms. Li	1,107,770	880,000
Mr. Liu, Ms. Li and a company controlled by Mr. Liu	241,060	272,020

20. CONVERTIBLE LOAN NOTES

On 22 June 2018, the Company entered into the credit agreement (the “**Credit Agreement**”) with PA Chokmah (the “**Holder**”), 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 of the convertible loan notes (the “**Maturity Date**”). The terms of the convertible loan notes set out in details as follows:

- (a) HK\$200 million, representing 40% of the loan (the “**Mandatory Principal**”) shall be mandatorily converted into ordinary shares of the Company on Maturity Date at price per conversion share representing 20% discount of the arithmetic average of the closing price of a share for each of the 90 consecutive trading days immediately preceding the Maturity Date. There is no price ceiling for this conversion;
- (b) The Holder has the right to convert no more than HK\$100 million, representing 20% of the loan (the “**Discretionary Principal**”), into ordinary shares of the Company for the period from the Maturity Date up to the expiry of a three-month period from the Maturity Date (the “**Discretionary Conversion Period**”) therefrom at price per conversion share representing 10% discount of the arithmetic average of the closing price of a share for each of the 90 consecutive trading days immediately preceding the date of conversion by delivering a discretionary conversion notice to the Company. There is no price ceiling for this conversion;
- (c) The remaining principal amount of HK\$200 million will be repaid in cash on the Maturity Date. The aggregate amount to be repaid in cash at the Maturity Date represents the outstanding principal amount of the convertible loan notes on the Maturity Date minus the aggregate amount of the Mandatory Principal and the amount of the Discretionary Principal which the Holder has exercised the option to convert into ordinary shares of the Company.

Interest of 6.8% per annum will be paid semi-annually up until the settlement date. After the occurrence of change of control or liquidity event (sale of all or substantially all of the business and assets of the Group), PA Chokmah will not be obliged to fund any loan; and may cancel the convertible loan notes and declare the outstanding principal amount of the convertible loan notes, together with accrued interest, the exit fee and all other amounts accrued under the Credit Agreement and related documents, to be immediately due and payable. A change of control occurs if (i) any person or group of persons (other than the Mr. Liu and his affiliates) acting in concert gains control of the Company or becomes the beneficial owner (directly or indirectly) of 30% or more of the issued voting share capital of the Company; or (ii) Mr. Liu, his affiliates together with any person acting in concert with Mr. Liu and/or his affiliates cease to control the Company or be the beneficial owners (directly or indirectly through subsidiaries) of more than 51% of the issued voting share capital of the Company; or (iii) Mr. Liu and his affiliates cease to hold more shares in the Company than any other shareholder.

The convertible loan notes contain two components, non-derivative debt component and embedded derivatives component (i.e. the conversion options). The fair value of embedded derivatives component was determined by the directors of the Company with reference to a valuation report carried out by an independent valuer at 31 August 2019 and 2018.

At the date of initial recognition, non-derivative debt component was recognised at fair value, calculated based on the present value of the redemption amount at maturity. In subsequent periods, the non-derivative debt component is carried at amortised cost using the effective interest method. The effective interest rate of the non-derivative debt component is at 12.2% (2018: 12.2%) per annum. The embedded derivatives component is measured at fair value at the date of issue and in subsequent periods with changes in fair value recognised in profit or loss.

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 2019 as set out in the 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 the preliminary announcement.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW FOR THE 2018/2019 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.

Compared with those of the 2017/2018 school year, the total student enrolment increased by 25.9% to 54,420 students and the total student capacity of our schools increased by 21.3% to 63,000 for the 2018/2019 school year. During the year ended 31 August 2019, we added a boarding school in Fujian Province and acquired a parcel of land in Shunde, Foshan city for educational purposes and as detailed below.

Major Business Developments

(i) 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 with a total student enrolment of approximately 2,900.

In 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.

(ii) Acquisition of Land in Shunde, Foshan city for Building a Primary and Secondary School

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. Please refer to the Company's announcement dated 9 October 2018 for further details of the transaction.

In March 2019, the Group obtained an approval from the Ministry of Education of Shunde District, Foshan for setting up a private not-for-profit primary and secondary school for grade 1 to grade 12 students on a total land area of approximately 191,000 square meters (equivalent to approximately 286 mu (畝)). In addition to the original parcel of land of approximately 98,800 square meters acquired in October 2018 through bidding, the Group is allowed to rent additional parcels of land of approximately 92,200 square meters for educational purpose and the total maximum capacity of the school will be increased to 9,210 students with this approval. This demonstrates that the local government supports the Group to establish a private school in Shunde District, Foshan for the Group's maximum benefit. The Group has commenced the first phase of student recruitment before September 2019 and please refer to the section headed "Recent Business Update For The 2019/2020 School Year".

(iii) Establishment of an Education Industry Fund

In March 2019, the Group entered into a strategic cooperation agreement (“**Strategic Cooperation**”) with Guangdong Huiyin Haide Equity Investment Fund Management Company Limited (廣東匯垠海德股權投資基金管理有限公司) (“**Huiyin Haide**”) in relation to the establishment of an education industry fund principally for the investment of schools in the Guangdong-Hong Kong-Macao Greater Bay Area (“**Greater Bay Area**”) (“**Industry Fund**”) with a target size of investment of approximately RMB2,500 million, which will be raised by phases on a project basis, of which RMB1,000 million to be contributed by the Group as to RMB700 million and Huiyin Haide as to RMB300 million. Guangzhou Huiyintianyue Equity Investment Fund Management Co. Ltd (廣州匯垠天粵股權投資基金管理有限公司), a wholly-owned subsidiary of Guangzhou Industrial Investment Fund Management Co. Ltd (廣州產業投資基金管理有限公司), is the largest shareholder of Huiyin Haide.

The Industry Fund will set up a platform company and different project companies for holding interests in different schools. The platform company will apply the fund raised from the Industry Fund towards financing, among other things, the expenditures in establishing new schools and the operation expenses of schools. Huiyin Haide will be the fund manager of the Industry Fund and the Group will provide management services to such schools held by the project companies in return for a service fee. The Group will be entitled to a right of first refusal for acquiring any investment project proposed to be disposed of by the Industry Fund on the same conditions offered to third party purchasers. For details of the Industry Fund and the reasons of the Strategic Cooperation, please refer to the Company’s announcement dated 20 March 2019.

As at the date of this announcement, the Industry Fund has not been set up.

Our Schools and Educational Curriculum

During the year ended 31 August 2019, we operated 11 schools, with three of them located in two campuses in Dongguan, one in Huizhou and one in Jieyang of Guangdong province. Two of the schools are located in Weifang of Shandong province, and two are in Zhangzhou of Fujian province. The other two schools are in Panjin of Liaoning province and Guang'an of Sichuan province respectively.

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

	Primary School	Middle School	High School	International Programmes
1. Dongguan Guangming School together with Dongguan Guangming Primary School (“ Dongguan Guangming Secondary and Primary Schools ”)	√	√	√	√
2. Dongguan Guangzheng Preparatory School	√	√	√	√
3. Huizhou Guangzheng Preparatory School	√	√	√	√
4. Panjin Guangzheng Preparatory School	√	√	√	N/A
5. Weifang Guangzheng Preparatory School	√	√	√	N/A
6. Jieyang Jiedong Guangzheng Preparatory School (formerly known as Huanan Shida Yuedong Preparatory School) (“ Jieyang School ”)	√	√	√	N/A
7. Weifang Weizhou Foreign Language School (“ Weifang Weizhou School ”)	√	N/A	N/A	N/A
8. Guang'an Guangzheng Preparatory School	√	√	√	N/A
9. Zhang Pu Longcheng Schools	√	√	√	N/A

Our primary and middle schools primarily 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 2019 national high school basketball competition.

Student Placement

For the 2018/2019 school year, over 90% and over 50% of our high school graduates from Dongguan Guangming Secondary School were admitted to universities in China and 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, respectively.

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			
	2019	% of	2018	% of
	<i>RMB’000</i>	Total	<i>RMB’000</i>	Total
Tuition and boarding fees	1,145,461	68.1	841,243	67.5
Ancillary services	536,069	31.9	405,677	32.5
Total revenue	1,681,530	100	1,246,920	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 recognise tuition and boarding fees as revenue proportionately over the relevant period in each school year.

Comparing with that for the year ended 31 August 2018, tuition and boarding fees for the year ended 31 August 2019 increased by 36.2%, with approximately 30.0% organic growth in our existing schools.

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 2018, revenue from ancillary services for the year ended 31 August 2019 increased by 32.1% primarily due to the increase in overall student enrolment and the increase in average selling price of certain ancillary service items.

Student Enrolment

For both the 2018/2019 and 2017/2018 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 2018/2019 and 2017/2018 school years:

<i>Student Enrolment by School</i>	For the School Year			Percentage Change
	2018/2019	2017/2018	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 — 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%

Total student number increased by 25.9%, primarily due to the increase in student enrolment in Dongguan Guangzheng Preparatory School, Huizhou Guangzheng Preparatory School and the consolidation of Zhang Pu Longcheng Schools.

The student enrolment of Zhang Pu Longcheng Schools was consolidated to the Group's student enrolment with effect from November 2018 for the 2018/2019 school year, whereas the student enrolment of Weifang Weizhou School was consolidated to the

Group's student enrolment with effect from June 2018 for the 2017/2018 school year. Accordingly, the normalised annual growth rate of the total number of students was adjusted to 29.4%.

<i>Student Enrolment by Section</i>	For the School Year		For the School Year	
	2018/2019	% of Total	2017/2018	% of Total
High school	11,555	21.3	9,037	20.9
Middle school	23,680	43.5	18,217	42.1
Primary school	18,943	34.8	15,669	36.3
International programmes	242	0.4	307	0.7
Total number of students	<u>54,420</u>	<u>100</u>	<u>43,230</u>	<u>100</u>

Student Recruitment

To recruit students to our high schools, 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 administer additional tests to evaluate applicants' skills in sports, music or art and recruit specialty students who have talents in those areas. For our middle schools, 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 2018/2019 school year, approximately 99% of our primary school graduates were enrolled in our middle schools, and approximately 50% of our middle school graduates were 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
	2019 <i>RMB</i> <i>(Note)</i>	2018 <i>RMB</i> <i>(Note)</i>	
Dongguan Guangming Secondary and Primary Schools	26,005	22,930	+13.4%
Dongguan Guangzheng Preparatory School	25,634	22,716	+12.8%
Huizhou Guangzheng Preparatory School	19,852	19,459	+2.0%
Panjin Guangzheng Preparatory School	17,161	15,065	+13.9%
Weifang Guangzheng Preparatory School	15,244	14,504	+5.1%
Jieyang School	10,972	10,212	+7.4%
Before addition of schools	22,176	20,277	+9.4%
Addition of schools			
Weifang Weizhou School — Consolidated with effect from June 2018	12,426	3,046 [#]	+2.0%[#]
Guang'an Guangzheng Preparatory School — Opened in September 2018	16,473	N/A	N/A
Zhang Pu Longcheng Schools — Consolidated with effect from November 2018	9,131[*]	N/A	N/A
Overall	21,049	19,460	+8.2%

* Since the acquisition of Zhang Pu Longcheng Schools was completed in November 2018, the financial statements of Zhang Pu Longcheng Schools have been consolidated in the Group's financial statements with effect from November 2018. Accordingly, only tuition and boarding fees of Zhang Pu Longcheng Schools for the period from November 2018 to August 2019 were consolidated in the Group's total tuition and boarding fees, whereas the student enrolment of Zhang Pu Longcheng Schools has been fully consolidated in the Group's total student enrolment. If we annualised the tuition and boarding fees of Zhang Pu Longcheng Schools assuming that there was no material change in student enrolment during the year ended 31 August 2019, the normalised average annual tuition and boarding fees per student for Zhang Pu Longcheng Schools would have been adjusted to approximately RMB10,957.

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 2018/2019 and 2017/2018 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 2019, the average tuition and boarding fees per student before taking into consideration of the additions of Weifang Weizhou School, Guang'an Guangzheng Preparatory School and Zhang Pu Longcheng Schools increased by 9.4% to RMB22,176 primarily due to the increase in tuition and boarding fees for the new students in Dongguan Guangming Secondary and Primary Schools and Dongguan Guangzheng Preparatory School.

The overall average tuition and boarding fees per student of the Group increased by 8.2% to RMB21,049 primarily due to the increase in tuition and boarding fees for the new students in Dongguan Guangming Secondary and Primary Schools and Dongguan Guangzheng Preparatory School. If we had annualised the tuition and boarding fees of Zhang Pu Longcheng Schools during the year ended 31 August 2019 assuming that there was no material change in student enrolment during the same period, the normalised overall average tuition and boarding fees would have been adjusted to RMB21,146 (2018: RMB19,893), representing a year-on-year increase of 6.3%.

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 2018/2019 and 2017/2018 school years:

<i>Student Capacity and Utilization by School</i>	School Year 2018/2019		School Year 2017/2018	
	Student Capacity	Utilization	Student Capacity	Utilization
Dongguan Guangming Secondary and Primary Schools	18,300	94.9%	16,804	98.1%
Dongguan Guangzheng Preparatory School	15,000	84.3%	13,500	78.7%
Huizhou Guangzheng Preparatory School	8,500	99.0%	8,000	75.1%
Panjin Guangzheng Preparatory School	4,000	78.0%	2,500	86.8%
Weifang Guangzheng Preparatory School	4,000	53.3%	4,000	35.0%
Jieyang School	7,000	76.8%	5,000	90.0%
Sub-total	<u>56,800</u>	<u>86.3%</u>	<u>49,804</u>	<u>82.7%</u>
Addition of schools				
Weifang Weizhou School — consolidated with effect from June 2018	2,200	105.4%	2,120	96.7%
Guang'an Guangzheng Preparatory School — Opened in September 2018	1,000	15.9%	N/A	N/A
Zhang Pu Longcheng Schools — Consolidated with effect from November 2018	3,000	96.7%	N/A	N/A
Sub-total	<u>6,200</u>	<u>86.7%</u>	<u>2,120</u>	<u>96.7%</u>
Overall	<u><u>63,000</u></u>	<u><u>86.4%</u></u>	<u><u>51,924</u></u>	<u><u>83.3%</u></u>

Total student capacity increased from 51,924 for the 2017/2018 school year to 63,000 for the 2018/2019 school year primarily due to the expansion of capacity of Dongguan Guangming Secondary and Primary Schools (after the acquisition of an adjacent campus), Dongguan Guangzheng Preparatory School, the opening of Guang'an Guangzheng Preparatory School in September 2018 and the consolidation of Zhang Pu Longcheng Schools.

Teachers

For the 2018/2019 school year, over 80% of our PRC-qualified teachers held bachelor's or higher degrees. The number of teachers increased from approximately 2,670 for the 2017/2018 school year to approximately 3,410 for the 2018/2019 school year, primarily due to the recruitment of additional teachers for Dongguan Guangzheng Preparatory School and Huizhou Guangzheng Preparatory School, and the consolidation of Zhang Pu Longcheng Schools. The overall student-teacher ratio remained relatively stable.

Teacher turnover rate

For the 2018/2019 school year, the turnover rate of our teachers, including our termination, was approximately 7.0%.

RECENT BUSINESS UPDATE FOR THE 2019/2020 SCHOOL YEAR

(i) Openings of three greenfield schools from the 2019/2020 school year Bazhong Guangzheng Preparatory School (“Bazhong Guangzheng School”)

The Group has commenced operation of the first phase of Bazhong Guangzheng School, which is located in Bazhong, Sichuan province, since September 2019. Bazhong Guangzheng School is one of the key development projects promoted by the Local Government of Bazhong which has provided the Group with a parcel of land with a total site area of approximately 320 mu (亩) (equivalent to approximately 210,000 square metres) with the land use right of 50 years for educational purposes.

Bazhong Guangzheng School is a boarding school comprising, among other things, primary, middle and high school sections with a total capacity of approximately 10,000 students if the development of all phases is completed. The Company considers that the opening of Bazhong Guangzheng School can bring the Group an excellent opportunity to further expand its coverage in Sichuan and enhance its school brand influence in the region.

Yunfu Guangming Foreign Language School (“Yunfu Guangming School”)

The Group has commenced operation of the first phase of Yunfu Guangming School, which is located in Yunfu, Guangdong province, since September 2019. The local government of Yunfu allocated a parcel of land with a total site area of approximately 355 mu (畝) (equivalent to approximately 237,000 square metres) to the Group for educational purposes.

Yunfu Guangming School is a boarding school comprising, among other things, primary, middle and high school sections with a total capacity of 10,680 students if the development of all phases is completed.

Shunde Guangzheng Preparatory School

As mentioned in the section headed “Major Business Developments” under “Business Review For The 2018/2019 School Year”, Shunde Guangzheng Preparatory School has commenced operation from the 2019/2020 school year as planned. However, as certain facilities of the school are not ready for use, its students are currently using the facilities of other school campuses of the Group.

(ii) Student Enrolment Growth

<i>Student Enrolment by School</i>	School Year		Change	Percentage Change
	2019/2020	2018/2019		
Dongguan Guangming Secondary and Primary Schools	17,623	17,358	+265	+1.5%
Dongguan Guangzheng Preparatory School	14,773	12,645	+2,128	+16.8%
Huizhou Guangzheng Preparatory School	9,694	8,413	+1,281	+15.2%
Panjin Guangzheng Preparatory School	4,070	3,119	+951	+30.5%
Weifang Guangzheng Preparatory School	2,522	2,133	+389	+18.2%
Jieyang School (<i>Note</i>)	4,769	5,375	-606	-11.3%
Weifang Weizhou School	2,195	2,318	-123	-5.3%
Guang'an Guangzheng Preparatory School	598	159	+439	+276.1%
Sub-total	56,244	51,520	+4,724	+9.2%
Addition of schools				
Zhang Pu Longcheng Schools — Consolidated with effect from November 2018	2,894	2,900	-6	-0.2%
Bazhong Guangzheng School — New school opened in September 2019	488	N/A	+488	N/A
Yunfu Guangming School — New school opened in September 2019	445	N/A	+445	N/A
Shunde Guangzheng Preparatory School — New school opened in September 2019	45	N/A	+45	N/A
Sub-total	3,872	2,900	+972	N/A
Total number of students	60,116	54,420	+5,696	+10.5%

Note: 65% equity interest in Jieyang School was effectively consolidated to the Group in the 2017/2018 school year after acquisition by the Group. The decrease in student enrolment in Jieyang School was mainly due to the repositioning of Jieyang School in the 2019/2020 school year in which tuition and boarding fees of newly recruited students of primary and secondary school sections have been increased by approximately 29% to 32% and the school name has been changed from Huanan Shida Yuedong Preparatory School to Jieyang Jiedong Guangzheng Preparatory School.

(iii) Major Tuition and Boarding Fees Increments

From the 2019/2020 school year, apart from the increase in tuition and boarding fees of Jieyang School, tuition and boarding fees of newly recruited high school students of Dongguan Guangming School and Dongguan Guangzheng Preparatory School have been increased by approximately 29% and 42%, respectively.

(iv) Expansion of Schools' Capacity

Apart from opening three greenfield schools as mentioned above, the Group has expanded the capacity of certain schools for the 2019/2020 school year in order to cope with the growth in student enrolment. Accordingly, the overall student capacity increased from approximately 63,000 for the 2018/2019 school year to approximately 70,000 for the 2019/2020 school year, representing a year-on-year growth of about 11.1%.

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

MARKET REVIEW

China has planned to promote in-depth integration of resources and coordinated economic development in the Greater Bay Area, which comprises nine cities in Guangdong province and the two administrative regions of Hong Kong and Macao. The eleven cities, which include Guangzhou, Shenzhen, Foshan, Dongguan, Huizhou, Zhuhai, Zhongshan, Jiangmen and Zhaoqing, generated a combined United States Dollar 1.51 trillion in gross domestic product ("GDP") and host a population of 69.6 million in 2018 accounting for 12% and 5% of the national total respectively, according to the data compiled by the National Bureau of Statistics.

The development of the Greater Bay Area is also marked with significantly increased transport connectivity, which would facilitate the flow of people and goods, and thus foster robust economic growth. As the Chinese government continues to develop the transport network, multiple infrastructure projects such as the Shenzhen-Zhongshan Bridge and Liantang/Heung Yuen Wai Boundary Control Point are scheduled to launch in the near future, following the openings of the Nansha Bridge in April this year as well as the Guangzhou-Shenzhen-Hong Kong Express Rail Link and the Hong Kong-Zhuhai-Macao Bridge in 2018. With the development of transport infrastructure in the Greater Bay Area, together with other favorable policies, we expect the number of children accompanying their parents who come to do business or work in the Greater Bay Area from other regions in China will increase, creating a promising environment for the growth of private primary and secondary education in Guangdong province.

OUTLOOK

Favorable Environment for The Group's Business

i) The Outline Development Plan for The Greater Bay Area

On 18 February 2019, the central government of China issued an Outline Development Plan (“**Outline Development Plan**”) for the Greater Bay Area, which has drawn a road map to further transform the Greater Bay Area into a world-class city cluster and an international hub for technology and innovation. Particularly, one of the objectives set out in Chapter 8 of the Outline Development Plan is to create an education and talent hub in the Greater Bay Area and there are several initiatives, among other things, for promoting fundamental education in the area, such as:

- to enhance exchange and cooperation in fundamental education;
- to encourage primary and secondary schools in Guangdong, Hong Kong and Macao to link up as “sister schools”;
- to establish schools or provide classes with boarding services in Guangdong for the admission of Hong Kong and Macao children;
- to enhance school constructions and expand the supply of student places;
- to further improve the schooling policies for children accompanying parents who are under cross-region employments;
- to ensure eligible children who accompany parents residing in the places where they work will be able to take the university entrance examinations smoothly at their places of residence; and
- to consider allowing eligible children of Hong Kong and Macao residents who are working and living in the nine cities of the Pearl River Delta to enjoy the same rights as mainland residents on compulsory education and senior secondary education.

In order to attract more professionals to the nine cities in Guangdong, in March 2019, the Chinese government launched a subsidy scheme for foreign talent to make up for the difference in individual income tax between mainland China and Hong Kong.

We expect that the above initiatives, together with more convenient transportation and comprehensive facilities, will enhance the inflow of talent to the Greater Bay Area, which will in turn drive up demand for quality private primary and secondary schools as these people would generally have higher income level and put emphasis on the quality of their children's education.

ii) China's Education Modernization 2035 and its Implementation Plan (2018–2022)

With our proven track record in providing all-rounded quality private primary and secondary school education, we believe our schools will be one of the beneficiaries under the policy China's Education Modernization 2035.

In February 2019, the central government of China issued China's Education Modernization 2035 《中國教育現代化2035》and the Implementation Plan to Accelerate the Modernization of Education (2018–2022) 《加快推進教育現代化實施方案 (2018–2022年) 》(“**Implementation Plan**”), which, among other things, aim to achieve quality and balanced compulsory education and promote senior secondary education. Certain objectives of the ten key tasks set out in the Implementation Plan bode well for the development of primary and secondary education. For instance, the second task puts emphasis on, among other things, the development of quality and characteristic ordinary high schools and supporting the launch of afterschool services in primary and secondary schools. The final task intends to, among other things, implement the Law for Promoting Private Education, revise its implementation rules, and proactively encourage social resources to set up schools with a view to developing private education in a sustainable and healthy manner.

iii) Motivation of Local Governments to Support Private Education Development

The growing demand for education resources coupled with the heavy share of public education expenditure by Chinese local governments would probably add pressure to provincial and municipal coffers, providing great opportunities for the development of private education. Public spending on education in China has increased over the years, and reached over 3.6 trillion in 2018, representing an 8.31% year-on-year growth, according to Chinese government statistics. Over 90% of the public education expenditure meanwhile are borne by local governments, making it a high percentage to their income and overall spending. For example, in Guangdong province, public education expenditure made up around 17% of the total government spending and was around 24% to its income in 2016. Serving an important function of bridging the shortage of public education resources, the private education sector is therefore expected to continue growing rapidly.

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.

Increasing Our Brand Influence

We believe that maintaining a good reputation and a strong brand awareness are critical success factors for running private primary and secondary education in China. Thanks to our educational quality, we have a proven track record in replicating our business leveraging our school brands. We will continue to put emphasis on our all-rounded quality education and expand our school network in order to enhance our reputation.

With our increasing brand influence, we believe our school properties are quality assets for operating our visible and promising primary and secondary business in future decades and we prefer to own our school properties for large-scale schools. However, we will also explore any asset-light business opportunity for operating small-scale schools.

Our Growth Strategies

Greater Bay Area Focus

Given the favorable environment of Guangdong province in terms of GDP, population and the Outline Development Plan for the Greater Bay Area, we intend to have a comprehensive school coverage of the nine Guangdong cities in the Greater Bay Area.

Apart from the existing schools in Dongguan, Huizhou and Foshan, we have entered into cooperation or framework agreements with the local governments of Jiangmen, Guangzhou and Zhaoqing, respectively, in respect of the proposed establishment of a private boarding school in each of these cities, making up to the potential coverage of six Guangdong cities in the Greater Bay Area in the future.

Meanwhile, we will also explore any attractive expansion opportunities outside Guangdong province.

Two-pronged Expansion

I) Expanding Capacity of Our Schools

The estimated total capacity of the Group's existing schools for the 2019/2020 school year is approximately 70,000 students. Subject to certain government approvals, the estimated maximum capacity of the Group may be expanded to more than 140,000 students assuming all available lands of the existing schools for expansion and those of the greenfield schools under development are fully utilized.

We will evaluate the capacity of each of our schools based on the estimated number of students that the dormitories were designed to accommodate. The expansion of capacity of each of our schools is subject to evaluation and adjustment from time to time, depending on, among others, the respective school's actual student recruitment, utilization and the potential growth in student number.

The following table sets out the expansion of student capacity of the Group's schools, if any, from the 2018/2019 school year to the 2019/2020 school year and their estimated maximum student capacity:

Existing Schools	2018/2019 school year student capacity	2019/2020 school year estimated student capacity	Estimated maximum student capacity (Notes)
Dongguan Guangming Secondary and Primary Schools	18,300	18,300	18,300
Dongguan Guangzheng Preparatory School	15,000	17,000	20,000 ⁽¹⁾
Huizhou Guangzheng Preparatory School	8,500	10,500	12,000 ⁽¹⁾
Panjin Guangzheng Preparatory School	4,000	4,000	6,200 ⁽²⁾
Weifang Guangzheng Preparatory School	4,000	4,000	8,000 ⁽²⁾
Jieyang School	7,000	7,000	18,000 ⁽³⁾
Weifang Weizhou School	2,200	2,200	2,200
Guang'an Guangzheng Preparatory School	1,000	1,000	9,280 ⁽²⁾
Zhang Pu Longcheng Schools	3,000	3,000	3,500
Bazhong Guangzheng Preparatory School	N/A	1,500	10,000 ⁽²⁾
Yunfu Guangming Foreign Language School	N/A	1,500	10,680 ⁽²⁾
Shunde Guangzheng Preparatory School	N/A	— ⁽⁴⁾	9,210 ⁽⁴⁾
Sub-total	<u>63,000</u>	<u>70,000</u>	<u>127,370</u>
Greenfield Schools Under Development —			
Expected commencement in 2020/2021 school year			
A boarding school in Chaozhou	—	—	8,000 ⁽⁵⁾
A boarding school in Kaiping, Jiangmen	—	—	7,500 ⁽⁵⁾
Sub-total	<u>—</u>	<u>—</u>	<u>15,500</u>
Total	<u><u>63,000</u></u>	<u><u>70,000</u></u>	<u><u>142,870</u></u>

Notes:

- (1) Subject to certain government approvals, we are in the process of applying for an increase in the maximum student capacity of each of Dongguan Guangzheng Preparatory School and Huizhou Guangzheng Preparatory School from 18,000 to 20,000 and from 10,500 to 12,000, respectively.
- (2) The estimated maximum capacity for each of Panjin Guangzheng Preparatory School, Weifang Guangzheng Preparatory School, Guang'an Guangzheng Preparatory School, Yunfu Guangming Foreign Language School and Bazhong Preparatory School is based on the target total capacity for, among others, primary, middle and high school sections as set forth in the relevant cooperation agreement.
- (3) 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.
- (4) Though Shunde Guangzheng Preparatory School has commenced operation, certain facilities of the school are not ready for use and its students are currently using the facilities of other school campuses of the Group. The estimated maximum capacity is based on the target total capacity for, among others, primary, middle and high school sections as approved by the local government.
- (5) The estimated maximum capacity of the proposed greenfield schools in Chaozhou city and Kaiping, Jiangmen is based on the target total capacity for, among others, primary, middle and high school sections as set forth in the relevant cooperation agreements.

II) Open More New Schools

In order to sustain our future growth, apart from expanding the capacity of our existing schools, we will continue to open more new schools through potential operating asset-light schools of relatively small scale in Guangdong province and building greenfield schools of relatively large scale on purchased lands with land use rights for educational purposes.

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

a) Explore opportunities in operating asset-light schools in Guangdong province

Given the strong demand for quality private primary and secondary schools and the scarcity of lands for educational purpose in certain Guangdong cities, the Group is exploring the opportunities of renting or operating certain vacant properties which are suitable for transforming to school properties with a capacity of about 3,000 to 5,000 students if the local government authorities approve. The Group has identified certain properties in Dongguan and Foshan where the Group is in the process of negotiating with the property owners/tenants and the relevant government authorities on the cooperation

arrangements and the necessary approvals, respectively. As at the date of this announcement, the Group has not signed any formal or legally-binding agreement in respect of any business of operating asset-light schools.

- b) Greenfield schools under development — Expected commencement of the first phase operation in the 2020/2021 school year

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 has allocated 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 constructed by phases and the expected commencement date of the first phase operation is subject to certain conditions including the necessary government approvals.

- c) Proposed greenfield 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 legally-binding agreement in relation to the proposed cooperation.

Future Capital Expenditure and Financing

During the year ended 31 August 2019, we raised new borrowings from certain banks primarily for the future expansion of the Group's business. In order to have a better use of our unutilized financial resources, the Group has purchased certain investment products which were classified as financial assets at fair value through profit and loss. The Group is allowed to early redeem such investment management products, in whole or in part. The Group held these investment products for short-term cash management purpose, though certain investment products are classified as non-current assets by nature of the relevant products.

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 the 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.

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 the Outline Development Plan for the Greater Bay Area and our proven track record and two-pronged 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 of the shares of the Company on The Stock Exchange of Hong Kong Limited (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 <i>(RMB million)</i>	Amount Utilized <i>(RMB million)</i>	Unutilized Balance <i>(RMB million)</i>
— Expansion of our school network, in particular, through the development of new schools	65%	474.5	474.5	—
— Further expansion of three existing schools, namely Dongguan Guangzheng Preparatory School, Huizhou Guangzheng Preparatory School, and Panjin Guangzheng Preparatory School	8%	58.4	58.4	—
— Maintenance, renovation and upgrade of two existing schools, namely Dongguan Guangming School and Dongguan Guangming Primary School	2%	14.6	14.6	—
— Acquisition of schools to supplement our school network	18%	131.4	131.4	—
— Provision of scholarships and subsidies to our students	2%	14.6	7.8	6.8
— Working capital and general corporate purpose	5%	36.5	36.5	—
Total	100%	730.0	723.2	6.8

The unutilized net proceeds are generally placed in licensed financial institutions as short-term interest-bearing deposits. We anticipated to use up the unutilized net proceeds within eight years of the Listing date (i.e. 26 January 2017).

REGULATORY UPDATE

Our Schools under The Law for Promoting Private Education

According to the Law for Promoting Private Education (which was effective on 1 September 2003 and was subsequently amended on 29 June 2013) and its implementing rules (which were effective on 1 April 2004) in the PRC, school sponsors of private schools may or may not require reasonable return. Private schools with school sponsors not requiring reasonable returns should be eligible for tax incentives that are the same as public schools, such as enterprise income tax (“EIT”) exemption, subject to the local government and tax bureau’s approval. On the other hand, any preferential tax treatment policies for private schools with school sponsors requiring reasonable returns shall be separately formulated by the relevant authorities. However, there were no formal PRC tax rules or regulations elaborating the tax incentives applicable to private schools with school sponsors requiring reasonable returns and there were no formula or guidelines for determining what constitutes a reasonable return. As such, even though all of our schools were private schools with the school sponsors requiring reasonable returns classified under the Law for Promoting Private Education, our schools were subject to EIT of 25% before the effective date of The Decision on Amending the Law for Promoting Private Education of the PRC (《關於修改〈中華人民共和國民辦教育促進法〉的決定》) approved by the Standing Committee of the National People’s Congress on 7 November 2016 (“Decision”).

The Decision on Amending the Law for Promoting Private Education

The Decision, which has been effective since 1 September 2017, made certain amendments to the Law for Promoting Private Education of the PRC. The Law for Promoting Private Education of the PRC was further slightly amended in 2018. The Decision removed the article that school sponsors of private schools may choose to require reasonable returns. According to the Decision, school sponsors of private schools can choose to establish schools as not-for-profit or for-profit entities, except that schools which provide compulsory education (i.e. primary and middle schools offering PRC curriculum) can only be established as not-for-profit entities, and sponsors of not-for-profit schools are not entitled to any distribution of profits from the schools they operate. All operation surplus of not-for-profit schools shall be used for the operation of the schools. Not-for-profit schools are entitled to enjoy EIT exemption as public schools.

The Decision Has No Material Impact on Our 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 Special

Administrative Measures (Negative List) for Admission of Foreign Investment (2019 Version) (《外商投資准入特別管理措施(負面清單)(2019年版)》) (“**Negative List**”) and other relevant PRC laws remain unchanged by then, because (i) the Sino-foreign Schools Regulation and the Negative List 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.

Foreign Investment Law

PRC laws and regulations currently prohibit foreign ownership of primary and middle schools in the PRC and stipulate that foreign capital may just operate high schools by way of Sino-foreign cooperation (where the domestic party shall play a dominant role). 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 15 March 2019, the National People’s Congress passed the Foreign Investment Law of the PRC (《中華人民共和國外商投資法》) (“**Foreign Investment Law**”) after deliberation, which will come into force on 1 January 2020. It will replace the Law of the PRC on Wholly Foreign-Owned Enterprises (《中華人民共和國外資企業法》), the Law of the PRC on Sino-Foreign Equity Joint Ventures (《中華人民共和國中外合資經營企業法》) and the Law on Sino-Foreign Contractual Joint Ventures of the PRC (《中華人民共和國中外合作經營企業法》). The Foreign Investment Law stipulates that the State shall implement the management systems of pre-establishment national treatment and negative list for foreign investment. Foreign investors shall not invest in the sectors or industries prohibited by the negative list for the market entry of foreign investment.

The Foreign Investment Law adopts a more moderate stance than the draft Foreign Investment Law on the definition of foreign investment, and does not expressly impose restrictive requirements on the business operated in the PRC through contractual arrangement. Therefore, the Foreign Investment Law will not have a material impact on the overall contractual arrangement and each of the agreements which constitutes the contractual arrangement. The contractual arrangement and the relevant agreements will remain legal, valid and binding on the parties thereto. Notwithstanding the above, the Foreign Investment Law stipulates that “foreign investment includes the investment made in the PRC by foreign investors through any other ways under the laws, administrative regulations and provisions required by the State Council”. If the future laws, administrative regulations and provisions of the State Council state contractual arrangement as one of the ways of foreign investment, our contractual arrangement may be deemed as foreign investment.

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. We will also take reasonable measures in good faith with reference to the circumstances. As at 31 August 2019, our Company was not aware of any non-compliance with the Foreign Investment Law.

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 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 2019, total revenue increased by 34.9% to RMB1,681.5 million. Profit for the year and core net profit increased by 15.1% and 33.1%, respectively, to RMB353.6 million and RMB428.6 million, respectively, as compared to that for the year ended 31 August 2018.

Revenue

For the components of our revenue, please refer to the section headed “Business Review For The 2018/2019 School Year” above.

The Group’s total revenue increased by RMB434.6 million, or 34.9%, from RMB1,246.9 million for the year ended 31 August 2018 to RMB1,681.5 million for the year ended 31 August 2019. The increase was attributable to the increase in revenue from tuition and boarding fees by RMB304.2 million and the increase in revenue from ancillary services by RMB130.4 million.

Revenue from tuition and boarding fees increased by 36.2% from RMB841.2 million for the year ended 31 August 2018 to RMB1,145.5 million for the year ended 31 August 2019, largely due to the increase in total student enrolment and the increase in tuition and boarding fees for the new students in Dongguan Guangming Secondary and Primary Schools and Dongguan Guangzheng Preparatory School. Total student enrolment increased by 25.9% from 43,230 for the 2017/2018 school year to 54,420 for the 2018/2019 school year, primarily due to the increase in student enrolment of Dongguan Guangzheng Preparatory School and Huizhou Guangzheng Preparatory School, and the consolidation of Zhang Pu Longcheng Schools.

Revenue from ancillary services increased by 32.1% from RMB405.7 million for the year ended 31 August 2018 to RMB536.1 million for the year ended 31 August 2019, primarily due to the increase in overall student enrolment and the increase in average selling price of certain ancillary service items.

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) amortisation of intangible assets of student rosters arising from the acquisition of schools, (iv) depreciation and amortisation on property, plant and equipment and land and buildings used by our schools, (v) utilities and maintenance costs for our schools and (vi) 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			
	2019	% of	2018	% of
	RMB'000	Revenue	RMB'000	Revenue
Staff costs	470,896	28.0	314,748	25.2
Cost of provision of ancillary services	266,867	15.9	217,780	17.5
Amortisation of intangible assets	25,590	1.5	11,681	0.9
Depreciation and amortisation	94,953	5.7	76,972	6.2
Utilities and maintenance	38,981	2.3	33,402	2.7
Education expenses	42,549	2.5	47,471	3.8
Total cost of revenue	<u>939,836</u>	<u>55.9</u>	<u>702,054</u>	<u>56.3</u>

Cost of revenue increased by RMB237.7 million, or 33.9%, from RMB702.1 million for the year ended 31 August 2018 to RMB939.8 million for the year ended 31 August 2019. The increase was largely due to increases in teaching staff costs, cost of provision of ancillary services, depreciation and amortisation of intangible assets arising from the acquisition of schools.

Staff costs increased mainly because the number of teachers increased from approximately 2,670 for the 2017/2018 school year to approximately 3,410 for the 2018/2019 school year, primarily attributable to the expansion of Dongguan Guangzheng Preparatory School, Huizhou Guangzheng Preparatory School, and the consolidation of Zhang Pu Longcheng Schools and increase in average salaries of our teachers during the year ended 31 August 2019.

Cost of provision of ancillary service increased in line with the increase in revenue from ancillary services for the year ended 31 August 2019.

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, and the consolidation of Zhang Pu Longcheng Schools.

Gross Profit

As a result of the foregoing, gross profit increased by 36.1% from RMB544.9 million for the year ended 31 August 2018 to RMB741.7 million for the year ended 31 August 2019. Our gross margin increased from 43.7% for the year ended 31 August 2018 to 44.1% for the year ended 31 August 2019, primarily due to the increase in tuition and boarding fees for the new students of Dongguan Guangming Secondary and Primary Schools and Dongguan Guangzheng Preparatory School. The adjusted gross profit margin for the year

ended 31 August 2019 was 45.6% (31 August 2018: 44.6%) after adjusting for the amortisation of intangible assets arising from the acquisition of schools of RMB25.6 million (31 August 2018: 11.7 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 decreased by RMB20.7 million from RMB54.1 million for the year ended 31 August 2018 to RMB33.4 million for the year ended 31 August 2019, primarily due to the decrease in government grants by RMB15.5 million.

Other Gains and Losses

Other gains and losses primarily consist of (i) gain on change in fair value of financial assets at FVTPL, i.e. interest income from investment products, of RMB18.4 million, and (ii) exchange loss of RMB16.7 million mainly resulting from the translation of monetary assets and liabilities denominated in Hong Kong dollars (HK\$).

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 32.3% from RMB19.5 million for the year ended 31 August 2018 to RMB25.8 million for the year ended 31 August 2019, 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, Guang'an Guangzheng Preparatory School and Zhang Pu Longcheng Schools. Selling expenses as a percentage of revenue slightly decreased from 1.6% for the year ended 31 August 2018 to 1.5% for the year ended 31 August 2019.

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 increased by 14.5% from RMB220.9 million for the year ended 31 August 2018 to RMB253.0 million for the year ended 31 August 2019, primarily as a result of the increase in salaries and other benefits and office expenses in line with the Group's expansion plan and the consolidation of Zhang Pu Longcheng Schools. Administrative expenses as a percentage of revenue decreased from 17.7% for the year ended 31 August 2018 to 15.0% for year ended 31 August 2019.

Finance Income

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

Finance income decreased from RMB46.2 million for the year ended 31 August 2018 to RMB20.3 million for the year ended 31 August 2019 primarily due to the classification of interest income from investment products of RMB18.4 million as "Gain on change in fair value of financial assets at FVTPL" in other gains and losses for the year ended 31 August 2019 due to the adoption of IFRS 9.

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 RMB57.5 million for the year ended 31 August 2018 to RMB107.1 million for the year ended 31 August 2019, primarily due to the increase in bank borrowings and interest expenses on convertible loan notes charged to the profit and loss for the year ended 31 August 2019. Adjusted finance costs for the year ended 31 August 2019 was RMB83.9 million, after adjusting for the difference of actual interest payable for the convertible loan notes and the interest expenses charged to the profit and loss based on the theoretical effective interest rate as disclosed in note 20 to the consolidated financial statements (see also note to reconciliation of Core Net Profit).

Profit before Taxation

As a result of the foregoing, our profit before taxation increased by 18.4% from RMB345.6 million for the year ended 31 August 2018 to RMB409.3 million for the year ended 31 August 2019. Profit before taxation as a percentage of revenue of the Group was 24.3% for the year ended 31 August 2019 compared with 27.7% for the year ended 31 August 2018.

Taxation

Income tax expense of the Group increased from RMB38.4 million for the year ended 31 August 2018 to RMB55.7 million for year ended 31 August 2019. All of our primary and middle school sections are required to be classified as not-for-profit schools where tuition and boarding fees are entitled to the same EIT exemption as public schools since 1 September 2017. We have decided not to classify our high school sections as for-profit schools.

The effective tax rate of the Group for each of the years ended 31 August 2019 and 31 August 2018 was 13.6% and 11.1%, respectively. The increase in the Group's effective tax rates was primarily due to the increase in profit generated from our wholly-owned services companies.

Profit for the Year

As a result of the above factors, profit for the year of the Group increased by 15.1% from RMB307.2 million for the year ended 31 August 2018 to RMB353.6 million for the year ended 31 August 2019.

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	
	2019	2018
	RMB'000	RMB'000
Profit for the year	353,578	307,182
Less:		
Exchange gain	–	(4,788)
Add:		
Exchange loss	16,748	—
Loss on change in fair value of convertible loan notes	786	3,944
Share-based payments	8,708	3,948
Amortisation of intangible assets arising from the acquisition of schools	25,590	11,681
Adjusted interest expenses on convertible loan notes based on actual coupon rate <i>(Note)</i>	23,200	—
	<hr/>	<hr/>
Core net profit	<u>428,610</u>	<u>321,967</u>

Note: The adjustment represented the difference of (a) the actual interest payable by the Group for the HK\$500 million convertible loan notes with coupon rate of 6.8% of approximately RMB30.2 million, whereas the difference for the year ended 31 August 2018 was immaterial and (b) the interest charged to “Finance costs” in profit and loss of approximately RMB53.4 million based on the theoretical effective interest rate of 12.2% by using effective interest method as disclosed in note 20 to the consolidated financial statements.

Core net profit for year ended 31 August 2019 increased by RMB106.6 million or 33.1% from RMB322.0 million for the year ended 31 August 2018 to RMB428.6 million for the year ended 31 August 2019. Core net profit margin slightly decreased from 25.8% for the year ended 31 August 2018 to 25.5% for the year ended 31 August 2019.

Capital Expenditure

For the year ended 31 August 2019, the Group paid approximately RMB618.7 million for the acquisition of property, plant and equipment and paid approximately RMB285.1 million for the acquisition of land for the Group's expansion.

Liquidity, Financial Resources and Capital Structure

The Group recorded a slight decrease in net cash inflow from operating activities for the year ended 31 August 2019 as compared to that for the year ended 31 August 2018, primarily due to the decrease in trade and other payable and accrued expenses.

During the year ended 31 August 2019, the capital expenditures for the acquisition of property, plant and equipment, prepaid lease payments and the deposits for the acquisition of new schools were partly financed by the net proceeds from the Company's global offering in January 2017, and the net proceeds from new bank borrowings raised and convertible loan note.

The combined effect of the above resulted in a net decrease in cash and cash equivalents of RMB259.7 million for the year ended 31 August 2019 (For the year ended 31 August 2018: net increase in cash and cash equivalent of RMB522.3 million).

As at 31 August 2019, the Group's total pledged bank deposits, bank balances and cash amounted to RMB1,161.4 million, of which the majority were denominated in HK\$ and RMB (as at 31 August 2018: RMB1,193.0 million).

As at 31 August 2019, the Group's total of bank and other borrowings amounted to RMB2,648.6 million comprising RMB1,108.1 million repayable within one year and RMB1,540.5 million repayable more than one year. Bank and other borrowings carried interest rates ranging from 4.4% to 7.3% per annum. All the bank borrowings were denominated in RMB and other borrowings were denominated in HK\$. During the year ended 31 August 2019, the Group raised certain borrowings from banks for 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 2019, in order to have a better use of our unutilised financial resources, the Group purchased certain investment products during the year ended 31 August 2019. The Group is allowed to early redeem these investment products and the Group held these investment products for short-term cash management purpose, though certain investment products are classified as non-current assets by nature of the relevant products. These investment products were classified as "Financial assets at fair value through profit or loss" as at 31 August 2019.

Please refer to the note 14 to the consolidated financial statements for details.

The Group recorded net current liabilities of RMB884.5 million as at 31 August 2019 (as at 31 August 2018: RMB174.9 million) primarily as a result of the recognition of tuition and boarding fees received in advance as “contract liabilities” (previously classified 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 2019 was 66.2% (as at 31 August 2018: 47.4%).

As explained in the sections headed “Future Capital Expenditure and Financing” and Liquidity, Financial Resources and Capital Structure” above, as at 31 August 2019, in order to have a better use of our unutilised financial resources, the Group purchased certain wealth management products which were classified as financial assets at fair value through profit and loss. The Group is allowed to redeem these wealth management products, in whole or in part, with prior written notice and the Group held these investment products for short-term cash management purpose, though certain investment products are classified as non-current assets by nature of the relevant products. Taking into consideration our intention of holding these investments products of RMB342.0 million as at 31 August 2019 for short-term cash management purpose and the possibility of early redemption, the Group’s adjusted net gearing ratio as at 31 August 2019 would have been reduced to 51.0% (as at 31 August 2018: 24.1%).

The increase in net gearing ratio was mainly due to the increase in bank borrowings as at 31 August 2019 for the construction of new schools and the acquisition of a parcel of land in Shunde, Foshan city for building a primary and secondary school.

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 2019, 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 against one of the subsidiary of the Company 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 2019, 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 Zhang Pu Longcheng Schools as disclosed above, the Group had no other material acquisition and disposal of subsidiaries, associates or joint ventures during the year ended 31 August 2019.

SIGNIFICANT INVESTMENTS HELD

As at 31 August 2019, the Group held certain wealth management products which were classified as financial assets at fair value through profit or loss of approximately RMB342.0 million in aggregate. For the reasons for holding these investment products, 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 2019, the Group had approximately 6,210 employees (as at 31 August 2018: approximately 5,720). 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 2019 amounted to approximately RMB607.4 million (2018: RMB393.6 million).

FINAL DIVIDEND

The Board has resolved to recommend the payment of a final dividend of RMB0.042 (equivalent to HK\$0.049) per share for year ended 31 August 2019 to the shareholders of the Company (“**Shareholders**”) whose names appear on the register of members of the Company at the close of business on 22 January 2020 (Wednesday). Subject to the approval by Shareholders at the forthcoming annual general meeting (“**AGM**”) to be held on 13 January 2020 (Monday), the proposed final dividend is expected to be paid on or about 5 February 2020 (Wednesday).

CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the AGM to be held on 13 January 2020 (Monday), the register of members of the Company will be closed from 8 January 2020 (Wednesday) to 13 January 2020 (Monday), 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 7 January 2020 (Tuesday).

For determining the entitlement to the proposed final dividend (subject to the approval by Shareholders at the AGM) for the year ended 31 August 2019, the register of members of the Company will be closed from 20 January 2020 (Monday) to 22 January 2020 (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 17 January 2020 Friday.

SHARE AWARD SCHEME

The Company has 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 2019, the Trustee has purchased a total of 11,704,000 Shares (31 August 2018: 11,534,000 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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (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 as disclosed in the section headed “Share Award Scheme” above, during the year ended 31 August 2019, 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 2019.

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 (“**Chairperson**”) and chief executive (“**CEO**”) should not be performed by the same individual.

Ms. Li Suwen (“**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, BBS, J.P. and Mr. Huang Weiguo, 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 2019 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 2019.

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 2019 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, 25 November 2019

As at the date of this announcement, the executive Directors of the Company are Ms. Li Suwen, Mr. Liu Xuebin, Mr. Li Jiuchang and Mr. Wang Yongchun; and the independent non-executive Directors of the Company are Prof. Sun Kai Lit Cliff, BBS, J.P., Mr. Tam King Ching Kenny and Mr. Huang Weiguo.