



希望教育集團有限公司

Hope Education Group Co., Ltd.

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1765

2018 Interim Report

Contents

	<i>Page</i>
Contents	1
Definitions	2
Corporate Information	6
Our Schools	8
Financial Highlights	9
Chairman's Statement	10
Management Discussion and Analysis	13
Other Information	38
Report on review of Interim Condensed Financial Information	50
Interim Condensed Financial Information	
Consolidated statement of profit or loss and other comprehensive income	51
Consolidated statement of financial position	52
Consolidated statement of changes in equity	54
Consolidated statements of cash flows	55
Notes to condensed financial information	57

DEFINITIONS

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

“2018 Pre-IPO Share Option Scheme”	the 2018 pre-IPO share option scheme conditionally approved and adopted by our Shareholders on 18 March 2018 for the benefit of, amongst others, our Company’s directors, senior management, employees, advisors, consultants, distributors, contractors, customers, suppliers, agents, business partners, joint venture business partners and service providers, a summary of the principal terms of which is set out in “Appendix V — Statutory and General Information” of the Prospectus
“Board” or “Board of Directors”	the board of Directors
“Business College of Guizhou University of Finance and Economics”	Business College of Guizhou University of Finance and Economics (貴州財經大學商務學院), a college established under the laws of PRC in 2004, acquired by our Group in April 2014 and approved by the MOE to be operated under the cooperation between Guizhou University and our Group in September 2014
“CG Code” or “Corporate Governance Code”	the Code on Corporate Governance Practice under Appendix 14 to the Listing Rules
“China” or “PRC”	the People’s Republic of China excluding for the purpose of this report, Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Company”	Hope Education Group Co., Ltd. (希望教育集團有限公司), an exempted company incorporated in the Cayman Islands with limited liability on 13 March 2017
“Director(s)”	the directors of our Company
“Frost & Sullivan Report”	an independent market research report commissioned by our Company on the PRC private education market and prepared by Frost & Sullivan (Beijing) Inc., Shanghai Branch Co.
“GDP”	Gross Domestic Product
“Our Group”, “Group”, “we” or “us”	our Company, its subsidiaries and the entities that we control through the contractual arrangements from time to time, or, where the context so requires in respect of the period before our Company became the holding company of our present subsidiaries, the entities which carried on the business of the present Group at the relevant time
“Guangdong Modern Agricultural Vocational College”	Guangdong Modern Agricultural Vocational College* (廣東現代農業職業學院), a college to be established as a higher vocational college

DEFINITIONS

“Guizhou Vocational Institute of Technology”	Guizhou Vocational Institute of Technology* (貴州應用技術職業學院), a college established by our Group under the laws of PRC in March 2016
“HK\$”	Hong Kong dollars, the lawful currency for the time being of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Exchanges and Clearing Limited”	Hong Kong Exchanges and Clearing Limited
“Hope Education”	Sichuan Hope Education Industry Group Limited* (四川希望教育產業集團有限公司) (formerly known as Sichuan Mayflower Investment Company Limited* (四川五月花投資有限公司), Sichuan Hope Mayflower Investment Limited* (四川希望五月花投資有限公司), Sichuan Hope Education Industry Company Limited* (四川希望教育產業有限公司)), a limited liability company established under the laws of PRC on 12 January 2005
“Hong Kong Stock Exchange” or “Stock Exchange”	The Stock Exchange of Hong Kong Limited
“IFRS”	the International Financial Reporting Standard(s)
“Jiexing Huilv”	Guizhou Jiexing Huilv Air Service Consultant Services Limited* (貴州捷星慧旅航空空乘諮詢服務有限公司), a limited liability company established under the laws of PRC on 9 September 2010
“Jinci College of Shanxi Medical University”	Jinci College of Shanxi Medical University* (山西醫科大學晉祠學院), a college established under the laws of PRC in June 2002, acquired by our Group in April 2014, and approved by the MOE to be operated under the cooperation between Shanxi Medical University and our Group in August 2014
“Listing”	the listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited
“Listing Date”	3 August 2018, the date on which the shares of the Company are listed and from which dealings therein are permitted to take place on the Hong Kong Stock Exchange
“Listing Rules”	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time
“M&A”	mergers and acquisitions
“Model Code”	Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules

DEFINITIONS

“MOE”	Ministry of Education of the PRC (中華人民共和國教育部)
“Period”	for the six months ended 30 June 2018
“Prospectus”	the prospectus being issued by the Company dated 24 July 2018
“RMB” or “Renminbi”	Renminbi, the lawful currency for the time being of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shanghai Shurui Investment Consultant Limited”	Shanghai Shurui Investment Consultant Limited* (上海舒瑞投資諮詢有限公司), a company incorporated in PRC on 29 February 2008 and a wholly-owned subsidiary of our Group
“Shareholder(s)”	holder(s) of the Share(s)
“Share(s)”	ordinary share(s) of a nominal value of US\$0.00001 each in the share capital of our Group
“Sichuan Department of Education”	Sichuan Department of Education* (四川省教育廳)
“Sichuan Hope Automotive Technical College”	Sichuan Hope Automotive Technical College* (四川希望汽車技師學院), a college established by our Group under the laws of PRC in July 2016
“Sichuan Hope Automotive Vocational College”	Sichuan Hope Automotive Vocational College* (四川希望汽車職業學院), a college established by our Group under the laws of PRC in March 2013
“Sichuan Tianyi College”	Sichuan Tianyi College* (民辦四川天一學院), a college established and named as Sichuan Tianyi Open College (四川天一開放函授進修學院) in 1991, approved by the State Education Commission (currently, the MOE) to be a formal junior-college-level higher education institution in 1994 and acquired by our Group in September 2011
“Sichuan TOP IT Vocational Institute”	Sichuan TOP IT Vocational Institute* (四川托普信息技術職業學院), a college established by Sichuan TOP Education Co., Ltd. (四川托普教育股份有限公司) in June 2000 and acquired by our Group in December 2017
“Sichuan Vocational College of Culture & Communication”	Sichuan Vocational College of Culture & Communication* (四川文化傳媒職業學院), a college established as a higher vocational college in 2005 and acquired by our Group in March 2014

DEFINITIONS

“Southwest Jiaotong University Hope College”	Southwest Jiaotong University Hope College* (西南交通大學希望學院), a college approved by the MOE to be established under the cooperation between Southwest Jiaotong University, Chengdu West Hope Group Limited* (成都華西希望集團有限公司) and our Group in April 2009
“State”	the central government of the PRC, including all governmental sub-divisions (such as provincial, municipal and other regional or local government entities)
“Subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules
“Tequ Education”	Sichuan Tequ Education Management Limited* (四川特驅教育管理有限公司), a limited liability company established under the laws of PRC on 30 November 2017 following the division under reorganization, the shareholding of which largely mirrors that of Hope Education and is indirectly controlled by Mr. Wang Huiwu
“The College of Science and Technology of Guizhou University”	The College of Science and Technology of Guizhou University* (貴州大學科技學院), a college established under the laws of PRC in May 2001, approved by the MOE to be operated under the cooperation between Guizhou University and a third party in December 2014 and acquired by our Group in September 2016. We disposed The College of Science and Technology of Guizhou University on 19 March 2018. For further details of the disposal, see “History, Reorganization and Corporate Structure” of the Prospectus
“U.S.” or “United States”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
“U.S. dollar(s)” or “US\$” or “USD”	United States dollars, the lawful currency for the time being of the United States
“Yixing CEL”	Yixing CEL Investment Co., Limited* (宜興光控投資有限公司), a limited liability company established under the laws of PRC on 26 September 2008
“%”	per cent

* For identification purpose only

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Xu Changjun (*Chairman*)
Mr. Wang Huiwu (*Chief Executive Office*)
Mr. Li Tao

Non-executive Directors

Mr. Tang Jianyuan
Mr. Lu Zhichao
Mr. Wang Degen

Independent Non-executive Directors

Mr. Zhang Jin
Mr. Chen Yunhua
Dr. Gao Hao

Audit Committee

Mr. Zhang Jin (*Chairman*)
Mr. Tang Jianyuan
Mr. Lu Zhichao
Mr. Chen Yunhua
Dr. Gao Hao

Nomination and Remuneration Committee

Mr. Chen Yunhua (*Chairman*)
Mr. Wang Huiwu
Dr. Gao Hao

Strategy and Development Committee

Mr. Wang Huiwu (*Chairman*)
Mr. Wang Degen
Mr. Xu Changjun
Mr. Lu Zhichao
Mr. Li Tao

AUTHORIZED REPRESENTATIVES

Ms. Leung Wing Han Sharon
Mr. Li Tao

JOINT COMPANY SECRETARIES

Ms. Leung Wing Han Sharon
Mr. Huang Zhongcai

REGISTERED OFFICE

PO Box 309,
Ugland House Grand Cayman,
KY1-1104 Cayman Islands

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN CHINA

5/F, Administrative Building,
Sichuan TOP IT
Vocational Institute,
2000 Xi Qu Avenue,
Pidu District,
Chengdu,
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

40/F, Sunlight Tower,
248 Queen's Road East,
Wanchai,
Hong Kong

LEGAL ADVISOR AS TO HONG KONG LAW

Davis Polk & Wardwell
18th Floor,
The Hong Kong Club Building,
3A Chater Road,
Hong Kong

CORPORATE INFORMATION

AUDITOR

Ernst & Young
Certified Public Accountants
22/F, CITIC Tower,
1 Tim Mei Avenue,
Central,
Hong Kong

COMPLIANCE ADVISOR

Guotai Junan Capital Limited
27/F, Low Block,
Grand Millennium Plaza,
181 Queen's Road Central,
Hong Kong

PRINCIPAL SHARE REGISTRAR

Maples Fund Services (Cayman) Limited
PO Box 1093,
Boundary Hall,
Cricket Square,
Grand Cayman,
KY1-1102,
Cayman Islands

HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor,
Hopewell Centre,
183 Queen's Road East,
Wanchai,
Hong Kong

PRINCIPAL BANKERS

Bank of China
China Minsheng Bank
Chengdu Rural Commercial Bank

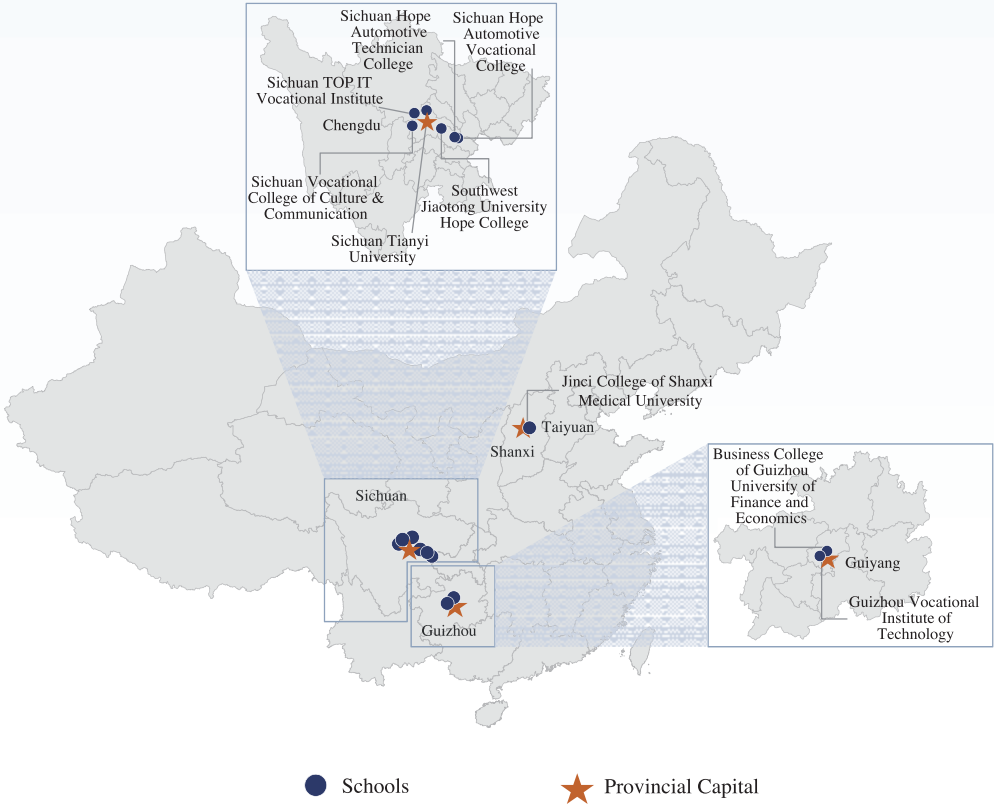
COMPANY'S WEBSITE

www.hopeedu.com

STOCK CODE

1765

OUR SCHOOLS



INTERIM RESULTS

- The Group's revenue increased by 38% to RMB528.00 million as compared with the corresponding period of last year, with an increase of 42% in revenue from tuition fees.
- Other income increased by 73% to RMB106.04 million from RMB61.15 million for the corresponding period of last year.
- Gross profit for the Period increased to RMB260.22 million from RMB209.94 million for the corresponding period of last year.
- Adjusted net profit (excluding listing expenses and equity-settled share option expense) increased by 38% to RMB191.63 million from RMB139.06 million for the corresponding period of last year.

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the Board, I am pleased to present to the Shareholders the interim report of the Group for the six months ended 30 June 2018.

OVERVIEW OF THE GROUP

Dedicated to providing higher education focusing on applied sciences, the Group offers quality education to students with an aim to equip them with the knowledge and skills needed for employment and to cultivate qualified application-oriented professionals for the society. The Group has more than ten years' experience in the establishment and management of higher education schools, and has successfully expanded our school network rapidly based on our strong capabilities of acquiring and establishing higher education institutions. As a leader of China's private higher education industry, with our established market position, rich experience in operating higher education schools and sophisticated centralized management model, we have the first-mover advantage to expand school network, acquire and consolidate additional schools, increase our market share and capture the market growth opportunities. We own and operate eight higher education schools and one technician college, including three independent colleges and five junior colleges in Sichuan, Guizhou and Shanxi. As at 31 December 2017, our Group ranked second with a market share of approximately 1.1% in the private higher education industry of China.

In line with our commitment to students, we endeavor to enable students to become professional talent possessing knowledge and skills desired in employment market. We establish majors and curricula with a focus on applied technologies based on employment market demand and make job-oriented training a key part of our courses. Furthermore, we have close cooperation with corporations and institutions in various areas, which has complemented our classroom teaching, offered superior training opportunities for our students and improved our graduates' competitiveness in the employment market. In our track record, the initial employment rate of our graduates reached approximately 90%.

We have established a sophisticated centralized management model, which enables us to control the operation costs while reducing operating risks effectively. Our schools also share market demand, teaching resources and student recruitment experience and job placement resources. The synergy achieved by such resource sharing among schools underpins the further expansion of our school network. We have established an education management committee at our headquarters, which serves as a think tank on decision-making for education and school operations and will provide guidance and supervision to the education and teaching work of various institutions. This enables our schools to benefit from these experts' education management experience in their teaching activities and operations.

Our fundamental educational philosophy is "happy learning, happy living and happy working." We adhere to our core values of gratefulness, optimism, rigor and responsibility and focus on providing high-quality higher education to foster talent with competitive capabilities and practical skills to contribute to the social and economic development.

PERFORMANCE

The Group successfully listed on the Stock Exchange on 3 August 2018. The Group recorded good performance for the six months ended 30 June 2018. Our revenue increased by 38% from RMB383.65 million for the six months ended 30 June 2017 to RMB528.00 million for the same period of 2018. Our gross profit increased by 24% from RMB209.94 million for the six months ended 30 June 2017 to RMB260.22 million for the same period of 2018. Our adjusted net profit increased by 38% from RMB139.06 million for the six months ended 30 June 2017 to RMB191.63 million for the same period of 2018.

BUSINESS OVERVIEW

The Group have currently invested and operated higher education schools in Sichuan, Guizhou and Shanxi, including three independent colleges namely Southwest Jiaotong University Hope College, Business College of Guizhou University of Finance and Economics and Jinci College of Shanxi Medical University; and five junior colleges namely Sichuan Tianyi College, Sichuan Hope Automotive Vocational College, Sichuan Vocational College of Culture & Communication, Guizhou Vocational Institute of Technology and Sichuan TOP IT Vocational Institute; as well as one technical college, being Sichuan Hope Automotive Technical College. The school year of our schools generally starts on 1 September of each calendar year and ends on 31 August of the next calendar year. The total number of students at our schools increased by 46% from 50,307 for the 2016/2017 school year to 73,512 for the 2017/2018 school year. According to the internal statistics, the Group recorded better performance for the six months ended 30 June 2018. Our revenue increased by 38% from RMB383.65 million for the six months ended 30 June 2017 to RMB528.00 million for the same period of 2018.

BUSINESS STRATEGIES

We aspire to provide more Chinese students with access to higher education and to become a world-renowned private higher education service provider. To achieve this goal, we plan to pursue the following business strategies: (1) continue to expand our school network and strengthen our leading market position; (2) further increase the utilization rate, capacity and education level of our existing schools; (3) further optimize our centralized management model, continue to improve our schools' teaching quality and competitiveness and strengthen our brand recognition; (4) continue to attract, encourage and retain high-quality teachers, and enhance the support for the career development of teachers; (5) further optimize our pricing strategy and income structure and enhance the Company's profitability; and (6) further expand school-enterprise collaboration and improve student employment rate.

CHAIRMAN'S STATEMENT

APPRECIATION

On behalf of the Board, I would like to extend my heartfelt gratitude to all local governments, all sectors of society and our Shareholders for their continued support for the development of Hope Education Group Co., Ltd. I would also like to thank all students and their parents. Also, I would like to express my sincere appreciation to the Board members, senior management as well as the management and teaching staff within our schools for their contribution and dedication.

Hope Education Group Co., Ltd.

Chairman

Xu Changjun

Hong Kong, 30 August 2018

OVERVIEW

The Group is the second largest private higher education group in China in terms of the number of students enrolled for higher education as of 31 December 2017, according to the Frost & Sullivan Report. The Group is committed to providing quality education to students with an aim to equipping them with the knowledge and skills desired in employment markets. The Group owns and operates eight higher education schools, including three independent colleges and five junior colleges in Sichuan, Guizhou and Shanxi. In addition to the above-mentioned eight schools, the Group operates Sichuan Hope Automotive Technical College to provide technical education services.

In line with the commitment to students, the Group endeavors to enable students to become professional talent possessing knowledge and skills desired in employment market. The Group establishes majors and curricula with a focus on applied technologies based on employment market demand and makes job-oriented training a key part of its courses. Furthermore, the Group has close cooperation with corporations and institutions in various areas. Such cooperation has complemented the Group's classroom teaching, offered superior training opportunities for its students and improved its graduates' competitiveness in the employment market.

The Group have a sophisticated centralized management model, which enables it to control the operation costs while reducing operating risks. The Group's schools also share market demand, teaching resources and student recruitment experience and job placement resources. The synergy achieved by such resource sharing among schools underpins the further expansion of its school network. Meanwhile, the Group has established an education management committee at its headquarters, consisting of prestigious education experts, serving as a think tank on decision-making and supervision for education and school operations and implementing the management model combining expert management of the group with self-management of schools for each college.

BUSINESS REVIEW

Schools of the Group

The Group's fundamental educational philosophy is "happy learning, happy living and happy working". The Group adheres to our core values of gratefulness, optimism, rigor and responsibility and focuses on providing high-quality higher education to foster talent with competitive capabilities and practical skills to contribute to the social and economic development.

The Group established our first school, Southwest Jiaotong University Hope College, in Sichuan in 2009 and subsequently expanded its network and student number through acquiring and establishing new schools. The Group currently owns and operates eight higher education institutions in Sichuan, Guizhou and Shanxi, including (i) three independent colleges, namely Southwest Jiaotong University Hope College, Business College of Guizhou University of Finance and Economics and Jinci College of Shanxi Medical University; and (ii) five junior colleges, namely Sichuan Tianyi College, Sichuan Hope Automotive Vocational College, Sichuan Vocational College of Culture & Communication, Guizhou Vocational Institute of Technology and Sichuan TOP IT Vocational Institute. As of 30 June 2018, the Group had an aggregate of 73,512 full-time students enrolled at these eight higher education institutions. In addition, the Group operates Sichuan Hope Automotive Technical College, a technical college providing technical education services.

MANAGEMENT DISCUSSION AND ANALYSIS

Southwest Jiaotong University Hope College

Southwest Jiaotong University Hope College is an independent college located in Sichuan and the first university established by the Group in 2009, providing formal undergraduate and junior college educations. The college offered 44 majors for formal undergraduate and junior college. The college has one course, namely the Basics of Innovation and Entrepreneurship of College Students, which has been recognized as “provincial-level high-quality curricular” by Sichuan Department of Education.

Business College of Guizhou University of Finance and Economics

Business College of Guizhou University of Finance and Economics is an independent college located in Guizhou providing formal undergraduate education. The school was established in 2004 and was acquired by our Group in April 2014. Currently, the college offered 13 majors for formal undergraduate. The educational goal of Business College of Guizhou University of Finance and Economics is to establish a first-class independent college in Guizhou with programs featuring economics and management and having advantages in business, serving the development of the national economy and local society.

Jinci College of Shanxi Medical University

Jinci College of Shanxi Medical University is an independent college located in Shanxi providing formal undergraduate education. The school was established in June 2002 and was recognized as an independent college by the MOE in March 2004. In April 2014, our Group acquired Jinci College of Shanxi Medical University. Jinci College of Shanxi Medical University is one of the twelve private undergraduate medical schools in China and is the only independent college in Shanxi focused on medical education.

Sichuan Tianyi College

Sichuan Tianyi College is a higher education institution located in Mianzhu City, Sichuan Province providing junior college education and currently offering 21 majors. In 1994, the school was approved by the State Education Commission (currently, the MOE) to become a formal junior-college-level higher education institution, making it one of the first private schools in China and the first private school in Southwest China approved by the MOE to be a formal private higher education institution. In September 2011, our Group acquired 70% interest in the school. In September 2016, with the approval by the MOE, Shanghai Shurui Investment Consultant Limited acquired the remaining 30% interest in the school sponsor of Sichuan Tianyi College from an independent third party and became the sole sponsor of the school. Sichuan Tianyi College’s application for becoming undergraduate institution has been included in the “13th Five-Year Plan” of Sichuan education development by Sichuan Education Commission. Currently, the preparation for such upgrade is ready, pending the assessment and acceptance by the assessment panel. The school has one course, namely Preparation and Establishment of Micro and Small Enterprises, which has been recognized as a “provincial-level high-quality curricular” by Sichuan Department of Education.

Sichuan Hope Automotive Vocational College

Sichuan Hope Automotive Vocational College is a higher education institution located in Ziyang City, Sichuan Province providing junior college education. The school was established by our Group in June 2013 and is the first formal higher education institution in Ziyang, Sichuan. Its educational goal is to establish an auto talent cultivation base. The school offers 19 majors, featuring automobile related majors.

Sichuan Hope Automotive Vocational College entered into a cooperation agreement with the Department of Automobile Engineering of Tsinghua University in May 2014. Pursuant to the agreement, teachers from the Department of Automobile Engineering of Tsinghua University would offer supports such as courses, lectures and training on teaching to the teachers and students at Sichuan Hope Automotive Vocational College, and teachers from Sichuan Hope Automotive Vocational College can study in the Department of Automobile Engineering of Tsinghua University. In addition, both schools have jointly established a new energy vehicle training base focusing on energy saving and emission reduction. In May 2016, Sichuan Hope Automotive Vocational College entered into a cooperation agreement with Ajou Motor College, a private college providing technical education specialized in automobiles in South Korea, with respect to cooperation in establishing majors and sharing educational resources.

Sichuan Vocational College of Culture & Communication

Sichuan Vocational College of Culture & Communication is a formal higher education institution established in 2005 and located in Sichuan providing junior college education and serving as a leading cultivation base of talents in television and aviation communication. In March 2014, our Group acquired the school. As of 30 June 2018, Sichuan Vocational College of Culture & Communication had one campus in Chongzhou and leased part of Sichuan Tianyi College's campus in Mianzhu to accommodate its increasing student enrollment. Currently, Sichuan Vocational College of Culture & Communication is planning to implement construction expansion of new campus.

Guizhou Vocational Institute of Technology

Guizhou Vocational Institute of Technology is a higher education institution established by our Group in June 2016 and located in Fuquan City, Qiannan Buyi and Miao Autonomous Prefecture, Guizhou Province, providing junior college education. The educational goal of Guizhou Vocational Institute of Technology is to establish a talent cultivation base with high quality and specialty to provide students with ideal employment and happy life opportunities.

MANAGEMENT DISCUSSION AND ANALYSIS

Sichuan TOP IT Vocational Institute

Sichuan TOP IT Vocational Institute is a higher education institution located in the West Park of Hi-tech Zone, Chengdu City, Sichuan Province providing junior college education and mainly serving as a cultivation base of talents in information technology. In June 2000, the school was established by Sichuan TOP Education Co., Ltd. (四川托普教育股份有限公司). In December 2017, our Group acquired the school through acquiring 100% of the equity interest in Sichuan TOP Education Co., Ltd. (四川托普教育股份有限公司). The college offers 35 majors and its software technology has been recognized as “provincial-level specialty majors” by Sichuan Department of Education. Its Computer Application and Software Technology Simulation Training Studio is funded by the central government as a vocational education training base.

Sichuan Hope Automotive Technical College

In July 2016, the Group obtained an approval from Sichuan provincial government for establishment of Sichuan Hope Automotive Technical College, making use of the venue and teaching resources of Sichuan Hope Automotive Vocational College to provide education training on professional skills for meeting the demand for talents with professional skills in our community. This technical college mainly provides technical education primarily related to the automobile industry and started to enroll students in September 2016. Currently, Sichuan Hope Automotive Technical College enrolls students in accordance with its self-administered recruitment procedures in Sichuan only, including middle school graduates and high school graduates.

Planned Additional School

The Group intends to leverage its existing operations and resources to further expand its school network in China. In May 2018, the Group entered into an agreement with the government of Xinfeng County People’s Government, Guangdong Province, pursuant to which the Group will establish the Guangdong Agricultural Science and Technology Vocational College, a modern agriculture-focused higher education institution, in Shaoguan, Guangdong Province. The Group currently expects to obtain relevant approvals by 2020 subject to uncertainty or change. The school is expected to be established in four phases with the first three phases completed in three years after obtaining such approvals and the fourth phase to be completed according to the requirements of “junior college-undergraduate” program. The Group expects that the school will start recruiting students upon the completion of the first phase construction and the school is expected to accumulate 10,000 students within three years.

We plan to establish a residential university authorized to grant undergraduate degrees in computer science and business management in the State of California, the United States. For details of the proposed university, see “History, Reorganization and Corporate Structure — Schools to be Established — California Hope University of Science and Technology” in the Prospectus. During the Reporting period, there was not any update about the establishing progress of the school.

As advised by the PRC legal advisor of the Company, being Tianyuan Law Firm, none of the implementation regulations related to the Qualification Requirement was updated since the Listing Date up to the date of this report.

MANAGEMENT DISCUSSION AND ANALYSIS

GRADUATE EMPLOYMENT RATE

As a private higher education provider focused on applied sciences, the Group uses graduate employment rate as an important criterion to measure the teaching results. The Group believes that its industry-leading graduate employment rate helps to enhance its reputation and attract talented high school graduates, while at the same time facilitate the Group's acquisitions of other schools in the PRC.

Schools	Graduate Employment Rate	
	As of 31 December	
	2017	2016
Southwest Jiaotong University Hope College	96.20%	95.90%
Business College of Guizhou University of Finance and Economics	—	—
Jinci College of Shanxi Medical University	79.60%	81.90%
Sichuan Tianyi College	96.80%	94.80%
Sichuan Hope Automotive Vocational College	87.10%	95.60%
Sichuan Vocational College of Culture & Communication	94.00%	94.70%
Guizhou Vocational Institute of Technology	—	—
Sichuan TOP IT Vocational Institute	—	—
Sichuan Hope Automotive Technical College	—	—

* Graduate employment rate is defined as a rate calculated by dividing the number of students who find employment within six months after their graduation (including students who find employment in business entities, start own businesses or pursue further studies) by the total number of students graduated from the school for the relevant school year. As of 30 June 2018, the students for the relevant school year have not graduated.

* Average employment rate is calculated by dividing the total number of students employed by total number of students graduated.

STUDENT ENROLLMENT

In order to be admitted for higher education, a student must pass and attain certain scores in China's National Higher Education Entrance Examination. Being institutions providing higher education services, the respective education authorities will specify a quota for the number of new students that each of the Group's school may admit each year.

The Group believes the educational philosophies of its schools and its well-developed curriculums as well as its high graduate employment rate help the Group to attract high-quality students who are seeking a pathway to satisfactory employment. Moreover, the quality faculty team is also a major factor that has played in the past, and will continue to play in the future, an important role in the success of the schools.

MANAGEMENT DISCUSSION AND ANALYSIS

Student Enrollment

Schools	Student Enrollment	
	School Year	
	2017/2018	2016/2017
Independent Colleges		
Southwest Jiaotong University Hope College		
Bachelor's degree program	10,855	9,767
Junior college diploma program	4,268	4,783
School subtotal	15,123	14,550
Business College of Guizhou University of Finance and Economics		
Bachelor's degree program	14,356	10,642
Jinci College of Shanxi Medical University	4,801	3,621
Junior Colleges		
Sichuan Tianyi College	11,765	10,716
Sichuan Hope Automotive Vocational College	4,559	3,642
Sichuan Vocational College of Culture & Communication	7,371	5,959
Guizhou Vocational Institute of Technology	2,989	1,177
Sichuan TOP IT Vocational Institute	12,548	—
Total	<u>73,512</u>	<u>50,307</u>

Note: The student enrollment information during the Period was based on the official records of the relevant PRC education authorities or the internal records of the Group's schools, as the case may be.

MANAGEMENT DISCUSSION AND ANALYSIS

THE AVERAGE TUITION FEES

The Average Tuition Fees (RMB)

	Schools 2017/2018	School Year 2016/2017
Independent Colleges		
Southwest Jiaotong University Hope College		
Bachelor's degree program	13,000-15,000	13,000-15,000
Junior college program	12,000-15,000	11,000-15,000
Business College of Guizhou University of Finance and Economics	12,000	12,000
Jinci College of Shanxi Medical University	15,120-16,080	15,120-16,080
Junior Colleges		
Sichuan Tianyi College	8,000-12,000	8,000-12,000
Sichuan Hope Automotive Vocational College	8,500	8,500
Sichuan Vocational College of Culture & Communication	7,000-12,000	7,000-12,000
Guizhou Vocational Institute of Technology	6,800-9,800	6,800
Sichuan TOP IT Vocational Institute	9,300-12,300	—

Notes:

- (1) Tuition fees shown above for all of our schools are applicable to students admitted in the relevant school year only, excluding boarding fees.
- (2) The tuition fee range for each school represents different tuition fees depending on the majors it offers.

OUR TEACHERS

The Group believes that its team of experienced and dedicated teachers has been crucial to its success. The Group's aim is to continue recruiting teachers who possess expertise and practical knowledge in their respective subject areas and sufficient teaching experience. The Group also invites industry experts, technical experts and professionals in relevant enterprises to teach at its schools.

The following table sets forth the number of teachers employed by each of the Group's schools:

Category	30 June 2018	30 June 2017
Full-time teachers	3,897	3,028
Part-time teachers	1,638	1,429
Total	<u>5,535</u>	<u>4,457</u>

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATION HIGHLIGHTS

Sophisticated centralized management models

After exploring for more than a decade, the Group have established a set of sophisticated centralized management models which are adapted to our operations, consisting of the following:

(i) *Education management committee*

Our education management committee consists of seasoned principals and experts from public universities and colleges in China with rich experience in education and teaching management, and it guides, serves and supervises us in our school operation serving as a think tank on decision-making for our Group's education and teaching activities. This enables our schools to benefit from these experts' education management experience in their teaching activities and operations.

(ii) *Lean management*

Lean management has been achieved through the sharing of resources in the fields of staff, funds, facilities, student recruitment experience and job placement within our Group's schools.

(iii) *Centralized management and control model*

Our Group oversees and manages the logistics, supply and service procurement and infrastructure construction at each of our schools, we have established a Group-level audit department to supervise the operation of each of our schools and our Board has also approved a series of policies and procedures relating to, among others, corporate governance, risk management, anti-bribery and conflicts of interest matters.

(iv) *Information technology system*

We use the unified system (including management system and application system) to carry out centralized budget management, business management, teaching management, student management and performance management and conduct real-time monitoring of our finance, operations, students and teaching activities.

Education Advantages of Professional Technical

The Group provided students with good career prospect, established majors based on market demand and conducted declaration for new majors, which endowed majors of our schools with distinctive characteristics. The Group designed courses with a focus on technical training, invested in establishing industry-leading training facilities, and encouraged students to practice and experience the real career environment and daily operation through more than 300 off-campus training bases.

MANAGEMENT DISCUSSION AND ANALYSIS

Comprehensive and Close Cooperation between Enterprises and Our Schools

As of 30 June 2018, our Group's schools entered into school-enterprise collaboration agreements with over 500 enterprises and other institutions to invite industry experts from enterprises to jointly formulate the talent development program. Our schools cooperated with 20 enterprises to admit and train students specifically based on the demand of enterprises, and jointly set up training bases and order class.

Orderly Top-up Work

The top-up work of Sichuan Tianyi College of the Group has been incorporated in the "13th Five-Year Plan" of Sichuan Province with the project preparations proceeded in an orderly manner according to the plan.

Comprehensive International Cooperation in Operating Schools

The schools of the Group have embarked on a new journey in the international cooperation in operating schools. Internationally renowned universities, such as University of Missouri St. Louis in U.S., University of California, Berkeley in U.S., Arkansas State University in U.S., the Kyoto College of Graduate Studies for Informatics in Japan, came and visited the schools of the Group for study and exchange, and planned to carry out further cooperation to achieve win-win development.

Comprehensively Establishing Intelligent Campus

In order to enhance students' satisfaction and provide them with quality services and experience, the Group promoted the intelligent campus construction, for example, the mobile phone orientation app is applied to facilitate the registration, payment, selecting dormitory and getting supplies, which enables students to go through all admission procedures in a rapid and convenient manner.

Expansion of Campus Scale

The Group is undergoing construction expansion for Sichuan Tianyi College and Guizhou Vocational Institute of Technology. We also have plans to implement construction expansion for Jinci College of Shanxi Medical University, Southwest Jiaotong University Hope College and Sichuan Vocational College of Culture & Communication.

PROSPECTS

Positioning

As the leading private higher education group in China focusing on application-oriented education, the Group will continue to expand our school networks and strengthen our leading market position, aiming at providing more students with access to higher education. Meanwhile, the Group will further optimize our centralized management model as well as continue to improve our schools' teaching quality and competitiveness. The schools of the Group will further strengthen the application-oriented skills education, deepen the school-enterprise collaboration and improve student employment rate.

MANAGEMENT DISCUSSION AND ANALYSIS

OUR BUSINESS STRATEGIES

1. Continue to expand the Group's school network and strengthen the Group's leading market position

The Group plans to further increase the number of its schools, improve its market share in the provinces where it operates schools and, when appropriate, expand its operations into other provinces with underserved demand for private higher education and high growth potential, in order to improve its market share in China's private higher education industry. In May 2018, Hope Education entered into an agreement with the government of Xinfeng County People's Government* (新豐縣人民政府), Guangdong Province, pursuant to which the Group will establish the Guangdong Modern Agricultural Vocational College, a school for modern agriculture-focused higher education, in Shaoguan city, Guangdong Province.

Leveraging its successful operation for near to ten years and in-depth knowledge about the private higher education industry, the Group has accumulated extensive school acquisition experience and is able to find appropriate acquisition opportunity and carry out quick execution. The Group will adopt a centralized management model which enables it to effectively and successfully integrate schools through acquisition or established by our Group, improves quality and efficiency of these schools, lower costs, and achieves synergy between new schools and existing schools.

2. Further increase the utilization rate, capacity and education level of the Group's existing schools

Some of the Group's schools have not reached the maximum capacity. Those schools have significant potential to increase recruitment, and the Group's revenue will increase correspondingly. The Group constructs dormitories, canteens and simulation training facilities in several stages in accordance with the number of student enrollments of each school, which enables it to reduce the initial capital investment for new schools, shorten the ramp up period of schools and enhance its capital use efficiency.

The Group also plans to expand the campus of some of our schools. The Group is undergoing construction expansion for Sichuan Tianyi College and Guizhou Vocational Institute of Technology. The Group also plans to implement construction expansion for Jinci College of Shanxi Medical University, Southwest Jiaotong University Hope College and Sichuan Vocational College of Culture & Communication. At the same time, the Group will continue to increase its teaching staff and increase the number of majors and curriculums. With these measures, the Group will further increase enrollment scale and improve the capacity and utilization rate of its schools.

In addition, the Group will further upgrade the education level of some of our schools to enhance its reputation, attract more students and increase the tuition fee income of our Group. For example, the Group is currently applying to the relevant education authorities for upgrading Sichuan Tianyi College from junior college to undergraduate institution. In particular, Sichuan Tianyi College's application of upgrading to undergraduate institution has been included in the "13th Five-Year Plan" of Sichuan education development by Sichuan Education Commission. The Group will also make full use of the self-admission policy of junior colleges and the favorable policy for undergraduate institutions to recruit students directly from junior colleges to further expand student enrollment.

MANAGEMENT DISCUSSION AND ANALYSIS

3. Further optimize our centralized management model, continue to improve our schools' teaching quality and competitiveness and strengthen the Group's brand recognition

The Group plans to further optimize our centralized management, accomplish complementary and balanced major establishment among its schools and share teaching resources and student recruiting experience and job placement resources to achieve synergy among its schools. The Group's education management committee will further assist its schools in improving their teaching quality and social recognition, strengthening the internal management of our schools. In addition, the Group will also strengthen the its management, control operating costs and further enhance its profitability. In addition, the Group will make further investment in the promotion of the "Intelligent Campus" project in order to further enhance the management efficiency of our Group.

The Group will enhance the research on the national industry policies and the development trends of higher education, continue to guide its schools to build up specialized majors and high-quality curriculums according to the market demands to attract students. The Group will promote its schools to share experiences, such as organizing competitions for teachers on educational and teaching skills to improve the quality of teachers and the overall quality of education. The Group expects that its graduates will not only acquire professional knowledge, but also possess the necessary practical skills. In order to achieve this goal, the Group plans to further expand its school-enterprise collaboration networks and establish more simulation training bases or facilities to provide students with extensive training courses and training opportunities.

The growth in the Group's student enrollment has been primarily driven by word-of-mouth referrals. Therefore, the Group's education quality and brand image are critical to business growth. The Group plans to continue to strengthen its capability in providing high-quality education services and effectively promote the brand of "Hope Education" brand.

4. Continue to attract, encourage and retain high-quality teachers, and enhance the support for the career development of teachers

The quality of the Group's education services is highly dependent on the level of teachers. The Group plans to continue to attract, encourage and retain high-quality teachers to maintain an excellent team of teachers. The Group also plans to employ well-known technical experts, experienced business managers and other highly-skilled persons as full-time or part-time teaching staff at its schools. The Groups plans to improve the teaching quality of its teachers by providing them with opportunities to share experiences and teach in the same class with subject experts, and sending young teachers to first-class public schools in China for exchanging experiences and trainings. The Group will strengthen the training of teachers and management teams of its schools and implement a strict teacher evaluation system.

The Group plans to continue to provide its teachers with competitive compensation and benefits, better promotion opportunities and ongoing trainings to attract and retain qualified teachers. In March 2018, the Group adopted the 2018 Pre-IPO Share Option Scheme. Under such option scheme, the Group grants share options to teachers who have made significant contributions to its education services as a reward to attract and retain outstanding teachers to serve at our Group.

MANAGEMENT DISCUSSION AND ANALYSIS

5. Further optimize the Group's pricing strategy and income structure and enhance the profitability

Tuition fee level is one of the factors that affect the Group's profitability. Along with the growth of China's economy, the increase in inflation as well as the increase in Chinese families' expenditure on higher education, the Group believes that there is room for it to raise tuition fees. The Group will consider the factors such as market conditions and regulatory environment to further optimize the pricing.

Currently, some of the Group's schools already obtained approval for the increase in tuition fees. The Group also plans to begin upgrading qualified junior colleges to undergraduate institutions to improve their education level and teaching quality, which will contribute to the increase in the tuition fee level of these schools. In addition, the Group will establish more specialized majors in relevant schools based on the demand in the employment market in order to increase its tuition fee level.

6. Further expand school-enterprise collaboration and improve student employment rate

The Group adheres to taking the training of students' professional skills and practical capabilities as an important goal of teaching. By further enhancing and expanding the school-enterprise collaboration, the Group provides students with more diversified social practice platforms to improve their employment rate.

The Group's schools have established collaborations with several leading and well-regarded enterprises and organizations in multiple industries including transportation, civil aviation and healthcare. The Group's schools work closely with these enterprises and organizations to develop and design applicable courses and practical programs for students, and to cooperate to compile textbooks for different disciplines. Moreover, the Group has established laboratories and simulation training bases with the great support from enterprises. The Group also has dedicated education or recruitment plan with a number of enterprises. The Group plans to further expand the scope of school-enterprise collaboration to cover other reputable industry leading enterprises and deepen its relationship with the local government agencies to provide its students with more major related internships, and to further improve their competitiveness in workplace.

Conclusion

Looking forward, the Group will abide by our fundamental educational philosophy "happy learning, happy living and happy working". The Group will adhere to its core values of gratefulness, optimism, rigor and responsibility and focus on providing high-quality higher education to foster talent with competitive capabilities and practical skills to contribute to the social and economic development.

FINANCIAL REVIEW

1. Revenue

Our revenue increased by 38% from RMB383.65 million for the six months ended 30 June 2017 to RMB528.00 million for the Period. The increase was primarily due to the increase in tuition fees from RMB317.43 million for the six months ended 30 June 2017 to RMB452.15 million for the Period with a year-on-year increase of 42%, primarily because:

- 1) The Group acquired Sichuan TOP IT Vocational Institute on 28 December 2017 and commenced its management in December 2017, which contributed a revenue from tuition fees of RMB63.30 million from January to June 2018.
- 2) The student enrollment of Business College of Guizhou University of Finance and Economics commenced in August 2014. In August 2017, it's the fourth year of student enrollment and the college was full with four grades since then. The student enrollment increased by approximately 3,714 for the 2017/2018 school year.
- 3) The student enrollment of Sichuan Vocational College of Culture & Communication for the 2017/2018 school year increased by approximately 1,412.
- 4) The student enrollment of Guizhou Vocational Institute of Technology for the 2017/2018 school year increased by 1,812.
- 5) The student enrollment of Jinci College of Shanxi Medical University for the 2017/2018 school year increased by 1,180.

MANAGEMENT DISCUSSION AND ANALYSIS

2. Cost of Sales

Cost of sales increased by 54% from RMB173.71 million for the six months ended 30 June 2017 to RMB267.78 million for the Period. The increase was primarily because:

- (1) Staff costs increased by 75% from RMB69.20 million for the six months ended 30 June 2017 to RMB121.35 million for the six months ended 30 June 2018, primarily due to (i) the staff cost of Sichuan Top IT Vocational Institute that the Group acquired on 28 December 2017, (ii) the increased average-salary for teaching staff as a result of the change of payment method for teacher's salary. The Group used to only pay our teachers base salary during the winter and summer break while pay other compensation over the school year. In order to better retain its teachers over the winter and summer break, the Group started to pay its teachers the annual compensation package over the calendar year instead of concentrating during the school year in 2018, and (iii) the increased number of teaching-staff in line with the growth of student enrollment rate and the increased average-salary of teaching staff of its other schools.
- (2) Depreciation and amortization increased by 49% from RMB36.98 million for the six months ended 30 June 2017 to RMB55.09 million for the six months ended 30 June 2018, primarily because Sichuan TOP IT Vocational Institute was acquired on 28 December 2017 and its buildings became the Group's fixed assets and the construction of buildings for Sichuan Tianyi College, Jinci College of Shanxi Medical University and Business College of Guizhou University of Finance and Economics was completed and these buildings became our fixed assets.
- (3) Management fees increased by 27.0% from RMB46.05 million for the six months ended 30 June 2017 to RMB58.32 million for the six months ended 30 June 2018 as a result of an increase in revenue from tuition fees.

3. Gross Profit and Gross Margin

Our gross profit increased by 24% from RMB209.94 million for the six months ended 30 June 2017 to RMB260.22 million for the Period, which was in line with the growth of the Group's business. Our gross margin decreased from 55% for the six months ended 30 June 2017 to 49% for the Period, primarily due to (i) the Group's increased investments to the buildings of new campuses and the growth of teacher team, (ii) decrease of student enrollment for adult education services to satisfy the requirements for the "junior college-undergraduate" program, (iii) the increase in the number of teaching staff as a result of the rise of student enrollment, and (iv) the increase in the average salaries of teaching staff of the Group's schools.

4. Other Income and Gains

Other income and gains increased by 73% from RMB61.15 million for the six months ended 30 June 2017 to RMB106.04 million for the Period, primarily due to increases in our (i) interest income from loans to a related party, (ii) gain on disposal of a subsidiary, (iii) service income, and (iv) fair value gains on conversion rights of convertible bond which was partially offset by the substantive decrease of gains on disposal of items of property, plant and equipment from RMB32.17 million for the six months ended 30 June 2017 to RMB1.36 million for the six months ended 30 June 2018, primarily because certain commercial properties of Business College of Guizhou University of Finance and Economics were disposed in 2017.

- Interest income from loans to a related party increased from nil for the six months ended 30 June 2017 to RMB25.62 million for the six months ended 30 June 2018, representing the interest income received by the Group in respect of the receivables from Sichuan Tequ Education arising from the reorganization of our Group since 30 September 2017.
- Fair value gains on conversion rights of convertible bond, which were issued on 22 August 2017, increased from nil for the six months ended 30 June 2017 to RMB13.27 million for the Period.
- Gain on disposal of a subsidiary increased from nil for the six months ended 30 June 2017 to RMB8.26 million for the Period, primarily due to the transfer of the 70% equity interest in Jiexing Huilv to Sichuan Tequ Education.

5. Selling Expenses

Selling expenses decreased from RMB10.84 million for the six months ended 30 June 2017 to RMB9.18 million for the Period, mainly because marketing and advertising expenses decreased by 30% from RMB4.35 million for the six months ended 30 June 2017 to RMB3.04 million for the Period as a result of the decrease in the advertising and marketing expenses brought by the enhanced reputation of the school enrollment.

MANAGEMENT DISCUSSION AND ANALYSIS

6. Administrative Expenses

Our administrative expenses increased by 156.6% from RMB43.78 million for the six months ended 30 June 2017 to RMB112.34 million for the Period, primarily due to the increases in (i) listing expenses, (ii) staff costs, and (iii) equity-settled share option expenses.

- Listing expenses increased from RMB3.45 million for the six months ended 30 June 2017 to RMB11.53 million for the Period.
- Staff costs increased from RMB20.71 million for the six months ended 30 June 2017 to RMB28.12 million for the Period, which was in line with the growth of the Group's business and partly due to the staff cost of Sichuan Top IT Vocational Institute that the Group acquired on 28 December 2017, in line with the increased staff costs in the cost of sales.
- Equity-settled share option expenses increased from nil for the six months ended 30 June 2017 to RMB47.19 million for the six months ended 30 June 2018 as a result of the 2018 Pre-IPO Share Option Scheme.

7. Finance Costs

Our finance costs increased by 76% from RMB61.13 million for the six months ended 30 June 2017 to RMB107.33 million for the Period, primarily due to an increase of RMB46.20 million in the interest expenses because of the increased amount of borrowings.

8. Profit before Tax

As a result of the foregoing, the Group recognized profit before tax amounting to RMB134.96 million for the Period, while the profit before tax for the six months ended 30 June 2017 amounted to RMB154.00 million, representing a decrease of 12% year on year.

9. Income Tax Expense

The Group's income tax expense decreased from RMB18.39 million for the six months ended 30 June 2017 to RMB2.05 million for the Period, primarily due to the land appreciation tax from the disposal of certain commercial properties by Business College of Guizhou University of Finance and Economics during the six months ended 30 June 2017.

10. Profit for the Period

As a result of the combined effects of abovementioned income and costs, the Group recorded net profit of RMB132.91 million for the Period, representing a decrease of 2% as compared with RMB135.61 million for the six months ended 30 June 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

11. Adjusted Net Profit

Adjusted net profit (excluding listing expenses and equity-settled share option expenses) for the Period increased by 37.8% to RMB191.63 million as compared with RMB139.06 million for the six months ended 30 June 2017.

	For the six months ended 30 June	
	2018 (in millions of RMB)	2017 (in millions of RMB)
Profit for the Period from continuing operations	132.91	135.61
Add: Listing expenses	11.53	3.45
Equity-settled share option expenses	47.19	—
Adjusted net profit	<u>191.63</u>	<u>139.06</u>

12. Loans Granted to a Related Party

As at 30 June 2018, loans granted to Tequ Education amounted to RMB488,873,000 (31 December 2017: RMB545,686,000) and bore interest at an annual interest rate of 9%. All these loans had been fully settled by Tequ Education on 27 July 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND CAPITAL RESOURCES

The Group's primary uses of cash are to fund its working capital requirements, its purchase of property and equipment and repayment of loans and related interest expenses. As at the date of this report, the Group has funded its operations principally with cash generated from operations, bank loans, capital contribution by shareholders and net proceeds from Global Offering (as defined in the Prospectus). In the future, the Group believes that its liquidity requirements will be satisfied with a combination of cash flows generated from operating activities, bank loans and other borrowings and other funds raised from the capital markets from time to time. As of 30 June 2018, the Group had cash and cash equivalents of RMB290.75 million.

Cash Flows

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

	For the six months ended 30 June	
	2018 (in millions of RMB)	2017 (in millions of RMB)
Net cash used in operating activities	(57.64)	(128.72)
Net cash from/(used in) investing activities	(751.80)	158.11
Net cash from financing activities	918.86	311.04
Net increase in cash and cash equivalents	<u>109.42</u>	<u>340.43</u>
Cash and cash equivalents at the beginning of the period	181.33	142.62
Cash and cash equivalents at the end of the period	290.75	483.05

Cash Flows used in Operating Activities

The Group generates cash from operating activities primarily from tuition and boarding fees, which are typically paid in advance by students in September. Tuition and boarding fees are initially booked as contract liabilities. As the Group typically receives tuition and boarding fees in advance at the beginning of each school year in early September, it typically records cash outflow from operating activities in the first half of the year. Cash flows generated from operating activities reflected: (i) profit before tax (adjusted for non-cash and non-operating items, such as finance costs, depreciation of property and equipment, amortisation of intangible assets, investment gains, prepaid land lease payment recognized, government grants received and costs of its equity-based employee share option scheme before Listing); (ii) changes in its working capital, such as changes in prepayments, deposits and other receivables, changes in other payables and accruals and changes in contract liabilities; and (iii) other cash items, including income tax paid and interest received.

MANAGEMENT DISCUSSION AND ANALYSIS

During the Period, the net cash outflow used in operating activities was RMB57.64 million, which was primarily attributable to (i) a profit before tax of RMB134.96 million; (ii) a total increase of RMB170.94 million in changes in the working capital before movements, mainly reflecting an increase of RMB107.33 million in finance costs, an increase of RMB76.36 million in the depreciation of property and equipment, amortisation of intangible assets and amortisation of prepaid land lease payment and an increase of RMB47.19 million in costs of the pre-listing equity-based employee share option scheme and partially offset by an amortisation of government grants of RMB4.23 million, interest income of RMB33.70 million and gain on disposal of a subsidiary of RMB8.26 million; and (iii) a total decrease of RMB351.26 million in working capital, mainly reflecting a decrease of RMB452.52 million in contract liabilities, a decrease of RMB13.80 million in the amounts due from related parties, an increase of RMB76.25 million in prepayments and other receivables, an increase of RMB16.35 million in other payables and accruals and an increase of RMB22.46 million in the amounts due to related parties.

Cash Flows from/(used in) Investing Activities

Investing activities consist primarily of purchases of items of property and equipment and intangible assets, prepaid land lease payments, purchases of and proceeds from disposal of wealth investment products, and deposits into or withdrawals from pledged time deposits released.

During the Period, the net cash outflow from investment activities was RMB751.80 million, which mainly reflected (i) cash outflow of RMB520.38 million from the acquisition of property, plant and equipment items; (ii) cash outflow of RMB39.43 million from the acquisition of intangible assets; (iii) cash outflow of RMB451.62 million resulting from providing loans to Chengdu Wuhou Guixi Property Development Company Limited; (iv) recovering borrowings of RMB202.85 million from related parties; (v) net cash outflow of RMB41.95 million from purchase and disposal of financial products; and (vi) an amount of RMB69.61 million received from disposal of subsidiaries.

Cash Flows from Financing Activities

Financing activities primarily include proceeds from and repaying bank and other borrowings, and the fund raised from the Listing.

Net cash inflow from financing activities amounted to RMB918.86 million during the Period, primarily reflecting (i) the proceeds from bank and other borrowings of RMB1,701.72 million; (ii) repayment of bank and other borrowings of RMB708.00 million; and (iii) repayment of interests from bank and other borrowings of RMB74.86 million.

NET CURRENT LIABILITIES

As of 30 June 2018, our net current liabilities amounted to RMB821.47 million. The Group had such net current liabilities principally attributable to the utilization of a large amount of cash to finance, among others, the expansion of our school networks. These capital expenditures and prepayments, which are recorded as non-current assets were partially financed by non-current liabilities, such as long-term interest-bearing bank loans and other borrowings and equity, and partially financed by current liabilities, such as short-term interest-bearing bank loans and other borrowings.

MANAGEMENT DISCUSSION AND ANALYSIS

CAPITAL EXPENDITURE

The capital expenditure of the Group consists of purchase or construction costs relating to property and equipment, prepaid land lease payments and other intangible assets. During the Period, the capital expenditure of the Group was RMB365.00 million, which was mainly attributable to the expansion of Tianyi College. The Group financed such capital expenditure primarily with cash generated from operations and bank loans.

Capital Commitments

Our Group's capital commitments primarily relate to the acquisition of property and equipment. The following table sets forth a summary of our capital commitments as of the dates indicated:

	As of 30 June 2018 (in millions of RMB)	As of 31 December 2017 (in millions of RMB)
Contracted but not provided for:		
Property, plant and equipment	114.58	169.85
Other intangible assets	—	3.59
	<u>114.58</u>	<u>173.44</u>

INDEBTEDNESS

Bank loans and other borrowings

The Group's bank loans and other borrowings primarily consist of short-term working capital loans and long-term loans for constructing school buildings and facilities. The Group supplemented its working capital and financed its expenditure primarily through borrowings obtained from banks. As of 30 June 2018, the aggregate loan balance amounted to RMB2,866.79 million, among which, all were bank loans except for a trust loan of RMB436.00 million from COFCO Trust and of RMB594.00 million from AVIC Trust. All of our loans were denominated in RMB. As of 30 June 2018, the Group's bank loans bore effective interest rates ranging from 4.75% to 7.0% per annum.

Contingent Liabilities

As of 30 June 2018, the Group did not have any material contingent liabilities, guarantees or any litigations or claims of material importance, pending or threatened against any member of our Group.

MANAGEMENT DISCUSSION AND ANALYSIS

Asset-liability ratio

The asset-liability ratio equals total liabilities divided by total assets at the end of the year/period. The Group's asset-liability ratio declined to 78% as at 30 June 2018 from 88% as at 31 December 2017, which was mainly attributable to a decrease in total liabilities as a result of the following: (i) the transfer of RMB281.91 million from other payables to capital reserve due to the fact that CEL Maiming and Shanghai Guangwei Qinghe Investment Centre (Limited Partnership) waived their rights of put option on 21 March 2018; and (ii) a decrease of RMB200.00 million in liabilities due to the completion of convertible bonds by Zhuhai Maiwen Investment Centre (Limited Partnership) during the Period.

Financial ratios

	For the year ended 31 December 2017	For the six months ended 30 June 2017	2018
EBITDA margin ⁽¹⁾	65.80%	71.50%	60.3%
Net profit margin ⁽²⁾	27.9%	35.3%	25.2%
Return on assets ⁽³⁾	3.7%	5.9%	4.4%
Return on equity ⁽⁴⁾	30.9%	43.0%	19.7%
Current ratio ⁽⁵⁾	0.50	0.79	0.54
Gearing ratio ⁽⁶⁾	2.77	3.38	2.13

(1) EBITDA margin equals our EBITDA for the year/period divided by the revenue for the year/period.

(2) Net profit margin equals our net profit for the year/period divided by the revenue for the year/period.

(3) Return on assets equals profit for the year/period divided by the total assets as of the end of the year/period. Return on assets for the six months ended 30 June 2018 was calculated using the profit for the six months ended 30 June 2018 adjusted on an annualized basis.

(4) Return on equity equals profit for the year/period divided by the total equity amounts as of the end of the year/period. Return on equity for the six months ended 30 June 2018 was calculated using the profit for the six months ended 30 June 2018 adjusted on an annualized basis.

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

(6) Gearing ratio equals the sum of the interest-bearing bank and other borrowings and convertible bonds divided by total equity as of the end of the year/period.

MANAGEMENT DISCUSSION AND ANALYSIS

FUTURE PLAN FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

Save as disclosed herein, the Group had no other future plans for material investments and capital assets.

SIGNIFICANT INVESTMENTS, ACQUISITIONS AND DISPOSALS

There were no other significant investments held, no material acquisitions or disposals of subsidiaries, associates and joint ventures, nor was there any plan authorized by the Board for other material investments or acquisitions of capital assets during the Period.

FOREIGN EXCHANGE RISK MANAGEMENT

The functional currency of the Group is RMB. The majority of the Group's revenue and expenditures are denominated in RMB. As at 30 June 2018, the Group did not have any monetary asset or other asset dominated in foreign currency, thus had no foreign exchange exposure.

PLEDGED ASSETS

Save as disclosed herein, as at 30 June 2018 and 31 December 2017, the Group had no other pledged assets.

STRUCTURED CONTRACTS

Please refer to the section headed "Structured Contracts" in the Prospectus for details. Since the Listing Date up to 30 June 2018, the Board had reviewed the overall performance of the Structured Contracts and believes that the Group had complied with the Structured Contracts in all material respects.

HUMAN RESOURCES

As at 30 June 2018, the Group had 6,739 employees. The remuneration policy and package of the Group's employees are periodically reviewed in accordance with industry practice and results performance of the Group. The Group provides external and internal training programs to its employees. The Group participates in various employee social security plans for its employees that are administered by local governments, including housing, pension, medical insurance, occupational injury insurance, maternity insurance and unemployment insurance. The Group believes that it maintains a good working relationship with its employees, and the Group has not experienced any material labour disputes during the Period. The employee benefit expense (including equity-settled share option expense) incurred by the Group for the Reporting Period was approximately RMB166.26 million.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As at the date of this report, the Group had not entered into any off-balance sheet transactions.

SUBSEQUENT EVENTS

Draft Revision of the Implementation Rules on the Law for Promoting Private Education of the PRC (the Draft for Review) (《中華人民共和國民辦教育促進法實施條例(修訂草案)(送審稿)》)

On 20 April 2018, the Ministry of Education published the publication of the Draft Revision of the Implementation Rules on the Law for Promoting Private Education of the PRC (the Draft for Comments) (《中華人民共和國民辦教育促進法實施條例(修訂草案)(徵求意見稿)》) (the “MOE Draft for Comments”), the details of which are disclosed in “We are subject to uncertainties brought by the Amendment of Law for Promoting Private Education of the PRC” and “We may not be able to register the independent colleges as for-profit private schools or complete relevant procedures or obtain the government registrations under the current form of the MOE Draft for Comments” on pages 36 – 39 of the Prospectus. On 10 August 2018, the Ministry of Justice issued the Draft Revision of the Implementation Rules on the Law for Promoting Private Education of the PRC (the Draft for Review) (《中華人民共和國民辦教育促進法實施條例(修訂草案)(送審稿)》) (the “Revised Draft for Review”) and seeks views and comments on the proposed changes.

Among other things, paragraph 7 of the MOE Draft for Comments provides that public schools shall not invest or participate in investing for-profit private schools, as disclosed in “We may not be able to register the independent colleges as for-profit private schools or complete relevant procedures or obtain the government registrations under the current form of the MOE Draft for Comments” in the Risk Factors section. Paragraph 7 of the Revised Draft for Review contains similar requirement and in addition, paragraph 12 of the Revised Draft for Review proposes that “education groups shall not control non-profit private schools through mergers and acquisitions, franchise or contractual arrangements or other forms of arrangements”. Coupled with the requirement under paragraph 7 as set out above, paragraph 12 would limit the acquisition or the other aforementioned forms of control of independent colleges of public schools (which by nature can only opt for non-profit as required under paragraph 7). Even though the Group intends to acquire higher education schools to further expands its operation, the Company believes that in view of the number of private schools in PRC, there are still abundant for-profit private schools fit for acquisition or other forms of control in the future. In any event, if the Group intends to acquire or control any independent colleges of public schools, the college can opt for segregation from the public schools and become for-profit private schools.

Regarding the provision governing the existing independent colleges under an education group, there is no material difference between the MOE Draft for Comments and the Revised Draft for Review. Please refer to “We may not be able to register the independent colleges as for-profit private schools or complete relevant procedures or obtain the government registrations under the current form of the MOE Draft for Comments” in the Risk Factors section of the Prospectus for further details of the potential impact on the existing independent colleges of the Group, namely Southwest Jiaotong University Hope College, Business College of Guizhou University of Finance and Economics and Jinci College of Shanxi Medical University.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group expects that it will be able to operate in compliance with the applicable laws and regulations under the framework of the Revised Draft for Review. The Group does not expect the Revised Draft for Review will have any material impact on the business and operation of the Group as a whole that has not been disclosed in the Prospectus.

As the Revised Draft for Review is still in draft form and it is still uncertain whether there will be any further update to the draft and the timing of promulgation, the Group will closely monitor the development and issue announcements to inform the market in accordance with the applicable laws and rules.

Initial public offering

On 3 August 2018, the Company issued 1,666,668,000 ordinary Shares of a nominal value of US\$0.00001 each through the Global Offering (as defined in the Prospectus) at an offering price of HK\$1.92 per Share. The number of Offer Shares in the Hong Kong Public Offering (as defined in the Prospectus) were 500,004,000 shares, with an aggregate nominal value of US\$5,000.04. The number of Offer Shares in the International Offering (as defined in the Prospectus) were 1,166,664,000 shares, with an aggregate nominal value of US\$11,666.64.

For the reasons for the offerings and the proceeds, please refer to the “Use of Proceeds from the Initial Public Offering” below.

For details of the allotment results, please refer to the Announcement of Offer Price and Allotment Results of the Company on 2 August 2018.

USE OF PROCEEDS FROM THE INITIAL PUBLIC OFFERING

The net proceeds from the Company’s IPO is approximately HK\$3,111.00 million, after deducting the underwriting fees, commissions and estimated expenses payable by the Company for the Global Offering (as defined in the Prospectus).

The Company has confirmed that the net proceeds from IPO not utilized by the Group amounts to approximately HK\$3,111.00 million from the Listing Date to the date of this report. For the unutilized net proceeds of approximately HK\$3,111.00 million as at the date of this report, the Company intends to use them in the same manner and proportions as described in the Prospectus and proposes to use the unutilized net proceeds in accordance with the expected timetable disclosed in the Prospectus.

MANAGEMENT DISCUSSION AND ANALYSIS

As at the date of this report, the Group has used the net proceeds as follows:

	Use of proceeds in the same manner and proportion as stated in the Prospectus (in HKD'000) (approximate)	Actual use of proceeds as at the date of this report (in HKD'000) (approximate)	Net proceeds unutilized as at the date of this report (in HKD'000) (approximate)
approximately 40% to acquire higher education schools and to establish new campuses for the acquired schools	1,244,400	—	1,244,400
approximately 30% to construct new buildings for education purpose, including (i) buildings under constructions for Sichuan Tianyi College and Guizhou Vocational Institute of Technology; and (ii) buildings to be constructed for Jinci College of Shanxi Medical University and Southwest Jiaotong University Hope College	933,300	—	933,300
approximately 20% to repay certain portion of our following bank loans and other borrowings	622,200	—	622,200
approximately 10% for working capital and general corporate purpose	311,100	—	311,100

INTERIM DIVIDEND

The Board did not recommend the payment of any interim dividend for the six months ended 30 June 2018 to Shareholders.

OTHER INFORMATION

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As the Listing was not completed as at 30 June 2018, Divisions 7 and 8 of Part XV of the SFO and Section 352 of the SFO were not applicable to the Directors and chief executives of the Company as at 30 June 2018.

As at the Listing Date, the interests or short positions of the Directors and chief executives of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which was required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which any such Directors and chief executive(s) of the Company is taken or deemed to have under such provisions of the SFO) or which was required to be entered in the register required to be kept by the Company pursuant to Section 352 of the SFO or which was otherwise required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code were as follows:

Name of Director	Position	Capacity/Nature of Interest	Number of Shares Held	Long	Approximate
				Position/Short	Percentage of Shareholding in the Company
Wang Huiwu (汪輝武) ⁽¹⁾	Executive Director	Interest in controlled corporation	4,140,948,240	Long Position	62.11%
Wang Degen (王德根) ⁽²⁾	Non-executive Director	Interest of spouse	4,140,948,240	Long Position	62.11%

Notes:

- (1) Wang Huiwu (汪輝武) holds 96.00% interest in Maysunshine Limited, which in turn holds 49.00% interest in Hope Education Investment Limited. Hope Education Investment Limited holds 62.11% interest in the Company. Accordingly, Wang Huiwu (汪輝武) is deemed as holding interest in the Company through Hope Education Investment Limited.
- (2) Wang Degen (王德根) and Zhang Qiang (張強) are spouses. Therefore, for the purpose of the SFO, Wang Degen (王德根) is deemed or taken to be interested in all the shares Zhang Qiang (張強) is interested in.

Save as disclosed above, from the Listing Date to the date of this report, none of the Directors and chief executive(s) of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be entered in the register required to be kept by the Company pursuant to Section 352 of the SFO or which was required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

OTHER INFORMATION

SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As the Listing was not completed as at 30 June 2018, Divisions 2 and 3 of Part XV of the SFO and the Section 336 of the SFO do not apply to any substantial shareholders of the Company as at 30 June 2018. To the knowledge of any of directors or chief executives of the Company, as at the Listing Date, the following persons (other than the directors or chief executives of the Company) or entities have an interest or short positions in Shares or underlying Shares of the Company which are required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept under Section 336 of the SFO:

Name of Shareholder	Capacity/Nature of Interest	Number of Shares Held	Long		Approximate Percentage of Shareholding in the Company
			Position/Short Position		
Hope Education Investment Limited ⁽¹⁾	Beneficial interest	4,140,948,240	Long Position		62.11%
Maysunshine Limited ⁽¹⁾	Interest in controlled corporation	4,140,948,240	Long Position		62.11%
Tequ Group A Limited ⁽¹⁾	Interest in controlled corporation	4,140,948,240	Long Position		62.11%
Tequ Group (Hong Kong) Company Limited ⁽¹⁾	Interest in controlled corporation	4,140,948,240	Long Position		62.11%
Shanghai Yi Zeng Management Co., Ltd. (上海乙增管理有限公司) ⁽¹⁾	Interest in controlled corporation	4,140,948,240	Long Position		62.11%
Sichuan Tequ Investment Group Limited (四川特驢投資集團有限公司) ("Sichuan Tequ Investment") ⁽¹⁾	Interest in controlled corporation	4,140,948,240	Long Position		62.11%
Chengdu West Hope Group Limited* (成都華西希望集團有限公司) ("West Hope") ⁽¹⁾	Interest in controlled corporation	4,140,948,240	Long Position		62.11%
Sichuan Puhua Agricultural Technology Development Limited (四川普華農業科技發展有限公司) ⁽¹⁾	Interest in controlled corporation	4,140,948,240	Long Position		62.11%
Zhang Qiang (張強) ⁽¹⁾	Interest in controlled corporation	4,140,948,240	Long Position		62.11%
Chen Yuxin (陳育新) ⁽¹⁾	Interest in controlled corporation	4,140,948,240	Long Position		62.11%
Zhao Guiqin (趙桂琴) ⁽¹⁾	Interest in controlled corporation	4,140,948,240	Long Position		62.11%
Pearl Glory Global Limited ⁽²⁾	Beneficial interest	413,809,100	Long Position		6.21%
CEL Maiming ⁽²⁾	Interest in controlled corporation	413,809,100	Long Position		6.21%
CEL Huiling Investment (Shanghai) Co., Limited (光控匯領投資(上海)有限公司) ("CEL Huiling") ⁽²⁾	Interest in controlled corporation	651,909,158	Long Position		9.78%
CEL Venture Capital (Shenzhen) Co., Limited (光大控股創業投資(深圳)有限公司) ⁽²⁾⁽⁴⁾	Interest in controlled corporation	651,909,158	Long Position		9.78%
China Everbright Limited ⁽²⁾⁽³⁾⁽⁴⁾	Interest in controlled corporation	852,861,338	Long Position		12.79%
Honorich Holdings Limited ⁽³⁾	Interest in controlled corporation	852,861,338	Long Position		12.79%
Datten Investments Limited ⁽³⁾	Interest in controlled corporation	852,861,338	Long Position		12.79%

OTHER INFORMATION

Name of Shareholder	Capacity/Nature of Interest	Number of Shares Held	Long Position/ Short Position	Approximate Percentage of Shareholding in the Company
China Everbright Holdings Co., Limited (中國光大集團有限公司) (“CE Hong Kong”) ⁽³⁾	Interest in controlled corporation	852,861,338	Long Position	12.79%
China Everbright Group Ltd. (中國光大集團股份公司) (“China Everbright Group”) ⁽³⁾	Interest in controlled corporation	852,861,338	Long Position	12.79%
Central Huijin Investment Limited (中央匯金投資有限責任公司) (“Central Huijin”) ⁽³⁾	Interest in controlled corporation	852,861,338	Long Position	12.79%
Beijing CEL Anya Investment Centre (Limited Partnership) (北京光控安雅投資中心(有限合夥)) ⁽⁴⁾	Interest in controlled corporation	413,809,100	Long Position	6.21%
Shanghai CEL Jiabin Equity Investment Management Co., Limited (上海光控嘉鑫股權投資管理有限公司) ⁽⁴⁾	Interest in controlled corporation	413,809,100	Long Position	6.21%
Chongqing CEL Equity Investment Management Limited (重慶光控股權投資管理有限公司) ⁽⁴⁾	Interest in controlled corporation	413,809,100	Long Position	6.21%
Yixing CEL ⁽⁴⁾	Interest in controlled corporation	413,809,100	Long Position	6.21%
CEL Capital Prestige Asset Management Co., Ltd. (首譽光控資產管理有限公司) ⁽⁴⁾	Interest in controlled corporation	413,809,100	Long Position	6.21%
CITIC-Prudential Life Insurance Company Limited (中信保誠人壽保險有限公司) ⁽⁴⁾	Interest in controlled corporation	413,809,100	Long Position	6.21%
Prudential Corporation Holdings Limited ⁽⁵⁾	Interest in controlled corporation	413,809,100	Long Position	6.21%
CITIC Corporation Limited (中國中信有限公司) ^{(5) (6)}	Interest in controlled corporation	413,809,100	Long Position	6.21%
CITIC Limited (中國中信股份有限公司) ^{(5) (6)}	Interest in controlled corporation	413,809,100	Long Position	6.21%
Citigroup Inc. ⁽⁷⁾	Person having a security interest in shares	5,840,000	Long Position	5.27%
	Interest in controlled corporation	345,654,000	Long Position	
	Interest in controlled corporation	250,000,000	Short Position	3.75%

Notes:

- (1) Hope Education Investment Limited, a BVI company, is owned as to 49.00% by Maysunshine Limited, 34.385% by Tequ Group A Limited and 16.615% by Tequ Group Limited.

Maysunshine Limited is owned as to 96.00% by Wang Huiwu (汪輝武), 2.00% by Fu Wenge (付文革) and 2.00% by Wang Degen (王德根).

Tequ Group A Limited is a wholly-owned subsidiary of Tequ Group (Hong Kong) Company Limited. Tequ Group (Hong Kong) Company Limited is wholly owned by Shanghai Yi Zeng Management Co., Ltd. (上海乙增管理有限公司). Shanghai Yi Zeng Management Co., Ltd. (上海乙增管理有限公司) is wholly owned by Sichuan Tequ Investment, which is in turn owned as to 55% by West Hope and 45% by Sichuan Puhua Agricultural Technology Development Limited (四川普華農業科技發展有限公司). West Hope is owned as to 60% by Chen Yuxin and 40% by Zhao Guiqin. Chen Yuxin (陳育新) and Zhao Guiqin (趙桂琴) are spouses. Sichuan Puhua Agricultural Technology Development Limited (四川普華農業科技發展有限公司) is owned as to 52.20% by Zhang Qiang (張強).

Thus, Maysunshine Limited, Wang Huiwu (汪輝武), Tequ Group A Limited, Tequ Group (Hong Kong) Company Limited, Shanghai Yi Zeng Management Co., Ltd. (上海乙增管理有限公司), Sichuan Tequ Investment, West Hope, Sichuan Puhua Agricultural Technology Development Limited (四川普華農業科技發展有限公司), Zhang Qiang (張強), Chen Yuxin (陳育新) and Zhao Guiqin (趙桂琴) are deemed to be interested in 43,480,000 Shares.

- (2) Star Leap Limited, an investment holding company directly holding approximately 4.02% of the Company as at the Listing Date, is indirectly wholly-owned by China Everbright Limited.

Pearl Glory Global Limited, an investment holding company holding approximately 8.28% of the Company as at the Listing Date, is wholly-owned by CEL Maiming. CEL Huiling is the general partner of CEL Maiming. Accordingly, each of CEL Maiming and CEL Huiling is deemed to be interested in the Shares held by Pearl Glory Global Limited under the SFO.

As at the Listing Date, CEL Huiling was wholly-owned by CEL Venture Capital (Shenzhen) Co., Limited (光大控股創業投資(深圳)有限公司), which was in turn wholly-owned by China Everbright Limited.

Glory Aurora Limited, an investment holding company directly holding approximately 4.76% of the Group as at the Listing Date, is wholly-owned by Zhuhai Maiwen. The general partner of Zhuhai Maiwen is CEL Huiling, a wholly-owned subsidiary of CEL Venture Capital (Shenzhen) Co., Limited (光大控股創業投資(深圳)有限公司), which is in turn wholly-owned by China Everbright Limited.

Accordingly, each of CEL Huiling and CEL Venture Capital (Shenzhen) Co., Limited (光大控股創業投資(深圳)有限公司) is deemed to be interested in the Shares held by each of Pearl Glory Global Limited and Glory Aurora Limited, whereas China Everbright Limited is deemed to be interested in the Shares held by each of Star Leap Limited, Pearl Glory Global Limited and Glory Aurora Limited under the SFO.

- (3) As at the Listing Date, China Everbright Limited was owned as to approximately 49.386% by Honorich Holdings Limited and 0.358% by Everbright Investment & Management Limited (光大投資管理有限公司), respectively. As at the Listing Date, Honorich Holdings Limited was wholly-owned by Datten Investments Limited, and each of Everbright Investment & Management Limited (光大投資管理有限公司) and Datten Investments Limited was in turn wholly-owned by CE Hong Kong, which was in turn wholly-owned by China Everbright Group. China Everbright Group was owned as to approximately 55.67% by Central Huijin and was indirectly wholly-owned by the State Council of the PRC.

Accordingly, each of China Everbright Limited, Honorich Holdings Limited, Datten Investments Limited, CE Hong Kong, China Everbright Group and Central Huijin is deemed to be interested in the Shares held by each of Star Leap Limited, Pearl Glory Global Limited and Glory Aurora Limited under the SFO.

OTHER INFORMATION

- (4) As at the Listing Date, Beijing CEL Anya Investment Centre (Limited Partnership) (北京光控安雅投資中心(有限合夥)) is a limited partnership holding approximately 61.20% of the limited partnership interest in CEL Maiming.

As at the Listing Date, the general partner of Beijing CEL Anya Investment Centre (Limited Partnership) (北京光控安雅投資中心(有限合夥)) is Shanghai CEL Jiaxin Equity Investment Management Co., Limited (上海光控嘉鑫股權投資管理有限公司). CEL Capital Prestige Asset Management Co., Limited (首譽光控資產管理有限公司) is a limited partner of Beijing CEL Anya Investment Centre (Limited Partnership) (北京光控安雅投資中心(有限合夥)) holding approximately 99.98% of its limited partnership interest.

As at the Listing Date, Shanghai CEL Jiaxin Equity Investment Management Co., Limited (上海光控嘉鑫股權投資管理有限公司) was wholly-owned by Chongqing CEL Equity Investment Management Co., Limited (重慶光控股權投資管理有限公司), which was in turn wholly-owned by Yixing CEL. Yixing CEL was wholly-owned by CEL Venture Capital (Shenzhen) Co., Limited (光大控股創業投資(深圳)有限公司), which was in turn wholly-owned by China Everbright Limited.

As of the Listing Date, CEL Capital Prestige Asset Management Co., Limited (首譽光控資產管理有限公司) is 49% owned by Chongqing CEL Equity Investment Management Co., Limited (重慶光控股權投資管理有限公司).

- (5) As of the Listing Date, CITIC-Prudential Life Insurance Company Limited, a limited partner of CEL Maiming holding approximately 36.72% of CEL Maiming's limited partner interest, is owned by Prudential Corporation Holdings Limited and CITIC Corporation Limited as to 50% and 50%, respectively. As of the date of this report, CITIC-Prudential Life Insurance Company Limited, CITIC Corporation Limited and Prudential Corporation Holdings Limited are no longer substantial shareholders of the Company due to changes in shareholding.
- (6) As of the Listing Date, CITIC Corporation Limited (中國中信有限公司) is wholly-owned by CITIC Limited (中國中信股份有限公司), a company listed on the Main Board of the Stock Exchange (stock code: 267). As of the date of this report, CITIC Corporation Limited (中國中信有限公司) and CITIC Limited (中國中信股份有限公司) are no longer substantial shareholders of the Company due to changes in shareholding.
- (7) As of the Listing Date, Citigroup Inc. is deemed to be interested in long positions of 351,494,000 shares and short positions of 250,000,000 shares, which are directly or indirectly held by the companies controlled by Citigroup Inc., namely Citigroup Global Markets Holdings Inc., Citigroup Financial Products Inc., Citigroup Global Markets (International) Finance AG, Citigroup Global Markets Overseas Finance Limited, Citigroup Global Markets Hong Kong Holdings Limited, Citigroup Global Markets Asia Limited, Citigroup Global Markets Holdings Bahamas Limited and Citigroup Global Markets Limited. Pursuant to the SFO, Citigroup Inc. is deemed to be interested in the shares held by these companies.

Save as disclosed above, as at the Listing Date, the Directors or chief executives of the Company are not aware of any other person or entity who has an interest or short positions in Shares or underlying Shares of the Company which are required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept under Section 336 of the SFO.

2018 PRE-IPO SHARE OPTION SCHEME

The Company adopted the 2018 Pre-IPO Share Option Scheme on 18 March 2018. For details, please refer to “Appendix V — Statutory and General Information — D. 2018 Pre-IPO Share Option Scheme” in the Prospectus. As at the Listing Date, the number of relevant Shares subject to outstanding options granted under the 2018 Pre-IPO Share Option Scheme was 464,723,519 Shares, representing approximately 6.97% of the issued share capital of the Company. As of the date of this report, the Company had granted Pre-IPO Share Options to 340 Participants under the 2018 Pre-IPO Share Option Scheme.

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

Grantees	Date of Grant	Number of Share Options Outstanding as at 18 March 2018 and 30 June 2018	Exercise Period	Exercise Price per Share Option	Vesting Period
Directors					
Xu Changjun	18 March 2018	1,288,871	From 2 February 2019 to 2 August 2038	0.9311	From 18 March 2018 to 2 February 2019
		859,247	From 2 February 2020 to 2 August 2020		From 18 March 2018 to 2 February 2020
Li Tao	18 March 2018	6,659,167	From 2 February 2019 to 2 August 2038	0.9311	From 18 March 2018 to 2 February 2019
		2,685,148	From 2 February 2020 to 2 August 2020		From 18 March 2018 to 2 February 2020
Sub-total		11,492,433			

OTHER INFORMATION

Grantees	Date of Grant	Number of Share Options Outstanding as at 18 March 2018 and 30 June 2018	Exercise Period	Exercise Price per Share Option	Vesting Period
Senior Management					
Jiang Lin	18 March 2018	3,329,583	From 2 February 2019 to 2 August 2038	0.9311	From 18 March 2018 to 2 February 2019
		2,685,148	From 2 February 2020 to 2 August 2020		From 18 March 2018 to 2 February 2020
Li Xiao	18 March 2018	1,503,682	From 2 February 2019 to 2 August 2038	0.9311	From 18 March 2018 to 2 February 2019
		966,653	From 2 February 2020 to 2 August 2020		From 18 March 2018 to 2 February 2020
		2,121,944	From 2 February 2020 to 2 August 2020	1.1311	From 18 March 2018 to 2 February 2019
		265,243	From 2 February 2020 to 2 August 2020		From 18 March 2018 to 2 February 2020
Lou Qunwei	18 March 2018	2,685,148	From 2 February 2019 to 2 August 2038	0.9311	From 18 March 2018 to 2 February 2019
		2,685,148	From 2 February 2020 to 2 August 2020		From 18 March 2018 to 2 February 2020
Chen Houyi	18 March 2018	1,691,867	From 2 February 2019 to 2 August 2038	0.5911	From 18 March 2018 to 2 February 2019
		1,856,701	From 2 February 2019 to 2 August 2038		1.131
He Xuan	18 March 2018	1,396,277	From 2 February 2019 to 2 August 2038	0.5911	From 18 March 2018 to 2 February 2019
Sub-total		32,679,827			

OTHER INFORMATION

Grantees	Date of Grant	Number of Share Options Outstanding as at 18 March 2018 and 30 June 2018	Exercise Period	Exercise Price per Share Option	Vesting Period
Connected Persons					
Chen Xiaohui	18 March 2018	1,127,762	From 2 February 2019 to 2 August 2038	0.9311	From 18 March 2018 to 2 February 2019
		483,326	From 2 February 2020 to 2 August 2020		From 18 March 2018 to 2 February 2020
Dai Jun	18 March 2018	590,732	From 2 February 2019 to 2 August 2038	0.9311	From 18 March 2018 to 2 February 2019
		247,033	From 2 February 2020 to 2 August 2020		From 18 March 2018 to 2 February 2020
He Shengli	18 March 2018	1,288,871	From 2 February 2019 to 2 August 2038	0.9311	From 18 March 2018 to 2 February 2019
		859,247	From 2 February 2020 to 2 August 2020		From 18 March 2018 to 2 February 2020
Hu Wenhua	18 March 2018	2,255,524	From 2 February 2019 to 2 August 2038	0.9311	From 18 March 2018 to 2 February 2019
		966,653	From 2 February 2020 to 2 August 2020		From 18 March 2018 to 2 February 2020
Huang Zhongcai	18 March 2018	5,477,702	From 2 February 2019 to 2 August 2038	0.9311	From 18 March 2018 to 2 February 2019
		2,255,524	From 2 February 2020 to 2 August 2020		From 18 March 2018 to 2 February 2020
Li Xiaoyun	18 March 2018	1,353,314	From 2 February 2019 to 2 August 2038	0.9311	From 18 March 2018 to 2 February 2019
		579,991	From 2 February 2020 to 2 August 2020		From 18 March 2018 to 2 February 2020
Liu Hongxin	18 March 2018	1,127,762	From 2 February 2019 to 2 August 2038	0.9311	From 18 March 2018 to 2 February 2019
		322,217	From 2 February 2020 to 2 August 2020		From 18 March 2018 to 2 February 2020
Lu Hui	18 March 2018	751,841	From 2 February 2019 to 2 August 2038	0.9311	From 18 March 2018 to 2 February 2019
		322,217	From 2 February 2020 to 2 August 2020		From 18 March 2018 to 2 February 2020
Ma Jialing	18 March 2018	880,728	From 2 February 2019 to 2 August 2038	0.9311	From 18 March 2018 to 2 February 2019
		375,920	From 2 February 2020 to 2 August 2020		From 18 March 2018 to 2 February 2020

OTHER INFORMATION

Grantees	Date of Grant	Number of Share Options Outstanding as at 18 March 2018 and 30 June 2018	Exercise Period	Exercise Price per Share Option	Vesting Period
Shen Wenge	18 March 2018	2,255,524	From 2 February 2019 to 2 August 2038	0.9311	From 18 March 2018 to 2 February 2019
		966,653	From 2 February 2020 to 2 August 2020		From 18 March 2018 to 2 February 2020
Tang Yong	18 March 2018	1,503,682	From 2 February 2019 to 2 August 2038	0.9311	From 18 March 2018 to 2 February 2019
		644,435	From 2 February 2020 to 2 August 2020		From 18 March 2018 to 2 February 2020
Tao Xiuzhen	18 March 2018	2,685,148	From 2 February 2019 to 2 August 2038	0.9311	From 18 March 2018 to 2 February 2019
		2,685,148	From 2 February 2020 to 2 August 2020		From 18 March 2018 to 2 February 2020
Wang Huijun	18 March 2018	5,370,296	From 2 February 2019 to 2 August 2038	0.9311	From 18 March 2018 to 2 February 2019
		805,544	From 2 February 2020 to 2 August 2020		From 18 March 2018 to 2 February 2020
Wang Huiliang	18 March 2018	5,370,296	From 2 February 2019 to 2 August 2038	0.9311	From 18 March 2018 to 2 February 2019
		644,435	From 2 February 2020 to 2 August 2020		From 18 March 2018 to 2 February 2020
Wang Huiming	18 March 2018	5,370,296	From 2 February 2019 to 2 August 2038	0.9311	From 18 March 2018 to 2 February 2019
		644,435	From 2 February 2020 to 2 August 2020		From 18 March 2018 to 2 February 2020
Wu Jianwei	18 March 2018	214,811	From 2 February 2019 to 2 August 2038	0.9311	From 18 March 2018 to 2 February 2019
		85,924	From 2 February 2020 to 2 August 2020		From 18 March 2018 to 2 February 2020
Wu Yucong	18 March 2018	601,473	From 2 February 2019 to 2 August 2038	0.9311	From 18 March 2018 to 2 February 2019
		257,774	From 2 February 2020 to 2 August 2020		From 18 March 2018 to 2 February 2020
Xu Chunfang	18 March 2018	1,944,047	From 2 February 2019 to 2 August 2038	0.9311	From 18 March 2018 to 2 February 2019
		805,544	From 2 February 2020 to 2 August 2020		From 18 March 2018 to 2 February 2020

OTHER INFORMATION

Grantees	Date of Grant	Number of Share Options Outstanding as at 18 March 2018 and 30 June 2018	Exercise Period	Exercise Price per Share Option	Vesting Period
Yan Youlin	18 March 2018	1,074,059	From 2 February 2019 to 2 August 2038	0.9311	From 18 March 2018 to 2 February 2019
		429,623	From 2 February 2020 to 2 August 2020		From 18 March 2018 to 2 February 2020
Zou Yong	18 March 2018	265,243	From 2 February 2019 to 2 August 2038	0.9311	From 18 March 2018 to 2 February 2019
		106,097	From 2 February 2020 to 2 August 2020		From 18 March 2018 to 2 February 2020
Peng Lan	18 March 2018	1,611,088	From 2 February 2019 to 2 August 2038	0.9311	From 18 March 2018 to 2 February 2019
Wang Weihang	18 March 2018	3,222,178	From 2 February 2019 to 2 August 2038	0.9311	From 18 March 2018 to 2 February 2019
Wang Xiaoqiang	18 March 2018	751,841	From 2 February 2019 to 2 August 2038	0.9311	From 18 March 2018 to 2 February 2019
		322,217	From 2 February 2020 to 2 August 2020		From 18 March 2018 to 2 February 2020
Sub-total		61,904,175			
Other Grantees					
310 individuals	18 March 2018	370,139,517	From 2 February 2019 to 2 August 2038 or From 2 February 2020 to 2 August 2020	0.9311/1.131	From 18 March 2018 to 2 February 2019 or From 18 March 2018 to 2 February 2020
Total		464,723,519			

During the six months ended 30 June 2018, no share options were exercised, cancelled or lapsed under the Pre-IPO Share Option Scheme.

Note: Details of the 2018 Pre-IPO Share Option Scheme adopted on 18 March 2018 are set out in note 20 to the interim condensed financial information of this report.

OTHER INFORMATION

THE COLLEGE OF SCIENCE AND TECHNOLOGY OF GUIZHOU UNIVERSITY

In addition, our Controlling Shareholders indirectly held 70% interests in Jiexing Huilv. Jiexing Huilv is the school sponsor of The College of Science and Technology of Guizhou University, which currently also provides higher education to students. As disclosed in the Prospectus, the Controlling Shareholders have undertaken to transfer their interest in Jiexing Huilv to the Group after the Listing when they can effectively control and consolidate the financial statements of The College of Science and Technology of Guizhou University. The above-mentioned transfer is underway as scheduled. For details, please refer to the section headed “Relationship with Controlling Shareholders” in the Prospectus.

REPURCHASE, SALE OR REDEMPTION OF THE GROUP’S SECURITIES

As at the Listing Date and until the date of this report, the Group and its subsidiaries did not repurchase, sell or redeem any securities of the Group.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Corporate Governance Code was not applicable to the Group for the period ended 30 June 2018, as the Company had not been listed on the Hong Kong Stock Exchange on 30 June 2018.

The Company is committed to the establishment of good corporate governance practices and procedures with a view of becoming a transparent and responsible organisation which is open and accountable to the Shareholders. The Board strives for adhering to the principles of corporate governance and has adopted sound corporate governance practices to meet the legal and commercial standards, focusing on areas such as internal control, fair disclosure and accountability to all Shareholders to ensure the transparency and accountability of all operations of the Group. The Company believes that effective corporate governance is essential for creating greater value to its Shareholders. The Board will continue to review and improve the corporate governance practices of the Group from time to time to ensure that the Group is led by an effective Board in order to optimise return for Shareholders. Since the Listing Date and up to the date of this report, the Group has strictly complied with the Corporate Governance Code.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS

As the Shares of the Company had not been listed on the Hong Kong Stock Exchange on 30 June 2018, the Model Code was not applicable to the Company for the period ended 30 June 2018.

As of the date of this report, the Group has also adopted the Model Code as a code of conduct regarding securities transactions by the Directors. Having made specific enquiry to all Directors of the Company, all Directors have confirmed that they had complied with the required standards set out in the Model Code regarding directors' securities transactions since the Listing Date and up to the date of this report.

AUDIT COMMITTEE

The Board has established an audit committee of the Company ("Audit Committee") with terms of reference. The Audit Committee consists of five members, namely two non-executive Directors Mr. Tang Jianyuan and Mr. Lu Zhichao, and three independent non-executive Directors Mr. Zhang Jin, Dr. Gao Hao and Mr. Chen Yunhua. Mr. Zhang Jin is the chairman of the Audit Committee.

The Audit Committee, together with the management, had reviewed and approved the interim results and the interim condensed consolidated financial statements of the Group for this Period.

OTHER BOARD COMMITTEES

Apart from the Audit Committee, the Board has also set up the Nomination and Remuneration Committee and the Strategy and Development Committee.

CHANGE IN DIRECTOR'S INFORMATION

Dr. Gao Hao has served as an independent director of Xinyuan Real Estate Co., Ltd. (鑫苑地產控股有限公司), shares of which are listed on the New York Stock Exchange (stock code: XIN), since May 2018. Xinyuan Real Estate Co., Ltd. is principally engaged in the property development and management businesses. Save as disclosed above, the Directors confirmed that there was no information required to be disclosed pursuant to Rule 13.51B (1) of the Listing Rules.

REPORT ON REVIEW OF INTERIM CONDENSED FINANCIAL INFORMATION



Ernst & Young
22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

Tel : +852 2846 9888
Fax : +852 2868 4432
www.ey.com

To the board of directors of Hope Education Group Co., Ltd.
(Incorporated in Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim condensed financial formation set out on pages 51 to 86, which comprises the consolidated statement of financial position of Hope Education Group Co., Ltd. (the “Company”) and its subsidiaries as at 30 June 2018 and the related consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six-month period then ended, and explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim condensed financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 “Interim Financial Reporting” (“IAS 34”).

The directors of the Company are responsible for the preparation and presentation of this interim condensed financial information in accordance with IAS 34. Our responsibility is to express a conclusion on this interim condensed financial information based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

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

CONCLUSION

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

Ernst & Young
Certified Public Accountants
Hong Kong
30 August 2018

INTERIM CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2018

	Notes	For the six months ended 30 June	
		2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
Revenue	3	527,997	383,653
Cost of sales		<u>(267,778)</u>	<u>(173,714)</u>
Gross profit		260,219	209,939
Other income and gains	3	106,035	61,146
Selling expenses		(9,176)	(10,836)
Administrative expenses		(112,335)	(43,783)
Other expenses		(601)	(1,336)
Finance costs	4	(107,325)	(61,132)
Share of losses of a joint venture		<u>(1,858)</u>	<u>—</u>
Profit before tax	5	134,959	153,998
Income tax expense	6	<u>(2,054)</u>	<u>(18,392)</u>
Profit for the period		<u>132,905</u>	<u>135,606</u>
Other comprehensive income for the period		<u>—</u>	<u>—</u>
Total comprehensive for the period		<u>132,905</u>	<u>135,606</u>
Profit and total comprehensive income attributable to:			
Owners of the Company		133,518	136,193
Non-controlling interests		<u>(613)</u>	<u>(587)</u>
		<u>132,905</u>	<u>135,606</u>
Earnings per share attributable to ordinary equity holders of the Company:			
Basic (for the six months ended 30 June 2017: basic and diluted)	7	<u>RMB0.027</u>	<u>RMB0.028</u>
Diluted		<u>RMB0.025</u>	<u>N/A</u>

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 JUNE 2018

	Notes	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	8	3,450,732	3,195,358
Prepaid land lease payments	8	587,825	594,873
Goodwill	9	481,143	481,143
Other intangible assets	8	153,325	118,700
Prepayments, deposits and other receivables	10	464,975	18,019
Investment in a joint venture		—	142,790
Total non-current assets		<u>5,138,000</u>	<u>4,550,883</u>
CURRENT ASSETS			
Prepayments, deposits and other receivables	10	57,406	121,492
Amounts due from related parties	19	564,633	732,824
Financial assets at fair value through profit or loss		50,000	8,241
Cash and cash equivalents		<u>290,754</u>	<u>181,332</u>
Total current assets		<u>962,793</u>	<u>1,043,889</u>
CURRENT LIABILITIES			
Contract liabilities		82,747	535,268
Other payables and accruals	11	641,358	731,682
Deferred income	12	8,456	8,456
Interest-bearing bank and other borrowings	13	932,325	613,986
Amounts due to related parties	19	84,011	154,999
Taxes payable		<u>35,363</u>	<u>53,670</u>
Total current liabilities		<u>1,784,260</u>	<u>2,098,061</u>
NET CURRENT LIABILITIES	2.1	<u>(821,467)</u>	<u>(1,054,172)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>4,316,533</u>	<u>3,496,711</u>

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 JUNE 2018

	Notes	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000
NON-CURRENT LIABILITIES			
Deferred income	12	625,229	629,457
Interest-bearing bank and other borrowings	13	1,934,461	1,265,461
Deferred tax liabilities		10,375	10,677
Composite instrument	14	391,304	628,990
Liability of a put option granted to a shareholder		—	276,153
Other payables and accruals	11	6,801	6,585
Total non-current liabilities		<u>2,968,170</u>	<u>2,817,323</u>
NET ASSETS		<u>1,348,363</u>	<u>679,388</u>
EQUITY			
Equity attributable to owners of the Company			
Issued capital	15	3	—
Reserves		<u>1,345,512</u>	<u>649,464</u>
		1,345,515	649,464
Non-controlling interests		<u>2,848</u>	<u>29,924</u>
Total equity		<u>1,348,363</u>	<u>679,388</u>

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2018

	Attributable to owners of the Company							
	Issued capital	Capital reserve	Statutory surplus reserve	Share option reserve	Retained profits	Total	Non-controlling interests	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
	(note 11)							
As at 1 January 2018	—	83,090*	174,900*	—*	391,474*	649,464	29,924	679,388
Issue of shares	3	—	—	—	—	3	—	3
Profit for the period	—	—	—	—	133,518	133,518	(613)	132,905
Transfer from retained profits	—	—	52,821	—	(52,821)	—	—	—
Disposal of a subsidiary	—	—	—	—	—	—	(26,463)	(26,463)
Equity-settled share option arrangement	—	—	—	47,194	—	47,194	—	47,194
Transfer from the liability of a put option granted to a shareholder	—	281,908	—	—	—	281,908	—	281,908
Conversion of the convertible bond	—	233,428	—	—	—	233,428	—	233,428
As at 30 June 2018	<u>3</u>	<u>598,426*</u>	<u>227,721*</u>	<u>47,194*</u>	<u>472,171*</u>	<u>1,345,515</u>	<u>2,848</u>	<u>1,348,363</u>
As at 1 January 2017	—	108,332	128,959	—	225,703	462,994	31,980	494,974
Profit for the period	—	—	—	—	136,193	136,193	(587)	135,606
Transfer from retained profits	—	—	34,316	—	(34,316)	—	—	—
As at 30 June 2017	<u>—</u>	<u>108,332</u>	<u>163,275</u>	<u>—</u>	<u>327,580</u>	<u>599,187</u>	<u>31,393</u>	<u>630,580</u>

* These reserve accounts comprise the consolidated reserves of RMB1,345,512,000 (31 December 2017: RMB649,464,000) in the consolidated statement of financial position.

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

		For the six months ended 30 June	
		2018	2017
		RMB'000	RMB'000
		(Unaudited)	(Unaudited)
Notes			
CASH FLOWS FROM OPERATING ACTIVITIES			
	Profit before tax	134,959	153,998
	Adjustments for:		
	Depreciation	64,896	47,863
	Recognition of prepaid land lease payments	7,048	5,103
	Amortisation of other intangible assets	4,418	6,044
	Government grants released	(4,228)	(3,623)
	Bank interest income	(582)	(1,085)
	Interest income from loans to an independent third party	(7,498)	—
	Finance costs	107,325	61,132
	Gains on disposal of items of property, plant and equipment, net	(1,279)	(32,169)
	Gain on disposal of a subsidiary	(8,256)	—
	Fair value gains on conversion right of convertible bond	(13,271)	—
	Equity-settled share option expense	47,194	—
	Interest income from related parties	(25,615)	—
	Amortisation of deferred tax liability	(302)	—
	Share of losses of a joint venture	1,858	—
	Fair value losses on financial assets at fair value through profit or loss	191	4
	Gains on disposal of financial assets at fair value through profit or loss	(962)	(2,586)
	Decrease in accounts receivable	—	102
	(Increase) /decrease in prepayments, deposits and other receivables	76,253	(9,522)
	Increase in amounts due from related parties	(13,798)	(47,214)
	Decrease in contract liabilities	(452,521)	(316,976)
	Increase/(decrease) in amounts due to related parties	22,461	(3,333)
	Increase in other payables and accruals	16,345	13,821
	Cash used in operations	(45,364)	(128,441)
	Interest received	8,080	1,086
	Income tax and land appreciation tax paid	(20,358)	(1,365)
	Net cash flows used in operating activities	(57,642)	(128,720)

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

	For the	
	six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of items of property, plant and equipment	(520,383)	(520,135)
Additions to other intangible assets	(39,426)	(1,055)
Additions to prepaid land lease payments	—	(1,447)
Payment for acquisition of non-controlling interest of a subsidiary	—	(6,460)
Proceeds from disposal of items of property, plant and equipment	28,157	45,597
Proceeds from disposal of prepaid land lease payments	—	6,320
Increase in amounts due from related parties	202,851	443,788
Decrease in pledged deposits	—	156,882
Receipt of government grants	—	12,037
(Increase) /decrease in financial assets at fair value through profit or loss	(41,951)	20,000
Disposal of a subsidiary	69,608	—
Investment income from financial assets at fair value through profit or loss	962	2,586
Loans to an independent third party	(451,617)	—
Net cash flows from/(used in) investing activities	<u>(751,799)</u>	<u>158,113</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from bank and other borrowings	1,701,723	1,549,933
Repayment of bank and other borrowings	(708,000)	(1,074,500)
Interest paid	(74,860)	(36,982)
Loans from related parties	100,000	(5,500)
Repayment of loans from related parties	(100,000)	(121,910)
Net cash flows from financing activities	<u>918,863</u>	<u>311,041</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	109,422	340,434
Cash and cash equivalents at beginning of the period	<u>181,332</u>	<u>142,616</u>
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	<u>290,754</u>	<u>483,050</u>

NOTES TO INTERIM CONDENSED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2018

1. CORPORATE INFORMATION

Hope Education Group Co., Ltd. (the “Company”) was incorporated in the Cayman Islands on 13 March 2017 as an exempted company with limited liability under the laws of the Cayman Islands. The registered office address of the Company is P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. The principal place of business of the Company in Mainland China is located at No. 2000 Xiqu Avenue, Pidu District, Chengdu, Sichuan, China.

During the six months ended 30 June 2018 (the “Period”), the principal activity of the Company was investment holding. The Company and its subsidiaries (collectively referred to as the “Group”) are principally engaged in the provision of higher education services in the People’s Republic of China (the “PRC”). There were no significant changes in the nature of the Group’s principal activities during the Period.

The shares of the Company were listed on the Main Board of the Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 3 August 2018 (the “Listing Date”).

2.1 BASIS OF PRESENTATION

The unaudited interim condensed financial information for the Period has been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting”.

The unaudited interim condensed financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s consolidated financial statements (“Historical Financial Information”) included in the Accountants’ Report set forth in Appendix I to the Company’s Prospectus dated 24 July 2018 (the “Prospectus”).

Going concern

The Group recorded net current liabilities of RMB821,467,000 (31 December 2017: RMB1,054,172,000) as at 30 June 2018, included in which were contract liabilities of RMB82,747,000 (31 December 2017: RMB535,268,000) as at 30 June 2018.

In view of the net current liabilities position, the directors of the Company (the “Directors”) have given careful consideration to the future liquidity and performance of the Group and its available sources of finance in assessing whether the Group will have sufficient financial resources to continue as a going concern. Subsequent to 30 June 2018, based on the arrangements entered into with the licensed banks in Mainland China, the undrawn banking facilities amounted to RMB330.00 million, of which RMB200.00 million and RMB130.00 million are available for withdrawal before January 2019 and April 2023, respectively. In addition, the Company received net proceeds amounting to RMB2,785,232,000 before issuing expenses from the initial public offering of the Company’s shares on the Listing Date. Having considered the cash flows from operations and its available resource of finance, the Directors are of the opinion the Group is able to meet in full its financial obligations as they fall due for the foreseeable future and it is appropriate to prepare the interim condensed financial information of the Group for the six months ended 30 June 2018 on a going concern basis.

NOTES TO INTERIM CONDENSED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2018

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of this interim condensed financial information are consistent with those followed in the preparation of the Group's Historical Financial Information that contained in Appendix I to the Prospectus. All the International Financial Reporting Standards ("IFRSs") effective for the accounting period commencing from 1 January 2018 together with the relevant transitional provisions, have been early adopted by the Group in the preparation of Historical Financial Information.

3. REVENUE, OTHER INCOME AND GAINS

Revenue represents the values of services rendered after deducting scholarships and refunds during the Period.

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

	Notes	For the six months ended 30 June	
		2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
Revenue			
Tuition fees		452,146	317,429
Boarding fees		42,018	29,813
Others	(i)	33,833	36,411
Total revenue from contracts with customers		527,997	383,653
Other income and gains			
Government grants			
– related to assets	12	4,228	3,623
– related to expenses	(ii)	11,500	4,117
Interest income from bank balances		582	1,085
Interest income from loans to a related party		25,615	—
Interest income from loans to an independent third party		7,498	—
Rental income		12,052	10,354
Service income	(iii)	13,450	6,281
Donation income		64	18
Gains on disposal of items of property, plant and equipment		1,356	32,172
Guarantee income	(iv)	1,336	—
Fair value gains on financial assets at fair value through profit and loss		771	2,582
Fair value gains on conversion right of the convertible bond	14	13,271	—
Gain on disposal of a subsidiary		8,256	—
Others		6,056	914
		106,035	61,146

NOTES TO INTERIM CONDENSED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2018

3. REVENUE, OTHER INCOME AND GAINS *(Continued)*

The Group recognised the following revenue-related contract liabilities, which represented the unsatisfied performance obligations as at 31 December 2017 and 30 June 2018 and will be expected to be recognised within one year:

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000
Tuition fees	60,329	473,602
Boarding fees	19,484	56,975
Others	2,934	4,691
Total contract liabilities	<u>82,747</u>	<u>535,268</u>

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

Changes in contract liabilities during the period are as follows:

	For the six months ended 30 June	
	2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
At the beginning of the period	535,268	388,981
Revenue recognised that was included in the contract liabilities at the beginning of the period	(523,585)	(372,785)
Increase due to cash received, excluding amounts recognised as revenue during the period	<u>71,064</u>	<u>55,809</u>
At the end of the period	<u>82,747</u>	<u>72,005</u>

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

NOTES TO INTERIM CONDENSED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2018

3. REVENUE, OTHER INCOME AND GAINS *(Continued)*

Notes:

- (i) During the Period, others mainly represented income received from the provision of other education service of self-study examination education services, adult education services and training services to the students, which were amortised within the training periods of the service rendered.
- (ii) Government grants relating to expenses represented the subsidies compensated for the incurred operating expenses arising from teaching activities, which were recognised as other income directly in profit or loss when received. There were no unfulfilled conditions or contingencies relating to these grants.
- (iii) During the Period, service income mainly represented income derived from granting the rights of canteen and convenient store operations to independent third party operators; and income from services provided to students related to purchase of text books, dormitory bedding and examination material.
- (iv) During the Period, guarantee income represented fee received by the Group in respect of the provisions of bank loan guarantees to related parties (note 15(a)(iv)).

4. FINANCE COSTS

An analysis of the Group's finance costs is as follows:

	For the six months ended 30 June	
	2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
Interest on bank and other borrowings	84,171	50,363
Increase in the discounted amount of payables arising from the passage of time	28,653	12,150
Total interest expense for financial liabilities that are not at fair value through profit or loss	112,824	62,513
Less: interest capitalised	(5,499)	(1,381)
	<u>107,325</u>	<u>61,132</u>

NOTES TO INTERIM CONDENSED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2018

5. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

	Notes	For the six months ended 30 June	
		2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
Employee benefit expense:			
Wages and salaries		123,928	76,981
Equity-settled share option expense	20	16,786	—
Pension scheme contributions (defined contribution scheme)		25,548	13,699
		<u>166,262</u>	<u>90,680</u>
Management fees	(i)	58,321	46,045
Depreciation	8	64,896	47,863
Recognition of prepaid land lease payments	8	7,048	5,103
Amortisation of other intangible assets	8	4,418	6,044
Listing expenses		11,531	3,454
Minimum lease payments under operating leases		13,152	8,150
Equity-settled share option expense	20	30,408	—
Losses on disposal of items of property, plant and equipment		77	3

Note:

- (i) During the Period, management fees represented the annual fees paid to the regular universities with which the Group entered into cooperation agreements to operate independent colleges on certain percentage of tuition fees.

NOTES TO INTERIM CONDENSED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2018

6. INCOME TAX

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

	For the six months ended 30 June	
	2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
Current – Mainland China		
PRC corporate income tax for the period	1,835	7,552
PRC land appreciation tax for the period	219	10,840
Total tax charged for the period	<u>2,054</u>	<u>18,392</u>

Corporate income tax of the Group has been provided at the applicable tax rates on the estimated taxable profits arising in Mainland China during the Period.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands and accordingly is not subject to income tax from business carried out in the Cayman Islands.

No provision for Hong Kong profits tax has been made as the Group had no assessable profits derived from or earned in Hong Kong during the Period.

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

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

All of the Group's non-school subsidiaries established in the PRC were subject to the PRC corporate income tax rate of 25% during the Period.

NOTES TO INTERIM CONDENSED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2018

7. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of the basic earnings per share amount is based on the profit attributable to ordinary equity holders of the Company, and the number of ordinary shares assumed to be issued and issuable of 4,975,277,725, comprising the weighted average number of 27,777,778 ordinary shares issued during the Period and 4,947,499,947 ordinary shares to be issued pursuant to the capitalisation issue after the Period (note 22(a)) (for the six months ended 30 June 2017: 4,947,499,947 ordinary shares, which were deemed to have been issued by way of the capitalisation throughout the six months ended 30 June 2017).

The diluted earnings per share for the Period is calculated based on the profit for the Period attributable to owners of the Company as used in the basic earnings per share calculation, adjusted to reflect the interest on the convertible bonds and fair value changes on the conversion rights of the convertible bonds. The weighted average number of ordinary shares used in the calculation is the weighted average number of ordinary shares in issue during the Period, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

The Group had no potentially dilutive ordinary shares in issue during the six months ended 30 June 2017.

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

	For the six months ended 30 June	
	2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
Earnings		
Profit attributable to the owners of the Company used in the basic earnings per share calculation	133,518	136,193
Interest on convertible bonds	4,470	—
Less: fair value gains on the conversion right of the convertible bonds	(13,271)	—
Profit attributable to the owners of the Company before interest on convertible bonds and fair value gains on the conversion right of the convertible bonds used in the diluted earnings per share calculation	<u>124,717</u>	<u>136,193</u>
Shares		
Weighted average number of ordinary shares in issue during the Period used in the basic earnings per share calculation	4,975,277,725	4,947,499,947
Effect of dilution – weighted average number of ordinary shares:		
Share options	601,209	—
Convertible bonds	<u>2,500,053</u>	<u>—</u>
Weighted average number of ordinary shares during the Period used in the diluted earnings per share calculation	<u>4,978,378,987</u>	<u>4,947,499,947</u>

NOTES TO INTERIM CONDENSED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2018

8. PROPERTY, PLANT AND EQUIPMENT, INTANGIBLE ASSETS AND PREPAID LAND LEASE PAYMENTS

Movements in property, plant and equipment, intangible assets and prepaid land lease payments during the Period are as follows:

	Property, plant and equipment RMB'000 (Unaudited) (note (a))	Prepaid land lease payments RMB'000 (Unaudited)	Intangible assets RMB'000 (Unaudited)
Carrying amounts at 1 January 2018	3,195,358	594,873	118,700
Additions	323,335	—	39,043
Disposals	(3,065)	—	—
Depreciation/amortisation charged for the Period (note 5)	(64,896)	(7,048)	(4,418)
Carrying amounts at 30 June 2018	<u>3,450,732</u>	<u>587,825</u>	<u>153,325</u>

- (a) As at 30 June 2018, the Group was in the customary process of obtaining the relevant property ownership certificates for certain buildings with an aggregate net carrying amounts of approximately RMB1,411,196,000 (31 December 2017: RMB1,551,675,000). The Group's buildings can only be sold, transferred or mortgaged when the relevant certificates have been obtained.

As at 30 June 2018, certain of the Group's buildings with a net carrying amount of approximately RMB94,735,000 were pledged to secure bank loan of the Group (note 14) (31 December 2017: Nil).

Additions to construction in progress during the Period included interest capitalised in respect of certain bank loans borrowed generally amounting to RMB5,499,000 (six months ended 30 June 2017: RMB1,381,000). The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation was 4.75% (six month ended 30 June 2017: 4%).

9. GOODWILL

IAS 36 requires an entity to perform impairment tests on goodwill on an annual basis. Meanwhile, the management did not identify any significant adverse changes in the operating results and macro environment in the six months ended 30 June 2018, and the Company's management has concluded there was no impairment indicator of goodwill at 30 June 2018. Accordingly, the management did not perform impairment testing on goodwill as at 30 June 2018.

NOTES TO INTERIM CONDENSED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2018

10. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Notes	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000
Current portion:			
Prepayments for management fees	5(i)	3,478	38,163
Prepaid expense		5,335	11,534
Deposits		11,488	7,868
Other receivables		5,333	2,800
Other receivables from the previous shareholder of TOP Education		—	40,962
Staff advance		5,284	4,515
Prepaid land lease payments to be amortised within one year		12,993	12,993
Deferred listing expenses		5,997	2,657
Interest receivable	(a)	7,498	—
		57,406	121,492
Non-current portion:			
Loans to a third party	(a)	444,120	—
Prepayments for property, plant and equipment		10,459	8,019
Prepayments for land lease payments		10,000	10,000
Prepayments for software		396	—
		464,975	18,019
Total		522,381	139,511

Note:

- (a) Loans to a third party represented the loans made to Chengdu Wuhou Guixi Property Development Limited (“Guixi Property”), a company controlled by the previous ultimate shareholder of Sichuan TOP IT Vocational Institute with bearing interest at a rate of 7.5% per annum and will become mature within two years from the respective grant dates. The interest is paid half-yearly in arrears, and the principal of the loans will be repaid in a lump sum when the loans becomes mature. The loans are secured by the properties of Guixi Property.

The remaining receivables are interest-free and are not secured with collateral.

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

NOTES TO INTERIM CONDENSED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2018

11. OTHER PAYABLES AND ACCRUALS

	Notes	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000
Current portion:			
Payables for purchase of property, plant and equipment		188,986	253,953
Payables for acquisitions of equity interests		—	15,000
Miscellaneous advances received from students	(i)	92,960	94,517
Accrued bonuses and other employee benefits		49,534	48,568
Payables for land lease payments		380	380
Payables for purchase of other intangible assets		—	304
Rental payable		38,195	31,628
Government scholarship		28,967	9,987
Payables for purchase of teaching materials and operating expenditure		6,505	16,684
Payables for management fees		3,994	1,435
Construction deposits		26,471	30,597
Notes payable	(ii)	5,850	48,728
Other taxes payable		19,180	20,017
Other payables and accrued expenses		104,504	84,052
Construction loan from Mianzhu Education Bureau	(iii)	75,832	75,832
		<u>641,358</u>	<u>731,682</u>
Non-current portion:			
Other payable	(iv)	<u>6,801</u>	<u>6,585</u>

Notes:

- (i) The advances represented expenses relating to textbooks, military training, medical examination, insurance, etc. collected from students which will be paid out on behalf of students.
- (ii) As at 30 June 2018, the balance represented the notes payable which are unsecured commercial notes.
- (iii) Sichuan Tianyi College obtained an interest-free and non-repayable loan amounting to RMB75,832,000 from Mianzhu Educational Bureau in 2015.
- (iv) The non-current other payable represented the liabilities to Nanchong No.19 Middle School for the purchase of fixed assets.

Except as disclosed above, other payables and accruals are unsecured and non-interest-bearing.

NOTES TO INTERIM CONDENSED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2018

12. DEFERRED INCOME

	30 June 2018 RMB'000 (Unaudited)
At beginning of period	637,913
Released to profit or loss (note 3)	<u>(4,228)</u>
At end of period	<u>633,685</u>
Current	8,456
Non-current	<u>625,229</u>
	<u>633,685</u>

Deferred income represents the government grants received for subsidies in connection with the construction of certain buildings. These grants related to assets are released to profit or loss over the expected useful lives of the relevant assets.

13. INTEREST-BEARING BANK AND OTHER BORROWINGS

	As at 30 June 2018			As at 31 December 2017		
	Effective interest rate (%) (unaudited)	Maturity (unaudited)	RMB'000 (unaudited)	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loans - secured	4.80-6.00	2018-2019	543,500	4.75-7.50	2018	208,000
Bank loans - unsecured	—	—	200,000	5.18	2018	200,000
Current portion of						
– long term bank loans - secured	4.75	2018-2019	38,615	—	—	—
– long term bank loans - unsecured	—	—	—	5.23-6.65	2018	109,000
– other borrowings - secured	7.00-7.50	2018-2019	150,210	7.5	2018	96,986
			<u>932,325</u>			<u>613,986</u>
Non-current						
Bank loans - secured	5.23-6.41	2021-2023	1,055,000	5.23-6.18	2019-2022	930,000
Other borrowings - secured	7.00-7.50	2020-2023	879,461	7.50	2022	335,461
			<u>1,934,461</u>			<u>1,265,461</u>
			<u>2,866,786</u>			<u>1,879,447</u>

NOTES TO INTERIM CONDENSED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2018

13. INTEREST-BEARING BANK AND OTHER BORROWINGS *(Continued)*

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000
Analysed into:		
Bank loans repayable:		
Within one year	782,115	517,000
In the second year	95,000	250,000
In the third to fifth years, inclusive	960,000	680,000
	<u>1,837,115</u>	<u>1,447,000</u>
Other borrowings repayable:		
Within one year	150,210	96,986
In the second year	204,409	104,409
In the third to fifth years, inclusive	675,052	231,052
	<u>1,029,671</u>	<u>432,447</u>
	<u>2,866,786</u>	<u>1,879,447</u>

NOTES TO INTERIM CONDENSED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2018

13. INTEREST-BEARING BANK AND OTHER BORROWINGS *(Continued)*

Notes:

All of the Group's bank and other borrowings are denominated in RMB.

The Group's bank loans and other borrowing are secured by:

- (a) Mortgages over the following assets:

The Group's assets:

The Group's buildings with a net carrying amount of RMB94,735,000 of Sichuan Hope Automotive Vocational College were pledged for the bank loans amounting to RMB140,000,000 as at 30 June 2018 (31 December 2017: Nil).

Land and buildings belonged to the following related parties (note 19(b)):

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000
<i>Name of related party (as defined in note 19)</i>		
Mianzhu Property and Wansheng Property	—	123,000
Mianzhu Property and Ziyang Property*	238,500	—
Fuquan Property	—	127,000
Chengdu Golden May and Jintang Property	75,000	75,000
	313,500	325,000

* The mortgages provided by Mianzhu Property and Ziyang Property have been released on 1 August 2018

- (b) Pledges of equity interests in the following subsidiaries of the Group:

- (i) 100% of the equity interests in Sichuan Yonghe Education Investment Limited have been pledged for bank loans of RMB300,000,000 as at 30 June 2018 (31 December 2017: RMB550,000,000).
- (ii) 100% of the equity interests in Taiyuan Xudong Technology Limited have been pledged for the bank loans of RMB90,000,000 as at 30 June 2018 (31 December 2017: RMB90,000,000).
- (iii) 100% of the equity interests in Sichuan Guojian Investment Limited, the guarantee granted by Hope Education and Mr. Wang Huiwu, and the rights over tuition fees of Southwest Jiaotong University Hope College have been provided or pledged to China National Investment and Guaranty Corporation to counter guarantee the corporate guarantee provided by China National Investment and Guaranty Corporation in relation to the Group's asset-backed securities borrowings of RMB435,714,000 as at 30 June 2018 (31 December 2017: RMB432,447,000). The personal guarantee provided by Mr. Wang Huiwu to China National Investment has been released on 23 July 2018.
- (iv) 100% of the equity interests in Top Education have been pledged for the bank loans of RMB594,000,000 as at 30 June 2018 (31 December 2017: Nil).

NOTES TO INTERIM CONDENSED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2018

13. INTEREST-BEARING BANK AND OTHER BORROWINGS *(Continued)*

Notes: *(Continued)*

(c) Certain of the Group's bank and other borrowings are guaranteed by the following related parties:

<i>Name of related party (as defined in note 19)</i>	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000
West Hope Group	—	35,000
Mr. Wang Huiwu and Chengdu Mayflower *	140,000	—
Mr. Wang Huiwu and Tequ Education*	450,000	—
Mr. Wang Huiwu, Rongxing Driving, Wanqian Trading and Chengdu Property Chengdu Mayflower*	—	250,000
Mr. Wang Huiwu	200,000	—
	—	90,000
	<u>790,000</u>	<u>375,000</u>

* In July 2018, the guarantees provided by the above related parties for the loans above mentioned have been fully released.

(d) Rights over tuition or boarding fees of the following schools:

- (i) Rights over tuition fees of Sichuan Tianyi College have been pledged for bank loans of RMB130,000,000 and RMB434,102,000 as at 31 December 2017 and 30 June 2018, respectively;
- (ii) Rights over tuition fees of Sichuan Tianyi College, Sichuan Hope Automotive Vocational College, Business College of Guizhou University of Finance and Economics, Sichuan Vocational College of Culture & Communication have been pledged for a total bank loans of RMB300,000,000 as at 30 June 2018 (31 December 2017: RMB300,000,000);
- (iii) Right over tuition fees of Southwest Jiaotong University Hope College has been pledged for other borrowings of RMB435,714,000 in relation to the issuance of asset-backed securities as at 30 June 2018 (31 December 2017: RMB432,447,000);
- (iv) Rights over tuition fees of Sichuan TOP IT Vocational Institute have been pledged in relation to the Group's asset-backed securities borrowings amounting to RMB594,000,000 as at 30 June 2018. In addition, the right over tuition fees of Sichuan TOP IT Vocational School, a school controlled by Tequ Education, has been pledged for the above-mentioned borrowings of RMB594,000,000 (31 December 2107: Nil), which had been fully released on 1 August 2018.

NOTES TO INTERIM CONDENSED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2018

14. COMPOSITE INSTRUMENT

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000
Composite instrument:		
Liability component	391,304	576,552
Fair value of embedded derivatives	—	52,438
	<u>391,304</u>	<u>628,990</u>

On 22 August 2017, Hope Education issued a composite instrument of RMB600,000,000, which was consisted of a loan without any conversion right amounting to RMB400,000,000 bearing interest at a rate of 7% (“Fixed Interest Loan”) and a convertible bond amounting to RMB200,000,000 bearing interest at a rate of 8% (“Convertible Bond”), to Zhuhai Maiwen Investment Centre LLP (“Zhuhai Maiwen”). Unless the conversion option is exercised, an additional interest rate of 1% will be charged based on the principal of RMB400,000,000.

The fair value changes of the conversion rights for the Period amounting to RMB13,271,000 were recognised in profit or loss. The related interest expense on the liability component was RMB22,897,000 for the Period, which was calculated using the effective interest method with an effective interest rates of 10% per annum.

Zhuhai Maiwen entered into an agreement with the original shareholders of Sichuan Tequ, Mayflower, Guangkong Maiming, Guangwei Qinghe together with Hope Education and Horgos Tequ Mayflower Information Technology Co., Ltd., pursuant to which Zhuhai Maiwen executed the conversion right to convert the Convertible Bond into the equity interest in Hope Education on 21 March 2018. After the completion of all conversion procedures, on 8 June 2018, Zhuhai Maiwen held a 4.762% of the equity interest in Hope Education and on 3 July 2018, Glory Aurora Limited, a wholly-owned subsidiary of Zhuhai Maiwen, held a 4.762% of the equity interest in the Company by way of issuance of 2,500,053 shares.

NOTES TO INTERIM CONDENSED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2018

15. SHARE CAPITAL

Shares

	30 June 2018 US\$ (Unaudited)	31 December 2017 US\$
Authorised:		
5,000,000,000 shares of US\$0.00001 each (2017: 50,000 ordinary share of US\$1 each) (Note (a))	<u>50,000</u>	<u>50,000</u>
Issued but not full paid:		
50,000,000 shares of US\$0.00001 each share (2017: 1 ordinary share of US\$1) (Note (b))	<u>500</u>	<u>1</u>
Equivalent to (in RMB)	<u>RMB3,000</u>	<u>—</u>

A summary of movements in the Company's issued capital during the Period is as follows:

	Number of shares in issue	Issued capital RMB'000
At 1 January 2018	1	—
Shares issued during the Period	<u>49,999,999</u>	<u>3</u>
At 30 June 2018	<u>50,000,000</u>	<u>3</u>

Notes:

- (a) Pursuant to the written resolutions passed by the shareholders of the Company on 30 January 2018, each share of a par value of US\$1 in the authorised share capital of the Company was subdivided into 100,000 shares of a par value of US\$0.00001 each ("Share Sub-division"), such that immediately following the Share Sub-division, the authorised share capital of the Company was 5,000,000,000 shares of a par value of US\$0.00001 each.
- (b) On 19 March 2018, the Company issued a total number of 49,999,999 shares at a par value of US\$0.00001 each.

NOTES TO INTERIM CONDENSED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2018

16. DIVIDEND

At the meeting of the Directors held on 30 August 2018, the directors of the Company did not recommend any payment of interim dividend (for the six months ended 30 June 2017: nil).

17. OPERATING LEASE COMMITMENTS

(a) As lessor

The Group leased out its land and buildings under operating lease arrangements, with leases negotiated for terms ranging from 1 to 10 years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

As at the end of each of the reporting periods, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000
Within one year	14,931	7,412
After one year but within five years	45,598	3,891
More than five years	11,000	467
	<u>71,528</u>	<u>11,770</u>

(b) As lessee

The Group leases certain of its dormitory buildings, land use rights and motor vehicles under operating lease arrangements. Leases for dormitory buildings, land use rights and motor vehicles are negotiated for terms ranging from 1 to 13 years, 5 years and 1 year, respectively.

As at the end of each of the reporting periods, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000
Within one year	14,866	4,572
After one year but within five years	85,178	79,638
Over five years	96,587	117,499
	<u>196,631</u>	<u>201,709</u>

NOTES TO INTERIM CONDENSED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2018

18. COMMITMENTS

In addition to the operating lease commitments detailed in note 17 above, the Group had the following capital commitments as at the end of each of the reporting periods:

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000
Contracted but not provided for:		
Property, plant and equipment	114,582	169,849
Other intangible assets	—	3,593
	<u>114,582</u>	<u>173,442</u>

19. RELATED PARTY TRANSACTIONS AND BALANCES

(a) Name and relationship

The Directors are of the view that the following parties/companies are related parties that had transactions or balances with the Group during the Period.

Related parties	Relationships
Mr. Wang Huiwu	One of the ultimate joint controlling parties
Mr. Chen Yuxin	One of the ultimate joint controlling parties
Sichuan Tequ Investment Group Ltd. ("Tequ Investment Group")	One of the jointly controlling shareholders
Chengdu West Hope Group Ltd. ("West Hope Group")	Parent of Tequ Investment Group
Sichuan Tequ Education Management Co., Ltd. ("Tequ Education")	A company controlled by the jointly controlling shareholders
Mianzhu May Sunshine Property Development Co., Ltd. ("Mianzhu Property")	A company controlled by Tequ Education
Chengdu Golden May Business Management Co., Ltd. ("Chengdu Golden May Business")	A company controlled by Sichuan Tequ Investment
College of Science and Technology of Guizhou University	Joint venture of the Group
Jintang Golden May Property Development Co., Ltd. ("Jintang Property")	A company controlled by Tequ Education
Sichuan Mayflower Precision Instrument Co., Ltd. ("Mayflower Precision Instrument")	A company controlled by Mr. Wang Huiwu
Sichuan Wanqian Trading Co., Ltd. ("Wanqian Trading")	A company ultimately controlled by Tequ Education before July 2017

NOTES TO INTERIM CONDENSED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2018

19. RELATED PARTY TRANSACTIONS AND BALANCES *(Continued)*

(a) Name and relationship *(Continued)*

Related parties	Relationships
Ziyang Automobile Science and Technology Vocational College (“Ziyang Automobile College”)	A school controlled by jointly controlling shareholder
Ziyang May Sunshine Property Development Co., Ltd. (“Ziyang Property”)	A company controlled by Tequ Education
Chengdu Hope English Training School (“Hope English School”)	A school controlled by Tequ Education
Jianyang Yujing Horticulture Store (“Jianyang Yujing”)	A company controlled by a close relative of Mr. Wang Huiwu
Sichuan Dawu Trading Co., Ltd. (“Dawu Trading”)	A company controlled by a close relative of Mr. Wang Huiwu
Sichuan Dawu Technology Co., Ltd. (“Dawu Technology”)	A company controlled by Dawu Trading
Sichuan Rongxing Driving School Co., Ltd. (“Rongxing Driving School”)	A company controlled by Mr. Wang Huiwu
Sichuan Tianyuan Insurance Co., Ltd. (“Tianyuan Insurance”)	A company controlled by Dawu Trading
Chengdu Red May Film Production Advertising Ltd. (“Chengdu Red May”)	A company controlled by Tequ Education
Guizhou Mayflower Property Development Co., Ltd. (“Guizhou Mayflower Property”)	A company controlled by Tequ Education
Guizhou Mayflower Driving Training Co., Ltd. (“Guizhou Mayflower Driving”)	A company controlled by Rongxing Driving School
Chengdu Jinniu District Tianyi Primary School (“Tianyi Primary School”)	A school controlled by Tequ Education
Chengdu Mayflower Property Management Co., Ltd. (“Chengdu Mayflower Property Management”)	A company controlled by Dawu Trading
Sichuan Hope Insurance Co., Ltd. (“Hope Insurance”)	A company controlled by Dawu Trading
Sichuan Wuyang Construction Co., Ltd. (“Wuyang Construction”)	A company controlled by a close relative of Mr. Wang Huiwu
Chengdu Mayflower Senior Technical School (“Chengdu Mayflower Technical”)	A company controlled by Tequ Education
Sichuan TOP IT Vocational School (“TOP School”)	A company controlled by Tequ Education

NOTES TO INTERIM CONDENSED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2018

19. RELATED PARTY TRANSACTIONS AND BALANCES *(Continued)*

(b) Transactions with related parties

(i) Loans received from/(repayment of loans to)

	For the six months ended 30 June	
	2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
West Hope Group		
Loans received from	—	150,000
Repayment of loans to	—	(150,000)
Interest paid	—	(3,389)
Interest expense charged by	—	3,389
Effective interest rate, per annum	—	6%-8%
Tequ Investment Group		
Loans received from	100,000	—
Repayment of loans to	(100,000)	—
Interest paid	(678)	—
Interest expense charged by	678	—
Effective interest rate, per annum	8.02%-12%	—

The above loans are unsecured and repayable on demand or within one year.

(ii) Interest income received

	For the six months ended 30 June	
	2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
Tequ Education	24,093	—
College of Science and Technology of Guizhou University	1,522	—
	<u>25,615</u>	<u>—</u>

The Group granted loans to Tequ Education and College of Science and Technology of Guizhou University and charged interest at 9% and 8% per annum, respectively, based on the average monthly loan balances.

NOTES TO INTERIM CONDENSED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2018

19. RELATED PARTY TRANSACTIONS AND BALANCES *(Continued)*

(b) Transactions with related parties *(Continued)*

(iii) Guarantees provided by the related parties

	For the six months ended 30 June	
	2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
Guarantee fee paid/payable to:		
West Hope Group	—	678

Other related parties listed in note 13(c) also provided guarantees for the Group's interest-bearing bank loans free of charge.

Certain of the Group's interest-bearing bank loans with an aggregate carrying values as at 30 June 2018 of RMB313,500,000 (31 December 2017: RMB325,000,000) are secured by mortgages over the land use rights and buildings (note 13(a)) owned by certain related parties.

Certain of the Group's interest-bearing bank loans with an aggregate carrying values as at 30 June 2018 of RMB594,000,000 are secured by right over tuition fees of Sichuan TOP IT Vocational School free of charge (note 13(d)(iv)).

(iv) Guarantees provided to a related party

The Group provided guarantees for Chengdu Mayflower Technical's interest-bearing bank loan up to RMB130,000,000 with guarantee income of 2% per annum based on the principal of bank loan guaranteed. The after-tax guarantee income was RMB1,336,000 for the Period ended 30 June 2018 (for the six months ended 30 June 2017: Nil).

NOTES TO INTERIM CONDENSED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2018

19. RELATED PARTY TRANSACTIONS AND BALANCES *(Continued)*

(b) Transactions with related parties *(Continued)*

(v) *Procurement of property, equipment and fixtures*

	For the six months ended 30 June	
	2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
Wuyang Construction	63,590	144,357
Dawu Trading	79,155	16,528
Ziyang Property	3,989	—
Guizhou Mayflower Property	360	—
Mianzhu Property	5,101	5,101
Jianyang Yujing	—	1,369
Mayflower Precision Instrument	4,484	4,274
Wanqian Trading	3	—
Dawu Technology	362	9
	<u>157,044</u>	<u>171,638</u>

The considerations for the construction of property, equipment and fixtures were determined at prices mutually agreed between the Group and its related parties with reference to the arm's length pricing obtained from the market.

(vi) *Sales of property*

	For the six months ended 30 June	
	2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
Guizhou Mayflower Property	—	68,322

The sales of property to the related parties were determined at prices mutually agreed between the Group and its related parties with reference to arm's length pricing obtained from the market.

NOTES TO INTERIM CONDENSED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2018

19. RELATED PARTY TRANSACTIONS AND BALANCES *(Continued)*

(b) Transactions with related parties *(Continued)*

(vii) Goods purchased and service received from related parties

	For the six months ended 30 June	
	2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
Hope Insurance	268	—
Tianyuan Insurance	2	16
	270	16

The purchases of goods or services from the related parties were determined at prices mutually agreed between the Group and its related parties with reference to arm's length pricing obtained from the market.

(viii) Properties leased to related parties

	For the six months ended 30 June	
	2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
Chengdu Mayflower Technical	6,336	6,034
Ziyang Automobile College	7,154	5,701
Rongxing Driving School	855	2,290
Guizhou Mayflower Driving	400	400
Tianyi Primary School	—	340
	14,745	14,765

Rental charges were determined at price mutually agreed between the Group and its related parties with reference to arm's length pricing obtained from the appraiser.

NOTES TO INTERIM CONDENSED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2018

19. RELATED PARTY TRANSACTIONS AND BALANCES *(Continued)*

(b) Transactions with related parties *(Continued)*

(ix) Disposal of a subsidiary

In March 2018, the Group entered into an equity transfer agreement with Tequ Education to transfer the 70% equity interest in Jiexing Huilv for a consideration of RMB70.00 million.

(c) Balances with related parties

Amounts due from related parties

	Notes	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000
Non-trade in nature			
Tequ Education	(i)	488,873	545,686
Amounts due from shareholders College of Science and Technology of Guizhou University	(iii)	3	—
		—	74,559
		488,876	620,245
Trade in nature			
Chengdu Mayflower Technical	(ii)	48,320	42,644
Guizhou Mayflower Property		—	23,796
Ziyang Automobile College	(ii)	16,735	18,613
Tianyi Primary School	(ii)	—	2,871
Rongxing Driving School	(ii)	8,673	7,515
Guizhou Mayflower Driving	(ii)	2,000	1,600
Chengdu Mayflower Property Management		—	795
Dawu Technology		29	500
Dawu Trading		—	478
TOP School		—	1,417
Chengdu Golden May		—	11,800
Jintang Property		—	427
Ziyang Property		—	123
		75,757	112,579
		564,633	732,824

NOTES TO INTERIM CONDENSED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2018

19. RELATED PARTY TRANSACTIONS AND BALANCES *(Continued)*

(c) Balances with related parties *(Continued)*

Notes

- (i) Loans granted to Tequ Education of RMB488,873,000 as at 30 June 2018 (31 December 2017: RMB545,686,000) bore interest at a rate of 9% per annum. Such loans were fully repaid by Tequ Education on 27 July 2018.
- (ii) The Group charged rental for providing teaching venues to the above schools and training institutions.
- (iii) Amounts due from shareholders represented the receivables from the issue of the Company's share capital.

Except for the details set out above, the other amounts due from the related parties are unsecured, interest-free and have no fixed terms of repayment.

Amounts due to related parties

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000
<i>Trade in nature</i>		
Wuyang Construction	78,464	78,699
Dawu Trading	4,314	52,613
Mayflower Precision Instrument	—	1,986
Chengdu Mayflower Property Management	577	595
Dawu Technology	—	603
Tianyuan Insurance	443	443
Hope English School	—	137
Wanqian Trading	210	127
Hope Insurance	3	3
College of Science and Technology of Guizhou University	—	6,249
Ziyang Automobile College	—	—
	<u>84,011</u>	<u>141,455</u>
<i>Non-trade in nature</i>		
TOP School	—	13,544
	<u>84,011</u>	<u>154,999</u>

Other payables due to the above related parties are unsecured, interest-free and has no fixed terms of repayment.

NOTES TO INTERIM CONDENSED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2018

19. RELATED PARTY TRANSACTIONS AND BALANCES *(Continued)*

(d) Compensation of key management personnel of the Group:

	For the six months ended 30 June	
	2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
Salaries, allowances and benefits in kind	1,108	884
Equity-settled share option expense	3,050	—
Pension scheme contributions	171	129
	<u>4,329</u>	<u>1,013</u>

20. SHARE OPTION SCHEME

On 18 March 2018, the Company adopted a share option scheme (the “2018 Pre-IPO Share Option Scheme”) for the purpose of providing incentives to senior management, mid-level employee and staff who contribute to the success of the Group. The 2018 Pre-IPO Share Option Scheme became effective on 18 March 2018 and will expire on the day immediately prior to the earlier of (i) the Listing Date; and (ii) the date which is twenty years after 18 March 2018; and (iii) the Company by resolution of the shareholders, or the board of director, may at any time terminate the operation of the 2018 Pre-IPO Share Option Scheme, after which period no further Pre-IPO Share Options will be granted but the provisions of the 2018 Pre-IPO Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any Pre-IPO Share Options which are granted during the life of the scheme or otherwise as may be required in accordance with the provisions of the 2018 Pre-IPO Share Option Scheme.

There are in total three tranches of Pre-IPO Share Options under the 2018 Pre-IPO Share Option Scheme, namely Pre-IPO Share Options under tranche A (“Tranche A Options”), tranche B (“Tranche B Options”) and tranche C (“Tranche C Options”), the exercise price is RMB0.5911 for Tranche A Options, RMB0.9311 for Tranche B Options, and RMB1.1311 for Tranche C Options.

HK\$1.00 is required to be paid by the grantees of the 2018 Pre-IPO Share Option Scheme as consideration for the grant.

NOTES TO INTERIM CONDENSED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2018

20. SHARE OPTION SCHEME (Continued)

The following table discloses the details of share options granted during the Period ended 30 June 2018:

	Number of share options	Exercise price shares options RMB	Fair value per share RMB	Exercise period per share option notes
Tranche A Options	3,552,918	0.5911	0.4427	(i)
Tranche B Options - 1	265,958,443	0.9311	0.3542	(i)
Tranche B Options - 2	61,865,727	0.9311	0.2377	(ii)
Tranche C Options - 1	115,831,582	1.1311	0.3133	(i)
Tranche C Options - 2	17,514,849	1.1311	0.1840	(ii)
	<u>464,723,519</u>			

The vesting periods and the exercise periods of the share options granted under the 2018 Pre-IPO Share Option Scheme are further analysed as below:

Notes:

- (i) Tranche A Options, Tranche B Options - 1 and Tranche C Options - 1 will vest over the period from the grant date to 180 days after the Listing Date. The exercise period of Tranche A Options, Tranche B Options - 1 and Tranche C - 1 Options commences after the vesting period and ends on 18 March 2038.
- (ii) Tranche B Options - 2 and Tranche C Options - 2 will vest over the period from the grant date to 18 months after the Listing Date. The exercise period of Tranche B Options - 2 and Tranche C Options - 2 commences after a vesting period and ends 6 months later when Tranche B Options - 2 and Tranche C Options - 2 vest.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

There was no share options of the 2018 Pre-IPO Share Option Scheme forfeited for the Period.

The fair value of the share options granted during the Period was RMB149,984,000 (RMB0.1840 to RMB0.4427 each), of which the Group recognised a share option expense of RMB47,194,000 for the Period.

NOTES TO INTERIM CONDENSED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2018

20. SHARE OPTION SCHEME *(Continued)*

The fair value of equity-settled share options granted during the Period was estimated as at the date of grant using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

	Tranche A Options	Tranche B Options	Tranche C Options
Dividend yield (%)	0.00%	0.00%	0.00%
Expected volatility (%)	50%	50%	50%
Risk-free interest rate (%)	1.75%	1.41-1.75%	1.41-1.75%
Forfeiture rate	2.36%	2.36%	2.36%

The expected life of the options is based on the historical data over the past three years and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

21. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Fair value estimates are made at a specific point in time and are based on relevant market information and information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of the financial assets at fair value through profit or loss are measured using expectation return published by licensed banks.

The fair values of the non-current interest-bearing bank loans have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for interest-bearing bank loans as at 30 June 2018 was assessed to be insignificant.

The fair value of the liability portion of the convertible bond is estimated by discounting the expected future cash flows using an equivalent market interest rate for a similar convertible bond with consideration of the Group's own non-performance risk. The fair value of the conversion right of the convertible bond was valued using the binomial option pricing model. The model incorporates inputs including market price, discount rate and share price volatility.

NOTES TO INTERIM CONDENSED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2018

21. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(Continued)*

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

30 June 2018

	Fair value measurement using			
	Quoted prices in active markets Level 1 RMB'000	Significant observable inputs Level 2 RMB'000	Significant unobservable inputs Level 3 RMB'000	Total RMB'000
Financial assets at fair value through profit or loss	—	50,000	—	50,000

31 December 2017

	Fair value measurement using			
	Quoted prices in active markets Level 1 RMB'000	Significant observable inputs Level 2 RMB'000	Significant unobservable inputs Level 3 RMB'000	Total RMB'000
Financial assets at fair value through profit or loss	—	8,241	—	8,241
Derivative financial instruments	—	—	(52,438)	(52,438)
	—	8,241	(52,438)	(44,197)

During the Period, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

NOTES TO INTERIM CONDENSED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2018

22. EVENTS AFTER THE REPORTING PERIOD

In addition to the event detailed elsewhere in this report, the Group had the following event after the Period:

- (a) Pursuant to the written resolution of the Company dated 14 July 2018, the authorized share capital of the Company increased to US\$100,000 divided into 10,000,000,000 shares with a par value of US\$0.00001 each, by the creation of an additional 5,000,000,000 shares with same par value each. Following the addition of authorised share capital, the Directors were authorised to capitalise and utilise the sum of US\$49,475 towards to pay up in full at par 4,947,499,947 shares at par for allotment and issue to the Shareholders whose names appear on the register of members of the Company at the close of business on the business day on 2 August 2018, in proportion to their then existing shareholdings in the Company, each ranking pari passu in all respects with the then existing issued shares. Capitalisation issue had been completed on the Listing Date.
- (b) On 3 August 2018, 1,666,668,000 ordinary shares of a par value of US\$0.00001 each were issued at a price of HK\$1.92 per share under the Hong Kong Public Offering and International Offering (as defined in the Prospectus). The proceeds at US\$17,000 (equivalent to RMB114,000) representing the par value, were credited to the Company's share capital. The remaining proceeds of HK\$3,199,872,000 (equivalent to RMB2,785,232,000) before issuing expenses were credited to the share premium account.

23. APPROVAL OF THE INTERIM CONDENSED FINANCIAL INFORMATION

The interim condensed financial information was approved and authorised for issue by the board of directors on 30 August 2018.