WISDOM EDUCATION
睿見教育

Wisdom Education International Holdings Company Limited
睿見教育國際控股有限公司

(incorporated in the Cayman Islands with limited liability)
Stock code : 6068

Annual Report 2018

以誠心服務社會
以愛心培育人才

Contents

Corporate Information

Board of Directors

Executive Directors

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

Independent Non-executive Directors

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

Audit Committee

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

Remuneration Committee

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

Nomination Committee

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

Company Secretary

Mr. Ng Cheuk Him

Authorized Representatives

Mr. Liu Xuebin
Mr. Ng Cheuk Him

Auditors

Deloitte Touche Tohmatsu
Certified Public Accountants

Legal Advisors

As to Hong Kong law
Allen & Overy

As to PRC law
Commerce & Finance Law Offices

As to Cayman Islands law
Conyers Dill & Pearman

Compliance Adviser

First Shanghai Capital Limited

Principal Bankers

Bank of China
Bank of China (Hong Kong)
China Construction Bank
China Construction Bank (Asia) Corporation Limited
Dongguan Rural Commercial Bank Co., Ltd.
CMB Wing Lung Bank

Registered Office

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

Headquarters and Principal Place of Business in the PRC

No. 68 Guangming Da Dao
Dongcheng District
Dongguan
The PRC

Principal Place of Business in Hong Kong

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

Principal Share Registrar and Transfer Office

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

Hong Kong Share Registrar

Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17/F
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Stock Code

6068

Company Website

www.wisdomeducationintl.com

Investor Relations

Mr. Derek Lau
Email: ir@wisdomeducationintl.com

Established in 2003, Wisdom Education International Holdings Company Limited (the "**Company**"), its subsidiaries and consolidated affiliated entities (collectively the "**Group**") are one of the largest private education groups in South China operating premium primary and secondary schools as measured by student enrolment. Our schools target students primarily from the middle class or above families in China.

Our Schools and Educational Curriculum

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

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

	Primary School	Middle School	High School	International Programmes
Dongguan Guangming Secondary and Primary Schools	√	√	√	√
Dongguan Guangzheng Preparatory School	√	√	√	√
Huizhou Guangzheng Preparatory School	√	√	√	N/A
Panjin Guangzheng Preparatory School	√	√	√	N/A
Weifang Guangzheng Preparatory School	√	√	√	N/A
Jieyang School	√	√	√	N/A
Weifang Weizhou School	√	N/A	N/A	N/A

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

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

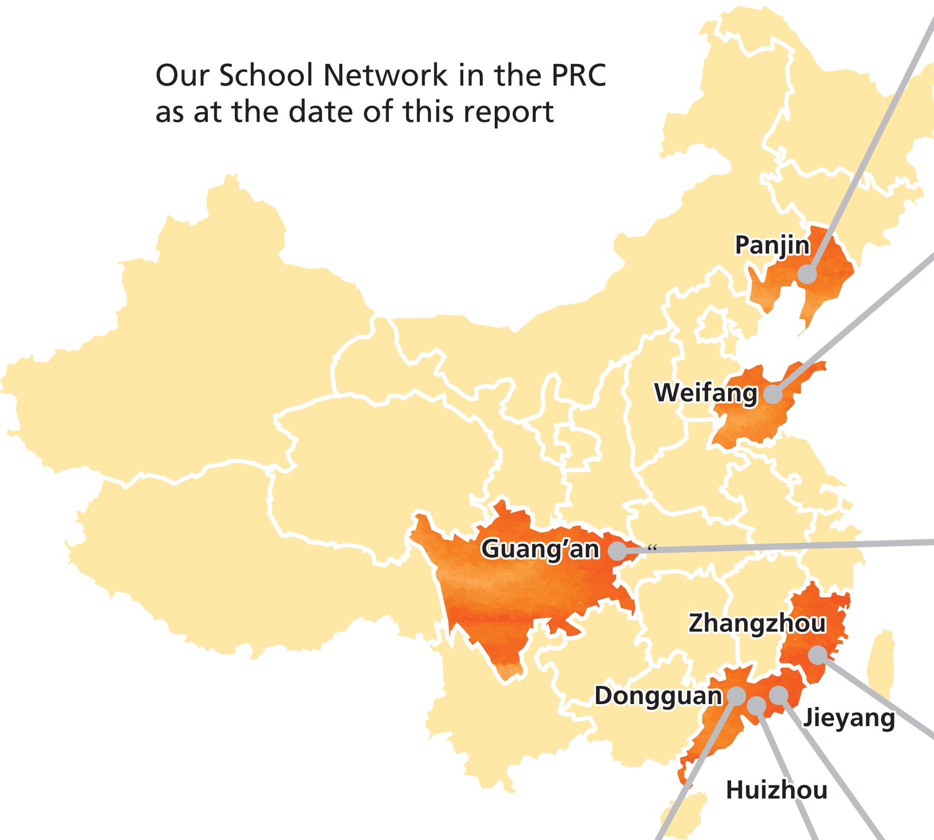
Our Educational Philosophy

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

Our School Characteristics

Our schools are boarding schools with on-campus student dormitories. To promote the well-rounded development of our students, we offer a wide range of school-based elective courses, including courses for sports, art, music and Chinese culture. Our students have made significant achievements in areas such as basketball, track and field, martial arts, music, dance and Chinese calligraphy. For instance, our Dongguan Guangming School high school male basketball team has won various municipal and provincial championships and was the second runner-up in 2017 national high school basketball competition.

Our School Network in the PRC as at the date of this report



Panjin Guangzheng Preparatory School

- Self-built in 2014
- Primary, middle and high schools
- PRC curriculum
- Capacity: Approximately 4,000 students

Weifang Guangzheng Preparatory School

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

Weifang Weizhou Foreign Language School ("Weifang Weizhou School")

- Acquired in 2018
- Primary school
- PRC curriculum
- Capacity: 2,200 students

Guang'an Guangzheng Preparatory School

- Self-built in 2018
- Primary, middle and high schools
- PRC curriculum focus
- Capacity: 1,000 students

Zhang Pu Longcheng Schools

- Acquired in 2018
- Primary, middle and high schools
- PRC curriculum
- Capacity: Approximately 3,000 students

Huanan Shida Yuedong Preparatory School ("Jieyang School")

- Acquired in 2017
- Primary, middle and high schools
- PRC curriculum
- Capacity: Approximately 7,000 students

Dongguan Guangming Secondary and Primary Schools

- Self-built in 2003
- Primary, middle and high schools
- PRC curriculum
- Capacity: Approximately 18,300 students

Dongguan Guangzheng Preparatory School

- Acquired in 2013
- Primary, middle and high schools
- PRC curriculum
- Capacity: Approximately 15,000 students

Huizhou Guangzheng Preparatory School

- Self-built in 2014
- Primary, middle and high schools
- PRC curriculum
- Capacity: Approximately 8,500 students

Results

	Year ended 31 August				
	2014	2015	2016	2017	**2018**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Revenue	450,913	568,715	700,741	979,140	**1,246,920**
Cost of revenue	(239,717)	(289,194)	(370,352)	(529,289)	**(702,054)**
Gross profit	211,196	279,521	330,389	449,851	**544,866**
Profit before taxation	112,269	212,342	194,535	270,307	**345,561**
Taxation	(21,360)	(30,045)	(40,172)	(70,112)	**(38,379)**
Profit for the year	90,909	182,297	154,363	200,195	**307,182**
Core net profit (Note)	118,580	172,687	185,775	248,517	**321,967**
Gross profit margin	46.8%	49.1%	47.1%	45.9%	**43.7%**
Net profit margin	20.2%	32.1%	22.0%	20.4%	**24.6%**
Core net profit margin	26.3%	30.4%	26.5%	25.4%	**25.8%**

Note: Core net profit is defined as the profit for the year of the Group after adjusting for those items which are not indicative of the Group's operating performance.

Dividend Per Share

	Year ended 31 August				
	2014	2015	2016	2017	**2018**
	HK$	HK$	HK$	HK$	**HK$**
Interim dividend	—	—	—	0.027	**0.04**
Final dividend	—	—	—	0.030	**0.04**
Total	—	—	—	0.057	**0.08**

Assets and Liabilities

	At 31 August				
	2014 RMB'000	2015 RMB'000	2016 RMB'000	2017 RMB'000	**2018** **RMB'000**
Non-current assets	2,326,869	1,433,344	1,763,204	2,727,962	**4,003,316**
Current assets	359,404	1,531,639	695,171	604,265	**1,468,347**
Current liabilities	1,042,584	1,546,199	1,152,775	1,093,804	**1,643,291**
Net current liabilities	(683,180)	(14,560)	(457,604)	(489,539)	**(174,944)**
Total assets less current liabilities	1,643,689	1,418,784	1,305,600	2,238,423	**3,828,372**
Equity attributable to owners of the Company	510,632	675,476	830,775	1,745,890	**1,911,065**
Non-controlling interests	(217)	(225)	—	(38)	**66,276**
Non-current liabilities	1,133,274	743,533	474,825	492,571	**1,851,031**
	1,643,689	1,418,784	1,305,600	2,238,423	**3,828,372**

	At 31 August				
Selected Major Items	2014 RMB'000	2015 RMB'000	2016 RMB'000	2017 RMB'000	**2018** **RMB'000**
Property, plant and equipment	925,194	1,006,912	1,344,405	1,779,440	**2,492,447**
Bank balances and cash, including pledged bank deposits	13,071	12,229	103,705	753,510	**1,192,987**
Total bank borrowings	1,270,000	1,275,500	607,700	621,800	**1,707,220**
Convertible loan notes	—	—	—	—	**422,143**
Deferred revenue	224,817	285,146	365,005	436,778	**617,023**

	At 31 August				
Liquidity	2014	2015	2016	2017	**2018**
Net gearing ratio (Note 1)	246.2%	187.0%	60.7%	Net Cash	**47.4%**
Adjusted net gearing ratio (Note 2)	246.2%	187.0%	60.7%	Net Cash	**24.1%**

Notes:

1. Net gearing ratio is calculated as total of bank borrowings and other borrowings net of pledged bank deposits, bank balances and cash divided by the total of equity attributable to owners of the Company and non-controlling interests at the end of the relevant financial year.

2. Adjusted net gearing ratio is calculated as the net gearing ratio (as calculated in note 1 above) with available-for-sale investments treated as cash and cash equivalents.

Operating Cash Flows

	Year ended 31 August				
	2014 RMB'000	2015 RMB'000	2016 RMB'000	2017 RMB'000	**2018** **RMB'000**
Net cash from operating activities	241,100	319,148	333,248	395,551	**623,355**

Capital Expenditure

	Year ended 31 August				
	2014 RMB'000	2015 RMB'000	2016 RMB'000	2017 RMB'000	**2018** **RMB'000**
Payments for acquisition of property, plant and equipment	231,558	193,628	178,191	445,363	**641,892**
Payments for acquisition of prepaid lease	5,000	—	19,217	85,791	**101,485**
Total	236,558	193,628	197,408	531,154	**743,377**

Chairperson's Statement

Dear shareholders,

On behalf of the board of directors (the "**Board**") of Wisdom Education International Holdings Company Limited (the "**Company**"), I am pleased to present the annual report of the Company comprising the consolidated results of the Company, its subsidiaries and consolidated affiliated entities (collectively, the "**Group**") for the year ended 31 August 2018.

Comparing with the year ended 31 August 2017, the total student enrolment increased by 36.0% to 43,230 students and the total student capacity of our schools increased by approximately 56.6% to 51,924 by the year ended 31 August 2018. For the year ended 31 August 2018, total revenue of the Group reached RMB1,246.9 million, representing an increase of 27.3% as compared to RMB979.1 million for the pervious financial year. Profit for the year increased by 53.4% to RMB307.2 million whereas core net profit increased by 29.6% to RMB322.0 million. The Board has resolved to recommend the payment of a final dividend of RMB0.036 (equivalent to HK$0.04) per share. Together with the interim dividend of RMB0.032 (equivalent to HK$0.04) per share, this will make up a total dividend of RMB0.068 (equivalent to HK$0.08) per share for the year ended 31 August 2018.

During the year ended 31 August 2018, we acquired the controlling interest in a private school in Jieyang, Guangdong province and the entire interest in a private primary school in Weifang, Shandong province as detailed below.

(i) Addition of two schools in our school network

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

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

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

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

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

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

(iii) New cooperation agreements signed for greenfield school projects

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

(iv) New high school sections opened

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

Appreciation

I would like to take this opportunity to express my sincere gratitude to our students, their parents, suppliers, bankers, professional parties, local government authorities and our shareholders for their continuous support. I would also like to thank our Board members and senior management, principals, teachers and staff for their endeavours and contributions to our Group.

Li Suwen
Wisdom Education International Holdings Company Limited
Chairperson

Hong Kong, 27 November 2018

Operational and Financial Highlights

Operational Information	Year ended 31 August			Percentage
	2018	2017	**Change**	**Change**
School Year	**2017/2018**	2016/2017		
Total number of students enrolled	**43,230**	31,788	+11,442	36.0%
Total student capacity	**51,924**	33,152	+18,772	56.6%
Overall school utilization	**83.3%**	95.9%	N/A	N/A
Total number of teachers	**2,670**	1,960	+710	36.2%

Selected Financial Information RMB'000 (unless otherwise stated)	Year ended 31 August			Percentage
	2018	2017	**Change**	**Change**
Revenue	**1,246,920**	979,140	+267,780	+27.3%
Gross profit	**544,866**	449,851	+95,015	+21.1%
Profit for the year	**307,182**	200,195	+106,987	+53.4%
Core net profit (Note)	**321,967**	248,517	+73,450	+29.6%
Interim dividend per share (HK$)	**0.04**	0.027	+0.013	
Final dividend per share (HK$)	**0.04**	0.030	+0.010	

Note: Core net profit is defined as the profit for the year of the Group after adjusting for those items which are not indicative of the Group's operating performance. The reconciliation of the profit for the year to the core net profit of the Group is presented as follows:

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

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

Selected Financial Information
RMB'000 (unless otherwise stated)

	As at 31 August	
	2018	2017
Bank balances and cash, including pledged bank deposits	**1,192,987**	753,510
Total bank borrowings	**1,707,220**	621,800
Convertible loan notes	**422,143**	—
Deferred revenue	**617,023**	436,778
Net gearing ratio (Note 1)	**47.4%**	Net Cash
Adjusted net gearing ratio (Note 2)	**24.1%**	Net Cash

Notes:

1. Net gearing ratio is calculated as total of bank borrowings and other borrowings net of pledged bank deposits, bank balances and cash divided by the total of equity attributable to owners of the Company and non-controlling interests at the end of the relevant year.

2. Adjusted net gearing ratio is calculated as the net gearing ratio (as calculated in note 1 above) with available-for-sale investments treated as cash and cash equivalents.

Management Discussion and Analysis

BUSINESS REVIEW

Student Placement

For the 2017/2018 school year, over 90% of our high school graduates were admitted to universities in China, and over 20% of our high school graduates were admitted to first-tier universities in China identified in the "University Application and Enrolment Guidelines for Guangdong Province" issued by the Education Examinations Authority of Guangdong Province.

Revenue

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

	For the year ended 31 August			
Revenue by Service	**2018 RMB'000**	**% of Total**	2017 RMB'000	% of Total
Tuition and boarding fees	**841,243**	**67.5**	671,170	68.5
Ancillary services	**405,677**	**32.5**	307,970	31.5
Total revenue	**1,246,920**	**100**	979,140	100

Tuition and boarding fees

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

Comparing with that for the year ended 31 August 2017, tuition and boarding fees for the year ended 31 August 2018 increased by 25.3%, with 17.5% organic growth in our existing schools and 7.8% from the addition of schools during the year ended 31 August 2018.

Ancillary services

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

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

Student Enrolment

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

Student Enrolment by School	For the School Year 2017/2018	2016/2017	Change	Percentage Change
Dongguan Guangming Secondary and Primary Schools	**16,477**	16,483	−6	−0.1%
Dongguan Guangzheng Preparatory School	**10,620**	9,094	1,526	16.8%
Huizhou Guangzheng Preparatory School	**6,011**	3,903	2,108	54.0%
Panjin Guangzheng Preparatory School	**2,170**	1,590	580	36.5%
Weifang Guangzheng Preparatory School	**1,401**	718	683	95.1%
Sub-total	**36,679**	31,788	4,891	15.4%
Addition of schools during the school year				
Jieyang School — Consolidated with effect from September 2017	**4,501**	N/A	4,501	N/A
Weifang Weizhou School — Consolidated with effect from June 2018	**2,050**	N/A	2,050	N/A
Sub-total	**6,551**	N/A	6,551	N/A
Total number of students	**43,230**	31,788	11,442	36.0%

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

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

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

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

Student Recruitment

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

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

Average Tuition and Boarding Fees Per Student

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

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

Note:

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

For the year ended 31 August 2018, the average tuition and boarding fees per student before taking into consideration of the acquisition of Jieyang School and Weifang Weizhou School increased by 1.9% to RMB21,512 primarily due to the increase in tuition and boarding fees for the new students in Panjin Guangzheng Preparatory School and Weifang Guangzheng Preparatory School. Except for the new students enroled in our international programmes, there was no material increase in tuition and boarding fees for other new students in Dongguan Guangming Secondary and Primary Schools, Dongguan Guangzheng Preparatory School and Huizhou Guangzheng Preparatory School for the year ended 31 August 2018.

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

School Capacity and Utilization

As our schools are boarding schools, the capacity for students is calculated based on the approximate number of beds available in student dormitories according to the respective school's internal records and calculations. School utilization rate is calculated by dividing the number of students enroled by the student capacity for the relevant school year. The following tables set forth the capacity for students and the utilization of our schools for the 2017/2018 and 2016/2017 school years:

Student Capacity and Utilization by School	School Year 2017/2018		School Year 2016/2017	
	Student Capacity	Utilization	Student Capacity	Utilization
Dongguan Guangming Secondary and Primary Schools	**16,804**	**98.1%**	16,804	98.1%
Dongguan Guangzheng Preparatory School	**13,500**	**78.7%**	9,706	93.7%
Huizhou Guangzheng Preparatory School	**8,000**	**75.1%**	4,024	97.0%
Panjin Guangzheng Preparatory School	**2,500**	**86.8%**	1,866	85.2%
Weifang Guangzheng Preparatory School	**4,000**	**35.0%**	752	95.5%
Sub-total	**44,804**	**81.9%**	33,152	95.9%
Addition of schools during the school year				
Jieyang School — consolidated with effect from September 2017	**5,000**	**90.0%**	N/A	N/A
Weifang Weizhou School — consolidated with effect from June 2018	**2,120**	**96.7%**	N/A	N/A
Sub-total	**7,120**	**92.0%**	N/A	N/A
Overall	**51,924**	**83.3%**	33,152	95.9%

Total student capacity increased from 33,152 for the 2016/2017 school year to 51,924 for the 2017/2018 school year primarily due to the expansion of capacity of Dongguan Guangzheng Preparatory School, Huizhou Guangzheng Preparatory School and Weifang Guangzheng Preparatory School, and the acquisition of Jieyang School and Weifang Weizhou School.

Teachers

For the 2017/2018 school year, over 80% of our PRC-qualified teachers held bachelors or higher degrees. The number of teachers increased from approximately 1,960 for the 2016/2017 school year to approximately 2,670 for the 2017/2018 school year, primarily due to the recruitment of additional teachers for the expansion of Dongguan Guangzheng Preparatory School, Huizhou Guangzheng Preparatory School, Panjin Guangzheng Preparatory School and Weifang Guangzheng Preparatory School, and the acquisition of Jieyang School and Weifang Weizhou School. The overall student- teacher ratio remained relatively stable.

Teacher turnover rate

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

RECENT BUSINESS UPDATE FOR THE 2018/2019 SCHOOL YEAR

Addition of a Boarding School in Fujian Province

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

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

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

Student Enrolment Growth

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

Major Tuition and Boarding Fees Increments

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

Expansion of Schools' Capacity

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

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

Acquisition of Land in Foshan for Building a Boarding School

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

MARKET REVIEW

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

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

OUTLOOK

Key Growth Drivers of Premium Private Education in China

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

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

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

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

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

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

According to the Chinese government statistics, the gross domestic product ("**GDP**") of Guangdong province reached about RMB8.99 trillion and the population was about 112 million in 2017, both of which were ranked first in China. In March 2017, the Chinese government announced a plan for the development of a city cluster in the Guangdong-Hong Kong-Macau Greater Bay Area ("**Greater Bay Area**"). The Greater Bay Area, covering 56,500 square kilometres, includes nine cities in Guangdong province, namely Guangzhou, Shenzhen, Foshan, Dongguan, Huizhou, Zhuhai, Zhongshan, Jiangmen and Zhaoqing. The combined GDP of the Greater Bay Area reached United States Dollar 1.51 trillion in 2017, with an estimated population of 69.6 million.

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

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

Our Growth Plan

Geographic Focus in Greater Bay Area

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

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

Expansion Strategies

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

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

I) *Building More Greenfield Schools*

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

Yunfu, Guangdong province

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

Foshan, Guangdong province

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

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

b) Proposed new schools under planning

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

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

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

c) Proposed new schools under negotiation

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

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

II) *Expanding Capacity of Our Schools*

We will also evaluate our schools' student capacity from time to time in order to cope with our future growth in student enrolment. The expansion of our schools' capacity is subject to adjustment, depending on their actual student recruitment and capacity utilization.

The following table sets out the expansion of each school's capacity and its target capacity:

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

Notes:

(1) The estimated maximum student capacity for each of Dongguan Guangzheng Preparatory School, Huizhou Guangzheng Preparatory School, Panjin Guangzheng Preparatory School and Weifang Guangzheng Preparatory School is calculated based on the estimated number of students that the student dormitories of the respective school were designed to accommodate according to the relevant school expansion plans by the 2020/2021 school year or earlier. The expansion of each school's target student capacity is subject to adjustment, depending on the actual student recruitment and the capacity utilization of the relevant school.

(2) The People's Government of Jiedong agreed to provide support to the Group in the provision of additional land for the expansion of Jieyang School in the future with a view to accommodate the maximum student capacity of 18,000. The expansion of Jieyang School's target student capacity is subject to adjustment, depending on its actual student recruitment and capacity utilization.

(3) The estimated maximum capacity for Guang'an Guangzheng Preparatory School is based on the final total capacity for primary, middle and high school education, and international programme as set forth in the relevant cooperation agreement. The expansion of Guang'an Guangzheng Preparatory School's target student capacity is subject to adjustment, depending on the schools' actual student recruitment and capacity utilization.

(4) The estimated maximum capacity for Yunfu Guangming School and each of the proposed schools in Chaozhou city and Kaiping, Jiangmen is based on the final total capacity for, among others, primary, middle and high school education as set forth in the relevant cooperation agreements. The expansion of each of the proposed schools' target student capacity is subject to adjustment, depending on the proposed schools' actual student recruitment and capacity utilization.

(5) The estimated maximum capacity is estimated by the Group according to the site area of the land and the local government requirements on the minimum capacity for, among others, primary, middle and high school education. The expansion of the proposed school's target student capacity is subject to adjustment, depending on the proposed school's actual student recruitment and capacity utilization.

Future Capital Expenditure and Financing

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

As at 31 August 2018, certain bank and other borrowings raised were not utilized. In order to have a better use of our financial resources, the Group purchased certain available-for-sale investments during the year ended 31 August 2018. These available-for-sale investments are wealth management products under which the Group is allowed to early redeem such investments, in whole or in part, and the Group held these investments for short-term cash management purpose, though certain investments are classified as non-current assets by nature of the relevant products. Subsequent to the year ended 31 August 2018 and up to the date of the announcement, the Group has redeemed part of the available-for-sale investments in the net amount of approximately RMB186 million.

We expect that the Group's future capital expenditure will primarily be financed by bank and other borrowings, cash flow generated from operating activities, and/or other financing options available from capital markets if necessary.

Teacher's Recruitment, Training and Retention

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

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

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

Conclusion

With our increasing school brand influence and our solid development strategies, we are confident to maintain our leading position, in terms of student enrolment, as a premium private primary and secondary school education provider in South China, and increase our market share in other regions in China.

USE OF PROCEEDS

The net proceeds from the Listing (including the partial exercise of the over-allotment option) of approximately HK$824.9 million (equivalent to approximately RMB730 million), after deducting the underwriting fees, commissions and expenses in relation to the Listing, are intended to be applied in the manner as set out in the section headed "Future Plans and Use of Proceeds" of the Company's prospectus dated 16 January 2017.

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

Use of Proceeds	% of the Net Proceeds	Proceeds Allocated (RMB million)	Amount Utilized (RMB million)	Unutilized Balance (RMB million)
— Expansion of our school network, in particular, through the development of new schools	65%	474.5	410.2	64.3
— Further expansion of three existing schools, namely Dongguan Guangzheng Preparatory School, Huizhou Guangzheng Preparatory School, and Panjin Guangzheng Preparatory School	8%	58.4	58.4	—
— Maintenance, renovation and upgrade of two existing schools, namely Dongguan Guangming School and Dongguan Guangming Primary School	2%	14.6	10.2	4.4
— Acquisition of schools to supplement our school network	18%	131.4	131.4	—
— Provision of scholarships and subsidies to our students	2%	14.6	4.7	9.9
— Working capital and general corporate purpose	5%	36.5	36.5	—
Total	100%	730.0	651.4	78.6

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

REGULATORY UPDATE

Our Schools under The Law for Promoting Private Education

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

The Decision on Amending the Law for Promoting Private Education

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

The Impact of the Decision on Our Taxation

Since 1 September 2017, all of our primary and middle schools providing compulsory education have been classified as not-for-profit schools according to the Decision and we have also decided to change our high schools to not-for-profit schools based on the cost and benefit considerations though implementation regulations in relation to the Decision have not been promulgated. Our effective tax rate of the Group, being the income tax divided by profit before taxation, was reduced from 25.9% for the year ended 31 August 2017 to 11.1% for the year ended 31 August 2018 primarily because all our schools are classified as not-for-profit schools where income from tuition and boarding fees is entitled to the same EIT exemption as public schools. For details, please refer to note 11 to the consolidated financial statements. Other than those mentioned above, we do not expect the Decision will have material impact on our business and operation.

The Decision Has No Material Impact on Our Group Structure

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

Draft Foreign Investment Law

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

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

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

As a measure to ensure the Contractual Arrangements remain a domestic investment and are compliant with the Draft Foreign Investment Law, Mr. Liu Xuebin and Ms. Li Suwen, as our controlling shareholders, have each given an undertaking in favour of our Company that, among other things, they will continue to maintain their Chinese nationality and citizenship. Please refer to the sections headed "Regulations" and "Contractual Arrangements" in the Prospectus for further details relating to the Draft Foreign Investment Law and the measures we have adopted to ensure compliance with the Draft Foreign Investment Law and its Explanatory Notes. The Company is not aware of any non-compliance with such measures for the year ended 31 August 2018.

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

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

Qualification Requirement

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

FINANCIAL REVIEW

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

Revenue

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

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

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

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

Cost of Revenue

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

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

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

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

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

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

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

Gross Profit

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

Other Income

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

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

Other Gains and Losses

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

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

Selling Expenses

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

Selling expenses increased by 14.0% from RMB17.1 million for the year ended 31 August 2017 to RMB19.5 million for the year ended 31 August 2018, primarily as a result of increased advertising expenses in relation to the marketing and promotion of our Panjin Guangzheng Preparatory School, Weifang Guangzheng Preparatory School and the acquisition of Jieyang School and Weifang Weizhou School. Selling expenses as a percentage of revenue slightly decreased from 1.7% for the year ended 31 August 2017 to 1.6% for the year ended 31 August 2018.

Administrative Expenses

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

Administrative expenses sharply increased by 75.6% from RMB125.8 million for the year ended 31 August 2017 to RMB220.9 million for the year ended 31 August 2018, primarily as a result of the increase in salaries and other benefits, rental expenses, professional fees, office expenses and charitable donations in line with the Group's expansion plan and the consolidation of Jieyang School and Weifang Weizhou School. Administrative expenses as a percentage of revenue increased from 12.8% for the year ended 31 August 2017 to 17.7% for year ended 31 August 2018.

Finance Income

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

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

Finance Costs

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

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

Profit before Taxation

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

Taxation

Income tax expense of the Group decreased from RMB70.1 million for the year ended 31 August 2017 to RMB38.4 million for year ended 31 August 2018. All of our schools were classified as private schools with the school sponsors requiring reasonable returns, which were subject to EIT of 25% before the Decision becomes effective on 1 September 2017. All of our primary and middle school sections are required to be classified as not-for-profit schools since 1 September 2017 in accordance with the Decision. We have decided not to classify our high school sections as for-profit schools. The effective tax rate of the Group for each of the years ended 31 August 2018 and 31 August 2017 was 11.1% and 25.9%, respectively. The decrease in the Group's effective tax rates was primarily due to the classification of our schools as not-for-profit schools where income from tuition and boarding fees is entitled to the same EIT exemption as public schools since 1 September 2017. For details, please refer to the section headed "Regulatory Update" in this report and note 11 to the consolidated financial statements.

Profit for the Year

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

Core Net Profit

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

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

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

Note:

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

Capital Expenditure

For the year ended 31 August 2018, the Group paid approximately RMB641.9 million for the acquisition of property, plant and equipment and paid approximately RMB101.5 million for the acquisition of prepaid lease primarily for the Group's expansion.

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

Liquidity, Financial Resources and Capital Structure

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

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

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

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

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

As at 31 August 2018, certain bank and other borrowings raised were not utilized. In order to have a better use of our financial resources, the Group purchased certain available-for-sale investments during the year ended 31 August 2018. The available-for-sale investments were short-term wealth management products under which the Group is allowed to early redeem the investments, and the Group held these investments for short-term cash management purpose, though certain investments are classified as non-current assets by nature of the relevant products. Subsequent to the year ended 31 August 2018 and up to the date of this report, the Group has redeemed part of the available-for-sale investments in the net amount of RMB186 million.

Please refer to note 35 to the consolidated financial statements for details of the maturity profile of our Group's business.

The Group recorded net current liabilities of RMB174.9 million as at 31 August 2018 (31 August 2017: RMB489.5 million) primarily as a result of the recognition of tuition fees and boarding fees received in advance as deferred revenue which was included in current liabilities.

Net Gearing Ratio

The Group's net gearing ratio is calculated as the total of bank and other borrowings, net of pledged bank deposits, bank balances and cash divided by the total of equity attributable to owners of the Company and non-controlling interests at the end of the relevant year. The Group's net gearing ratio as at 31 August 2018 was 47.4% whereas the Group was in a net cash position as at 31 August 2017.

As explained in the sections headed "Future Capital Expenditure and Financing" and "Liquidity, Financial Resources and Capital Structure" above, as at 31 August 2018, certain bank and other borrowings raised were not utilized. In order to have a better use of our financial resources, the Group purchased certain available-for-sale investments. These available-for-sale investments are wealth management products under which the Group is allowed to redeem such investments, in whole or in part, with one month's notice and the Group held these investments for short-term cash management purpose, though certain investments are classified as non-current assets by nature of the relevant products. Taking into consideration our intention of holding these available-for-sale investments of RMB459.7 million as at 31 August 2018 for short-term cash management purpose and the possibility of early redemption, the Group's adjusted net gearing ratio as at 31 August 2018 would have been reduced to 24.1%.

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

Foreign Exchange Exposure

The majority of the Group's revenue and expenditures are denominated in RMB, the functional currency of the Company, except that certain income and expenditures are denominated in HK$. As at 31 August 2018, certain bank balances and cash, pledged bank deposits and other borrowings were denominated in HK$. The Group did not enter into any financial instrument for hedging purpose as it is expected that foreign exchange exposure will not be material.

Contingent Liability

On 19 March 2015, an individual, who is an independent third party, initiated court proceedings in relation to the advances he made on behalf of one of our schools during its establishment for a total amount of RMB5,000,000 and the interests accrued thereon. As at the date of this report, the outcome of such legal proceedings was yet to be finalized. In the opinion of the Directors, after consultation with our external legal counsel, there is no reasonable ground to support the arguments of the plaintiff, and accordingly, no provision has been made in the financial statements.

Pledge of Assets

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

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

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

SIGNIFICANT INVESTMENTS HELD

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

Directors and Senior Management

Directors and Senior Management

The biographical details of the directors ("**Directors**") and senior management of the Company, its subsidiaries and consolidated affiliated entities ("**Consolidated Affiliated Entities**") (collectively the "**Group**") are set out as follows:

Executive Directors

Ms. LI Suwen (李素文), aged 45, is the chairperson, chief executive officer of our Company and a co-founder of our Group. She was appointed as a Director on 13 July 2010 and as an executive Director on 7 June 2016. She is primarily responsible for the overall management and business development of our Group. Ms. Li founded our Group in establishing 廣東光正教育集團有限公司 (Guangdong Guangzheng Educational Group Co., Ltd.) ("**Guangdong Guangzheng**") with Mr. Liu in October 2002. Ms. Li has dedicated her career to the cause of education since the establishment in October 2002. She founded a number of educational institutions within our Group including Dongguan Guangming School, Dongguan Guangming Primary School, Dongguan Guangzheng Preparatory School, Huizhou Guangzheng Preparatory School and Panjin Guangzheng Preparatory School.

Ms. Li completed a graduate programme on project management from the Economics Department of Peking University in March 2004.

Mr. LIU Xuebin (劉學斌), aged 46, is a co-founder of our Group. He was appointed as a Director on 13 July 2010 and as an executive Director on 7 June 2016. He is primarily responsible for the overall formulation, supervision and guidance of business strategies, planning and development of our Group. Out of his commitment in social responsibilities, Mr. Liu founded our Group by establishing Guangdong Guangzheng with Ms. Li in October 2002 and has acted as its director since then. Prior to joining our Group, since June 2002, Mr. Liu has acted as the chairman of 東莞市富盈房地產開發有限公司 (Dongguan Cinese Real Estate Development Co. Ltd.), a property developer in the People's Republic of China ("**PRC**"), in overseeing its business strategies, planning and development.

In addition to our Group, Mr. Liu also holds direct or indirect interests in other companies engaged in other businesses in the PRC, which include real estate, construction, hotel and tourism.

Mr. Liu completed a graduate programme on project management from the Economics Department of Peking University in March 2004. Mr. Liu was awarded the World Outstanding Chinese Award (世界傑出華人獎) by United World Chinese Association Limited (世界華人協會) in 2007.

Mr. LI Jiuchang (李久常), aged 39, is the chief operating officer of our Company. He was appointed as an executive Director on 7 June 2016 and is primarily responsible for the overall management of the operation of our schools. Mr. Li has more than 14 years of experience in the educational sector. He joined Guangdong Guangzheng in September 2003 as a high school teacher. He has acted as the deputy general manager of Guangdong Guangzheng since September 2012, primarily responsible for the daily operation of the Group.

Mr. Li's dedication to education has been well recognised. He was awarded the Dongguan Outstanding Youth Volunteer (東莞市優秀青年志願者) by the Communist Youth League, Dongguan branch (共青團東莞市委) and Dongguan Young Volunteers Association (東莞市青年志願者協會) in April 2006. He was also appointed as a core member of the Research Team for Project Studies under the Eleventh Five-Year Plan of the National Educational Science Programme of the MOE (全國教育 科學"十一五"教育部規劃課題研究組) and an Advanced Practitioner in Project Studies of the MOE (教育部課題研究先進工作者).

Mr. Li obtained a bachelor's degree in history from the Shaanxi Normal University (陝西師範大學).

Mr. WANG Yongchun (王永春), aged 37, is the executive director of our Company. He was appointed as an executive director on 8 January 2018. He is also the principal of the Dongguan Guangming School. He was appointed to such position in September 2015 and is primarily responsible for overseeing the daily operations of the Dongguan Guangming School.

Mr. Wang joined our Group in August 2003. Prior to the appointment to his present position in our Group, Mr. Wang served on various positions in our schools, including as the class teacher, grade leader, director of moral education and administrative officer. In particular, he acted as the vice principal of Dongguan Guangzheng Preparatory School.

In recognition of his contributions in education, Mr. Wang was recognised as an Outstanding Practitioner of Dongguan in the Middle School Education of Geography (東莞市優秀中學地理教育 工作者) by the Geography Teaching Research Society of Dongguan (東莞市地理教學研究會) and an Outstanding Individual of Dongguan Schools for Communist Youth League Work (東莞市學校共青團工作優秀個人) by the Dongguan Committee of the Communist Youth League (共青團東莞市委員會) and the Dongguan Education Bureau. He was also employed as a master tutor for South China Normal University (華南師範大學) and Shaanxi Normal University (陝西師範大學). Mr. Wang also received various awards for his dissertations, including the First Prize in Dissertations on Geography Education in Middle Schools of Guangdong Province issued by the Geographical Society of Guangdong (廣東省地理學會) and the Middle School Geography Teaching Committee of the Guangdong Society of Education (廣東教育學會中學地理教學專業委員會).

Mr. Wang holds a bachelor's degree of science from the Tourism and Environment College of Shaanxi Normal University (陝西師範大學旅遊與環境學院). He obtained various professional qualifications, including the qualification of First Grade Middle School Teacher in Geography Education (中學地理一級教師), Senior High School Teacher (高級中學教師) and Guangdong Province Primary and Middle School Principal (廣東省中小學校長).

Independent Non-Executive Directors

Prof. SUN Kai Lit Cliff (孫啟烈), aged 65, was appointed as an independent non-executive Director on 3 January 2017. Since August 2002, he has served as a co-founder and a non-executive director of China South City Holdings Limited, a company listed on the Stock Exchange (stock code: 1668). Mr. Sun is an associate of the Institute of Industrial Engineers, Ohio and has over 30 years of experience in the household products manufacturing industry. Since 1980, Mr. Sun has been the executive director of Kinox Enterprises Limited and Kin Hip Metal and Plastic Factory Ltd., both of which are principally engaged in the manufacturing of kitchenware and other metal and plastic products. Since June 2007, he has also acted as an independent non-executive director of Ka Shui International Holdings Ltd., a company listed on the Stock Exchange (stock code: 0822). From July 2007 to March 2016, he also acted as an independent non-executive director of Ming Fai International Holdings Ltd., a company listed on the Stock Exchange (stock code: 3828).

Mr. Sun was appointed Adjunct Professor of City University of Hong Kong in January 2017. He was also appointed as Justice of the Peace by the Government of Hong Kong in July 2003, and was awarded a Bronze Bauhinia Star (BBS) by the Government of Hong Kong Special Administration Region in July 2006. He was a member of the 11th Zhejiang Committee of Chinese People's Political Consultative Conference (中國人民政治協商會議第十一屆浙江省委員會) and had served as a standing committee member of both the CPPCC Shenzhen and Ningbo committee. He is currently chairman of ICAC Business Ethics Development Advisory Committee (廉政公署商業道德諮詢委員會主席), President of Shenzhen CPPCC HK and Macau members Association (深圳市政協歷屆港澳委員聯誼會會長) and Chairman of Supervisory Council of Shenzhen Overseas China International Association (深圳市僑商國際聯合會監事長), Mr. Sun holds a number of honorary posts due to his past services in the respective organizations which include Honorary President of the Federation of Hong Kong industries, Honorary Chairman of the Hong Kong Exporter's Association, Honorary Chairman of the Hong Kong Q Mark Council, and Hong Kong Plastics Manufacturers Association Ltd. Mr. Sun also involves himself in educational institutions and served in the Vocational Training Council as council member for 6 years until the end of 2015.

Mr. TAM King Ching Kenny (譚競正), aged 69, was appointed as an independent non-executive on 3 January 2017. Mr. Tam serves as the Chairman of the Audit Committee, and a member of the Nomination Committee of the Company. He is a practising Certified Public Accountant in Hong Kong. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and a member of Chartered Professional Accountants of Ontario, Canada. Mr. Tam is serving as a member of the Insolvency SD Vetting Committee and the Restructuring and Insolvency Faculty Executive Committee in the Hong Kong Institute of Certified Public Accountants. He is a past president of The Society of Chinese Accountants and Auditors. Mr. Tam also serves as an independent non-executive director of eight other listed companies on the Main Board of the Stock Exchange, namely, Kingmaker Footwear Holdings Limited, Shougang Concord Grand (Group) Limited, CCT Fortis Holdings Limited, Starlite Holdings Limited, Hong Kong Shanghai Alliance Holdings Limited (formerly Van Shung Chong Holdings Limited), BeijingWest Industries International Limited, West China Cement Limited and CCT Land Holdings Limited.

Mr. YAU Sze Ka (游思嘉), aged 46, was appointed as an independent non-executive Director on 3 January 2017.

Mr. Yau has over 23 years of experience in real estates, capital markets and corporate management. From 2011 to present, Mr. Yau has been the chief financial officer of CIFI Holdings (Group) Co. Ltd. ("**CIFI Holdings**"), a company listed on the Stock Exchange (stock code: 884) principally engaged in property development and property investment in China. Prior to that, Mr. Yau had held senior positions at Lai Sun Group of Hong Kong and various international investment banks.

Mr. Yau graduated from the University of California, Berkeley with a bachelor of science degree. He is also a holder of Chartered Financial Analyst.

Senior Management

Mr. NG Cheuk Him (吳卓謙), aged 43, is the chief financial officer and company secretary of our Company. Mr. Ng joined our Group in September 2015 and is primarily responsible for overall financial management and corporate governance of our Group. He resigned as an executive director on 8 January 2018.

Mr. Ng has over 20 years of experience in accounting and auditing, corporate financial management, initial public offerings and mergers and acquisitions. Prior to joining our Group, Mr. Ng served as the chief financial officer and company secretary of several companies whose shares are listed on the main board of the Stock Exchange, and held a managerial position in BNP Paris Capital (Asia Pacific) Limited.

He is an associate member of the Hong Kong Institute of Certified Public Accountants and the Hong Kong Institute of Chartered Secretaries.

Mr. Wayne Li Ying Wai (李英偉), aged 49, is the Executive Vice President of our Company. He joined our Group in November 2017 and is responsible for driving the group's strategy formation, implementation and business development.

Mr. Li possesses 25 years of experience from multinational financial service companies, and has been involved in developing their Asian Pacific business via organic growth, and merger and acquisitions. During his tenure at Standard & Poor's Platt's, Thomson Financials, Fitch Ratings and Deloitte Financial Advisory Services, Mr. Li has worked with various education groups advising them on financing and strategic development. Mr. Li has also built an extensive network and long term relationship with global investors as he has worked with a number of institutions in assessing investment opportunities across different industries in Asia Pacific, particularly in China.

Mr. LAU Chi Hung (劉志雄), aged 48, was appointed as vice president and chief investor relations officer of the Company on 7 March 2017.

Mr. Lau has accumulated over 20 years of experience in investor relations, financial management, accounting, auditing, company secretarial affairs and corporate finance, including initial public offerings, mergers and acquisitions, from his previous employment as senior management in several companies whose shares are listed on the Stock Exchange and his past career in Deloitte Touche Tohmatsu. Prior to joining the Company in March 2017, Mr. Lau was the vice president, head of investor relations and company secretary of China Maple Leaf Educational Systems Limited whose shares are listed on the Stock Exchange (stock code: 1317).

Mr. Lau is a practising member of Hong Kong Institute of Certified Public Accountants, a fellow member of The Association of Chartered Certified Accountants, an associate member of The Institute of Chartered Accountants in England and Wales, a certified tax adviser and an associate member of The Taxation Institute of Hong Kong. He is also an associate member of each of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in the United Kingdom.

Mr. Lau obtained a bachelor's degree in accountancy and a master's degree in business administration from The Hong Kong Polytechnic University.

Ms. CHEN Xi (陳曦), aged 52, is the principal of Huanan Shida Yuedong Preparatory School. She was appointed to such position in August 2017 and is primarily responsible for overseeing the daily operations of Huanan Shida Yuedong Preparatory School. Ms. Chen was the principal of the middle school section of each of Dongguan Guangming School and Dongguan Guangzheng Preparatory School and she was appointed to such positions in August 2012 and July 2015 respectively.

Ms. Chen has received various awards relating to education, including the Green School Gardener Award (綠色學校園丁獎) jointly granted by the MOE and the Ministry of Environmental Protection of the PRC (中華人民共和國環境保護部, previously known as the State Environmental Protection Administration of China (中國國家環境保護總局)) and the first prize of a dissertation competition held by the Chinese Society of Education (中國教育學會) with her dissertation on educational management.

Ms. Chen obtained a bachelor's degree of arts in education management from Guangdong University of Education (廣東第二師範學院) (previously known as Guangdong Institute of Education (廣東教育學院)). She also holds a degree in education from South China Normal University (華南師範大學).

Mr. DU Shuangxi (杜雙喜), aged 48, is the principal of Dongguan Guangming Primary School. He was appointed to such position in July 2015 and is primarily responsible for overseeing the daily operations of Dongguan Guangming Primary School.

Mr. Du joined our Group in August 2006. Prior to the appointment to his present position in our Group, he served on various positions in other schools in the PRC.

In recognition of his contributions in education, Mr. Du was recognised as a Core Teacher in Chinese Language Education in Primary Schools of Hunan Province (湖南省小學語文骨幹教師) by the Department of Education of Hunan (湖南省教育廳), an Outstanding Individual in the Project Study for the Tenth Five-Year Plan of Educational Technology Development of Hunan Province (湖南省現代教育技術"十五"課題研究先進個人) by the E-education Centre of Hunan (湖南省電化教育館) and Hunan Education Technology Association (湖南省教育技術協會) and one of the Top 100 Leading Scholars of Primary and Middle Schools in China (全國中小學百佳學術研究帶頭人) by the Chinese Society of Primary and Middle School Education (中國中小學教育學會).

Mr. Du obtained a bachelor's degree in public administration from the Central China Normal University through distance learning. Ms. Du obtained the qualification of Primary School Senior Teacher (小學高級教師) issued by the Education Office of Baizhi County (柏枝鄉教育辦).

Mr. ZHANG Jingfeng (章競峰), aged 39, is the principal of Huizhou Guangzheng Preparatory School. He was appointed to such position in September 2016 and is primarily responsible for overseeing the daily operations of the Huizhou Guangzheng Preparatory School.

He joined our Group in March 2006. Prior to the appointment to his present position in our Group, he served on various positions in our schools including teacher, officer-in-charge of the supervision and guidance office and the vice principal of Dongguan Guangming School.

Mr. Zhang was awarded the first prize for Guangdong Innovative Education Achievement Award (廣東省教育創新成果獎) jointly by, among others, the Guangdong Education Promotion Association (廣東省教育促進會), the Guangdong Society of Education (廣東教育學會) and Guangdong Television Station in December 2013.

Mr. Zhang obtained a bachelor's degree of arts in Chinese Language and Literature from Hubei University.

Mr. HE Shan (何山), aged 39, is the principal of Panjin Guangzheng Preparatory School. He was appointed to such position in September 2016 and is primarily responsible for overseeing the daily operations of Panjin Guangzheng Preparatory School.

Mr. He joined our Group in July 2003. Prior to the appointment to his present position in our Group, he served on various positions in Dongguan Guangming School, including class teacher, grade leader, human resources officer and assistant to the principal.

Mr. He received various awards for his achievements in education, including the third prize for Guangdong Primary and Middle School Innovative Education Achievement Award (廣東省中小學教育創新成果獎) awarded by Guangdong Education Promotion Association (廣東省教育促進會).

Mr. He obtained a bachelor's degree of arts in Chinese Language and Literature from Guangxi Normal University (廣西師範大學). He obtained the qualification of First Grade Middle School Teacher (中學一級教師) issued by the MOE and the qualification of Primary and Middle School Principals (中小學校長任職資格) issued by the Panjin Bureau of Education (盤錦市教育局).

The board (the "**Board**") of directors ("**Directors**") of Wisdom Education International Holdings Company Limited (the "**Company**") present their report together with the audited financial statements of Company, its subsidiaries and consolidated affiliated entities ("**Consolidated Affiliated Entities**") (collectively the "**Group**") for the year ended 31 August 2018.

General Information

The Company was incorporated in the Cayman Islands and registered as an exempted company with limited liability under the Companies Law Chapter 22 of the Cayman Islands on 13 July 2010. The principal place of business of the Company in Hong Kong is located at Room 3302, 33/F, Lee Garden One, 33 Hysan Avenue, Causeway Bay, Hong Kong.

The Company's shares (the "**Shares**") were listed (the "**Listing**") on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 26 January 2017 (the "**Listing Date**").

Principal Activities and Subsidiaries

The Group provides private education for primary, middle and high schools in the People's Republic of China ("**China**" or "**PRC**"). A list of the Company's subsidiaries, together with their places of incorporation and principal activities, is set out in note 1 to the consolidated financial statements.

Business Review

A fair review of the business of the Group during the year including an analysis of the Group's financial performance, an indication of likely future developments in the Group's business and events affecting the company that have occurred since the end of the financial year are set out in the sections headed "Chairman's Statement" and "Management Discussion and Analysis" of this annual report. These discussions form part of this report of Directors.

Principal Risks and Uncertainties Facing the Group

We are subject to various risks related to our business, our industry and regulatory changes. Major risks we face include, among others,

(i) our business depends on our ability to maintain or raise the tuition and boarding fee levels we charge at our schools;

(ii) we generate all of our revenue from a limited number of cities in China and from a limited number of schools;

(iii) our business depends on the market recognition of our brand and reputation that we may not be able to maintain;

(iv) we may fail to continue to attract and retain students in our schools;

(v) our students' academic performance may fall and satisfaction with our educational services may otherwise decline;

(vi) we may be subject to pricing pressures, reduced operating margins, loss of market share, departure of key employees and increased capital expenditures due to competition in the education sector;

(vii) our business depends on our ability to recruit and retain qualified and committed teachers and other school personnel;

(viii) we may not be able to obtain all necessary approvals, licenses and permits and to make all necessary registrations and filings for our educational and other services in China; and

(ix) our business, operation and group structure may be affected by changes to regulatory requirements in China.

Environmental Policies and Performance

The Group realizes the importance of environmental protection in pursuing a long-term sustainability. In particular, the Group promotes energy saving and recycling of materials in our headquarters and schools such as turning off idle lightings, air-conditioning and electrical appliances. The Group also encourages the use of recycled papers and both sides of papers for printing and copying. The Group is committed to improving environmental sustainability and will closely monitor the performance. In accordance with Rule 13.91 of and Appendix 27 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**"), the Company's Environmental, Social and Governance Report will be available on its website within three months from the publication of this annual report.

Compliance with the Relevant Laws and Regulations

During the year ended 31 August 2018, the Group was not aware of material non-compliance with the relevant laws and regulations that have a significant impact on the business and operations of the Group.

As disclosed in the Prospectus, we did not make full contributions to the social insurance plans and the housing provident fund for our employees in certain years prior to the date of the Prospectus. We have made full contributions to the social insurance plans for all of our employees in the PRC and to the housing provident fund for the majority of our employees in the PRC. We intend to make full contributions to housing provident fund for all of our employees in the PRC as soon as reasonably practicable.

Also, we had obtained land use right certificates for several parcels of land used by our Dongguan Guangming Primary School and the construction permits for the buildings built on such land after listing. Please refer to the section headed "Business" in the Prospectus for further details of such historical non-compliance matters. We have received government approvals for the use of the land parcels where our schools operate.

Relations with Employees, Customers and Suppliers

The Group understands the importance of obtaining support from its employees, suppliers and customers to meet its corporate goals. Accordingly, the Group maintains a good relationship with its employees, suppliers and customers.

Financial Results

The results of the Group for the year ended 31 August 2018 are set out in the consolidated statement of profit or loss and other comprehensive income on page 80 of this annual report.

Dividends

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

Closure of Register of Members

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

For determining the entitlement to the proposed final dividend (subject to the approval by Shareholders at the AGM) for the year ended 31 August 2018, the register of members of the Company will be closed from 14 January 2019 (Monday) to 16 January 2019 (Wednesday), both days inclusive, during which period no transfer of shares will be registered. In order to be qualified for the proposed final dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on 11 January 2019 (Friday).

Financial Summary

A summary of the results and assets and liabilities of the Group for the most recent five financial years is set out in the section headed "Financial Summary" on pages 5 to 7 of this annual report.

Property, Plant and Equipment

Details of movements in property, plant and equipment during the year are set out in note 16 to the consolidated financial statements.

Investment Properties

Details of investment properties as at 31 August 2018 are set out in note 20 to the consolidated financial statements. The fair value of the investment properties at 31 August 2018 was RMB20.6 million.

Bank Borrowings

Particulars of bank borrowings of the Group as at 31 August 2018 are set out in note 27 to the consolidated financial statements.

Share Capital

Details of the movements in share capital of the Company are set out in note 31 to the consolidated financial statements.

Reserves

Details of the movements in the reserves of the Group during the year ended 31 August 2018 are set out in the section headed "Consolidated Statement of Changes in Equity" on page 83. The distributable reserves of the Company as at 31 August 2018 were RMB448.8 million.

Permitted Indemnity

In accordance with article 164 of the Company's articles of association ("**Articles of Association**"), every Director, auditor or other officer of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities incurred or sustained by him as a Director, auditor or other officer of the Company in defending any proceedings, whether civil or criminal, in which judgment is given in his favour, or in which he is acquitted.

Directors

The Directors during the year ended 31 August 2018 and up to the date of this report were as follows:

Executive Directors:
Mr. Liu Xuebin
Ms. Li Suwen
Mr. Li Jiuchang
Mr. Wang Yongchun (appointed on 8 January 2018)
Mr. Ng Cheuk Him (resigned on 8 January 2018)

Independent Non-executive Directors:
Mr. Sun Kai Lit Cliff
Mr. Tam King Ching Kenny
Mr. Yau Sze Ka

In accordance with Article 84(2) of the Articles of Association, Mr. Liu Xuebin, Mr. Li Jiuchang and Mr. Wang Yongchun shall retire and will offer themselves for re-election at the forthcoming AGM.

Independence of Independent Non-executive Directors

The Company has received, from each of the independent non-executive Directors, a confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. Based on such confirmations, the Company considers that all independent non-executive Directors are independent.

Directors' Service Contracts

Each of our executive Directors has entered into a service contract with the Company with effect from the Listing Date for an initial term of three years or until the third annual general meeting of the Company from the Listing Date (whichever is earlier).

Each of our independent non-executive Directors has entered into an appointment letter with us for an initial term of three years or until the third annual general meeting of the Company from the Listing Date (whichever is earlier) which may be terminated by either party by serving on the other party a prior written notice of not less than three months.

None of our Directors has or is proposed to have a service contract with any member of the Group other than contracts expiring or determinable by the employer within one year without the payment of compensation other than the statutory compensation.

Directors' and Senior Executives' Emoluments and Five Highest Paid Individuals

Details of the remuneration of the Directors and those of the five highest paid individuals of the Group for the year ended 31 August 2018 are set out in note 13 to the consolidated financial statements. There has been no arrangement under which any Director has waived or agreed to waive any emoluments.

Directors' Interests in Contracts and Competing Businesses

Save as disclosed in note 41 to the consolidated financial statements headed "Related Party Transactions and Balances" and the section headed "Connected Transactions" of this annual report below, no Director had a material interest, whether directly or indirectly, in any transaction, arrangement or contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party as at 31 August 2018 or at any time during the year ended 31 August 2018.

During the year ended 31 August 2018, neither our controlling shareholders (as defined in the Listing Rules) nor any of our Directors were interested in the business of operating private education for primary, middle and high schools, other than our Group, which, competes or is likely to compete, either directly or indirectly, with our Group's business and which requires disclosure pursuant to Rule 8.10 of the Listing Rules.

Our controlling shareholders (being Mr. Liu Xuebin, Ms. Li Suwen, Bright Education Holdings Co. Limited and Bright Education Investment Co. Limited (collectively, the "**Controlling Shareholders**")) executed the deed of non-competition dated 3 January 2017 (the "**Deed of Non-Competition**") in favour of the Company. Pursuant to the Deed of Non-competition, the Controlling Shareholders have jointly and severally, unconditionally and irrevocably undertaken that they will not, and will use their reasonable endeavours to procure that their respective close associates will not, other than through their interests in the Group, directly or indirectly, carry on, engage, invest, participate or otherwise be interested in any business which competes or is likely to compete with any of the existing and/or future businesses carried on by any member of the Group in relation to the provision of primary, middle and high school educational services (the "**Restricted Business**").

Each of the Controlling Shareholders has made a declaration (the "**Declaration**") as to the compliance with the terms of the Deed of Non-Competition for the year ended 31 August 2018 (the "**Relevant Period**"). In determining whether the Controlling Shareholders had fully complied with the Deed of Non-Competition during the Relevant Period, the independent non-executive directors of the Company (the "**INEDs**") noted that: (i) each of the Controlling Shareholders has made the Declaration; (ii) no Restricted Business was reported to be undertaken by the Controlling Shareholders (other than, for the avoidance of doubt, through the Group) during the Relevant Period; and (iii) there was no particular situation rendering the compliance with, and enforcement of, the Deed of Non-Competition being questionable. The INEDs were satisfied with the Controlling Shareholders' compliance with the Deed of Non-Competition during the Relevant Period.

Contracts with Controlling Shareholders

No contract of significance has been entered into among the Company or any of its subsidiaries and the Controlling Shareholders or any of their associates during the year ended 31 August 2018.

Connected Transactions

Non-exempt Continuing Connected Transactions

We have entered into a number of continuing agreements and arrangements with our connected persons in our ordinary and usual course of business, which constitute continuing connected transactions under the Listing Rules. We set out below details of the continuing connected transactions for our Group.

Contractual Arrangements

Background

As disclosed in the section headed "Contractual Arrangements" in the Company's prospectus dated 16 January 2017 (the "**Prospectus**"), due to regulatory restrictions on foreign ownership in our schools in the PRC, we conduct our business in China through our Consolidated Affiliated Entities. We do not hold any equity interests in our Consolidated Affiliated Entities, which are beneficially owned by Mr. Liu as to 62% and Ms. Li as to 38%. Through a series of contractual arrangements (the "**Contractual Arrangements**") entered into between, among other entities, Dongguan Ruixing Business Services Co., Ltd.* (東莞瑞興商務服務有限公司) ("**Dongguan Ruixing**"), our Consolidated Affiliated Entities and shareholders of our Consolidated Affiliated Entities, we effectively control these Consolidated Affiliated Entities and are able to derive substantially all of their economic benefits, and expect to continue to do so. The Contractual Arrangements enable us to (i) receive substantially all of the economic benefits from our Consolidated Affiliated Entities in consideration for the services provided by Dongguan Ruixing; (ii) exercise effective control over our Consolidated Affiliated Entities; and (iii) hold an exclusive option to purchase all or part of the equity interests in our Consolidated Affiliated Entities when and to the extent permitted by PRC laws.

The Contractual Arrangements include: (a) the Exclusive Management Consultancy and Business Cooperation Agreement, (b) the Exclusive Call Option Agreement, (c) the Equity Pledge Agreement, (d) the Powers of Attorney, (e) the Loan Agreement and (f) SP Liu Spouse's Undertaking (as such terms are defined in the section headed "Contractual Arrangements" in the Prospectus). Please refer to the section headed "Contractual Arrangements" in the Prospectus for detailed terms of these documents.

On 11 May 2017, Tibet Keteng Business Service Company Limited* (西藏科騰商務服務有限公司) (the "**Tibet WFOE**") was established as a wholly-owned subsidiary of the Company. The Tibet WFOE has been designated as one of the service providers to provide corporate management consultancy and educational management consultancy services, intellectual property licensing services and technical and business support services under the Exclusive Management Consultancy and Business Cooperation Agreement to our Consolidated Affiliated Entities. Please refer to the Company's announcement dated 22 May 2017 for further details.

Contractual Arrangements in Place

Listing Rules implications

As detailed in the section headed "Connected transactions" of the Prospectus, our Consolidated Affiliated Entities and their shareholders are connected persons of the Company. The transactions contemplated under the Contractual Arrangements constitute continuing connected transactions of our Company under the Listing Rules upon Listing.

Our Directors (including the independent non-executive Directors) are of the view that the Contractual Arrangements and the transactions contemplated thereunder are fundamental to our Group's legal structure and business, that such transactions have been and will be entered into in the ordinary and usual course of business of our Group, are on normal commercial terms and are fair and reasonable and in the interests of our Company and our Shareholders as a whole. Accordingly, notwithstanding that the transactions contemplated under the Contractual Arrangements and any new transactions, contracts and agreements or renewal of existing transactions, contracts and agreements to be entered into, among others, by any of our Consolidated Affiliated Entities and any member of our Group technically constitute continuing connected transactions under Chapter 14A of the Listing Rules, our Directors consider that, given that our Group is placed in a special situation in relation to the connected transactions rules under the Contractual Arrangements, it would be unduly burdensome and impracticable, and would add unnecessary administrative costs to our Company if such transactions are subject to strict compliance with the requirements set out under Chapter 14A of the Listing Rules, including, among others, the announcement and independent shareholders' approval requirements.

Application for waiver

In view of the Contractual Arrangements, we have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with (i) the announcement and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules in respect of the transactions contemplated under the Contractual Arrangements pursuant to Rule 14A.105 of the Listing Rules, (ii) the requirement of setting an annual cap for the transactions under the Contractual Arrangements under Rule 14A.53 of the Listing Rules, and (iii) the requirement of limiting the term of the Contractual Arrangements to three years or less under Rule 14A.52 of the Listing Rules, for so long as our Shares are listed on the Stock Exchange subject however to the following conditions:

(a) No change without independent non-executive Directors' approval

No change to the Contractual Arrangements will be made without the approval of the independent non-executive Directors.

(b) No change without independent Shareholders' approval

Save as described in paragraph (d) below, no change to the agreements governing the Contractual Arrangements will be made without the approval of the independent Shareholders. Once independent Shareholders' approval of any change has been obtained, no further announcement or approval of the independent Shareholders will be required under Chapter 14A of the Listing Rules unless and until further changes are proposed. The periodic reporting requirement regarding the Contractual Arrangements in the annual reports of our Company (as set out in paragraph (e) below) will however continue to be applicable.

(c) Economic benefits flexibility

The Contractual Arrangements shall continue to enable our Group to receive the economic benefits derived by our Consolidated Affiliated Entities through (i) our Group's option, to the extent permitted under PRC laws and regulations to acquire, all or part of the entire equity interests in our Consolidated Affiliated Entities for nil consideration or at the lowest possible amount permissible under the applicable PRC laws and regulations, (ii) the business structure under which the net profit generated by our Consolidated Affiliated Entities is substantially retained by our Group, such that no annual cap shall be set on the amount of service fees payable to Dongguan Ruixing by our Consolidated Affiliated Entities under the Exclusive Management Consultancy and Business Cooperation Agreement, and (iii) our Group's right to control the management and operation of, as well as, in substance, all of the voting rights of our Consolidated Affiliated Entities.

(d) Renewal and reproduction

On the basis that the Contractual Arrangements provide an acceptable framework for the relationship between our Company and its subsidiaries in which our Company has equity shareholding, on one hand, and our Consolidated Affiliated Entities, on the other hand, such framework may be renewed and/or reproduced upon the expiry of the existing arrangements or in relation to any existing or new wholly foreign owned enterprise or operating company (including branch company) engaging in the same business as that of our Group which our Group might wish to establish when justified by business expediency, without obtaining the approval of the independent Shareholders, on substantially the same terms and conditions as the existing Contractual Arrangements. The directors, chief executive or substantial shareholders of any existing or new wholly foreign owned enterprise or operating company (including branch company) engaging in the same business as that of our Group which our Group may establish will, upon renewal and, or reproduction of the Contractual Arrangements, however be treated as connected persons of our Company and transactions between these connected persons and our Company other than those under similar Contractual Arrangements shall comply with Chapter 14A of the Listing Rules. This condition is subject to relevant PRC laws, regulations and approvals.

(e) Ongoing reporting and approvals

Our Group will disclose details relating to the Contractual Arrangements on an on-going basis as follows:

- The Contractual Arrangements in place during each financial period will be disclosed in our Company's annual report in accordance with relevant provisions of the Listing Rules.

- Our independent non-executive Directors will review the Contractual Arrangements annually and confirm in our Company's annual report for the relevant year that (i) the transactions carried out during such year have been entered into in accordance with the relevant provisions of the Contractual Arrangements, have been operated so that the profit generated by our Consolidated Affiliated Entities has been substantially retained by our Group, (ii) no dividends or other distributions have been made by our Consolidated Affiliated Entities to the holders of its equity interests which are not otherwise subsequently assigned or transferred to our Group, and (iii) the Contractual Arrangements and if any, any new transactions, contracts and agreements entered into, renewed or reproduced between our Group and our Consolidated Affiliated Entities during the relevant financial period under paragraph (iv) above are fair and reasonable, or advantageous, so far as our Group is concerned and in the interests of our Shareholders as a whole.

- Our Company's auditors will carry out procedures annually on the transactions carried out pursuant to the Contractual Arrangements and will provide a letter to our Directors with a copy to the Stock Exchange, confirming that the transactions have received the approval of our Directors, have been entered into in accordance with the relevant Contractual Arrangements and that no dividends or other distributions have been made by our Consolidated Affiliated Entities to the holders of its equity interests which are not otherwise subsequently assigned or transferred to our Group.

- For the purpose of Chapter 14A of the Listing Rules, and in particular the definition of "connected person", each of our Consolidated Affiliated Entities will be treated as our Company's wholly-owned subsidiary, but at the same time, the directors, chief executives or substantial shareholders of each of our Consolidated Affiliated Entities and their respective associates will be treated as connected persons of our Company, and transactions between these connected persons and our Group, other than those under the Contractual Arrangements, will be subject to requirements under Chapter 14A of the Listing Rules.

- Each of our Consolidated Affiliated Entities will undertake that, for so long as our Shares are listed on the Stock Exchange, each of our Consolidated Affiliated Entities will provide our Group's management and our Company's auditors full access to its relevant records for the purpose of our Company's auditors' review of the continuing connected transactions.

Confirmation from Independent Non-executive Directors

Our independent non-executive Directors have reviewed the Contractual Arrangements and confirmed that (i) the transactions carried out during the year ended 31 August 2018 have been entered into in accordance with the relevant provisions of the Contractual Arrangements, have been operated so that the profit generated by our Consolidated Affiliated Entities has been substantially retained by our Group, (ii) no dividends or other distributions have been made by our Consolidated Affiliated Entities to the holders of its equity interests which are not otherwise subsequently assigned or transferred to our Group, and (iii) the Contractual Arrangements and if any, any new transactions, contracts and agreements entered into, renewed or reproduced between our Group and our Consolidated Affiliated Entities during the relevant financial period under paragraph (d) above are fair and reasonable, or advantageous, so far as our Group is concerned and in the interests of our Shareholders as a whole.

Confirmations from the Company's Independent Auditors

The auditors of the Company has confirmed in a letter to the Board that, with respect to the Contractual Arrangements entered into in the year ended 31 August 2018:

1. nothing has come to their attention that causes the auditors to believe that the disclosed continuing connected transactions have not been approved by the Board;

2. nothing has come to their attention that causes the auditors to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements under the Contractual Arrangements governing such transactions; and

3. nothing has come to our attention that causes the auditors to believe that dividends or other distributions have been made by the Consolidated Affiliate Entities to their equity interest holders.

The Company confirms that among the related party transactions set out in note 41 to the consolidated financial statements, the hospitality expenses of the Group incurred with Dongguan Cinese Hotel Management Co. Ltd (東莞市富盈酒店有限公司) and the construction expenses of the Group incurred with Dongguan Wenfeng Construction Co. Ltd (東莞市文峰建築有限公司) constitute fully exempt connected transactions, and the remaining expenses were incurred pursuant to transactions which were entered into before the Listing Date or did not otherwise require disclosure under the applicable requirements of Chapter 14A of the Listing Rules. The Company has complied with the disclosure requirements under Chapter 14A of the Listing Rules during the financial year ended 31 August 2018.

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed for the year ended 31 August 2018.

Customers and Suppliers

Our customers primarily consist of our students and their parents or other sponsors. We did not have a single customer who accounted for more than 5% of our revenue for the years ended 31 August 2018 and 2017.

Our suppliers primarily comprise food, educational services and educational material suppliers. For the year ended 31 August 2018, our five largest suppliers in aggregate accounted for approximately 7.9% (2017: 8.3%) of our cost of revenue and our largest supplier accounted for approximately 4.8% (2017: 4.4%) of our cost of revenue.

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

As at 31 August 2018, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("**SFO**"), Chapter 571 of the Laws of Hong Kong) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they have taken, or are deemed to have taken, under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be recorded in the register required to be kept by the Company; or (c) were required, pursuant to the Model Code for Securities Transaction by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

Long positions in Shares and underlying Shares of the Company

Name of Director/ chief executive	Capacity	Interest in Shares	Interest in underlying Shares	Total interest in Shares and underlying Shares	Approximate percentage of shareholding
Mr. Liu (Note 1)	Interest of controlled corporation	930,000,000 (Note 2)	—	930,000,000	45.52%
Ms. Li (Note 1)	Interest of controlled corporation	570,000,000 (Note 3)	—	570,000,000	27.90%
	Beneficial interest	1,776,000	—	1,776,000	0.09%

Notes:

(1) Mr. Liu and Ms. Li are co-founders of the Group and are parties acting in concert with each other.

(2) Mr. Liu holds the entire issued capital of Bright Education (Holdings) Co. Limited ("**Bright Education Holdings**"), a company incorporated in the British Virgins Islands, and is therefore deemed to be interested in 930,000,000 Shares held by Bright Education Holdings.

(3) Ms. Li holds the entire issued capital of Bright Education Investment Co. Limited ("**Bright Education Investment**"), a company incorporated in the British Virgins Islands, and is therefore deemed to be interested in 570,000,000 Shares held by Bright Education Investment.

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

As at 31 August 2018, the following persons or corporations, other than the Directors or the chief executive of the Company, had interests or short positions in the Shares or underlying Shares as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Long positions

Name of Shareholder	Capacity	Total interest in Shares and underlying Shares	Approximate percentage of interest in the Company
Bright Education Holdings (Note 1)	Beneficial interest	930,000,000	45.52%
Bright Education Investment (Note 2)	Beneficial interest	570,000,000	27.90%

Notes:

(1) Bright Education Holdings is wholly-owned by Mr. Liu, and has a direct beneficial interest of 45.52% in the Company.

(2) Bright Education Investment is wholly-owned by Ms. Li and has a direct beneficial interest of 27.90% in the Company.

Save as disclosed above, as at 31 August 2018, no other person or corporation, other than the Directors or the chief executive of the Company, had an interest or short position in the Shares or underlying Shares as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

Remuneration Policy

As at 31 August 2018, the Group had approximately 5,720 employees (as at 31 August 2017: approximately 4,150). The Group participates in various employee benefit plans, including provident fund, housing, pension, medical insurance and unemployment insurance. The Company has also adopted a pre-IPO share option scheme ("**Pre-IPO Share Option Scheme**"), share option scheme ("**Share Option Scheme**") and share award scheme ("**Share Award Scheme**") for its employees and other eligible persons. Salaries and other benefits of the Groups' employees are generally reviewed on a regular basis in accordance with individual qualifications and performance, result performance of the Group and other relevant market conditions. The Group also provides internal and external training programs to its employees. Staff costs (including directors' remuneration) for the year ended 31 August 2018 amounted to approximately RMB393.6 million (2017: RMB301.1 million).

Share Incentive Schemes

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

Pre-IPO Share Option Scheme

The following is a summary of the principal terms of the Pre-IPO Share Option Scheme:

(a) Purpose

The purpose of the Pre-IPO Share Option Scheme is to provide incentive or reward to Eligible Participants (as defined in sub-paragraph (b)) for their contribution to, and continuing efforts to promote the interests of, our Company and to enable our Group to recruit and retain high-calibre employees. In determining the basis of eligibility of each Eligible Participant, the Board would take into account such factors as the Board may at its discretion consider appropriate.

(b) Who may participate

The Board may at its discretion grant options to persons who satisfy the following eligibility criteria ("**Eligible Participant(s)**"):

(i) any executive, non-executive or independent non-executive director of any member of our Group or an Affiliate;

(ii) any employee of any member of our Group or an Affiliate;

(iii) any customer, supplier, agent, partner, consultant, adviser or shareholder (including director(s) thereof) of, or contractor to, any member of our Group or an Affiliate;

(iv) the trustee of any trust the beneficiary of which or any discretionary trust the discretionary objects of which include any director, employee, customer, supplier, agent, partner, consultant, adviser or shareholder of, or contractor to, any member of our Group or an Affiliate; or

(v) a company beneficially owned by any director, employee, consultant, customer, supplier, agent, partner, shareholder, adviser of, or contractor to, any member of our Group or an Affiliate.

(c) ***Maximum number of Shares available for subscription***

The maximum number of Shares in respect of which options may be granted under the Pre-IPO Share Option Scheme shall be such number of Shares representing 10% of the enlarged issued share capital of the Company as at the Listing Date (i.e. 26 January 2017), subject to adjustment.

The maximum number of Shares in respect of which options may be granted will be adjusted, in such manner as the auditors of our Company or the independent financial advisor appointed by the Board shall certify in writing to the Board to be fair and reasonable, in the event of any alteration in the capital structure of the Company whether by way of capitalization of profits or reserves, rights issue, repurchase, consolidation, redenomination, subdivision or reduction in the share capital of our Company provided that no such adjustment shall be made in the event of an issue of Shares as consideration in respect of a transaction).

(d) ***Payment on grant***

There is no monetary consideration for the grant of any option.

(e) ***Subscription price***

Subject to any adjustments as described in the Pre-IPO Share Option Scheme, the subscription price in respect of each Share issued pursuant to the exercise of options granted under the Pre-IPO Share Option Scheme shall be determined by the Board at its discretion and set out in the relevant grant letter(s), provided that it shall not be less than the nominal value of a Share as at the date of grant (the "**Subscription Price**").

(f) ***Lapse of options***

The right to exercise an option (to the extent not already exercised) shall terminate immediately upon the earliest of:

(i) the expiry of the period commencing on the Listing Date and ending on the date immediately before the 9th anniversary of the Listing Date (the "**Exercise Period**");

(ii) the expiry of any of the periods referred to in the Pre-IPO Share Option Scheme;

(iii) subject to the scheme of arrangement becoming effective, the expiry of the period referred to in the Pre-IPO Share Option Scheme;

(iv) subject to the compromise or arrangement referred to in the Pre-IPO Share Option Scheme;

(v) subject to the Pre-IPO Share Option Scheme, the date of the commencement of the winding-up of the Company;

(vi) in respect of an unvested option, the date on which the grantee of such unvested option ceases to be an Eligible Participant by reason of summary dismissal for misconduct or other breach of the terms of his employment or other contract constituting him an Eligible Participant, or appears either to be unable to pay or to have no reasonable prospect of being able to pay his debts or has become insolvent or has made any arrangements or composition with his creditors generally or on which he has been convicted of any criminal offence involving his integrity or honesty. A resolution of the Board to the effect that the employment or other relevant contract of a grantee has or has not been terminated on one or more of the grounds specified in this paragraph shall be conclusive;

(vii) the date on which the grantee commits a breach of transfer of options; or

(viii) the date on which the option is cancelled by the Board as provided in the Pre-IPO Share Option Scheme.

(g) Duration and Administration of the Pre-IPO Share Option Scheme

Subject to the termination provisions in Pre-IPO Share Option Scheme, no further options will be granted after the date of the Prospectus but in all other respects the provisions of the Pre-IPO Share Option Scheme shall remain in full force and effect to the extent necessary or desirable to give effect to the exercise of any options granted prior thereto or otherwise as may be required in accordance with the provisions of the Pre-IPO Share Option Scheme, and options which are granted on or before the date of the Prospectus may continue to be exercisable in accordance with their terms of issue.

The Pre-IPO Share Option Scheme shall be subject to the administration of the Board whose decision as to all matters arising in relation to the Pre-IPO Share Option Scheme or its interpretation or effect (save as otherwise provided herein) shall be final, conclusive and binding on all parties.

Subject to compliance with the provisions of the Pre-IPO Share Option Scheme, the Board shall have the right (i) to interpret and construe the provisions of the Pre-IPO Share Option Scheme; (ii) to determine the Eligible Participants under the Pre-IPO Share Option Scheme and the number of Shares to be issued under the options; (iii) to determine the subscription price; (iv) to make such appropriate and equitable adjustments to the terms of options granted under the Pre-IPO Share Option Scheme as it deems necessary or desirable; and (v) to make such other appropriate decisions, determinations or regulations as it shall deem necessary or desirable in the administration of the 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.

Name of Director	Date of Grant	Outstanding Share Options as at 31 August 2017	Exercised during the year	Outstanding Share Options as at 31 August 2018	Vesting Date(s)	Exercisable Period	Exercise Price
Mr. Ng Cheuk Him	3 January 2017	6,000,000	(2,800,000)	3,200,000	(i) 30% of the share options were vested on 26 January 2017 (ii) 30% of the share options shall be vested: on 26 January 2018 (iii) 40% of the share options shall be vested on 26 January 2019	From the relevant vesting date to 25 January 2026	HK$0.51, which represented a discount of 70% to the final offer price per share of the Company in its initial public offering in January 2017
Total		6,000,000	(2,800,000)	3,200,000			

Save as disclosed above, since the date of adoption of the Pre-IPO Share Option Scheme and up to 31 August 2018, no share options were granted, exercised, cancelled or lapsed under the Pre-IPO Option Scheme.

Share Option Scheme

The following is a summary of the principal terms of the Share Option Scheme:

(a) Purposes of the scheme

The purpose of the Share Option Scheme is to incentivise and reward the Eligible Persons (as defined in sub-paragraph (b) below) for their contribution to the Group and to align their interests with that of the Company so as to encourage them to work towards enhancing the value of the Company.

(b) Who may participate

The Board may at its discretion grant options to persons who satisfy the following eligibility criteria ("**Eligible Person(s)**"):

(i) any executive, non-executive or independent non-executive director of any member of our Group or an entity in which our Group holds an interest ("**Affiliate**");

(ii) any employee of any member of our Group or an Affiliate;

(iii) any customer, supplier, agent, partner, consultant, adviser or shareholder (including director(s) thereof) of, or contractor to, any member of our Group or an Affiliate;

(iv) the trustee of any trust the beneficiary of which or any discretionary trust the discretionary objects of which include any director, employee, customer, supplier, agent, partner, consultant, adviser or shareholder of, or contractor to, any member of our Group or an Affiliate; or

(v) a company beneficially owned by any director, employee, consultant, customer, supplier, agent, partner, shareholder, adviser of, or contractor to, any member of our Group or an Affiliate.

(c) Maximum number of Shares in respect of which options may be granted

The total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes (including but not limited to the Pre-IPO Share Option Scheme, the "**Other Schemes**") of the Company must not in aggregate exceed 10% of the total number of Shares in issue as at the Listing Date i.e. 200,000,000 Shares (the "**Scheme Mandate Limit**"). Options lapsed in accordance with the terms of the Share Option Scheme and any Other Scheme of the Company will not be counted for the purpose of calculating the Scheme Mandate Limit.

The Board may, with the approval of the Shareholders in general meeting, refresh the Scheme Mandate Limit provided that the total number of Shares which may be issued upon the exercise of all options to be granted under the Share Option Scheme and any Other Schemes of the Company under the Scheme Mandate Limit as refreshed must not exceed 10% of the Shares in issue as at the date of on which the Shareholders approve the refreshment of the Scheme Mandate Limit. Options previously granted under the Share Option Scheme and any Other Schemes of the Company (including those outstanding, cancelled, lapsed in accordance with the terms of the relevant scheme, or exercised options) will not be counted for the purpose of calculating the Scheme Mandate Limit as "refreshed".

The Board may, with the approval of the Shareholders in general meeting and subject to the limit set out in the immediately following paragraph, grant options to any Eligible Person(s) specifically identified by them which would cause the Scheme Mandate Limit to be exceeded. The Company shall send to the Shareholders a circular containing the information required under the Listing Rules for the purpose of seeking the approval of the Shareholders.

The maximum number of Shares which may be issued upon exercise of all outstanding options granted and not yet exercised under the Share Option Scheme and any Other Schemes of the Company to Eligible Persons must not exceed 30% of the total number of Shares in issue from time to time.

The maximum number of Shares in respect of which options may be granted shall be adjusted, in such manner as the auditors of the Company or independent financial advisor appointed by the Board shall certify in writing to the Board to be fair and reasonable, in the event of any alteration in the capital structure of the Company whether by way of capitalisation of profits or reserves, rights issue, repurchase, consolidation, redenomination, subdivision or reduction of the share capital of the Company provided that no such adjustment shall be made in the event of an issue of Shares as consideration in respect of a transaction.

(d) Maximum entitlement of each individual

No options shall be granted to any Eligible Person under the Share Option Scheme and any Other Schemes of the Company which, if exercised, would result in such Eligible Person becoming entitled to subscribe for such number of Shares as, when aggregated with the total number of Shares already issued or to be issued to him under all options granted to him (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of offer of such options, exceeds 1% of the Shares in issue at such date. Any further grant of options to an Eligible Person in excess of this 1% limit shall be subject to the approval of the Shareholders in general meeting with such Eligible Person and his associates abstaining from voting. The Company must send a circular to the Shareholders disclosing the identity of the Eligible Person in question, the number and terms of the options to be granted (and options previously granted to such Eligible Person) and such other information required under the Listing Rules. The number and terms (including the exercise price) of the options to be granted to such Eligible Person must be fixed before the Shareholder' approval and the date of the Board meeting approving such further grant shall be taken as the date of offer for the purpose of determining the exercise price of the options.

(e) Time of vesting and exercise of options

Any option shall be vested on an option-holder immediately upon his acceptance of the offer of options provided that if any vesting schedule and/or conditions are specified in the offer of the option, such option shall only be vested on an option-holder according to such vesting schedule and/or upon the fulfilment of the vesting conditions (as the case may be). Subject to the restrictions set out in the Share Option Scheme, any vested option which has not lapsed and which conditions have been satisfied or waived by the Board in its sole discretion may, unless the Board determines otherwise in its absolute discretion, be exercised at any time from the next business day after the offer of options has been accepted. Subject to the provisions in the Share Option Scheme, any option which remain unexercised shall lapse upon the expiry of the option period, which period shall be determined by the Board and shall not exceed ten years from the offer date of the option (the "**Option Period**").

An option shall be subject to such terms and conditions (if any) as may be determined by the Board and specified in the offer of the option, including any vesting schedule and/or conditions, any minimum period for which any option must be held before it can be exercised and/or any performance target which need to be achieved by an option-holder before the option can be exercised. Such terms and conditions determined by the Board must not be contrary to the purpose of the Share Option Scheme and must be consistent with such guidelines (if any) as may be approved from time to time by the Shareholders.

If an option-holder is transferred to work in the PRC or another country and still continues to hold a salaried office or employment under a contract with a member of the Group or associated companies of the Company, and as a result of that transfer, he either (i) suffers a tax disadvantage in relation to his options (this being shown to the satisfaction of the Board); or (ii) becomes subject to restrictions on his ability to exercise his options or to hold or deal in the Shares or the proceeds of the sale of the Shares acquired on exercise because of the security laws or exchange control laws of the PRC or the country to which he is transferred, then the Board may allow him to exercise his options, vested or unvested, during the period starting three months before and ending three months after the transfer takes place.

No option may be exercised in circumstances where such exercise would, in the opinion of the Board, be in breach of a statutory or regulatory requirement.

An option-holder may exercise any or all of his options by notice of exercise in writing in such form as the Board may from time to time require delivered to the Chairman (or a person designated by him with the approval of the Board). The notice of exercise of the option must be completed, signed by the option-holder or by his appointed agent, and must be accompanied by the:

(i) relevant option certificate; and

(ii) correct payment in full in cleared funds of the total option price for the number of Shares being acquired.

(f) Acceptance of an offer of options

An offer of options shall be open for acceptance in writing or by facsimile transmission or (if the Board agree) by electronic communication received by the Chairman (or a person designated by him with the approval of the Board) for such period (not exceeding 30 days inclusive of, and from, the date of offer) as the Board may determine and notify to the Eligible Person concerned provided that no such offer shall be open for acceptance after the expiry of the duration of the Share Option Scheme. An offer of options not accepted within this period shall lapse. An amount of HK$1.00 is payable upon acceptance of the grant of an option and such payment shall not be refundable and shall not be deemed to be a part payment of the exercise price. The Company shall issue option certificates to any Eligible Person who has accepted an offer under the common seal of the Company (or the securities seal of the Company) within seven days after the end of the period for acceptance of the offer.

(g) Exercise price

Subject to any adjustment made as described in the Share Option Scheme, the exercise price shall be such price as determined by the Board and notified to an option-holder and which shall not be less than the higher of: (i) the closing price of the Shares as stated in the Stock Exchange's daily quotation sheets on the date of offer of the option; (ii) the average of the closing price of the Shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of offer of the option; and (iii) the nominal value of the Shares.

(h) Duration of Share Option Scheme

The Share Option Scheme shall be valid and effective for a period of ten years commencing on the Listing Date, after which period no further options will be granted but the provisions of the Share Option Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any options granted prior thereto which are at that time or become thereafter capable of exercise under the Share Option Scheme, or otherwise to the extent as may be required in accordance with the provisions of the Share Option Scheme.

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

Grantee	Date of Grant	Outstanding Share Options as at 31 August 2017	Number of options exercised during the year	Outstanding Share Options as at 31 August 2018	Vesting Date(s) and Exercisable Period	Exercise Price
Employee	14 March 2017	3,000,000	(1,000,000)	2,000,000	(i) 1,000,000 share options will be vested on the first anniversary of the date of grant and will be exercisable within five years from the first anniversary of the date of grant (ii) 1,000,000 share options will be vested on the second anniversary of the date of grant and will be exercisable within five years from the second anniversary of the date of grant (iii) 1,000,000 share options will be vested on the third anniversary of the date of grant and will be exercisable within five years from the third anniversary of the date of grant	HK$1.96 (Note)
Total		3,000,000	(1,000,000)	2,000,000		

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

Save as disclosed above, since the date of adoption of the Share Option Scheme and up to 31 August 2018, no share options were granted, exercised, cancelled or lapsed under the Share Option Scheme.

As at the date of this report, the total number of shares available for issue under the Share Option Scheme is 197,000,000 shares, representing approximately 9.6% of the total issued share capital of the Company.

Share Award Scheme

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

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

Purchase, Sale or Redemption of the Company's Listed Securities

Save for the purchases made by the Trustee pursuant to the Share Award Scheme as disclosed in the section headed "Share Award Scheme" above, during the year ended 31 August 2018, neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed securities of the Company.

Compliance with the Model Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as the Company's code for dealings in securities of the Company by the Directors. Having made specific enquiry to all the Directors, they have confirmed that they have complied with the Model Code during the year ended 31 August 2018.

Sufficiency of Public Float

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

Pre-Emptive Rights

There are no provisions for pre-emptive rights under the laws of the Cayman Islands or under the Company's Articles of Association that require the Company to offer new Shares on a pro-rata basis to its existing Shareholders.

Charitable Donations

The Group made charitable donations of approximately RMB4.1 million during the year ended 31 August 2018 (year ended 31 August 2017: RMB0.85 million).

Litigation

Save as disclosed in note 40 to the consolidated financial statements, the Group did not have any material litigation outstanding as at 31 August 2018.

Continuing Disclosure Pursuant to Listing Rules

The Company did not have any disclosure obligations under Rules 13.20, 13.21 and 13.22 of the Listing Rules as at 31 August 2018.

Changes in Information of Directors

During the year ended 31 August 2018, there were no changes to information which is required to be disclosed and had been disclosed by Directors pursuant to paragraphs (a) to (e) and (g) of Rule 13.51(2) of the Listing Rules.

Events after the Reporting Period

Adoption of share award scheme

The Company has adopted the share award scheme with effect from 6 September 2018 (the "**Share Award Scheme**") as a means to recognise the contribution of and provide incentives for the key management personnel including directors and senior management and employees of the Group. Under the Share Award Scheme, the board of directors of the Company granted 8,400,000 share awards, which represents 0.4% of the total issued share capital as at the date of grant, to eligible employees, including directors of the Company and its subsidiaries.

Acquisition of land for development of boarding school

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

Acquisition of private schools

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

* English name is for identification purpose only.

Audit Committee

The audit committee ("**Audit Committee**") has reviewed the audited consolidated financial statements of the Group for the year ended 31 August 2018 and has met with the independent auditor, Deloitte Touche Tohmatsu ("**Deloitte**"). The Audit Committee has also discussed matters with respect to the accounting policies and practices adopted by the Company and internal control with senior management members of the Company.

Auditors

The consolidated financial statements for the year ended 31 August 2018 have been audited by Deloitte. A resolution for the re-appointment of Deloitte as the Company's auditors is to be proposed at the forthcoming AGM.

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

Hong Kong, 27 November 2018

The board (the "**Board**") of directors (the "**Directors**") of Wisdom Education International Holdings Company Limited (the "**Company**") are pleased to present this Corporate Governance Report in the Company's annual report for the year ended 31 August 2018.

Corporate Governance Code

The Board has committed to achieving high corporate governance standards. The Board believes that high corporate governance standards are essential in providing a framework for the Company to safeguard the interests of shareholders of the Company (the "**Shareholders**") and to enhance corporate value and accountability.

The Company's shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") since 26 January 2017 (the "**Listing Date**"). During the year ended 31 August 2018, the Company has applied the principles as set out in the Corporate Governance Code and Corporate Governance Report (the "**CG Code**") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") and has complied with all the applicable code provisions, save and except for code provision A.2.1 which stipulates that the roles of chairman and chief executive ("**CEO**") should not be performed by the same individual. Please refer to the section headed "Chairman and Chief Executive Officer" for details.

The Board will continue to review and monitor the practices of the Company for the purpose of complying with the CG Code and maintaining a high standard of corporate governance practices of the Company.

Model Code for Securities Transactions

During the year ended 31 August 2018, the Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as its own securities dealing code to regulate all dealings by Directors and relevant employees of securities in the Company and other matters covered by the Model Code.

Specific enquiry has been made of all the Directors and they have confirmed that they have complied with the Model Code during the year ended 31 August 2018, and up to the date of this report.

Board of Directors

The Board currently comprises seven members, consisting of four executive Directors and three independent non-executive Directors.

For the year ended 31 August 2018 and up to the date of this report the composition of the Board is as follows:

Executive Directors
Ms. Li Suwen, *Chairperson (appointed on 28 September 2018) and Chief Executive Officer*
Mr. Liu Xuebin
Mr. Li Jiuchang
Mr. Wang Yongchun (appointed on 8 January 2018)
Mr. Ng Cheuk Him (resigned on 8 January 2018)

Independent Non-executive Directors
Mr. Sun Kai Lit Cliff
Mr. Tam King Ching Kenny
Mr. Yau Sze Ka

The biographical information of the Directors are set out in the section headed "Directors and Senior Management" in this annual report.

None of the members of the Board is related to one another.

Chairman and Chief Executive Officer

Code provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive should not be performed by the same individual.

Ms. Li Suwen was appointed as the chairperson of the Board ("**Chairperson**") following the step down of Mr. Liu Xuebin from the position of chairman of the Board on 28 September 2018. Ms. Li Suwen performs the dual roles of both Chairperson and CEO. The Board believes that it is in the interest of the Company and its Shareholders for Ms. Li Suwen to assume the responsibilities of such positions, given that Ms. Li Suwen is one of the co-founders of the Group and has extensive experience in the operation and management of the Group as an executive Director and CEO. The Board also considers that such arrangement will not impair the balance of power and authority between the Board and the management as the Board comprises six other experienced individuals including three other executive Directors and three independent non-executive Directors. In addition, for major decisions of the Group, the Company will consult Board committees and senior management as and when appropriate. The Board will review such arrangement from time to time and will continue to review and monitor the corporate governance practices of the Company for the purpose of maintaining high corporate governance standards.

Board Meetings

For the year ended 31 August 2018 and up to the date of this report, the Board convened 4 Board meetings. A summary of the attendance record of the Directors is set out in the following table below:

Name of Director	Attendance/Number of Board meetings
Executive Directors	
Mr. Liu Xuebin	4/4
Ms. Li Suwen	4/4
Mr. Li Jiuchang	4/4
Mr. Wang Yongchun (appointed on 8 January 2018)*	3/3
Mr. Ng Cheuk Him (resigned on 8 January 2018)*	1/1
Independent Non-executive Directors	
Mr. Sun Kai Lit Cliff	4/4
Mr. Tam King Ching Kenny	4/4
Mr. Yau Sze Ka	4/4

* One Board meeting was held from 1 September 2017 to 8 January 2018, and three Board meetings were held from 9 January 2018 to 31 August 2018.

For the year ended 31 August 2018, the Board has met at least four times in each financial year at approximately quarterly intervals in accordance with code provision A.1.1 of the CG Code.

Apart from regular Board meetings, the Chairman also held a meeting with the non-executive Director and independent non-executive Directors without the presence of executive Directors for the year ended 31 August 2018.

Independent Non-executive Directors

The Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors representing one-third of the Board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has received from each independent non-executive Director a written annual confirmation in respect of his independence in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules. Based on such confirmation, the Board considers that all independent non-executive Directors are independent.

Non-executive Directors and Directors' Re-election

Code provision A.4.1 of the CG Code stipulates that non-executive Directors shall be appointed for a specific term, subject to re-election, whereas code provision A.4.2 states that all Directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after appointment and that every director, including those appointed for a specific term, shall be subject to retirement by rotation at least once every three years.

All Directors have been appointed for a term of three years. Each of the Directors is subject to retirement by rotation once every three years in accordance with the Company's articles of association (the "**Articles of Association**"). The Articles of Association requires that at every annual general meeting of the Company one-third of the Directors for the time being (or, if their number is not three or a multiple of three, then the number nearest to, but not less than, one-third) shall retire from office by rotation provided that every director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years.

Responsibilities, Accountabilities and Contributions of the Board and Management

The Board is responsible for leadership and control of the Company and oversees the Group's businesses, strategic decisions and performance and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. The Board takes decisions objectively in the interests of the Company.

All Directors have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning.

All Directors have full and timely access to all the information of the Company as well as the services and advice from the company secretary and senior management. The Directors may, upon request, seek independent professional advice in appropriate circumstances, at the Company's expenses for discharging their duties to the Company.

The Directors shall disclose to the Company details of other offices held by them and the Board regularly reviews the contribution required from each Director to perform his responsibilities to the Company.

The Board reserves for its decision all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant operational matters of the Company. Responsibilities relating to implementing decisions of the Board, directing and co-ordinating the daily operation and management of the Company are delegated to the management.

Continuous Professional Development of Directors

Directors shall keep abreast of responsibilities as a director of the Company and of the conduct, business activities and development of the Group.

Every newly appointed Director will receive formal, comprehensive and tailored induction on the first occasion of his/her appointment to ensure appropriate understanding of the business and operations of the Group and full awareness of director's responsibilities and obligations under the Listing Rules and relevant statutory requirements.

In accordance with A.6.5 of the CG Code with regards to continuous professional development, Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. All Directors are encouraged to attend relevant training courses at the Company's expenses.

During the year ended 31 August 2018, the key methods of attaining continuous professional development by each of the Directors are summarized as follows:

Name of Director	Attending courses/seminars/ conferences	Reading books/ journals/articles
Mr. Liu Xuebin	✓	✓
Ms. Li Suwen	✓	✓
Mr. Li Jiuchang	✓	✓
Mr. Wang Yongchun (appointed on 8 January 2018)	✓	✓
Mr. Ng Cheuk Him (resigned on 8 January 2018)	✓	✓
Mr. Sun Kai Lit Cliff	✓	✓
Mr. Tam King Ching Kenny	✓	✓
Mr. Yau Sze Ka	✓	✓

Corporate Governance

The Board is also responsible for the development and review of the policies and practices on corporate governance, compliance with legal and regulatory requirements and corporate governance disclosure.

Board Committees

The Board has established three committees, namely, the Audit Committee, Remuneration Committee and Nomination Committee, for overseeing particular aspects of the Company's affairs. Each of these committees was established with defined written terms of reference. The terms of reference of the Board committees are posted on the Company's website and the Stock Exchange's website and are available to Shareholders upon request.

The majority of the members of each Board committee are independent non-executive Directors.

Audit Committee

The Company has established an audit committee ("**Audit Committee**") with written terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph C.3 of the CG Code. The primary duties of the Audit Committee are to assist the Board by providing an independent view of the effectiveness of the financial reporting process, internal control procedures and risk management system of the Group, overseeing the audit process and performing other duties and responsibilities as assigned by the Board. The Audit Committee comprises three members, namely, Mr. Tam King Ching Kenny, Mr. Sun Kai Lit Cliff and Mr. Yau Sze Ka, all being independent non-executive Directors of the Company. Mr. Tam King Ching Kenny is the chairman of the Audit Committee.

For the year ended 31 August 2018 and up to date of this report, the Audit Committee held two meetings. The attendance record of the meetings is set out in the table below:

Name of Committee Member	Attendance/ Number of meetings
Mr. Tam King Ching Kenny	2/2
Mr. Sun Kai Lit Cliff	2/2
Mr. Yau Sze Ka	2/2

During the relevant meetings, the Audit Committee reviewed the interim results and report for six months ended 28 February 2018 and the annual results and report for the year ended 31 August 2018, significant issues on the financial reporting and compliance procedures, internal control and risk management systems, scope of work and appointment of external auditors.

For the year ended 31 August 2018 and up to the date of this report, the Audit Committee also met with the external auditors without the presence of the executive Directors.

An explanation of the basis on which the Company generates or preserves value over the longer term and the strategy for delivering the Company's objective is included in the Chairman's Statement and the Management Discussion and Analysis sections in this report.

Remuneration Committee

The Company has established a remuneration committee ("**Remuneration Committee**") with written terms of reference in compliance with paragraph B.1 of the CG Code. The primary duties of the remuneration committee include (but without limitation): (i) making recommendations to our Directors on our policy and structure for remunerations of all our Directors and senior management and on the establishment of a formal and transparent procedure for developing policies on such remuneration; (ii) making recommendations to the Board on the specific remuneration packages of our Directors and senior management; and (iii) reviewing and approving performance-based remuneration by reference to corporate goals and objectives resolved by our Directors from time to time. The remuneration committee comprises three members, namely, Mr. Sun Kai Lit Cliff (an independent non-executive Director), Mr. Yau Sze Ka (an independent non-executive Director) and Mr. Liu (an executive Director). Mr. Sun Kai Lit Cliff is the chairman of Remuneration Committee.

For the year ended 31 August 2018 and up to date of this report, the Remuneration Committee held one meetings. The attendance record of the meetings is set out in the table below:

Name of Committee Member	Attendance/ Number of meetings
Mr. Sun Kai Lit Cliff	1/1
Mr. Yau Sze Ka	1/1
Mr. Liu Xuebin	1/1

During the meeting(s), the Remuneration Committee reviewed and made recommendation to the Board on the remuneration policy and structure of the Company, and the remuneration packages of the executive Directors and senior management and other related matters of the Company.

The total remuneration paid/payable to the senior management (including all executive Directors) by band expressed in Hong Kong dollars ("**HK$**") is set out below:

	Number of senior management	
Band	For the year ended 31 August 2018	For the year ended 31 August 2017
Nil to HK$1,000,000	**7**	6
HK$1,000,001 to HK$2,000,000	**2**	1
HK$2,000,001 to HK$3,000,000	**1**	2
Over HK$3,000,000	**2**	1

Nomination Committee

The Company has established a nomination committee ("**Nomination Committee**") with written terms of reference in compliance with paragraph D.3 of the CG Code. The primary duties of the nomination committee are to make recommendations to our Directors on all new appointments of Directors and senior management, interviewing nominees, to take up references and to consider related matters. The nomination committee comprises three members, namely, Mr. Yau Sze Ka (an independent non-executive Director), Mr. Tam King Ching Kenny (an independent non-executive Director) and Ms. Li (an executive Director). Mr. Yau Sze Ka is the chairman of the Nomination Committee.

For the year ended 31 August 2018 and up to date of this report, the Nomination Committee held one meeting. The attendance record of the meeting is set out in the table below:

Name of Committee Member	Attendance/ Number of meeting
Mr. Yau Sze Ka	1/1
Mr. Tam King Ching Kenny	1/1
Ms. Li Suwen	1/1

During the meeting, the Nomination Committee reviewed the structure, size, composition and diversity of the Board.

Board Diversity Policy

The Board Diversity Policy (the "**Policy**") was adopted by the Company. The Policy aims to set out the approach to diversity on the Board and achieve a sustainable and balanced development.

The Company sees increasing diversity at the Board level as essential to supporting attainment of its strategic objectives and to achieve sustainable and balanced development. According to the Policy, in designing the Board's composition, Board diversity has been considered from a number of perspectives, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard to the diversity of the Board. The Board should have a balance of skills and experience and a diversity of perspectives appropriate to the requirements of the Company's business. The Company recognizes and embraces the benefits of having a diverse Board to enhance the quality of its performance.

The Nomination Committee is responsible for the monitoring and review of the Policy annually. During the period from the Listing Date to the date of this report, the Nomination Committee was satisfied with the diversity of the existing Board and did not, for the time being, set up any measurable objective regarding the diversity of the Board.

Directors' Responsibility in Respect of the Financial Statements

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 August 2018.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The statement of the independent auditor of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditor's Report on pages 73 to 79 in this annual report.

Auditors' Remuneration

The Company appointed Deloitte Touche Tohmatsu as the independent auditor for the year ended 31 August 2018. For the year ended 31 August 2018, the total fees paid/payable, excluding disbursements, in respect of audit and non-audit services provided by the Group's independent auditor are set out below:

Items of auditors' services	Amount RMB'000
Audit service:	
Annual audit service	2,580
Non-audit services:	
Tax advisory services	230
Total	2,810

Internal Control and Risk Management

The Board acknowledges that it has overall responsibility for the Group's risk management and internal control systems and for reviewing their effectiveness. It should be noted that such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. The Company has an internal audit and control department which carries out the analysis and independent appraisal of the adequacy and effectiveness of the Company's risk management and internal control systems and reports to the Board.

During the financial year ended 31 August 2018, the Board has conducted its regular and annual review of the effectiveness of our risk management and internal control systems, in particular, the operational and financial reports, compliance control and risk management reports, budgets and business plans provided by the management. The audit committee of the Company also performs regular review of the Group's performance, risk management and internal control systems and discusses with the Board, in order to ensure effective measures are in place to protect material assets and identify business risks of the Group. Such review during the financial year ended 31 August 2018 did not reveal any major issues and the Board considers the risk management and internal control systems effective and adequate. The Group's review procedures involved in the risk management and internal control mainly included:

(1) A list of risks was created after the scope of risks was determined and risks were identified.

(2) The impacts brought by possible financial losses due to risks on operating efficiency, continuous development, and reputation were assessed with reference to possible occurrence of various potential risks and the attention drawn from the management of the Group, based on which the priority of the risks was determined.

(3) Risk management measures with respect to material risks were identified, internal control over the design and implementation of risk management measures were assessed, and measures to improve the weaknesses were formulated.

(4) By assessing internal controls and management's implementation of rectification measures with respect to material risks, the Group regularly reviewed and summarized the risk management and internal control systems to realize the efficient operation and constant improvement of risk management.

(5) The risk management handbook was formulated to address risk management and internal control, pursuant to which, the terms of reference of the management, the Board, and the Audit Committee with respect to their risk management work were clearly determined, and risk management and internal control systems were monitored on an ongoing basis.

(6) The management submitted reports to the Audit Committee on regular reviews and assessment results with respect to risk management and internal control systems, material risk factors, and the relevant countermeasures.

With respect to the procedures and internal controls for the handling and dissemination of inside information, the Group has internal policy and procedures which strictly prohibit unauthorised use of inside information and has communicated to all staff; the Board is aware of its obligations to announce any inside information in accordance with the Listing Rules and conducts the affairs with reference to the "Guidelines on Disclosure of Inside Information" issued by the Securities and Futures Commission in June 2012. In addition, only Directors and delegated officers can act as the Group's spokesperson and respond to external enquiries about the Group's affairs.

Company Secretary

During the year ended 31 August 2018, the company secretary of the Company was an employee of the Company and the Company did not engage an external service provider as its company secretary. The company secretary took no less than 15 hours of the relevant professional training during the year ended 31 August 2018.

Shareholders' Rights

To safeguard Shareholders' interests and rights, a separate resolution is proposed for each substantially separate issue at general meetings, including the election of individual directors. All resolutions put forward at general meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and the Stock Exchange after each general meeting.

Convening an Extraordinary General Meeting ("EGM") and Putting Forward Proposals at EGM

Pursuant to article 58 of the Articles of Association, the Board may, whenever it thinks fit, convene an EGM.

General meetings shall also be convened on the written requisition of any two or more members deposited at the principal office of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office specifying the objects of the meeting and signed by the requisitionists, provided that such requisitionists held as at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company.

If the Board does not within 21 days from the date of deposit of the requisition proceed duly to convene the meeting to be held within a further 21 days, the requisitionists themselves or any of them representing more than one-half of the total voting rights of all of them, may convene the general meeting in the same manner, as nearly as possible, as that in which meetings may be convened by the Board provided that any meeting so convened shall not be held after the expiration of three months from the date of deposit of the requisition, and all reasonable expenses incurred by the requisitionists as a result of the failure of the Board shall be reimbursed to them by the Company.

The requisition must state clearly the name of the requisitionists, their shareholding in the Company, the reason(s) to convene an EGM, the agenda proposed to be included and the details of the business(es) proposed to be transacted in the EGM and signed by the requisitionists.

Putting Forward Enquiries to the Board

For putting forward any enquiries to the Board, Shareholders may send written enquiries to the Company. The Company will not normally deal with verbal or anonymous enquiries.

Contact Details

Shareholders may send their enquiries or requests as mentioned above to the following:

Address:	Room 3302, 33/F, Lee Garden One, 33 Hysan Avenue, Causeway Bay, Hong Kong (For the attention of Company Secretary)
Fax:	(852) 3899 3522
Email:	ir@wisdomeducationintl.com

For the avoidance of doubt, Shareholder(s) must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address, and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

Communication with Shareholders and Investors

The Company considers that effective communication with Shareholders is essential for enhancing investor relations and investor understanding of the Group's business, performance and strategies. The Company endeavors to maintain an ongoing dialogue with Shareholders and in particular, through annual general meetings and other general meetings. The Chairman of the Board, the chairmen of Audit Committee, Remuneration Committee, Nomination Committee or, in their absence, other members of the respective committees, will make themselves available at the annual general meetings to meet Shareholders and answer their enquiries.

The Company has not made any changes to its Articles of Association during the year ended 31 August 2018. An up-to-date version of the Company's Articles of Association is also available on the Company's website and the Stock Exchange's website.

Deloitte. 德勤

TO THE SHAREHOLDERS OF
WISDOM EDUCATION INTERNATIONAL HOLDINGS COMPANY LIMITED
睿見教育國際控股有限公司
(incorporated in the Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of Wisdom Education International Holdings Company Limited (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 80 to 164, which comprise the consolidated statement of financial position as at 31 August 2018, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 August 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	**How our audit addressed the key audit matter**
Valuation of embedded derivatives component of convertible loan notes	
We identified the valuation of the embedded derivatives component of convertible loan notes issued by the Group during the year as a key audit matter as the valuation model is sensitive to changes in certain key inputs including credit risk, volatility of share price and dividend yield that require significant management estimates. As at 31 August 2018, the carrying value of the embedded derivatives component of the convertible loan notes was approximately RMB10,186,000, with loss on fair value change of approximately RMB3,944,000 for the year then ended recorded in the consolidated statement of profit or loss and other comprehensive income. Details relating to the Group's embedded derivatives component of the convertible loan notes are set out in note 28 to the consolidated financial statements.	Our audit procedures in relation to the valuation of the embedded derivatives component of the convertible loan notes included: • Reading the terms of the subscription agreement that constitute embedded derivatives; • Evaluating the independent external valuer's competence, capabilities and objectivity; and • Involving our internal valuation experts to review and assess whether the valuation model used by the independent external valuer was appropriate and whether the key assumptions used in the valuation model including the credit risk, volatility of share price and dividend yield were reasonable.

Key audit matter	How our audit addressed the key audit matter
Acquisitions of businesses and impairment assessment of goodwill	
We identified the acquisitions of businesses and impairment assessment of goodwill arising on these acquisitions as a key audit matter due to the complexity and significant estimates involved in the assessment process by the management of the Group. As disclosed in note 36 to the consolidated financial statements, the Group acquired Huanan Shida Yuedong Preparatory School (華南師大粵東實驗學校) ("Jieyang School") and Weifang Weizhou Foreign Language School (濰坊市濰州外國語學校) ("Weizhou School") during the year ended 31 August 2018 at considerations of RMB224,000,000 and RMB111,000,000, respectively. The Group has recognised goodwill of RMB61,781,000 and RMB26,539,000 arising from the acquisitions of Jieyang School and Weizhou School. With the use of independent valuers, the valuation of intangible assets, representing student rosters, on the acquisition date, is performed based on key assumptions and estimation used by the management including discount rates and revenue growth rates.	Our procedures in relation to the acquisitions of businesses and impairment assessment of goodwill arising on these acquisitions included: • Understanding the nature of the intangible assets being acquired being identified by the Group and inquiring of the management of the Group for the factors that goodwill is arisen; • Evaluating the reasonableness of the fair value assessment of identifiable net assets acquired and liabilities assumed by the Group in the acquisitions. Involving our internal valuation expert to review the valuations performed by the independent valuers in respect of the purchase price allocations and the key assumptions applied, including discount rate, in the valuations at dates of the acquisitions; • Evaluating the competence, capabilities and objectivity of the independent valuers engaged by management in the fair value assessment and the key assumptions applied, including the discount rate, in determination of the fair value at dates of the acquisitions;

Key audit matter	How our audit addressed the key audit matter
Acquisitions of businesses and impairment assessment of goodwill — continued	
For the purpose of assessing impairment of goodwill, respective recoverable amounts of Jieyang School and Weizhou School have been determined by the management of the Group based on calculation of value in use, using financial budgets with reference to past performance and management's expectations for the market development, where the key assumptions and estimates included the growth rates and discount rate used in the value in use calculations. Details of impairment assessment of goodwill are set out in the note 19 to the consolidated financial statements. Based on the management's assessment, no impairment loss in relation to goodwill arising on these acquisitions has been recognised for the year ended 31 August 2018.	• Assessing the reasonableness of the key assumptions, including revenue growth rate and estimated gross margin, adopted in the financial projections of Jiayeng School and Weizhou School for both purchase price allocation and goodwill impairment assessments; • Testing source data on a sample basis to supporting evidence, such as approved budgets and available market data; • Checking the arithmetical accuracy of the calculations underlying the purchase price allocation on the acquisitions and goodwill impairment assessment of Jieyang School and Weizhou School; and • Evaluating the appropriateness of the disclosures in respect of the acquisitions of Jieyang School and Weizhou School and impairment assessments of goodwill in the consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Revenue recognition — tuition and boarding fees and ancillary services	
We identified revenue as a key audit matter due to the significance of the balance to the consolidated financial statements as a whole, combined with a significant increase in amount recognised in the year, particularly from new ancillary services, including the provision of school uniform and arrangement of school buses and study tours to students. Revenue represents service income from tuition fees, boarding fees and ancillary services less returns, discounts and sales related tax. For the year ended 31 August 2018, revenue amounted to RMB1,246,920,000 (2017: RMB979,140,000) of which details are included in note 6 to the consolidated financial statements.	Our procedures in relation to revenue recognition included: • understanding of controls of the Group over the admission of students, collection of tuition fees and boarding fees and recognition of revenue from ancillary services; • checking, on a sample basis, the revenue of tuition fees, boarding fees and ancillary service income are recognised in accordance with IFRS with reference to evidence to determine whether the services are being provided or goods have delivered; • on a sample basis, observing the attendance and checking the identities of students for their existence; • performing trend analysis on tuition fees and boarding fees; and • performing substantive analytical procedures to test the accuracy and reasonableness of the amount of revenue recognised for tuition fees and boarding fees.

Other Information

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Lam, Lawrence.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

27 November 2018

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 August 2018

	Notes	2018 RMB'000	2017 RMB'000
Revenue	6	**1,246,920**	979,140
Cost of revenue		**(702,054)**	(529,289)
Gross profit		**544,866**	449,851
Other income	7	**54,053**	10,999
Other gains and losses	8	**(1,717)**	(26,173)
Selling expenses		**(19,455)**	(17,063)
Administrative expenses		**(220,916)**	(125,765)
Listing expenses		**—**	(10,257)
Finance income	9	**46,192**	6,931
Finance costs	10	**(57,462)**	(18,216)
Profit before taxation		**345,561**	270,307
Taxation	11	**(38,379)**	(70,112)
Profit and total comprehensive income for the year	12	**307,182**	200,195
Attributable to			
Owners of the Company		**310,390**	200,233
Non-controlling interests		**(3,208)**	(38)
		307,182	200,195
Earnings per share			
Basic (RMB)	15	**0.15**	0.11
Diluted (RMB)	15	**0.15**	0.11

Consolidated Statement of Financial Position

As at 31 August 2018

	Notes	2018 RMB'000	2017 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	16	**2,492,447**	1,779,440
Prepaid lease payments	17	**502,116**	298,816
Intangible assets	18	**15,801**	—
Goodwill	19	**88,320**	—
Investment properties	20	**20,600**	20,100
Deferred tax assets	30	**—**	6,376
Deposits, prepayments and other receivables	21	**519,532**	425,311
Available-for-sale investments	22	**364,500**	—
Pledged bank deposits	23	**—**	197,919
		4,003,316	2,727,962
CURRENT ASSETS			
Inventories — goods for sale		**5,489**	8,816
Deposits, prepayments and other receivables	21	**162,198**	25,633
Amount due from a related party	29	**—**	6,901
Prepaid lease payments	17	**12,439**	7,324
Available-for-sale investments	22	**95,234**	—
Pledged bank deposits	23	**281,577**	177,540
Bank balances and cash	24	**911,410**	378,051
		1,468,347	604,265
CURRENT LIABILITIES			
Deferred revenue	25	**617,023**	423,115
Trade and other payables and accrued expenses	26	**616,226**	393,351
Income tax payable		**128,082**	122,438
Borrowings	27	**281,960**	154,900
		1,643,291	1,093,804
NET CURRENT LIABILITIES		**(174,944)**	(489,539)
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,828,372**	2,238,423

	Notes	2018 RMB'000	2017 RMB'000
CAPITAL AND RESERVES			
Share capital	31	**18,057**	18,026
Reserves		**1,893,008**	1,727,864
Equity attributable to owners of the Company		**1,911,065**	1,745,890
Non-controlling interests		**66,276**	(38)
		1,977,341	1,745,852
NON-CURRENT LIABILITIES			
Borrowings	27	**1,425,260**	466,900
Convertible loan notes	28	**422,143**	—
Deferred revenue	25	**—**	13,663
Deferred tax liabilities	30	**3,628**	12,008
		1,851,031	492,571
		3,828,372	2,238,423

The consolidated financial statements on pages 80 to 164 were approved and authorised for issue by the Board of Directors on 27 November 2018 and are signed on its behalf by:

Liu Xuebin
DIRECTOR

Li Suwen
DIRECTOR

	Attributable to owners of the Company											
	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000 (Note i)	Merger reserve RMB'000	Share options reserve RMB'000	Discretionary special reserve RMB'000 (Note ii)	Statutory surplus reserve RMB'000 (Note iii)	Shares held for share award scheme reserve RMB'000	Accumulated profits RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 September 2016	—	—	85,000	83,400	—	182,519	241,907	—	237,949	830,775	—	830,775
Profit (loss) and total comprehensive income (expense) for the year	—	—	—	—	—	—	—	—	200,233	200,233	(38)	200,195
Transfer	—	—	—	—	—	64,771	37,447	—	(102,218)	—	—	—
Recognition of share-based payment expenses (note 32)	—	—	—	—	5,304	—	—	—	—	5,304	—	5,304
Issuance of ordinary shares (note 31(i))	1	—	—	—	—	—	—	—	—	1	—	1
Capitalisation issued (note 31(ii))	13,259	(13,259)	—	—	—	—	—	—	—	—	—	—
Issuance of ordinary shares upon listing and exercise of over-allotment option (notes 31(iii) & (iv))	4,748	802,486	—	—	—	—	—	—	—	807,234	—	807,234
Expenses incurred in connection with the issuance of ordinary shares	—	(45,923)	—	—	—	—	—	—	—	(45,923)	—	(45,923)
Shares purchased for share award scheme	—	—	—	—	—	—	—	(3,700)	—	(3,700)	—	(3,700)
Exercise of share options	18	2,893	—	—	(2,005)	—	—	—	—	906	—	906
Dividend recognised as distribution (note 14)	—	(48,940)	—	—	—	—	—	—	—	(48,940)	—	(48,940)
At 31 August 2017	18,026	697,257	85,000	83,400	3,299	247,290	279,354	(3,700)	335,964	1,745,890	(38)	1,745,852
Profit (loss) and total comprehensive income (expense) for the year	—	—	—	—	—	—	—	—	310,390	310,390	(3,208)	307,182
Transfer	—	—	—	—	—	125,828	15,078	—	(140,906)	—	—	—
Recognition of share-based payment expenses (note 32)	—	—	—	—	3,948	—	—	—	—	3,948	—	3,948
Shares purchased for share award scheme	—	—	—	—	—	—	—	(37,656)	—	(37,656)	—	(37,656)
Exercise of share options	31	6,708	—	—	(3,982)	—	—	—	—	2,757	—	2,757
Dividend recognised as distribution (note 14)	—	(121,560)	—	—	—	—	—	—	—	(121,560)	—	(121,560)
Over-accrual of issue costs (Note iv)	—	7,296	—	—	—	—	—	—	—	7,296	—	7,296
Non-controlling interests arising from acquisitions	—	—	—	—	—	—	—	—	—	—	69,522	69,522
At 31 August 2018	18,057	589,701	85,000	83,400	3,265	373,118	294,432	(41,356)	505,448	1,911,065	66,276	1,977,341

Notes:

i. Pursuant to the trust financing arrangement between the Group, 惠州市光正投資有限公司 ("Huizhou Guangzheng"), a subsidiary of the Company and 東莞信託有限公司 ("Dongguan Trust"), 75% of equity interest of Huizhou Guangzheng was transferred to 富盈集團有限公司 ("Cinese Group"), a company controlled by Mr. Liu Xuebin ("Mr. Liu"), chairman and executive director of the Company, from Dongguan Trust upon the full repayment of RMB100,000,000 by Cinese Group in May 2013. The repayment by Cinese Group was settled with the Group's current accounts. In September 2013, the 75% equity interest in Huizhou Guangzheng was subsequent transferred from Cinese Group to the Group at a consideration of RMB15,000,000 and settled by the current accounts with Cinese Group. The difference of RMB85,000,000 between the consideration and the investment in Huizhou Guangzheng by Cinese Group of RMB100,000,000 is accounted for as a deemed contribution from equity holders.

ii. Discretionary special reserve represents the accumulated surplus in the school campus canteen operations specifically set aside by the Group for the improvement and enhancement of the services and conditions of the school campus canteens and accumulated profits earned by not-for-profit schools, whose school sponsors do not require reasonable returns, for the construction or maintenance of the schools or procurement or upgrading of educational equipment. This reserve is non-distributable to equity holders during the school operating period. Upon liquidation or wind-up of the schools, the underlying assets of the special reserve shall be used for the operation of other not-for profit schools after the settlement of the school's indebtedness. Also, pursuant to certain amendments made to the Law for Promoting Private Education of the People's Republic of China (中華人民共和國民辦教育促進法) which become effective on 1 September 2017, upon liquidation or wind-up of the schools, when the schools are registered as not-for-profit schools, school sponsors may apply for compensation or awards from the school's remaining assets after the settlement of the school's indebtedness. Upon the establishment of a special reserve committee in May 2016 the Group has transferred all the retained earnings of its on-campus canteens since the operation thereof to the discretionary special reserve. During the year ended 31 August 2018, surplus in the school campus canteen operations and education operation of not-for-profit schools amounted to RMB80,593,000 (2017:64,771,000) and RMB45,235,000 (2017: nil) respectively, had been transferred to the discretionary special reserve.

iii. Pursuant to the relevant laws in the People's Republic of China (the "PRC"), the Company's subsidiaries in the PRC shall make appropriations from after-tax profit to non-distributable reserve funds as determined by the board of directors of the relevant PRC subsidiaries. These reserves include (a) general reserve of the limited liabilities companies and (b) the development fund of schools.

   (a) For PRC subsidiaries with limited liability, it is required to make annual appropriations to general reserve of 10% of after-tax profits as determined under the PRC laws and regulations at each year-end until the balance reaches 50% of the relevant PRC entity's registered capital.

   (b) According to the relevant PRC laws and regulations, for private school that requires for reasonable return, it is required to appropriate to development fund of not less than 25% of the net income of the relevant schools as determined in accordance with generally accepted accounting principles in the PRC. The development fund shall be used for the construction or maintenance of the schools or procurement or upgrading of educational equipment.

iv. Over-accrual of issue costs is the reversal of the sponsor's fee and printing costs upon mutual agreed between the Company and payees.

	2018 RMB'000	2017 RMB'000
OPERATING ACTIVITIES		
Profit before taxation	**345,561**	270,307
Adjustments for:		
Finance costs	**57,462**	18,216
Bank interest income	**(13,320)**	(6,931)
Interests income on available-for-sale investments	**(32,872)**	—
Depreciation of property, plant and equipment	**85,977**	65,645
Amortisation of intangible assets	**11,681**	—
Increase in fair value of investment properties	**(500)**	(400)
Release of prepaid lease payments	**8,718**	7,173
Loss on disposal of property, plant and equipment	**1,614**	155
Loss on fair value changes of convertible loan notes — embedded derivatives component	**3,944**	—
Unrealised exchange (gain) loss	**(4,788)**	26,081
Share-based payment expenses	**3,948**	5,304
Operating cash flows before movements in working capital	**467,425**	385,550
Decrease (increase) in inventories	**3,373**	(4,294)
Increase in deposits, prepayments and other receivables	**(21,976)**	(4,186)
Increase in deferred revenue	**154,006**	57,826
Increase (decrease) in trade and other payables	**55,266**	(19,881)
Decrease in amounts due to related parties	**—**	(12,575)
Cash generated from operations	**658,094**	402,440
Income tax paid	**(34,739)**	(6,889)
NET CASH FROM OPERATING ACTIVITIES	**623,355**	395,551
INVESTING ACTIVITIES		
Interest received	**4,939**	1,706
Receipts of government grants	**—**	13,947
Withdrawal of pledged bank deposits	**252,263**	—
Placement of pledged bank deposits	**(150,000)**	(383,449)
Payments for acquisition of property, plant and equipment	**(641,892)**	(445,363)
Payments for acquisition of prepaid lease payments	**(101,485)**	(85,791)
Payment for purchase of available-for-sale investments	**(830,000)**	—
Proceeds from disposal of property, plant and equipment	**3,805**	409
Proceeds on disposal of available-for-sale investments	**376,600**	—
Interest income received from available-for-sale investments	**25,272**	—
Advance to a related company	**—**	(192,000)
Repayment from a related company	**—**	192,000
Advance to related parties	**—**	(6,901)
Repayments of advance to related parties	**—**	53,659
Repayment of advance to Cinese Group	**—**	500,200
Temporary payments to government	**(21,315)**	—
Deposits for acquisition of new private schools	**(220,975)**	—
Net cash outflow for acquisitions of subsidiaries (note 36)	**(46,311)**	(151,000)
NET CASH USED IN INVESTING ACTIVITIES	**(1,349,099)**	(502,583)

	2018 RMB'000	2017 RMB'000
FINANCING ACTIVITIES		
Proceeds from bank borrowings	**1,634,600**	566,200
Repayment of bank borrowings	**(549,180)**	(552,100)
Proceeds on issue of convertible loan notes	**407,853**	—
Repayments to related parties	—	(377,213)
Interest paid	**(80,550)**	(26,236)
Issue costs paid	**(8,217)**	(28,879)
Payments for repurchase of ordinary shares under the share award scheme	**(37,656)**	(3,700)
Dividend paid	**(121,560)**	(48,940)
Proceeds from issue of ordinary shares	—	807,234
Proceeds from exercise of share options	**2,757**	906
Receipt in advance from an independent third party	—	60,000
NET CASH FROM FINANCING ACTIVITIES	**1,248,047**	397,272
NET INCREASE IN CASH AND CASH EQUIVALENTS	**522,303**	290,240
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**378,051**	103,705
Effect of foreign exchange rate changes	**11,056**	(15,894)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, REPRESENTING BANK BALANCES AND CASH	**911,410**	378,051

1. General

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

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

The shares of the Company have been listed on the Main Board of the Stock Exchange with effect from 26 January 2017.

Due to regulatory restrictions on foreign ownership in the schools in the PRC, the Group conducts a substantial portion of the business through 廣東光正教育集團有限公司 ("Guangdong Guangzheng") and its subsidiaries listed in note 42 (collectively referred to as the "Consolidated Affiliated Entities") in the PRC. 東莞瑞興商務服務有限公司 ("Dongguan Ruixing"), a wholly-owned subsidiary of the Company, has entered into the contractual arrangements with Guangdong Guangzheng and their respective equity holders, which enable Dongguan Ruixing and the Group to:

— exercise effective financial and operational control over the Consolidated Affiliated Entities;

— exercise equity holders' voting rights of the Consolidated Affiliated Entities;

— receive substantially all of the economic interest returns generated by the Consolidated Affiliated Entities in consideration for the corporate management and educational management consultancy services, intellectual property licensing services as well as technical and business support services provided by Dongguan Ruixing. Such services include advisory services on asset and business operation, debt disposal, material contracts or mergers and acquisitions, educational software and course materials research and development, employee training, technology development, transfer and consulting services, public relation services, market survey, research and consulting services, market development and planning services, human resources and internal information management, network development, upgrade and ordinary maintenance services, sales of proprietary products, and software and trademark and know-how licensing and other additional services as the parties may mutually agree from time to time; and

— obtain an irrevocable and exclusive right to purchase all or part of equity interests in the Consolidated Affiliated Entities from the respective equity holders at nil consideration or a minimum purchase price permitted under PRC laws and regulations. Dongguan Ruixing may exercise such options at any time until it has acquired all equity interests in and/or all assets of the Consolidated Affiliated Entities. In addition, the Consolidated Affiliated Entities are not allowed to sell, transfer, or dispose any assets, or make any distributions to their equity holders without prior consent of Dongguan Ruixing.

1. General — continued

The Company does not have any equity interest in the Consolidated Affiliated Entities. However, as a result of the Contractual Arrangements, the Company has power over the Consolidated Affiliated Entities, has rights to variable returns from its involvement with the Consolidated Affiliated Entities and has the ability to affect those returns through its power over the Consolidated Affiliated Entities and therefore is considered to have control over the Consolidated Affiliated Entities. Consequently, the Company regards the Consolidated Affiliated Entities as indirect subsidiaries. The Group has consolidated the financial position and results of Guangdong Guangzheng and its subsidiaries in the consolidated financial statements of the Group during both years.

The following financial statement balances and amounts of the Consolidated Affiliated Entities were included in the consolidated financial statements:

	2018 RMB'000	2017 RMB'000
Revenue	**1,088,616**	864,472
Profit before taxation	**279,652**	286,495

	2018 RMB'000	2017 RMB'000
Non-current assets	**3,634,931**	2,521,421
Current assets	**22,330**	134,341
Current liabilities	**(1,051,389)**	(1,072,598)
Non-current liabilities	**(1,428,888)**	(492,571)

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

2. Basis of Preparation of the Consolidated Financial Statements

As of 31 August 2018, the Group recorded net current liabilities of RMB174,944,000 (2017: RMB489,539,000). In view of these circumstances, the directors of the Company have given consideration of the future liquidity and performance of the Group and its available sources of finance in assessing whether the Group will have sufficient financial resources to continue as a going concern.

The consolidated financial statements have been prepared on a going concern basis because the directors of the Company are satisfied that the Group will have sufficient financial resources to meet its financial obligations as they fall due in the next twelve months by taking into account the Group's cash flow projection, unutilised bank facilities of RMB40,700,000 and the Group's future capital expenditure in respect of its non-cancellable capital commitments.

3. Application of New and Amendments to International Financial Reporting Standards ("IFRSs")

Amendments to IFRSs that are mandatorily effective for the current year

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

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

Amendments to IAS 7 *Disclosure Initiative*

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

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

A reconciliation between the opening and closing balances of these items is provided in note 39. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure in note 39, the application of these amendments has had no impact on the Group's consolidated financial statements.

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

3. Application of New and Amendments to International Financial Reporting Standards ("IFRSs") — continued

New and amendments to IFRSs in issue but not yet effective

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

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

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 Effective for annual periods beginning on or after a date to be determined
4 Effective for annual periods beginning on or after 1 January 2021
5 Effective for business combination for which the acquisition date is on or after the beginning of the first annual periods beginning on or after 1 January 2020
6 Effective for annual periods beginning on or after 1 January 2020

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

3. Application of New and Amendments to International Financial Reporting Standards ("IFRSs") — continued

New and amendments to IFRSs in issue but not yet effective — continued

IFRS 9 *Financial Instruments*

IFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of IFRS 9 which are relevant to the Group are:

- all recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income ("FVTOCI"). All other financial assets are measured at their fair value at subsequent accounting periods; and

- in relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Based on the Group's financial instruments as at 31 August 2018, the directors of the Company anticipate the following potential impact on initial application of IFRS 9:

Classification and measurement:

- Available-for-sale ("AFS") investments carried at fair value as disclosed in note 22: these are held within a business model whose objective is achieved both by collecting contractual cash flows and selling the AFS instruments in the open market but the contractual terms of the investments do not give rise to cash flows on specified dates that are solely payments of principal and interest on the principal outstanding and hence they will be measured at financial assets at fair value through profit or loss ("FVTPL") at the date of initial recognition of IFRS 9.

- All other financial assets and financial liabilities will continue to be measured on the same bases as are currently measured under IAS 39.

3. Application of New and Amendments to International Financial Reporting Standards ("IFRSs") — continued

New and amendments to IFRSs in issue but not yet effective — continued

IFRS 9 *Financial Instruments* — continued

Impairment:

In general, the directors of the Company anticipate that the application of the expected credit loss model of IFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised costs and other items that subject to the impairment provisions upon application of IFRS 9 by the Group.

Based on the assessment by the directors of the Company, if the expected credit loss model were to be applied by the Group, there would be no material impact on the accumulated amount of impairment loss to be recognised by the Group as at 1 September 2018 as compared to the accumulated amount recognised under IAS 39.

IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

In 2016, the IASB issued Clarifications to IFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The directors of the Company anticipate that the application of IFRS 15 in the future may result in more disclosures, however, the directors of the Company do not anticipate that the application of IFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting periods.

3. Application of New and Amendments to International Financial Reporting Standards ("IFRSs") — continued

New and amendments to IFRSs in issue but not yet effective — continued

IFRS 16 *Leases*

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede IAS 17 *Leases* and the related interpretations when it becomes effective.

IFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use and those classified as investment properties while other operating lease payments are presented as operating cash flows. Upon application of IFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group.

Under IAS 17, the Group has already recognised an asset and a related finance lease liability for finance lease arrangement and prepaid lease payments for leasehold lands where the Group is a lessee. The application of IFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

As at 31 August 2018, the Group as lessee has non-cancellable operating lease commitments of RMB69,113,000 as disclosed in note 37. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of IFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

In addition, the Group currently considers refundable rental deposits paid of RMB3,652,000 and refundable rental deposits received of RMB228,000 as rights and obligations under leases to which IAS 17 applies. Based on the definition of lease payments under IFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost and such adjustments are considered as additional lease payments. Adjustments to refundable rental deposits paid would be included in the carrying amount of right-of-use assets. Adjustments to refundable rental deposits received would be considered as advance lease payments.

Furthermore, the application of new requirements may result in changes in measurement, presentation and disclosure as indicated above.

4. Significant Accounting Policies

The consolidated financial statements have been prepared in accordance with IFRSs issued by IASB. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and by the Hong Kong Companies Ordinance ("CO").

The consolidated financial statements have been prepared on the historical cost basis, except for investment properties and certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in the consolidated financial statements is determined on such a basis, except for IFRS 2 *Share-based Payment*, leasing transactions that are within the scope of IAS 17 Leases and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 *Inventories* or value in use in IAS 36 *Impairment of Assets*.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

For financial instruments and investment properties which are transferred at fair value and a valuation technique that unobservable inputs is to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that the results of the valuation technique equals the transaction price.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for asset or liability.

4. Significant Accounting Policies — continued

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including the Consolidated Affiliated Entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

(i) has power over the investee;

(ii) is exposed, or has rights, to variable returns from its involvement with the investee; and

(iii) has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

4. Significant Accounting Policies — continued

Basis of consolidation — continued

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity thereon.

Business combinations

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

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 *Income Taxes* and IAS 19 *Employee Benefits* respectively.

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

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary's net assets in the event of liquidation are initially measured at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets or at fair value. The choice of measurement basis is made on a transaction-by-transaction basis.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), and additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

4. Significant Accounting Policies — continued

Goodwill

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

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

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

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

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated returns, discounts, and sales related tax.

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

Service income includes tuition and boarding fees from primary schools, middle schools and high schools of the Group.

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

4. Significant Accounting Policies — continued

Revenue recognition — continued

Revenue from ancillary services, including the services provided at the on-campus canteens and medical rooms, sales of school uniform, arrangement of school bus and study tours and others, is recognised when the goods are delivered and titles have passed or the services have been rendered, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of the income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Donations are recognised when entitlement of the Group to receive donations is established.

The Group's accounting policy for recognition of revenue from operating leases is described in the accounting policy for leasing below.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

4. Significant Accounting Policies — continued

Leasing — continued

The Group as lessee — continued

Leasehold land and building

When the Group makes payments for a property interest which includes both leasehold land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire property is accounted as an operating lease. Specifically, the entire consideration (including any lump-sum upfront payments) are allocated between the leasehold land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element at initial recognition.

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the leasehold land and building elements, the entire property is generally classified as finance lease if the leasehold land is under finance lease.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the year in which they are incurred.

4. Significant Accounting Policies — continued

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred revenue in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses of losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the year in which they become receivable.

Retirement benefits costs

Payments to the Mandatory Provident Fund Scheme and state-managed retirement benefit schemes are recognised as expenses when employees have rendered services entitling them to the contributions.

Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another IFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

Share-based payment arrangements

Share options granted to directors and employees

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

The fair value of the equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share options reserve). At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share options reserve. For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

When share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to accumulated profits.

4. Significant Accounting Policies — continued

Share-based payment arrangements — continued

Share award scheme to directors and employees

Share award scheme

The fair value of services received determined by reference to the fair value of shares awarded at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity.

When a trustee purchases the Company's shares from the open market, the consideration paid, including any directly attributable incremental costs, is presented as "shares held for share award scheme reserve" and deducted from total equity. No gain or loss is recognised on the transactions of the Company's own shares.

When awarded shares are vested, the amount previously recognised in shares held for share award scheme reserve and the amount of the relevant shares held for share award scheme will be transferred to accumulated profits.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before taxation as reported in the consolidated statement of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of each reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in these consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

4. Significant Accounting Policies — continued

Taxation — continued

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

For the purposes of measuring deferred tax arising from investment properties that are measured using the fair value model, the directors of the Company have reviewed the Group's investment property portfolios and concluded that the Group's investment properties are not held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time. Therefore, in determining the Group's deferred taxation on investment properties, the directors of the Company have determined that the presumption that the carrying amounts of investment properties measured using the fair value model are recovered entirely through sale is not rebutted. The Group recognised deferred tax relating to land appreciation tax and Enterprise Income Tax on changes in fair value of such investment properties.

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes (other than construction in progress as described below) are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Properties in the course of construction for production supply or administrative purposes ("construction in progress") are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets commences when the assets are ready for their intended use.

Depreciation is recognised so as to write off the cost of items of assets other than construction in progress less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

4. Significant Accounting Policies — continued

Property, plant and equipment — continued

Buildings under development for future owner-occupied purpose

When buildings are in the course of development for production or for administrative purposes, the amortisation of prepaid lease payments provided during the construction period is included as part of costs of buildings under construction. Buildings under construction are carried at cost, less any identified impairment losses. Depreciation of buildings commences when they are available for use (i.e. when they are in the location and condition necessary for them to be capable of operating in the manner intended by the management).

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at fair value. Gains and losses arising from changes in the fair value of investment properties are included in profit or loss in the year in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

Intangible assets acquired in a business combination

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

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at cost less accumulated amortisation and any accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

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

4. Significant Accounting Policies — continued

Impairment of tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above)

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss, if any.

When it is not possible to estimate the recoverable amount of an asset individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the assets (or a cash-generating unit) for which the estimated of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the assets (or a cash-generating unit) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the assets (or a cash-generating unit) is increased to the revised estimated of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a weighted average method. Net realisable value represents the estimated selling price for inventories less all costs necessary to make the sale.

4. Significant Accounting Policies — continued

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss ("FVTPL") are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into AFS financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

AFS financial assets

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

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

4. Significant Accounting Policies — continued

Financial instruments — continued

Financial assets — continued

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including other receivables, amount due from a related party, pledged bank deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any impairment (see accounting policy in respect of impairment of financial assets below).

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

Impairment of financial assets

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

For all financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For financial assets carried at amortised costs, the amount of impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets. Subsequent recoveries of amounts previously written off are credited to profit or loss.

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

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

4. Significant Accounting Policies — continued

Financial instruments — continued

Financial assets — continued

Impairment of financial assets — continued

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

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified either as financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the group entities are recognised at the proceeds received, net of direct issue costs. A derivative contract over an entity's own equity is accounted for as equity only when it will be settled by the entity deliver (or receive) a fixed number of its own equity instruments and receiving (or delivering) a fixed amount of cash or another financial asset. Any consideration received (such as the premium received in relation to written options over own shares or warrants on the entity's own shares that satisfy the above condition) is added directly to equity. Similarly, any consideration paid for such an instrument (such as premium paid for a purchased option that satisfies the above condition) is deducted from equity. Changes in fair value of the equity instrument are not recognized in the consolidated financial statements.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Financial liabilities at amortised cost

Financial liabilities including trade payables, other payables, amounts due to related parties, borrowings and convertible loan notes (see details in note 28) are subsequently measured at amortised cost, using the effective interest method.

4. Significant Accounting Policies — continued

Financial instruments — continued

Convertible loan notes

A conversion option that will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments is a conversion option derivative.

At the date of issue, both non-derivative debt component and embedded derivatives component of the instrument are recognised at fair value. In subsequent periods, the non-derivative debt component is carried at amortised cost using the effective interest method. The embedded derivatives component is measured at fair value with changes in fair value recognised in profit or loss.

Transaction costs that relate to the issue of the convertible loan notes are allocated to the non-derivative debt and embedded derivatives component in proportion to their relative fair values. Transaction costs relating to the embedded derivatives component are charged to profit or loss immediately. Transaction costs relating to the non-derivative debt component are included in the carrying amount of the non-derivative debt component and amortised over the period of the convertible loan notes using the effective interest method.

Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL. Generally, multiple embedded derivatives in a single instrument are treated as a single compound embedded derivative unless those derivatives relate to different risk exposures and are readily separable and independent of each other.

4. Significant Accounting Policies — continued

Financial instruments — continued

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises financial liability when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

5. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

In the application of the Group's accounting policies, which are described in note 4, the directors of the Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical accounting judgments

The followings are the critical judgments apart from those involving estimations, that the directors of the Company have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

The preferential tax treatment on PRC not-for-profit schools' tuition and boarding income

Significant judgement is required in interpreting the relevant tax rules and regulation so as to determine whether the Group is subject to enterprise income tax as disclosed in note 11. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Group to change its judgement regarding the adequacy of the tax liabilities. Such changes to tax liabilities will impact tax expense in the period that such determination is made.

5. Critical Accounting Judgements and Key Sources of Estimation Uncertainty — continued

Critical accounting judgments — continued

Contractual Arrangements

The Group conducts a substantial portion of the business through the Consolidated Affiliated Entities in the PRC due to regulatory restrictions on foreign ownership in the Group's schools in the PRC. The Group does not have any equity interest in the Consolidated Affiliated Entities. The directors of the Company assessed whether or not the Group has control over the Consolidated Affiliated Entities based on whether the Group has the power over the Consolidated Affiliated Entities, has rights to variable returns from its involvement with the Consolidated Affiliated Entities and has the ability to affect those returns through its power over the Consolidated Affiliated Entities. After assessment, the directors of the Company concluded that the Group has control over the Consolidated Affiliated Entities as a result of the Contractual Arrangements and other measures and accordingly, the assets, liabilities and their operating results of the Consolidated Affiliated Entities are included in the consolidated financial statements throughout the year or since the respective dates of incorporation/establishment/acquisition, whichever is the shorter period.

Nevertheless, the Contractual Arrangements and other measures may not be as effective as direct legal ownership in providing the Group with direct control over the Consolidated Affiliated Entities and uncertainties presented by the PRC legal system could impede the Group's beneficiary rights of the operating results, assets and liabilities of the Consolidated Affiliated Entities. The directors of the Company, based on the advice of its legal counsel, consider that the Contractual Arrangements among Dongguan Ruixing, the Consolidated Affiliated Entities and their equity holders are in compliance with the relevant PRC laws and regulations and are legally enforceable.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Estimated impairment of goodwill

For the purpose of impairment testing, the entire amount of goodwill has been allocated to two cash generating units: Huanan Shida Yuedong Preparatory School (華南師大粵東實驗學校) ("Jieyang School") and Weifang Weizhou Foreign Language School (濰坊市濰州外國語學校) ("Weizhou School") ("CGUs"). The impairment assessments of Jieyang School and Weizhou School are based on the higher of fair value less costs of disposal and value in use. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the CGUs and a suitable discount rate in order to calculate the present value. The value in use calculation is sensitive to changes in the key assumptions including growth rates, discount rates and the forecast performance based on the management's view of future business prospects. Where the actual future cash flows are less than expected, or changes in facts and circumstances which result downward revision of future cash flows, a material impairment loss may arise. In the opinion of the directors of the Company, no impairment loss of goodwill is required for the year ended 31 August 2018. As at 31 August 2018, the carrying amounts of goodwill in respect of Jieyang School and Weizhou School are approximately RMB61,781,000 and RMB26,539,000, respectively. Details of the goodwill impairment assessment are disclosed in note 19.

5. Critical Accounting Judgements and Key Sources of Estimation Uncertainty — continued

Key sources of estimation uncertainty — continued

Useful life and impairment of property, plant and equipment

The Group's management determines the estimated useful lives and the depreciation method in determining the related depreciation charges for its property, plant and equipment. This estimate is based on the management's experience of the actual useful lives of property, plant and equipment of similar nature and functions. In addition, management of the Group assesses impairment whenever events or changes in circumstances indicate that the carrying amount of an item of property, plant and equipment may not be recoverable. Management of the Group will increase the depreciation charge where useful lives are estimated to be shorter than previously estimated, or will write off or write down obsolete assets that have been abandoned or impaired. In the opinion of the directors of the Company, there was no indicator of impairment identified for the property, plant and equipment at the end of the reporting period. As at 31 August 2018, the carrying amount of property, plant and equipment are RMB2,492,447,000 (2017: RMB1,779,440,000). Any change in these estimates may have a material impact on the results of the Group.

Valuation of embedded derivatives component of convertible loan notes

The fair value for the embedded derivatives component of convertible loan notes is established by using valuation techniques. The Group has established a process to ensure that valuation techniques are developed by qualified personnel and are validated and reviewed by personnel independent of the personnel that developed the valuation techniques. Valuation techniques are certified before being implemented for valuation and are calibrated to ensure that outputs reflect actual market conditions. The valuation model is sensitive to changes in certain key inputs including credit risk, volatility of share price and dividend yield that require significant management estimates. Any changes in the estimates and assumptions will affect the fair value of the embedded derivatives component of convertible loan notes. Details of embedded derivatives component of convertible loan notes are set out in note 28.

6. Revenue and Segment Information

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

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

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

6. Revenue and Segment Information — continued

Information reported to the CODM, for the purposes of resource allocation and assessment of segment performance is on a school by school basis. Each individual school constitutes an operating segment. The services provided and type of customers are similar in each operating segment, and each operating segment is subject to similar regulatory environment. Accordingly, their segment information is aggregated as a single reportable segment. The management of the Group assesses the performance of the reportable segment based on the revenue and gross profit for the year of the Group as presented in the consolidated statement of profit or loss and other comprehensive income. The accounting policies of the reportable segment are the same as the Group's accounting policies. No analysis of the Group's assets and liabilities is regularly provided to the management of the Group for review.

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

	2018 **RMB'000**	2017 RMB'000
Tuition and boarding fees	**841,243**	671,170
Ancillary services (Note)	**405,677**	307,970
	1,246,920	979,140

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

Major customers

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

Geographical information

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

7. Other Income

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

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

8. Other Gains and Losses

	2018 RMB'000	2017 RMB'000
Exchange gain (loss)	**4,788**	(26,081)
Loss on disposal of property, plant and equipment, net	**(1,614)**	(155)
Gain on change in fair value of investment properties (note 20)	**500**	400
Loss on change in fair value of convertible loan notes — embedded derivatives component (note 28)	**(3,944)**	—
Others	**(1,447)**	(337)
	(1,717)	(26,173)

9. Finance Income

	2018 RMB'000	2017 RMB'000
Bank interest income	**13,320**	3,902
Interests on AFS investments	**32,872**	—
Imputed interest income on advances to Cinese Group	**—**	3,029
	46,192	6,931

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

	2018 RMB'000	2017 RMB'000
AFS investments	**32,872**	—
Loans and receivables (including bank balances and cash)	**13,320**	6,931
	46,192	6,931

10. Finance Costs

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

Borrowing costs capitalised during the year ended 31 August 2018 arose on the general borrowing pool and are calculated by applying a capitalisation rate of 6.7% (2017: 5.2%) per annum to expenditure on property, plant and equipment (construction in progress).

11. Taxation

	2018 RMB'000	2017 RMB'000
Taxation comprises:		
Current tax:		
PRC Enterprise Income Tax ("PRC EIT")	**33,807**	65,185
PRC withholding income tax on royalty income	**6,576**	5,924
Deferred tax (note 30)	**(2,004)**	(997)
	38,379	70,112

The taxation for the year can be reconciled to the profit before taxation as follows:

	2018 RMB'000	2017 RMB'000
Profit before taxation	**345,561**	270,307
Tax at PRC EIT rate of 25%	**86,390**	67,577
Tax effect of expenses not deductible for tax purposes	**20,874**	11,177
Tax effect of income not taxable for tax purposes	**—**	(1,654)
Tax effect of tax loss not recognised	**34,611**	3,663
Utilisation of tax loss previously not recognised	**—**	(1,028)
Effect of tax concessions and tax exemption	**(93,912)**	—
Effect of different tax rates on inter-company offshore royalty income	**(9,272)**	(9,453)
Others	**(312)**	(170)
Taxation for the year	**38,379**	70,112

The Company was incorporated in the Cayman Islands and Bright Education BVI was incorporated in the British Virgin Islands (the "BVI") that are tax exempted as no business carried out in the Cayman Islands and BVI under the tax laws of the Cayman Islands and the BVI.

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

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

11. Taxation — continued

According to the Law for Promoting Private Education (the "Law"), with effective from 1 September 2017, private schools treated as not-for-profit schools, for which the school sponsors are not allowed to distribute or receive any profits from schools, are eligible to enjoy the same preferential tax treatment as public schools. As a result, qualified income obtained by not-for-profit schools, which are providing academic qualification education, are eligible to enjoy income tax exemption treatment. In the opinion of legal counsel, according to the amendments of the memorandum and article of associations, the school sponsors do not request for reasonable returns from the schools under the Group, including Dongguan Guangming School (東莞市光明中學), Dongguan Guangming Primary School (東莞市光明小學) (collectively called "Guangming Schools"), Dongguan Guangzheng Preparatory School (東莞市光正實驗學校) ("Dongguan School"), Huizhou Guangzheng Preparatory School (惠州市光正實驗學校) ("Huizhou School"), Panjin Guangzheng Preparatory School (盤錦市光正實驗學校) ("Panjin School"), Weifang Guangzheng Preparatory School (濰坊光正實驗學校) ("Weifang School"), Jieyang School and Weizhou School, which are treated as not-for-profit schools under the Law and accordingly, all not-for-profit schools for the Group are exempt from income tax on the tuition and boarding fees. For the year ended 31 August 2018, the non-taxable income amounted to RMB841,243,000 (2017: nil). Other than disclosed above, all other subsidiaries of the Company established in the PRC are subject to the PRC EIT of 25% for the year ended 31 August 2018. Subsidiaries of the Company established in the PRC are subject to the PRC EIT of 25% for the year ended 31 August 2017.

As at 31 August 2018, the Group had estimated unused tax losses of approximately RMB192,096,000 (2017: RMB53,652,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the remaining unused tax losses for both years except for RMB7,668,000 of the tax losses was recognised its deferred tax assets as at 31 August 2017.

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated undistributed profits of the PRC subsidiaries amounting to RMB116,140,000 at 31 August 2018 (2017: RMB32,133,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

12. Profit for the Year

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

13. Directors' and Employees' Emoluments

Directors' emoluments

Directors' remuneration for the year, disclosed pursuant to the applicable Listing Rules and CO, is as follows:

For the year ended 31 August 2018

	Directors' fee RMB'000	Salaries and other allowances RMB'000	Discretionary bonus RMB'000 (Note iii)	Share-based payment expenses RMB'000	Retirement benefits scheme contributions RMB'000	Total RMB'000
Executive directors (Note i)						
Mr. Liu	2,058	—	—	—	—	2,058
Ms. Li (Note iv)	1,417	60	—	—	—	1,477
Mr. Li Jiuchang	208	505	86	—	9	808
Mr. Ng Cheuk Him (resigned on 8 January 2018)	73	451	—	893	5	1,422
Mr. Wang Yongchun (appointed on 8 January 2018)	135	370	71	—	9	585
Independent non-executive directors (Note ii)						
Mr. Sun Kai Lit, Cliff	208	—	—	—	—	208
Mr. Tam King Ching, Kenny	208	—	—	—	—	208
Mr. Yau Sze Ka	208	—	—	—	—	208
	4,515	1,386	157	893	23	6,974

13. Directors' and Employees' Emoluments — continued

Directors' emoluments — continued
For the year ended 31 August 2017

	Directors' fee RMB'000	Salaries and other allowances RMB'000	Discretionary bonus RMB'000 (Note iii)	Share-based payment expenses RMB'000	Retirement benefits scheme contributions RMB'000	Total RMB'000
Executive directors (Note i)						
Mr. Liu	2,221	—	—	—	—	2,221
Ms. Li (Note iv)	1,835	360	—	—	—	2,195
Mr. Li Jiuchang	143	486	75	—	39	743
Mr. Ng Cheuk Him	143	1,626	—	4,773	16	6,558
Independent non-executive directors (Note ii)						
Mr. Sun Kai Lit, Cliff	143	—	—	—	—	143
Mr. Tam King Ching, Kenny	143	—	—	—	—	143
Mr. Yau Sze Ka	143	—	—	—	—	143
	4,771	2,472	75	4,773	55	12,146

Notes:

i. The executive directors' emoluments shown above were paid for their services in connection with the management of the affairs of the Company and the Group. Mr. Ng Cheuk Him continues to work for the Group upon his resignation from director being effective from 8 January 2018.

ii. The independent non-executive directors' emoluments shown above were paid for their services as directors of the Company.

iii. The bonus payments are determined based on the Group's performance and directors' personal performance.

iv. Ms. Li is the Chief Executive Officer of the Company during both years.

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year.

During the year ended 31 August 2017, Mr. Ng Cheuk Him was granted share options, in respect of his services to the Group, under the share option schemes of the Company. Details of the Company's share option schemes are set out in note 32.

13. Directors' and Employees' Emoluments — continued

Employees' emoluments

The five highest paid individuals of the Group during the period ended 8 January 2018 and for the period from 9 January 2018 to 31 August 2018 included three and two directors (2017: four directors) respectively, whose emoluments are included in the disclosures above. The emoluments of the remaining three individuals (2017: one) are as follows:

	2018 RMB'000	2017 RMB'000
Salaries and other allowances	**3,410**	751
Retirement benefits scheme contributions	**35**	6
Share-based payment expenses	**3,055**	531
	6,500	1,288

The number of the five highest paid individuals, other than directors, were within the following bands:

	2018	2017
HK$1,500,001 to HK$2,000,000	**2**	1
HK$2,500,001 to HK$3,000,000	**1**	—

During the year ended 31 August 2018, no remuneration was paid by the Group to the directors of the Company or the five highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office.

During the year ended 31 August 2017, a non-director employee was granted share options, in respect to his services to the Group under the share option schemes of the Company. Details of the share option schemes are set out in note 32.

14. Dividends

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

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

15. Earnings per Share

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

	2018 RMB'000	2017 RMB'000
Earnings		
Profit for the year attributable to owners of the Company for the purposes of basic and diluted earnings per share	**310,390**	200,233

	2018 '000	2017 '000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**2,040,018**	1,818,877
Effect of dilutive potential ordinary shares:		
Share options	**5,250**	2,353
Over-allotment option	—	203
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**2,045,268**	1,821,433

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

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

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

16. Property, Plant and Equipment

	Buildings	Leasehold improvements	Motor vehicles	Furniture and fixtures	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST						
At 1 September 2016	1,203,911	64,667	3,245	92,236	156,339	1,520,398
Additions	16,895	44,371	2,446	23,749	413,783	501,244
Transfer	130,880	5,907	—	1,266	(138,053)	—
Disposals	—	—	(178)	(7,575)	—	(7,753)
At 31 August 2017 and 1 September 2017	1,351,686	114,945	5,513	109,676	432,069	2,013,889
Additions	44,230	55,422	4,185	50,514	468,415	622,766
Additions from acquisitions	169,443	1,520	1,929	8,745	—	181,637
Transfer	271,752	—	—	—	(271,752)	—
Disposals	—	—	—	(12,284)	—	(12,284)
At 31 August 2018	1,837,111	171,887	11,627	156,651	628,732	2,806,008
DEPRECIATION						
At 1 September 2016	(102,276)	(25,474)	(1,263)	(46,980)	—	(175,993)
Provided for the year	(27,511)	(19,104)	(451)	(18,579)	—	(65,645)
Eliminated on disposals	—	—	177	7,012	—	7,189
At 31 August 2017 and 1 September 2017	(129,787)	(44,578)	(1,537)	(58,547)	—	(234,449)
Provided for the year	(35,741)	(21,902)	(818)	(27,516)	—	(85,977)
Eliminated on disposals	—	—	—	6,865	—	6,865
At 31 August 2018	(165,528)	(66,480)	(2,355)	(79,198)	—	(313,561)
NET BOOK VALUES						
At 31 August 2018	1,671,583	105,407	9,272	77,453	628,732	2,492,447
At 31 August 2017	1,221,899	70,367	3,976	51,129	432,069	1,779,440

The above items of property, plant and equipment, other than construction in progress, after taking into account their estimated residual value, are depreciated on a straight-line basis at the following useful life:

Buildings	30–50 years
Leasehold improvements	4–5 years
Motor vehicles	4–5 years
Furniture and fixtures	4–5 years

At 31 August 2018, the Group is in the process of obtaining the property certificate for the buildings with carrying value of RMB634,606,000 (2017: RMB554,977,000) which are located in the PRC.

17. Prepaid Lease Payments

The Group's prepaid lease payments comprise leasehold land in the PRC and are analysed for reporting purposes as:

	2018 RMB'000	2017 RMB'000
Current assets	**12,439**	7,324
Non-current assets	**502,116**	298,816
	514,555	306,140

The prepaid lease payments represent the land use rights and are amortised on a straight-line basis over lease terms of 40 to 65 years as stated in the relevant land use right certificates granted for usage by the Group in the PRC.

At 31 August 2018, the carrying value of the land use rights of RMB34,103,000 (2017: RMB34,951,000) was allocated by the government without land use right certificates. The Group is legally entitled to use them for 40 to 65 years which are stated in the corresponding acquisition agreements. However, without the relevant administrative authorities' permission, the Group cannot transfer, lease or pledge as security such land use rights allocated by the government.

18. Intangible Assets

	Students roster RMB'000
COST	
At 1 September 2016, 31 August 2017 and 1 September 2017	—
Acquisitions of subsidiaries (note 36)	27,482
At 31 August 2018	27,482
AMORTISATION	
At 1 September 2016, 31 August 2017 and 1 September 2017	—
Provided for the year	11,681
At 31 August 2018	11,681
CARRYING VALUES	
At 31 August 2018	15,801
At 31 August 2017	—

Student roster has finite estimated useful lives of 3 to 6 years and it is amortised based on expected usage of student roster.

19. Goodwill

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

Impairment testing on goodwill

For the purposes of impairment testing, goodwill has been allocated to two CGUs of private education operation of Jieyang School and Weizhou School, comprising provision of full spectrum private fundamental education, including primary and secondary school in the PRC. The carrying amounts of goodwill as at 31 August 2018 allocated to these units of Jieyang School and Weizhou School are RMB61,781,000 and RMB26,539,000, respectively.

During the year ended 31 August 2018, management of the Group determines that there is no impairment of any of CGUs containing goodwill.

The basis of the recoverable amount of the above CGUs and its major underlying assumptions are summarised below:

The recoverable amounts of these units have been determined based on a value in use calculations. That calculations use cash flow projections of Jieyang School and Weizhou School based on financial budgets approved by management covering a 5-year period, and discount rates of 13.54% and 14.00% for Jieyang School and Weizhou Schools respectively. The cash flows beyond the 5-year period are extrapolated using a 3% growth rate in respect of projections of Jieyang School and Weizhou School. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales of Jieyang School and Weizhou School with annual sales growth rate ranging from 3% to 42% and ranging from 3% to 17% respectively and gross margin of Jieyang School and Weizhou School with growth rate from 3% to 49% and 3% to 25% respectively, such estimation is based on the unit's past performance and management's expectations for the market development. As at 31 August 2018, the recoverable amounts of Jieyang School and Weizhou School exceed over the carrying amounts of Jieyang School and Weizhou School with amount of RMB17 million and RMB5 million. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amounts of the CGUs to exceed the aggregate recoverable amounts of the CGUs.

20. Investment Properties

	RMB'000
FAIR VALUE	
At 1 September 2016	19,700
Unrealised gain in fair value (included in other gains and losses)	400
At 31 August 2017 and 1 September 2017	20,100
Unrealised gain in fair value (included in other gains and losses)	500
At 31 August 2018	20,600

The Group's investment properties are office units located in Dongguan, PRC and are leased out.

The Group's property interests held under operating leases to earn rentals are measured using the fair value model and are classified and accounted for as investment properties.

At the end of the reporting period, management of the Group works with valuers to establish and determine the appropriate valuation techniques and inputs for Level 3 fair value measurements. Where there is a material change in the fair value of the assets, the causes of the fluctuations will be reported to the directors of the Company.

The fair value of the Group's investment properties at 31 August 2018 was RMB20,600,000 (2017: RMB20,100,000). The fair value has been arrived at based on a valuation carried out by DTZ Cushman & Wakefield Limited ("DTZ"), an independent valuer not connected with the Group. DTZ is a member of the Hong Kong Institute of Surveyors. The valuation was determined by capitalising the rental income derived from the existing tenancies with due provision for the reversionary income potential of the property interests. The key inputs are term capitalisation rate and market unit rent of individual unit.

Income capitalisation method has been adopted for valuing the Group's commercial property units. Key inputs used in valuing the Group's commercial property units were the monthly market rent per square meter which is RMB75 (2017: RMB73) for the year ended 31 August 2018 and the discount rate of 5.5% (2017: 5.5%) used. Market rent per square meter is extrapolated using zero growth rate. An increase in the market rent per square meter or discount rate used would result in an increase or decrease in fair value measurement of the commercial property units, and vice versa.

There has been no change from the valuation technique used in the prior year. In estimating the fair value of the properties, the highest and best use of the properties is their current use.

As at 31 August 2018 and 2017, the Group's investment properties are categorised at Level 3 fair value measurements.

There were no transfers into or out of Level 3 in both years.

21. Deposits, Prepayments and Other Receivables

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

Notes:

(i) Deposits are mainly made to independent third parties in relation to the acquisitions of equity interests of school sponsor's interests in schools located in Jieyang, Dongguan and Foshan and acquisition of an existing school campus in Dongguan. The deposits of RMB151,000,000 were utilised upon the completion of the acquisition of Jieyang School on 1 September 2017.

(ii) The temporary payments to government, which are unsecured, interest-free and have no fixed repayment terms, are arising from removal costs of RMB20 million advanced to the government and refundable tax of RMB1.3 million for land tax regarding the construction of the Group's school. In the opinion of the directors of the Company, the amounts are expected to be recovered within twelve months after the end of the reporting period and therefore classified as current assets.

(iii) Based on the construction progress of the schools, RMB189,359,000 (2017: RMB157,953,000) has been recognised as construction in progress as at 31 August 2018, out of the total prepayment amount of RMB420,000,000 (2017: RMB420,000,000). During the year ended 31 August 2017, based on the agreed construction progress of the schools, the Group has made payments to the construction suppliers directly amounting to RMB92,661,000. As such, RMB92,661,000 previously transferred from prepayments to a related party to construction-in-progress was being reversed.

As at 31 August 2018, RMB220,765,000 (2017: RMB262,047,000) remains as prepayments to related companies.

(iv) The prepayments are mainly arising from RMB64 million paid to a third party construction company for constructions of the Group's schools and RMB38 million paid to a third party consulting firm for project management in relation to constructions of the Group's Schools.

22. Available-for-sale Investments

The AFS investments were issued by financial institutions in the PRC as at 31 August 2018. The AFS investments are with expected rate of return (not guaranteed), depending on the returns of the underlying financial instruments. The Directors consider the fair values of the AFS investments are measured by discounting the expected future cash flows using appropriate discount rates.

AFS investments amounting to RMB364,500,000 are classified as non-current, of which they have maturity over 12 months after the end of the reporting period. The remaining AFS investments amounting to RMB95,234,000 are classified as current, of which the Group has unconditional rights to redeem upon its request and the Directors expect the investments will be redeemed within 12 months after the end of the reporting period. According to the terms of the agreement, the Group has the rights to sell the AFS investments to qualified investors.

	2018 RMB'000	2017 RMB'000
Current	**95,234**	—
Non-current	**364,500**	—
	459,734	—

23. Pledged Bank Deposits

Pledged bank deposits represent deposits pledged to banks to secure bank facilities granted to the Group. Deposits amounting to RMB281,577,000 (2017: RMB177,540,000) have been pledged to secure short-term borrowings and are therefore classified as current assets. As at 31 August 2017, the remaining deposits amounting to RMB197,919,000 have been pledged to secure long-term borrowings and are therefore classified as non-current assets. The pledged bank deposits carried a weighted-average interest rate of 3.14% per annum (2017: 2.6% per annum) at 31 August 2018.

24. Bank Balances and Cash

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

As at 31 August 2018, the Group's bank deposits carried a weighted-average interest rate of 0.33% (2017: 0.09%) per annum.

	2018 RMB'000	2017 RMB'000
HK$ denominated bank balances and cash	490,108	286,639
RMB denominated bank balances and cash	421,267	90,685
Canadian dollar denominated bank balances and cash	35	727
	911,410	378,051

25. Deferred Revenue

	2018 RMB'000	2017 RMB'000
Tuition and boarding fees	553,368	383,632
Ancillary services	63,655	39,199
Government grants (Note)	—	13,947
	617,023	436,778

	2018 RMB'000	2017 RMB'000
Current	617,023	423,115
Non-current	—	13,663
	617,023	436,778

Note: Government grants mainly represented subsidies from government granted to a subsidiary of the Company and classified as deferred revenue. With receipts of the relevant government authority's notice on 10 January 2018, the government grants have been recognised as other income for the purpose of giving immediate financial support to the Group during the year ended 31 August 2018.

26. Trade and Other Payables and Accrued Expenses

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

Notes:

i. The credit period granted by suppliers on purchase of goods is 30 to 180 days. The Group has financial risk management policies to settle payables within the credit timeframe. As at 31 August 2018 and 2017, the trade payables were aged within 180 days.

ii. The amounts were interest-free, unsecured and repayable according to the terms of contract, other than the balance of RMB4,000,000 is repayable on demand for the acquisition of Dongguan Guangzheng Preparatory School, in the opinion of the directors of the Company, the balances of RMB45,000,000 and RMB71,000,000 for the acquisitions of Jieyang School and Weizhou School, respectively, which are expected to be repayable within twelve months upon completion of transferring the certificate titles of relevant land and buildings. Details of the acquisitions of Jieyang School and Weizhou School are set out in note 36.

iii. In August 2016, a subsidiary of the Company has entered into an investment agreement with a non-controlling shareholder of a subsidiary to set up a new subsidiary which will engage in provision of middle school and primary school full time education. In January 2017, the Group received an advance payment of RMB60,000,000 from the non-controlling shareholder of a subsidiary. The advance payment received by the Group will be used as the capital injection and the working capital for the potential joint development of the new subsidiary of the Company.

27. Borrowings

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

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

	2018	2017
Effective interest rate:		
Fixed rates bank borrowings	**4.4%–4.8%**	4.4%–4.8%
Variable-rate bank borrowings	**4.4%–7.5%**	4.4%–6.9%

The Group's bank borrowings are secured by the rights to receive the tuition fees and boarding fees of Guangming School, Dongguan School, Panjin School, Weifang School and Huizhou School and pledged bank deposits.

28. Convertible Loan Notes

On 22 June 2018, the Company entered into the credit agreement (the "Credit Agreement") with PA Chokmah (the "Holder"), an indirectly wholly owned subsidiary of China Ping An Insurance Overseas (Holdings) Limited, in relation to the provision of the convertible loan notes of the principal amount of up to HK$500 million by PA Chokmah to the Company.

On 16 July 2018, the Company issued 6.8% unsecured convertible loan notes at par value with principal amount of HK$500 million. The convertible loan notes are denominated in HK$ and matured in 2 years from date of issue the convertible loan notes (the "Maturity Date"). The terms of the convertible loan notes set out in details as follows:

a) HK$200 million, representing 40% of the loan (the "Mandatory Principal"), shall be mandatorily converted into ordinary shares of the Company on Maturity Date at price per conversion share representing 20% discount of the arithmetic average of the closing price of a share for each of the 90 consecutive trading days immediately preceding the Maturity Date. There is no price ceiling for this conversion;

b) The Holder has the right to convert no more than HK$100 million, representing 20% of the loan (the "Discretionary Principal"), into ordinary shares of the Company for the period from the Maturity Date up to the expiry of a three-month period from the Maturity Date (the "Discretionary Conversion Period") therefrom at price per conversion share representing 10% discount of the arithmetic average of the closing price of a share for each of the 90 consecutive trading days immediately preceding the date of conversion by delivering a discretionary conversion notice to the Company. There is no price ceiling for this conversion;

c) The remaining principal amount of HK$200 million will be repaid in cash on the Maturity Date. The aggregate amount to be repaid in cash at the Maturity Date represents the outstanding principal amount of the convertible loan notes on the Maturity Date minus the aggregate amount of the Mandatory Principal and the amount of the Discretionary Principal which the Holder has exercised the option to convert into ordinary shares of the Company.

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

28. Convertible Loan Notes — continued

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

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

The movement of the convertible loan notes for the year is set out as below:

	Non-derivative debt component	Embedded derivatives component	Total
	RMB'000	RMB'000	RMB'000
At 1 September 2016, 31 August 2017 and 1 September 2017	—	—	—
Initial recognition	401,611	6,242	407,853
Interest charged	5,555	—	5,555
Loss arising on changes in fair value	—	3,944	3,944
Exchange loss	4,791	—	4,791
At 31 August 2018	411,957	10,186	422,143

28. Convertible Loan Notes — continued

Monte Carlo valuation model is used for valuation of the embedded derivatives component. Details of the major inputs and assumptions of the model are as follows:

	At initial recognition	At 31 August 2018
Share price of the Company	HK$6.90	HK$4.46
Risk-free rate*	1.88%	2.04%
Expected volatility#	47.04%	50.48%
Dividend yield	1.01%	1.57%

* The risk-free rates were determined with reference to the yield rates of Generic Hong Kong government bills and bonds with durations similar to the expected lives of the convertible loan notes, as extracted from Bloomberg Terminal TM.

The expected volatilities of the underlying security of the convertible loan notes were determined with reference to the historical volatilities of the share price of the Company, as extracted from Bloomberg Terminal TM.

An increase in the expected volatility used in isolation would result in a decrease in the fair value measurement of the embedded derivatives liability. A 30% increase in the volatility holding all other variables constant would decrease the carrying amount of the embedded derivatives liability by RMB1,901,000. A 30% decrease in the volatility holding all other variables constant would increase the carrying amount of the embedded derivatives liability by RMB1,010,000.

In connection with the Credit Agreement, on 22 June 2018, Mr. Liu also entered into the put option deed (the "Put Option Deed") with PA Chokmah pursuant to which, among other things, Mr. Liu conditionally agreed to grant to PA Chokmah a right to require Mr. Liu to purchase some or all of the conversion shares pursuant to the precedent conditions. PA Chokmah may exercise the put option at an amount which enables PA Chokmah realise an internal rate of return specified in the Put Option Deed, within the period beginning on the date which falls on the expiry of the six-month period from the Maturity Date and ending on the date which is the first anniversary of the Maturity Date (both dates inclusive). For the avoidance of doubt, the Put Option may be exercised on one occasion only. In the opinion of the directors of the Company, the fair value of put option is insignificant to the financial impact of the consolidated financial statements as the fair value of the convertible loan notes is approximate to HK$500 million at the date of initial recognition.

29. Amount due from a Related Party

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

30. Deferred Taxation

The following are the major deferred tax liabilities (assets) recognised and movements thereon during the year:

	Revaluation of investment properties RMB'000	Deferred tax arising on interest capitalisation RMB'000	Tax losses RMB'000	Deferred tax arising on government grant RMB'000	Others RMB'000	Total RMB'000
At 1 September 2016	3,110	5,466	(1,917)	—	(30)	6,629
Charge (credit) to profit or loss	286	2,009	—	(3,487)	195	(997)
At 31 August 2017 and 1 September 2017	3,396	7,475	(1,917)	(3,487)	165	5,632
Charge (credit) to profit or loss	232	(7,475)	1,917	3,487	(165)	(2,004)
At 31 August 2018	3,628	—	—	—	—	3,628

For the purpose of presentation of deferred tax assets and deferred tax liabilities, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purpose.

	2018 RMB'000	2017 RMB'000
Deferred tax assets	—	(6,376)
Deferred tax liabilities	3,628	12,008
	3,628	5,632

31. Share Capital

	Par value	Number of shares	Nominal amount US$	Nominal amount HK$
Ordinary shares				
Authorised:				
At 1 September 2016	US$1	50,000	50,000	—
Cancellation (Note i)	US$1	(50,000)	(50,000)	—
Increase (Note i)	HK$0.01	10,000,000,000	—	100,000,000
At 31 August 2017, 1 September 2017 and 31 August 2018	HK$0.01	10,000,000,000	—	100,000,000

	Par value	Number of shares	Nominal amount US$	Nominal amount HK$	Nominal amount equivalent to RMB	Shown in the consolidated financial statements as RMB'000
Issued and fully paid:						
At 1 September 2016	US$1	100	100	—	650	—
Share repurchased and cancelled (Note i)	US$1	(100)	(100)	—	(650)	—
Issuance of ordinary shares (Note i)	HK$0.01	78,000	—	780	690	1
Capitalisation issued (Note ii)	HK$0.01	1,499,922,000	—	14,999,220	13,259,310	13,259
Issuance of ordinary shares upon listing (Note iii)	HK$0.01	500,000,000	—	5,000,000	4,420,000	4,420
Exercise of over-allotment option (Note iv)	HK$0.01	37,154,000	—	371,540	328,441	328
Issuance of shares on exercise of share options (Note v)	HK$0.01	2,000,000	—	20,000	17,750	18
At 31 August 2017 and 1 September 2017	HK$0.01	2,039,154,000	—	20,391,540	18,026,191	18,026
Issuance of shares on exercise of share options (Note vi)	HK$0.01	3,800,000	—	38,000	31,033	31
At 31 August 2018	HK$0.01	2,042,954,000	—	20,429,540	18,057,224	18,057

31. Share Capital — continued

Notes:

i. On 3 January 2017, the authorised share capital of the Company was increased by HK$100,000,000 by the creation of 10,000,000,000 ordinary shares of a nominal value of HK$0.01 each, following which the Company issued fully paid (i) 48,360 shares of a nominal value of HK$0.01 each to Bright Education (Holdings) Co. Limited ("Bright Education Holdings"), a company wholly owned by Mr. Liu, and (ii) 29,640 shares of a nominal value of HK$0.01 each fully paid to Bright Education Investment Co. Limited ("Bright Education Investment"), a company wholly owned by Ms. Li. On the same date, the Company repurchased and cancelled (i) 62 shares of a nominal value of US$1.00 each registered in the name of Bright Education Holdings, and (ii) 38 shares of a nominal value of US$1.00 each registered in the name of Bright Education Investment. Following the repurchase, the authorised but unissued share capital of the Company was diminished by the cancellation of all the 50,000 unissued shares of nominal value US$1.00 each in the capital of the Company.

ii. On 26 January 2017, the Company capitalised the sum of HK$14,999,000 (equivalent to RMB13,259,000) standing to the credit of the share premium account of the Company and applied the amount towards paying up in full 1,499,922,000 shares of nominal value of HK$0.01 each for allotment to the shareholders whose names appear on the register of members of the Company immediately before the listing of the shares of the Company on the Stock Exchange.

iii. On 26 January 2017, the Company issued 500,000,000 ordinary shares of nominal value of HK$0.01 each pursuant to the global offering at the price of HK$1.70 per share (equivalent to approximately RMB1.50 per share) and the Company's shares were listed on the Stock Exchange on the same date.

iv. On 22 February 2017, the Company issued an additional 37,154,000 ordinary shares of nominal value of HK$0.01 each at the price of HK$1.70 per share (equivalent to approximately RMB1.50 per share) by means of exercise of the over-allotment option.

v. During the year ended 31 August 2017, share options to subscribe for 2,000,000 ordinary shares of HK$0.01 were exercised at HK$0.51 per share. These shares rank pari passu with other shares in issue in all respect.

vi. During the year ended 31 August 2018, share options to subscribe for 2,800,000 ordinary shares of HK$0.01 were exercised at HK$0.51 per share and 1,000,000 ordinary shares of HK$0.01 were exercised at HK$1.96 per share. These shares rank pari passu with other shares in issue in all respect.

32. Share-Based Payments

Share Award Scheme

The Company has adopted the share award scheme with effect from 7 June 2017 as means to recognise the contribution of and provide incentives for the key management personnel including directors and senior management and employees of the Group ("Selected Participants"). Under the Share Award Scheme, the board of directors of the Company may grant shares to eligible employees, including directors of the Company and its subsidiaries.

In order to allow the release of shares to beneficiaries upon vesting of each share award under the Share Award Scheme, the Company will allot and issue such number of shares representing up to 10% of the shares in issue of the Company. The maximum number of shares which may be awarded to a Selected Participant under the Share Award Scheme in any 12-month period shall not exceed 1% of the number of issued share capital of the Company in issue.

The Company has set up a trustee (the "Trustee") to administer and hold the Company's shares before they are vested and transferred to the Selected Participants. The Trustee may also purchase the Company's shares being awarded from the open market using cash contributed by the Company.

For the year ended 31 August 2018, the Trustee purchased 9,946,000 (2017: 1,588,000) shares of the Company on the Stock Exchange in a total consideration of HK$43,263,000 (equivalent to RMB37,656,000) (2017: HK$4,394,000 (equivalent to RMB3,700,000))for the Share Award Scheme.

No awarded shares have been granted under the Share Award Scheme during the year ended 31 August 2018 and 2017.

Share Incentive Schemes

The Company has adopted two share option schemes, namely pre initial public offering share option scheme (the "Pre-IPO Share Option Scheme") and share option scheme (the "Share Option Scheme"), pursuant to a resolution passed on 3 January 2017.

The Pre-IPO Share Option Scheme

The Pre-IPO Share Option Scheme is valid and effective for a period of ten years commencing 26 January 2017 (being the date of listing of the shares of the Company on the Stock Exchange). The purpose of the Pre-IPO Share Option Scheme is to provide incentive or reward to eligible participants for their contribution to, and continuing efforts to promote the interests of the Company, and to enable the Group to recruit and retain high-calibre employees. Under the Pre-IPO Share Option Scheme, the directors of the Company may grant options to eligible participants, including directors and employees of the Company and its subsidiaries, to subscribe for shares in the Company.

At 31 August 2018, the number of shares in respect of which options had been granted and remained outstanding under the scheme was 3,200,000 (2017: 6,000,000), representing 0.16% (2017: 0.29%) of the shares of the Company in issue at that date.

The total number of shares in respect of which options may be granted under the Pre-IPO Share Option Scheme is not permitted to exceed 10% of the enlarged issued share capital of the Company as at 26 January 2017.

32. Share-Based Payments — continued

Share Incentive Schemes — continued

The Share Option Scheme

The Share Option Scheme is valid and effective for a period of nine years commencing 14 March 2017. The purpose of the Share Option Scheme is to incentivise and reward eligible persons for their contribution to the Group and to align their interests with that of the Company so as to encourage them to work towards enhancing the value of the Company. Under the Share Option Scheme, the directors of the Company may grant options to eligible persons, including directors and employees of the Company and its subsidiaries, to subscribe for shares in the Company.

The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The maximum number of shares which may be issued upon exercise of all outstanding share options must not exceed 30% of the issued share capital from time to time. Options granted to substantial shareholders or independent non-executive directors of the Company in excess of 0.1% of the Company's share capital and with a value in excess of HK$5,000,000 at the date of grant must be approved in advance by the Company's shareholders in general meeting.

Options granted must be taken up within 28 days after the date of grant, upon payment of subscription price and relevant fees and charges. Options may be exercised at any time during the period as determined by the directors of the Company. The exercise price is determined by the directors of the Company, and will not be less than the higher of (i) the closing price of the Company's shares on the date of grant, (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's shares.

Details of share options granted during the year ended 31 August 2018 and 2017 are as follows:

Date of grant	Number of options	Vesting date	Exercisable period	Exercise price
The Pre-IPO Share Option Scheme				
3.1.2017	2,400,000	Immediately vested	27.1.2017 to 25.1.2026	HK$0.51
3.1.2017	2,400,000	Immediately vested	27.1.2018 to 25.1.2026	HK$0.51
3.1.2017	3,200,000	26.1.2019	27.1.2019 to 25.1.2026	HK$0.51
The Share Option Scheme				
14.3.2017	1,000,000	Immediately vested	14.3.2018 to 14.3.2025	HK$1.96
14.3.2017	1,000,000	13.3.2019	14.3.2019 to 14.3.2025	HK$1.96
14.3.2017	1,000,000	13.3.2020	14.3.2020 to 14.3.2025	HK$1.96

The maximum number of shares in respect of which options may be granted will be adjusted, in the event of any alteration in the capital structure of the Company whether by way of capitalisation of profits or reserves, rights issue, repurchase, consolidation, redenomination, subdivision or reduction in the share capital of the Company provided that no such adjustment shall be made in the event of an issue of shares as consideration in respect of a transaction.

32. Share-Based Payments — continued

Share Incentive Schemes — continued

The Share Option Scheme — continued

No consideration is payable on the grant of an option. Options may be exercised at any time from the date of grant of the Pre-IPO Share Option Scheme to the 2nd anniversary of the date of grant. The exercise price is determined by the directors of the Company, and will not be less than the nominal value of the Company's share as at the date of grant.

The following table discloses movements of the Company's share options held by an executive director and an employee during the year ended 31 August 2018 and 2017:

	Exercise price	Date of grant	Outstanding at 1/9/2017 '000	Granted during the year '000	Exercised during the year '000	Outstanding at 31/8/2018 '000
The Pre-IPO Share Option Scheme **Executive director** Mr. Ng Cheuk Him (resigned on 8 January 2018)	**HK$0.51**	**3 January 2017**	**6,000**	**—**	**(2,800)**	**3,200**
The Share Option Scheme **Employee**	**HK$1.96**	**14 March 2017**	**3,000**	**—**	**(1,000)**	**2,000**
Total			**9,000**	**—**	**(3,800)**	**5,200**
Exercisable at the end of the year						**Nil**
Weighted average exercise price			**HK$0.99**	**Nil**	**HK$0.89**	**HK$1.07**

	Exercise price	Date of grant	Outstanding at 1/9/2016 '000	Granted during the year '000	Exercised during the year '000	Outstanding at 31/8/2017 '000
The Pre-IPO Share Option Scheme **Executive director** Mr. Ng Cheuk Him (resigned on 8 January 2018)	HK$0.51	3 January 2017	—	8,000	(2,000)	6,000
The Share Option Scheme **Employee**	HK$1.96	14 March 2017	—	3,000	—	3,000
Total			—	11,000	(2,000)	9,000
Exercisable at the end of the year						400
Weighted average exercise price			N/A	HK$0.91	HK$0.51	HK$0.99

32. Share-Based Payments — continued

Share Incentive Schemes — continued

The Share Option Scheme — continued

The weighted average closing price of the Company's shares immediately before the dates on which the options were exercised during the year ended 31 August 2018 was HK$5.37 (2017: HK$1.82).

During the year ended 31 August 2017, options were granted on 3 January 2017 and 14 March 2017. The estimated fair values of the options granted on those dates are RMB8,495,000 (equivalent to HK$9,599,000) and RMB1,748,000 (equivalent to HK$2,075,000)), respectively. No options were granted during the year ended 31 August 2018.

The following assumptions were used to calculate the fair values of share options granted at the dates of grant:

	The Pre-IPO Share Option Scheme Grated on 3 January 2017	The Share Option Scheme Granted on 14 March 2017
Grant date share price (HK$)	1.70	1.96
Exercise price (HK$)	0.51	1.96
Risk-free rate (Note i)	1.92%	1.78%
Expected volatility (Note ii)	52.59%	51.59%
Expected dividend yield	2.50%	2.0%
Expected life	9.05 years	8 years
Exercise multiples (Note iii)	2.8	2.2

Notes:

i. The risk-free rate was determined with reference to the yield rate of Hong Kong government bills and bonds with duration similar to the expected life of the options.

ii. The expected volatility was determined with reference to the historical volatilities of comparable companies of the Company.

iii. The holder of the options will exercise the options when the share price of the underlying security of the options rises to 280% or 220% of the exercise price.

The binomial option pricing model has been used to estimate the fair value of the options granted. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

Share option expense amounted to RMB3,948,000 (2017: RMB5,304,000) was recognised for the year ended 31 August 2018 in relation to share options granted by the Company.

33. Retirement Benefits Plans

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of relevant payroll costs to the Scheme, which contribution is matched by employees.

The employees of the Group in the PRC are members of a state-managed retirement benefits scheme operated by the PRC government. The Group is required to contribute a specified percentage of payroll costs as determined by respective local government authority to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the specified contributions under the scheme.

The amounts of contributions made by the Group in respect of the retirement benefits scheme for the years are disclosed in note 12.

34. Capital Risk Management

The Group's policy is to maintain a strong capital base so as to maintain creditor and market confidence and to sustain future development of business. The Group's overall strategy remains unchanged throughout the years.

The capital structure of the Group consists of net debt, which includes borrowings and convertible loan notes disclosed in notes 27 and 28 net of bank balance and cash, net pledged bank deposits and equity attributable to owners of the Company, comprising share capital, reserves and accumulated profits.

The directors of the Company review the capital structure on a continuous basis taking into account the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors of the Company, the Group will balance its overall capital structure through new share issues, payment of dividend, the issue of new debts as well as the redemption of the existing debts.

35. Financial Instruments

(a) Categories of financial instruments

	2018 RMB'000	2017 RMB'000
Financial assets		
Other receivables	**24,704**	5,228
Amount due from a related party	**—**	6,901
Bank balances and cash	**911,410**	378,051
Pledged bank deposits	**281,577**	375,459
Loans and receivables	**1,217,691**	765,639
AFS investments	**459,734**	—
Financial liabilities		
Trade and other payables	**269,304**	90,652
Borrowings	**1,707,220**	621,800
Convertible loan notes — non-derivative debt component	**411,957**	—
Amortised cost	**2,388,481**	712,452
Convertible loan notes — embedded derivatives component	**10,186**	—

(b) Financial risk management objectives and policies

The Group's major financial instruments include AFS investments, convertible loan notes (non-derivative debt component and embedded derivatives component), other receivables, amount due from a related party, bank balances and cash, pledged bank deposits, trade and other payables, and borrowings. Details of these financial instruments are disclosed in the respective notes.

The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below.

The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner. These risks include market risk (currency risk and interest rate risk), credit risk and liquidity risk.

35. Financial Instruments — continued

(b) Financial risk management objectives and policies — continued

Market risk

(i) Currency risk

Majority of the Group's deposits placed with the bank are denominated in HK$, which is different from the functional currency of the Company and most of its subsidiaries (i.e. RMB).

The carrying amounts of the Group's financial instruments being denominated in HK$ at the end of the reporting period are as follows:

	Liabilities		Assets	
	2018 RMB'000	2017 RMB'000	**2018 RMB'000**	2017 RMB'000
HK$ denominated pledged bank deposits	**—**	—	**—**	252,263
HK$ denominated bank balances and cash	**—**	—	**490,108**	286,639
HK$ denominated convertible loan notes	**422,143**	—	**—**	—

As at 31 August 2018, the Group did not have significant amount of monetary liabilities and other monetary assets that are denominated in currencies other than RMB.

The Group will consider using forward exchange contracts to hedge against foreign currency exposures if necessary.

Sensitivity analysis

The following table details the Group's sensitivity to a 5% (2017: 5%) increase and decrease in HK$ against RMB. 5% (2017: 5%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding HK$ denominated pledged bank deposits and bank balance and cash and adjusts their translation at the end of the reporting period for a 5% (2017: 5%) change in foreign currency rates. A positive number below indicates an increase in post-tax profit and where HK$ strengthen 5% (2017: 5%) against RMB. For a 5% (2017: 5%) weakening of HK$ against RMB, there would be an equal and opposite impact on the post-tax profit and the balances below would be negative.

	2018 RMB'000	2017 RMB'000
Profit or loss	**2,549**	26,945

35. Financial Instruments — continued

(b) Financial risk management objectives and policies — continued

Market risk — continued

(ii) Interest rate risk

The Group's fair value interest rate risk relates primarily to its fixed-rate borrowings, convertible loan notes and pledged bank deposits. The Group is also exposed to cash flow interest rate risk through the impact of rate changes on interest bearing financial assets and liabilities, mainly bank balances and cash and variable-rate borrowings (note 27 for details of borrowings) which carried at prevailing market interest rates. It is the Group's policy to keep certain borrowings at floating rate of interests so as to minimise the fair value interest rate risk. The Group currently does not use any derivative contracts to hedge its exposure to interest rate risk. However, the directors of the Company will consider hedging significant interest rate risk should the need arise.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for variable rate borrowings at the end of the reporting period and assumed that the amount outstanding at the end of the reporting period was outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates. Bank balances are excluded from sensitivity analysis as the directors of the Company consider that the exposure of cash flow interest rate risk arising from variable-rate bank balances is insignificant.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's post-tax profit for the year ended 31 August 2018 would decrease/increase by RMB4,528,000 (2017: RMB1,751,000). This is mainly attributable to the Group's exposure to interest rates on its borrowings with variable rate.

In management's opinion, the sensitivity analysis is unrepresentative of the inherent interest rate risk as the exposure at the end of the reporting period does not reflect the exposure during the year.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform its obligations is arising from the carrying amounts of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk on other receivables and amounts due from related parties, the management of the Group makes periodic collective assessments as well as individual assessment on the recoverability of other receivables based on historical settlement records and past experience. The directors of the Company believe that there is no material credit risk inherent in the Group's outstanding balance of other receivables.

The credit risk of the Group, which is primarily attributable to and concentrated on bank balances and pledged bank deposits, is limited because the counterparties are reputable financial institutions.

35. Financial Instruments — continued

(b) Financial risk management objectives and policies — continued

Liquidity risk

As of 31 August 2018, the Group recorded net current liabilities of RMB174,944,000 (2017: RMB489,539,000). In view of these circumstances, the directors of the Company have given consideration of the future liquidity and performance of the Group and its available sources of finance in assessing whether the Group will have sufficient financial resources to continue as a going concern.

The directors of the Company are satisfied that the Group will have sufficient financial resources to meet its financial obligations as they fall due in the foreseeable future by taking into account the Group's cash flow projection, unutilised bank facilities of RMB40,700,000 and the Group's future capital expenditure in respect of its non-cancellable capital commitments.

The following tables detail the Group's remaining contractual maturity for its financial liabilities based on the agreed repayment terms. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest rates are floating rate, the undiscounted amount is derived from interest rate curve at the end of each reporting period.

	Weighted average effective interest rate %	On demand or less than 1 month RMB'000	1–3 months RMB'000	3 months to 1 year RMB'000	1–5 years RMB'000	Over 5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
At 31 August 2018								
Trade and other payables	—	269,304	—	—	—	—	269,304	269,304
Borrowings								
— fixed rate	7.0	2,917	5,833	26,250	535,000	—	570,000	500,000
— variable rate	6.6	6,623	13,246	295,280	837,981	158,885	1,312,015	1,207,220
Convertible loan notes	12.2	3,973	11,918	34,278	296,431	—	346,600	422,143
		282,817	30,997	355,808	1,669,412	158,885	2,497,919	2,398,667

35. Financial Instruments — continued

(b) Financial risk management objectives and policies — continued

Liquidity risk — continued

	Weighted average effective interest rate %	On demand or less than 1 month RMB'000	1–3 months RMB'000	3 months to 1 year RMB'000	1–5 years RMB'000	Over 5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
At 31 August 2017								
Trade and other payables	—	90,652	—	—	—	—	90,652	90,652
Borrowings								
— fixed rate	4.5	586	1,172	88,321	75,315	—	165,394	155,000
— variable rate	5.4	2,080	4,160	71,288	318,357	103,551	499,436	466,800
		93,318	5,332	159,609	393,672	103,551	755,482	712,452

(c) Fair value measurements of financial instruments

Some of the Group's financial assets are measured at fair value at the end of each reporting period.

The board of directors of the Company has set up a valuation team, which is headed up by the Chief Financial Officer of the Company, to determine the appropriate valuation techniques and inputs for fair value measurements. In estimating the fair value, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation. The valuation team works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model. The Chief Financial Officer reports the valuation team's findings to the board of directors of the Company every quarter to explain the cause of fluctuations in the fair value.

35. Financial Instruments — continued

(c) Fair value measurements of financial instruments — continued

The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation techniques and inputs used).

Financial assets		Fair value as at 31 August 2018	31 August 2017	Fair value hierarchy	Valuation technique(s) and key input(s)
1)	AFS investments	Assets — RMB370,834,000	—	Level 3	Discounted cash flow was used to capture the present value of the expected future economic benefits that will flow to the Group arising from the investments based on an appropriate discount rate ranging from 7.8% to 9% (note).
2)	Convertible loan notes — embedded derivatives component	Liability — RMB10,186,000	—	Level 3	Monte Carlo simulation — key inputs are as follows: — underlying stock price: HK$4.46 — expected volatility: 50.48% — dividend yield: 1.57%

note: An increase in the discount rate used in isolation would result in a decrease in the fair value measurement of the AFS investments, vice versa. A 10% increase in the discount rate holding all other variables constant would decrease the carrying amount of the AFS investments by RMB4,075,000. A 10% decrease in the discount rate holding all other variables constant would increase the carrying amount of the AFS investments by RMB4,137,000.

The directors of the Company consider that the carrying amounts of other financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

Reconciliation of Level 3 fair value measurements

	Embedded derivatives component of convertible loan notes RMB'000	AFS investments RMB'000	Total RMB'000
Issuances/purchases	(6,242)	830,000	823,758
Total (losses) gains — profit or loss	(3,944)	32,872	28,928
Disposals	—	(403,138)	(403,138)
At 31 August 2018	(10,186)	459,734	449,548

35. Financial Instruments — continued

(c) Fair value measurements of financial instruments — continued

Reconciliation of Level 3 fair value measurements — continued

Of the total gains or losses for the year included in profit or loss, RMB3,944,000 and RMB32,872,000 relate to embedded derivatives component and AFS investments respectively held at the end of the current reporting period. Fair value losses of convertible loan notes — embedded derivatives component and interests on AFS investments are included in 'other gains and losses' and 'finance income' respectively.

36. Acquisitions of Businesses

Acquisition of Jieyang School

On 19 June 2017, the Group's subsidiary, 東莞市華生教育投資有限公司 ("Dongguan Huasheng"), a 92.86% owned subsidiary of the Group, entered into agreements with independent third parties to acquire 70% of the school sponsor's interest in Jieyang School and a land parcel and all the buildings and facilities thereon currently occupied by Jieyang School with an area of approximately 190 mu (equivalent to approximately 127,000 square metres) at a total consideration of RMB224,000,000 (the "Acquisition of Jieyang School"). The transaction was completed on 1 September 2017.

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

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

Consideration transferred

	RMB'000
Cash	224,000

36. Acquisitions of Businesses — continued

Acquisition of Jieyang School — continued

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

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

The fair values of intangible assets are based on estimation used by the management of the Group with reference to valuation carried out by independent valuers, key assumptions and estimation used by the management included discount rates and growth rates. The fair value of other receivables at the date of acquisition amounted to RMB430,000, which is also the gross contractual amounts of other receivables.

Goodwill arising on acquisition:

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

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

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

36. Acquisitions of Businesses — continued

Acquisition of Jieyang School — continued

Net cash outflow on acquisition of Jieyang School

	RMB'000
Cash consideration	224,000
Less: consideration payable (note 26)	(45,000)
Less: cash consideration paid at 31 August 2017	(151,000)
Less: cash and cash equivalents acquired	(20,484)
	7,516

Included in the profit for the year is RMB6,197,000 attributable to the additional business generated by Jieyang School. Revenue for the year includes RMB59,893,000 generated from Jieyang School.

Acquisition of Weizhou School

On 16 April 2018, the Group entered into agreements with independent third parties to acquire 100% of the school sponsor's interest in Weizhou School and a land parcel and all the buildings and facilities thereon currently occupied by Weizhou School with an area of approximately 38 mu (equivalent to 25,300 square metres) from an independent third party, at a total consideration of RMB111,000,000 (the "Acquisition of Weizhou School"). The transaction was completed on 31 May 2018.

Weizhou School is principally engaged in the provision of full spectrum private fundamental education, including primary school in the PRC. The Acquisition of Weizhou School has been accounted for using the purchase method. The Directors are of the view that Weizhou School, located in Shandong province, will be a good match as a feeder school to the middle school section of Weifang Guangzheng, and to strength the Group's school network in Weifang.

The excess of the total consideration over the fair value of the net identifiable assets acquired resulted in goodwill of RMB26,539,000 which is tax deductible at the time when the business is disposed of. The acquired assets and liabilities have been included in the consolidated financial statements since the date of acquisition.

Consideration transferred

	RMB'000
Cash	111,000

36. Acquisitions of Businesses — continued

Acquisition of Weizhou School — continued

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

	RMB'000
Property, plant and equipment	55,155
Prepaid lease payments	33,800
Intangible assets	4,720
Inventory	46
Prepayments and other receivables	3,773
Bank balances and cash	1,205
Deferred revenue	(6,557)
Trade and other payables	(7,681)
	84,461

The fair values of intangible assets are based on estimation used by the management of the Group with reference to valuation carried out by independent valuers, key assumptions and estimation used by the management included discount rates and growth rates. The fair value of other receivables at the date of acquisition amounted to RMB3,523,000, which is also the gross contractual amounts of those other receivables.

Goodwill arising on acquisition:

	RMB'000
Consideration transferred	111,000
Less: fair value of net assets acquired	(84,461)
Goodwill arising on acquisition	26,539

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

36. Acquisitions of Businesses — continued

Acquisition of Weizhou School — continued

Net cash outflow on acquisition of Weizhou School

	RMB'000
Cash consideration	111,000
Less: cash consideration payable (note 26)	(71,000)
Less: cash and cash equivalents acquired	(1,205)
	38,795

Included in the profit for the year is RMB2,549,000 attributable to the additional business generated by Weizhou School. Revenue for the year includes RMB5,973,000 generated from Weizhou School.

Had the acquisition been completed on 1 September 2017, total group revenue for the year would have been RMB1,266 million, and profit for the year would have been RMB311 million. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 September 2017, nor is it intended to be a projection of future results.

In determining the 'pro-forma' revenue and profit of the Group had Weizhou School been acquired at the beginning of the current year, the directors of the Company have calculated depreciation and amortization of property, plant and equipment, prepaid lease payments and intangible assets acquired on the basis of the fair values arising in the initial accounting for the business combination rather than the carrying amounts recognised in the pre-acquisition financial statements.

37. Operating Leases

The Group as lessee

Minimum lease payments paid under operating leases during the years:

	2018 RMB'000	2017 RMB'000
Premises	**11,696**	6,492

37. Operating Leases — continued

The Group as lessee — continued

At the end of each reporting period, the Group's commitments for future minimum lease payments under non-cancellable operating leases fall due as follows:

	2018 RMB'000	2017 RMB'000
Within one year	12,132	9,405
In the second to fifth year inclusive	23,591	22,275
Over five years	33,390	35,322
	69,113	67,002

Operating lease payments represent rentals payable by the Group for certain of its office properties and staff apartments. Leases are negotiated and rentals are fixed for lease terms of one to ten years.

The Group as lessor

Property rental income earned during the year ended 31 August 2018 was RMB1,111,000 (2017: RMB1,116,000). The direct outgoings to generate property rental income is insignificant throughout the years. Certain of the properties held have committed tenants for the next 3 years (2017: 4 years).

At the end of each reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	2018 RMB'000	2017 RMB'000
Within one year	1,489	1,134
In the second to fifth year inclusive	1,833	2,762
	3,322	3,896

38. Capital Commitments

	2018 RMB'000	2017 RMB'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of the acquisitions of property, plant and equipment, land and new private schools	887,625	427,572

39. Reconciliation of Liabilities Arising from Financing Activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Dividend payable RMB'000	Borrowings RMB'000	Convertible loan notes RMB'000	Accrued listing expenses RMB'000	Interest payables RMB'000	Total RMB'000
At 1 September 2017	—	621,800	—	14,036	1,010	636,846
Financing cash flows	(121,560)	1,085,420	407,853	(8,217)	(80,550)	1,282,946
Non-cash movement:						
Fair value loss	—	—	3,944	—	—	3,944
Foreign exchange difference	—	—	4,791	1,477	—	6,268
Over accrual of listing expense	—	—	—	(7,296)	—	(7,296)
Effective interest expenses	—	—	5,555	—	—	5,555
Dividend distribution	121,560	—	—	—	—	(121,560)
Interest expenses on borrowings	—	—	—	—	87,381	87,381
At 31 August 2018	—	1,707,220	422,143	—	7,841	2,137,204

40. Contingent Liability

On 19 March 2015, an individual who is an independent third party, initiated court proceedings in relation to the advances he made on behalf of Dongguan Guangzheng Preparatory School during its establishment for a total amount of RMB5,000,000 and the interests thereof. As of the date of the issuance of these consolidated financial statements, the outcome of this legal proceeding was yet to be finalised. In the opinion of the directors of the Company, after consultation of the external legal counsel, there is no reasonable ground to support the arguments of the plaintiff, and accordingly, no provision is made in the consolidated financial statements.

41. Related Party Transactions and Balances

During the year ended 31 August 2018 and 2017, the Group entered into the following transactions with Mr. Liu, Mr. Liu Shoupeng ("Mr. SP Liu"), Mr. Liu Jiefung ("Mr. JF Liu") and related parties, which are controlled by Mr. Liu and/or their close family members:

Related party	Relationship	Nature of transactions	2018 RMB'000	2017 RMB'000
Dongguan Cinese Hotel	Controlled by Mr. Liu	Hospitality expenses	**2,104**	1,698
Dongguan Wenfeng	Controlled by a close family member of Mr. Liu	Construction expenses	**2,851**	18,614
Dongguan Cinese Real Estate	Controlled by Mr. Liu	Construction expenses	**19,503**	50,614
Dongguan Cinese Real Estate	Controlled by Mr. Liu	Management service fee for constructions	**—**	30,000
Mr. Liu	Controlling equity holder and director	Payment of expenses on behalf	**—**	6,901

41. Related Party Transactions and Balances — continued

During the year ended 31 August 2017, the Group has remitted two balances in aggregate amounting to RMB192,000,000 to 東莞市合盈實業有限公司 (“Dongguan Heying”), a related company controlled by Ms. Li. On the same date, each of remittance the balances were remitted back to the Group. No such transaction during the year ended 31 August 2018.

During the year ended 31 August 2018, the Group entered into the following construction contracts with related parties, which are controlled by Mr. Liu and/or his close family members:

Related party	Relationship	Nature of transactions	2018 RMB'000	2017 RMB'000
Dongguan Cinese Real Estate	Controlled by Mr. Liu	Contract amounts entered	—	250,000

During the year ended 31 August 2018, Mr. Liu provides financial guarantee to the Group in respect of the issue of convertible loan notes which set out in note 28.

Compensation of key management personnel

The remuneration of directors and other members of key management of the Group during the years are as follows:

	2018 RMB'000	2017 RMB'000
Short-term benefits	**6,810**	9,716
Post-employment benefits	**140**	245
Share-based payment expenses	**3,948**	5,304
	10,898	15,265

Balances and other arrangement with related parties are set out in the consolidated statement of financial position, consolidated statement of changes in equity and in notes 21 and 29.

42. Particulars of Subsidiaries of the Company

Details of the Company's subsidiaries at the end of the reporting period are set out below:

Name of subsidiaries	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Equity interests attributable to the Group 2018	2017	Principal activities
東莞市睿興商務服務有限公司 Dongguan Ruixing Business Service Co., Ltd*	The PRC	RMB — (Note i)	**100%**	N/A	Educational consultancy service (Note iv)
東莞市睿興後勤服務有限公司 Dongguan Ruixing Logistics Service Co., Ltd*	The PRC	RMB — (Note i)	**100%**	N/A	Educational consultancy service (Note iv)
東莞市睿興科技服務有限公司 Dongguan Ruixing Technology Service Co., Ltd*	The PRC	RMB — (Note i)	**100%**	N/A	Educational consultancy service (Note iv)
東莞市超騰貿易服務有限公司 Dongguan Chaoteng Technology Service Co., Ltd*	The PRC	RMB — (Note i)	**100%**	N/A	Educational consultancy service (Note iv)
東莞市文達教育諮詢有限公司 Dongguan Wenda Education Consulting Co., Ltd*	The PRC	RMB — (Note i)	**100%**	N/A	Educational consultancy service (Note iv)
東莞市科騰文體用品有限公司 Dongguan Keteng Stationery Co., Ltd*	The PRC	RMB — (Note i)	**100%**	N/A	Educational consultancy service (Note iv)
東莞瑞興商務服務有限公司 Dongguan Ruixing Business Services Co., Ltd.*	The PRC	HK$1,000,000	**100%**	100%	Educational consultancy service (Note iv)
Bright Education Co. Limited 光正教育有限公司	The BVI	USD1	**100%**	100%	Investment holding (Notes ii & iii)
Bright Education (HK) Co. Limited 光正教育(香港)有限公司	Hong Kong	HK$1	**100%**	100%	Investment holding (Note ii)
Brighter Dewey Education Corporation	Canada	CAD100	**100%**	100%	Education investment (Note v)
西藏科騰商務服務有限公司 Tibet Keteng Business Service Company Limited*	The PRC	RMB — (Note i)	**100%**	100%	Education investment (Note iv)
東莞悦興教育諮詢有限公司 Dongguan Yuexing Education Consulting Co., Ltd.*	The PRC	HK$ — (Note i)	**100%**	100%	Educational consultancy service (Note iv)
深圳光正優越科技開發有限公司 Shenzhen Guangzheng Youyue Technology Development Co., Ltd*	The PRC	RMB — (Note i)	**100%**	100%	Software development (Note iv)

42. Particulars of Subsidiaries of the Company — continued

Name of subsidiaries	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Equity interests attributable to the Group 2018	Equity interests attributable to the Group 2017	Principal activities
Consolidated Affiliated Entities					
廣東光正教育集團有限公司 Guangdong Guangzheng Educational Group Co., Ltd.*	The PRC	RMB83,400,000	**100%**	100%	Education Investment (Note iv)
盤錦光正投資有限公司 Panjin Guangzheng Investment Co., Ltd.*	The PRC	RMB80,000,000	**100%**	100%	Education Investment (Note iv)
盤錦市光正實驗學校 Panjin Guangzheng Preparatory School*	The PRC	RMB5,000,000	**100%**	100%	Provision of middle school and primary school full time education (Note iv)
惠州市光正投資有限公司 Huizhou Guangzheng Investment Co., Ltd.*	The PRC	RMB20,000,000	**100%**	100%	Education Investment (Note iv)
惠州市光正實驗學校 Huizhou Guangzheng Preparatory School*	The PRC	RMB5,000,000	**100%**	100%	Provision of middle school and primary school full time education (Note iv)
東莞市光明中學 Dongguan Guangming School*	The PRC	RMB232,524,000	**100%**	100%	Provision of high school and middle school full time education (Note iv)
東莞市光明小學 Dongguan Guangming Primary School*	The PRC	RMB85,912,900	**100%**	100%	Provision of primary school full time education (Note iv)
東莞市光正實驗學校 Dongguan Guangzheng Preparatory School*	The PRC	RMB50,434,794	**100%**	100%	Provision of high school, middle school and primary school full time education (Note iv)
東莞市文匯教育投資有限公司Dongguan Wenhui Education Investment Co., Ltd*	The PRC	RMB — (Note i)	**100%**	100%	Education investment (Note iv)
濰坊光正實驗學校投資有限公司 Weifang Guangzheng Preparatory School Investment Co., Ltd*	The PRC	RMB — (Note i)	**100%**	100%	Education investment (Note iv)
濰坊光正實驗學校 Weifang Guangzheng Preparatory School*	The PRC	RMB20,000,000	**100%**	100%	Provision of middle school and primary school full time education (Note iv)
廣安光正教育發展有限公司 Guang'an Guangzheng Education Development Co., Ltd.*	The PRC	RMB — (Note i)	**100%**	100%	Education investment (Note iv)
雲浮市光正投資有限公司 Yunfu Guangzheng Investment Co., Ltd.*	The PRC	RMB — (Note i)	**75%**	75%	Education investment (Note iv)

42. Particulars of Subsidiaries of the Company — continued

Name of subsidiaries	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Equity interests attributable to the Group 2018	2017	Principal activities
Consolidated Affiliated Entities — continued					
東莞市華生教育投資有限公司 Dongguan Huasheng Education Investment Co., Ltd.*	The PRC	RMB — (Note i)	**92.86%**	92.86%	Education investment (Note iv)
揭陽光正投資有限公司 Jieyang Guangzheng Investment Co., Ltd.*	The PRC	RMB — (Note i)	**65%**	65%	Education investment (Note iv)
濰坊市濰州外國語學校 Weifang Weizhou Foreign Language School*	The PRC	RMB — (Note i)	**100%**	N/A	Provision of middle school and primary school full time education(Note iv)
華南師大粵東實驗學校 Huanan Shida Yuedong Preparatory School*	The PRC	RMB — (note i)	**65%**	N/A	Provision of middle school and primary school full time education
巴中光正教育发展有限公司 Bazhong Guangzheng Investment Co., Ltd.*	The PRC	RMB — (Note i)	**100%**	N/A	Education investment (Note iv)
揭陽市普僑區光正教育投資有限公司 Puqiao Guangzheng Investment Co., Ltd.*	The PRC	RMB — (Note i)	**95%**	N/A	Education investment (Note iv)
佛山市光正教育投資有限公司 Foshan Guangzheng Investment Co., Ltd.*	The PRC	RMB — (Note i)	**100%**	N/A	Education investment (Note iv)
恩平市光正教育投資有限公司 Enping Guangzheng Investment Co., Ltd.*	The PRC	RMB — (Note i)	**100%**	N/A	Education investment (Note iv)
江門市光正教育投資有限公司 Jiangmen Guangzheng Investment Co., Ltd.*	The PRC	RMB — (Note i)	**100%**	N/A	Education investment (Note iv)
潮州市光正投資有限公司 Chaozhou Guangzheng Education Investment Co., Ltd.*	The PRC	RMB — (Note i)	**100%**	N/A	Education investment (Note iv)
安岳光正教育发展有限公司 Anyue Guangzheng Education Investment Co., Ltd.*	The PRC	RMB — (Note i)	**100%**	N/A	Education investment (Note iv)

* The English names are for identification purpose only.

42. Particulars of Subsidiaries of the Company — continued

Notes:

i. As at the date of issuance of these consolidated financial statements, no registered capital has been paid.

ii. The subsidiary operates in Hong Kong.

iii. This subsidiary is directly held by the Company. Other subsidiaries are indirectly held by the Company.

iv. The subsidiary operates in the PRC.

v. The subsidiary operates in Canada.

vi. Except for Dongguan Ruixing, Dongguan Yuexing Education Consulting Co., Ltd, Shenzhen Guangzheng Youyue Technology Development Co., Ltd and Tibet Keteng Business Service Company Limited, all subsidiaries established in the PRC are controlled by the Group through the contractual arrangements, details of which are set out in Note 1.

vii. The legal forms of Dongguan Ruixing, Dongguan Yuexing Education Consulting Co., Ltd, Shenzhen Guangzheng Youyue Technology Development Co., Ltd, Tibet Keteng Business Service Company Limited, Guangdong Guangzheng, Huizhou Guangzheng, Panjin Guangzheng, Weifang Guangzheng, Dongguan Wenhui, Guang'an Guangzheng, Yunfu Guangzheng, Dongguan Huasheng and Jieyang Guangzheng were limited liability companies incorporated in the PRC. All other entities established in the PRC are schools, including high schools, middle schools, elementary schools and preschools.

viii. None of the subsidiaries have issued any debt securities during the year and at the end of the reporting period.

Details of non-wholly owned subsidiaries that have material non-controlling interests

Name of Subsidiary	Place of incorporation/ establishment	Proportion of ownership interests and voting rights held by non-controlling interests		Loss allocated to non-controlling interests		Accumulated non-controlling interests	
		2018	2017	**2018 RMB'000**	2017 RMB'000	**2018 RMB'000**	2017 RMB'000
Jieyang School	The PRC	**35%**	N/A	**(3,089)**	N/A	**66,434**	N/A
Individually immaterial subsidiaries with non-controlling interests	The PRC			**(119)**	(38)	**(158)**	(38)
				(3,208)	(38)	**66,276**	(38)

Summarised financial information in respect of each of the Group's subsidiaries that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

42. Particulars of Subsidiaries of the Company — continued

Jieyang School	2018 RMB'000	2017 RMB'000
Current assets	**39,159**	—
Non-current assets	**287,534**	—
Current liabilities	**41,995**	—
Non-current liabilities	**—**	—
Equity attributable to owners of the Company	**218,264**	—
Non-controlling interests of Jieyang School	**66,434**	—

	2018 RMB'000	2017 RMB'000
Revenue	**59,893**	—
Expenses	**(68,718)**	—
Loss for the year	**(8,825)**	—
Loss for the year attributable to the Company	**(5,736)**	—
Loss for the year attributable to non-controlling interests of Jieyang School	**(3,089)**	—
Loss for the year	**(8,825)**	—
Dividends paid to non-controlling interests of Jieyang School	**—**	—
Net cash outflow from operating activities	**(4,615)**	—
Net cash inflow from investing activities	**6,341**	—
Net cash inflow from financing activities	**—**	—

43. Statement of Financial Position and Reserves of the Company

	2018 RMB'000	2017 RMB'000
NON-CURRENT ASSETS		
Property, plant and equipment	**2,550**	2,419
Pledged bank deposits	**—**	197,919
Deposit, prepayments and other receivables	**19,885**	—
Amount due from a subsidiary	**61,880**	—
	84,315	200,338
CURRENT ASSETS		
Prepayments and other receivables	**12,352**	2,039
Amounts due from subsidiaries	**4,096**	1,784
Pledged bank deposits	**271,000**	177,540
Bank balances and cash	**521,166**	285,620
	808,614	466,983
CURRENT LIABILITIES		
Other payables and accrued expenses	**3,957**	2,831
Amounts due to subsidiaries	**—**	6,007
Accrued listing expenses	**—**	17,499
	3,957	26,337
NET CURRENT ASSETS	**804,657**	440,646
TOTAL ASSETS LESS CURRENT LIABILITIES	**888,972**	640,984
CAPITAL AND RESERVES		
Share capital	**18,057**	18,026
Reserves	**448,772**	622,958
	466,829	640,984
NON-CURRENT LIABILITY		
Convertible loan notes	**422,143**	—
	888,972	640,984

43. Statement of Financial Position and Reserves of the Company — continued

Movement in the Company's reserves

	Share premium RMB'000	Share options reserve RMB'000	Shares held for share award scheme RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 September 2016	—	—	—	(23,386)	(23,386)
Loss and total comprehensive expense for the year	—	—	—	(50,512)	(50,512)
Recognition of share-based payment expenses	—	5,304	—	—	5,304
Capitalisation issue	(13,259)	—	—	—	(13,259)
Issuance of ordinary shares upon listing and exercise of over-allotment option	802,486	—	—	—	802,486
Shares purchased for share award scheme	—	—	(3,700)	—	(3,700)
Exercise of share options	2,893	(2,005)	—	—	888
Dividend recognised as distribution	(48,940)	—	—	—	(48,940)
Expenses incurred in connection with the issuance of ordinary shares	(45,923)	—	—	—	(45,923)
At 31 August 2017	697,257	3,299	(3,700)	(73,898)	622,958
Loss and total comprehensive expense for the year	—	—	—	(28,940)	(28,940)
Recognition of share-based payment expenses	—	3,948	—	—	3,948
Shares purchased for share award scheme	—	—	(37,656)	—	(37,656)
Exercise of share options	6,708	(3,982)	—	—	2,726
Dividend recognised as distribution	(121,560)	—	—	—	(121,560)
Over-accrual of issue costs	7,296	—	—	—	7,296
At 31 August 2018	589,701	3,265	(41,356)	(102,838)	448,772

44. Events after the Reporting Period

New adoption of share award scheme

The Company has adopted the share award scheme with effect from 6 September 2018 (the "Share Award Scheme") as means to recognise the contribution of and provide incentives for the key management personnel including directors and senior management and employees of the Group. Under the Share Award Scheme, the board of directors of the Company granted 8,400,000 of shares, which represents 0.4% of the total issued share capital, to eligible employees, including directors of the Company and its subsidiaries.

Acquisition of land for development of boarding school

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

Acquisition of private schools

On 21 November 2018, the Group has completed the acquisition of the entire equity interest in an investment holding company who owns the entire sponsor's interests in Zhang Pu Longcheng School* (漳浦龍成中學 and Zhang Pu Longcheng Primary School* (漳浦龍成中學附屬小學) (collectively referred to as "Zhang Pu Longcheng Schools"), which are located in Zhangzhou, Fujian Province, China, and the entire interest in a parcel of land with a site area of approximately 100 mu occupied by Zhang Pu Longcheng Schools, at a cash consideration of RMB183 million, pursuant to the sale and purchase agreement on 20 August 2018.

* English name is for identification purpose only.