



CHINA CHUNLAI EDUCATION GROUP CO., LTD.
中國春來教育集團有限公司

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 1969

2018
Annual Report



CONTENTS

| | Page | | |
|------------------------------------|------|--|-----|
| Company Profile | 2 | Corporate Governance Report | 41 |
| Corporate Information | 3 | Environmental, Social and Governance Report | 49 |
| Financial Summary | 5 | Independent Auditor's Report | 96 |
| Financial Highlights | 6 | Consolidated Financial Statements and Notes to the Consolidated Financial Statements | 100 |
| Management Discussion and Analysis | 7 | Definitions | 147 |
| Directors and Senior Management | 16 | Glossary | 151 |
| Report of Directors | 21 | | |



Company Profile

The Group is a leading provider of private higher education in China. Since the Group's inception in 2004, it has grown to operate three colleges in Henan Province, and participate in the operation of one college in Hubei Province. The total student enrolment of the Group's colleges increased from 29,673 for the 2014/2015 school year to 45,210 for the 2017/2018 school year. To capture growth opportunities, each of the Group's current colleges in Henan Province has acquired or is in the process of acquiring additional land and other resources to further increase student enrolment. The Group's employment-oriented curricula are focused on equipping our students with practical skills that meet the demand of economic development in China.

The Group's revenue increased from RMB460.9 million for the year ended 31 August 2017 to RMB487.8 million for the year ended 31 August 2018.



Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Hou Junyu (侯俊宇) (*Chief Executive Officer*)

Ms. Jiang Shuqin (蔣淑琴)

Non-executive Director

Mr. Hou Chunlai (侯春來) (*Chairman*)

Independent non-executive Directors

Dr. Jin Xiaobin (金曉斌)

Ms. Fok, Pui Ming Joanna (霍珮鳴)

Mr. Lau, Tsz Man (劉子文)

AUDIT COMMITTEE

Mr. Lau, Tsz Man (劉子文) (*Chairman*)

Dr. Jin Xiaobin (金曉斌)

Ms. Fok, Pui Ming Joanna (霍珮鳴)

REMUNERATION COMMITTEE

Ms. Fok, Pui Ming Joanna (霍珮鳴) (*Chairlady*)

Ms. Jiang Shuqin (蔣淑琴)

Mr. Lau, Tsz Man (劉子文)

NOMINATION COMMITTEE

Mr. Hou Junyu (侯俊宇) (*Chairman*)

Dr. Jin Xiaobin (金曉斌)

Ms. Fok, Pui Ming Joanna (霍珮鳴)

COMPANY SECRETARY

Mr. Wong Yu Kit (黃儒傑) *ACS, ACIS*

AUTHORISED REPRESENTATIVES

Mr. Hou Junyu (侯俊宇)

Mr. Wong Yu Kit (黃儒傑)

AUDITORS

Deloitte Touche Tohmatsu

35/F One Pacific Place

88 Queensway, Admiralty

Hong Kong

LEGAL ADVISERS

As to Hong Kong and U.S. laws:

Skadden, Arps, Slate, Meagher & Flom

42/F, Edinburgh Tower

The Landmark

15 Queen's Road Central

Hong Kong

As to PRC law:

Tian Yuan Law Firm

10/F, CPIC PLAZA

28 Fengsheng Lane, Xicheng District

Beijing 100032

PRC

As to Cayman Islands law:

Walkers

15/F, Alexandra House

18 Chater Road

Central

Hong Kong

COMPLIANCE ADVISER

Somerley Capital Limited

20/F, China Building

29 Queen's Road Central

Hong Kong

REGISTERED OFFICE

Cayman Corporate Centre

27 Hospital Road

George Town

Grand Cayman KY1-9008

Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

40/F, Sunlight Tower

248 Queen's Road East

Wanchai

Hong Kong

Corporate Information

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN CHINA

No. 66, Beihai East Road
Shangqiu
Henan Province
PRC

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Cayman Corporate Centre
27 Hospital Road
George Town
Grand Cayman
KY1-9008 Cayman Islands

HONG KONG SHARE REGISTRAR

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

PRINCIPAL BANKERS

Zhongyuan Bank Co., Ltd.
Shangqiu Development District Sub-branch
Northeast Corner, Intersection of Yuyuan Road
and Beihai Road, Development District
Shangqiu City
Henan Province
PRC

China CITIC Bank Co., Ltd.
Anyang People's Avenue Sub-branch
Southeast Corner, Intersection of People's Avenue
and Yongming Road, Anyang City
Henan Province
PRC

COMPANY WEBSITE

www.chunlaiedu.com

STOCK CODE

1969

Financial Summary

FINANCIAL SUMMARY

| RESULTS | Year ended 31 August | | | 2018 RMB'000 |
|--|----------------------|-----------------|-----------------|------------------|
| | 2015 RMB'000 | 2016 RMB'000 | 2017 RMB'000 | |
| Revenue | 336,252 | 378,632 | 460,889 | 487,791 |
| Cost of revenue | (127,901) | (144,922) | (170,043) | (204,363) |
| Gross profit | 208,351 | 233,710 | 290,846 | 283,428 |
| (Loss)/profit before taxation | (62,776) | 109,758 | 151,649 | 119,773 |
| (Loss)/profit and total comprehensive (expense)/income for the year | (62,776) | 109,758 | 151,649 | 118,948 |
| Adjusted net profit ⁽¹⁾ | 76,141 | 88,184 | 154,735 | 143,144 |
| Profitability Margins | | | | |
| Gross profit margin | 62.0% | 61.7% | 63.1% | 58.1% |
| Adjusted net profit margin | 22.6% | 23.3% | 33.6% | 29.3% |
| ASSETS AND LIABILITIES | | | | |
| Non-current assets | 1,145,443 | 1,105,986 | 1,201,369 | 1,474,688 |
| Current assets | 290,325 | 485,831 | 582,339 | 600,457 |
| Current liabilities | 416,091 | 460,012 | 780,021 | 793,558 |
| Net current (liabilities)/assets | (125,766) | 25,819 | (197,682) | (193,101) |
| Total assets less current liabilities | 1,019,677 | 1,131,805 | 1,003,687 | 1,281,587 |
| Total equity | 183,775 | 293,533 | 445,182 | 594,834 |
| Non-current liabilities | 835,902 | 838,272 | 558,505 | 686,753 |
| Total equity and non-current liabilities | 1,019,677 | 1,131,805 | 1,003,687 | 1,281,587 |
| Selected Major Items | | | | |
| Property, plant and equipment | 563,550 | 642,198 | 707,306 | 878,131 |
| Bank balances and cash | 233,185 | 371,710 | 267,344 | 544,620 |
| Restricted bank balance | – | – | 100,000 | – |
| Borrowings | 849,504 | 861,777 | 992,329 | 952,106 |
| Deferred revenue | 212,072 | 243,520 | 195,776 | 358,366 |
| Liquidity | | | | |
| Gearing ratio ⁽²⁾ | 462.3% | 293.6% | 222.9% | 160.1% |

Notes:

- (1) Adjusted Net Profit is calculated as the profit for the period excluding the impact from certain non-cash or non-recurring expenses including: (i) a one-off termination fee paid to Anyang Normal University in connection with the termination of collaboration with Anyang Normal University, (ii) a one-off gain in connection with the termination of collaboration with Tianjin Medical University, (iii) listing expenses, and (v) share-based compensation.
- (2) The gearing ratio was calculated as total borrowings divided by total equity as at the end of the relevant financial year.

Financial Highlights

| | Year ended 31 August | | |
|------------------------------------|---|---------|------------|
| | 2018 | 2017 | Change (%) |
| | (in thousands, except percentages) | | |
| Revenue | 487,791 | 460,889 | +5.8% |
| Gross profit | 283,428 | 290,846 | -2.6% |
| Profit before taxation | 119,773 | 151,649 | -21.0% |
| Profit for the year | 118,948 | 151,649 | -21.6% |
| Non-IFRS measure: | | | |
| Adjusted net profit ⁽¹⁾ | 143,144 | 154,735 | -7.5% |

Note:

(1) Adjusted net profit is calculated as profit for the year excluding (i) share-based compensation, and (ii) listing expenses.

NON-IFRS MEASURES

To supplement the Group's consolidated financial statements which are presented in accordance with the IFRS, the Company also uses adjusted net profit as an additional financial measure. The Company presents this financial measure because it is used by management of the Group to evaluate the Group's financial performance by eliminating the impact of items that the Group do not consider indicative of the performance of the Group's business. The Company also believes that this non-IFRS measure provides additional information to investors and others in understanding and evaluating the Group's consolidated results of operations in the same manner as they help management of the Group and in comparing financial results across accounting periods and to those of peer companies. However, the Company's presentation of such adjusted figure may not be comparable to a similarly titled measure presented by other companies. The use of this non-IFRS measure has limitations as an analytical tool, and you should not consider it in isolation from, or as substitute for analysis of, the Company's results of operations or financial condition as reported under IFRS.

Management Discussion and Analysis

MARKET OVERVIEW

Formal education system in the PRC comprises fundamental education, which includes education from preschool to high school, secondary vocational education and higher education. Formal higher education can be further categorised into junior colleges and universities. Junior colleges only offer junior college programmes while universities can offer both junior college programmes and bachelor's degree programmes.

The Private Higher Education Industry in China

The private higher education industry in China has experienced rapid growth since the beginning of the 1990s as the relevant government authorities made great endeavour in developing the regulatory framework for private higher education, according to Frost & Sullivan. The number of student enrolments in private higher education in China has continued to increase in recent years, with more and more students having chosen to go to private universities or colleges instead of public schools. According to Frost & Sullivan, the total number of private higher education institutions in China reached 746 in 2017, and the development of private higher education is primarily driven by a number of factors, including (i) support by PRC government policies and initiatives; (ii) increasing resident income and demand for higher education; (iii) growing market demand for technical talents; and (iv) increasing diversification and strengthened education quality. With the help of these factors, the rapid growth in higher education in China is expected to continue, the private higher education landscape remains competitive.

BUSINESS REVIEW

The Company is one of the leading providers of private higher education in China. Since our inception in 2004, we have grown to operate three colleges in Henan Province, namely Shangqiu University, Anyang University and Shangqiu University Kaifeng Campus, and participate in the operation of Hubei College, an independent college of Yangtze University in Hubei Province and which we are in the process of acquiring its sponsor interest. We believe that we have strong potential to further grow our business, and the private higher education market in China presents many market opportunities.

Our employment-oriented curricula are focused on equipping our students with practicable skills that meet the demand of economic development in China. The effectiveness of our practical curricula and training programmes is reflected in our high graduate employment rates. For the 2016/2017 and 2017/2018 school years, the average initial employment rate of our higher education programmes was 94.1% and 93.8%, respectively, substantially above the overall average for higher education in China, which was between 77.4% and 78.4% from 2013 through 2017, according to Frost & Sullivan.

Management Discussion and Analysis

Our Colleges

Shangqiu University

Shangqiu University is located in Shangqiu, Henan Province. The predecessor of Shangqiu University was Huayu College of Henan Agricultural University (河南農業大學華豫學院), which we co-founded with Henan Agricultural University in 2004. Shangqiu University currently offers 46 bachelor's degree programmes, 20 junior college to bachelor's degree transfer programmes, 32 junior college diploma programmes, 14 combined vocational education and junior college diploma programmes and 32 vocational education programmes. Shangqiu University has also been approved to offer double-major bachelor's degree programmes in marketing, Chinese language and literature, and economics. For the 2017/2018 school year, Shangqiu University had a total enrolment of 19,249 students.

In April 2017, Shangqiu University established Chunlai Institute, a two-year honours programme that aims to promote comprehensive and individualised education of its select students. Chunlai Institute offers courses in, among others, management, world history, introduction to traditional Chinese culture, conversational English and art. To increase the competitiveness of its enrolees, Chunlai Institute also offers courses that prepare students for graduate school entrance exams and civil service exams.

Anyang University

Anyang University is located in Anyang, Henan Province. The predecessor of Anyang University was College of Humanities and Management of Anyang Normal University (安陽師範學院人文管理學院) (the "**College of Humanities and Management**"), which was co-founded by Anyang Normal University and Anyang Iron and Steel Group in 2003. Anyang University currently offers 38 bachelor's degree programmes, 25 junior college to bachelor's degree transfer programmes, 25 junior college diploma programmes, 18 combined vocational education and junior college diploma programmes and five vocational education programmes. For the 2017/2018 school year, Anyang University had a total enrolment of 19,524 students.

Shangqiu University Kaifeng Campus

Shangqiu University Kaifeng Campus is located in Kaifeng, Henan Province. It was established in 2013 as a branch college (下屬學院) of Shangqiu University. Shangqiu University Kaifeng Campus currently offers 17 bachelor's degree programmes, six junior college to bachelor's degree transfer programmes and eight junior college diploma programmes. For the 2017/2018 school year, Shangqiu University Kaifeng Campus had a total enrolment of 6,437 students.

Management Discussion and Analysis

Student Enrolment

The table below sets forth the enrolment statistics of our colleges for the 2016/2017 and 2017/2018 school years:

| | Student enrolment ⁽¹⁾ for the school year | | Change (%) |
|--|---|-----------|------------|
| | 2017/2018 | 2016/2017 | |
| Shangqiu University | | | |
| Bachelor's degree programmes | 9,776 | 10,052 | -2.7% |
| Junior college to bachelor's degree transfer programmes | 1,150 | 1,010 | 13.9% |
| Junior college diploma programmes ⁽²⁾ | 5,717 | 6,354 | -10.0% |
| Vocational education programmes ⁽³⁾ | 2,606 | 1,978 | 31.7% |
| School subtotal | 19,249 | 19,394 | -0.5% |
| Anyang University | | | |
| Bachelor's degree programmes | 11,512 | 11,783 | -2.3% |
| Junior college to bachelor's degree transfer programmes | 1,680 | 1,474 | 14.0% |
| Junior college diploma programmes ⁽²⁾ | 3,529 | 3,472 | 1.6% |
| Vocational education programmes ⁽³⁾⁽⁴⁾ | 2,803 | 1,622 | 72.8% |
| School subtotal | 19,524 | 18,351 | 6.4% |
| Shangqiu University Kaifeng Campus | | | |
| Bachelor's degree programmes ⁽⁵⁾ | 4,995 | 3,637 | 37.3% |
| Junior college to bachelor's degree transfer programmes ⁽⁶⁾ | 396 | – | N/A |
| Junior college diploma programmes ⁽⁷⁾ | 1,046 | 812 | 28.8% |
| School subtotal | 6,437 | 4,449 | 44.7% |
| Total number of students | 45,210 | 42,194 | 7.1% |

Notes:

- (1) As our school year typically ends in late June or early July, we present student enrolment statistics as of 30 June for the 2016/2017 and 2017/2018 school years.
- (2) Including (i) students enrolled in junior college diploma programmes and (ii) students enrolled in the last three years of combined vocational education and junior college diploma programmes.
- (3) Including (i) students enrolled in vocational education programmes and (ii) students enrolled in the first two years of combined vocational education and junior college diploma programmes.
- (4) Anyang University started its vocational education programmes and combined vocational education and junior college diploma programmes in 2016.

Management Discussion and Analysis

- (5) Shangqiu University Kaifeng Campus started its bachelor's degree programmes in 2013. Consequently, the 2016/2017 school year was the first school year when it had students enrolled in all four class years of its bachelor's degree programmes.
- (6) Shangqiu University Kaifeng Campus started its junior college to bachelor's degree transfer programmes in 2017.
- (7) Shangqiu University Kaifeng Campus started its junior college diploma programmes in 2013. Consequently, the 2015/2016 school year was the first school year when it had students enrolled in all three class years of its junior college diploma programmes.

For the 2017/2018 school year, students enrolled in bachelor's degree programmes of Shangqiu University and Anyang University decreased slightly from the 2016/2017 school year because we allocated part of their admission quotas to Shangqiu University Kaifeng Campus, as approved by or filed with relevant local education authorities.

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

Student Recruitment

Our new student enrolment has historically been driven primarily by word-of-mouth referrals. We believe we generally have a good reputation in providing high quality education services among our students and their parents. In addition, after over 13 years of operations, we have built a highly engaged and vibrant community of alumni, who we believe have an emotional connection to our colleges and are passionate in helping us attract outstanding students. Other than referrals, we also employ a range of marketing and recruiting methods to attract students and increase enrolment at our colleges, such as information sessions, advertisements and brochures.

Our recruitment efforts, coupled with the quality and reputation of our education programmes, have helped us achieve high admission yields. For example, for the 2017/2018 school year, the overall yield of our three colleges, as defined by the number of students who enrolled in a programme divided by the number of students who were admitted in that programme, was 91.2% for our bachelor's degree programmes.

Our Teachers

We believe that our team of experienced and dedicated teachers are crucial to our success. As an operator of private schools, we can provide better incentives to qualified teachers who fit our hiring criteria. Teachers are the key to maintaining high-quality educational programmes and services as well as maintaining our brand and reputation. Our aim is to continue hiring teachers with a strong command of their respective subject areas who are open to innovative teaching methods and a caring heart towards students' well-being. As of 31 August 2018, we had 1,234 full time teachers and 710 part-time teachers.

Management Discussion and Analysis

FUTURE DEVELOPMENT

In order to continuously increase our total enrolment, we plan to acquire additional land use rights and construct new educational and living facilities. We consider that the increase in capacity under the expansion plan is essential to accommodate our growth strategy of increasing student enrolment going forward. Each of our colleges generally requires its students to live on campus in dormitories. Therefore, a college's student enrolment is largely limited by the capacity of its student dormitories. Taking into account of the gender specificity of our student dormitories and the gender mix of our students, there is currently limited capacity for a significant growth in student enrolment. We expect to increase the capacity of our colleges progressively to strike a reasonable balance between student enrolment and utilisation. We believe the planned increase in capacity is appropriate and will enable our colleges to grow sustainably.

We consider that, given our track record of delivering quality private higher education and industry reputation, the education authorities in the PRC will be receptive to our application for increasing admission quota provided that we are able to demonstrate that we have sufficient school capacity, appropriate facilities available and quality education programmes to offer, which are among the key objectives of our expansion plans.

FINANCIAL REVIEW

Overview

For the year ended 31 August 2018, we recorded a revenue of RMB487.8 million and a gross profit of RMB283.4 million. The gross profit margin was 58.1% for the year ended 31 August 2018 as compared with 63.1% for the corresponding period in 2017.

The adjusted net profit of the Group for the year ended 31 August 2018 was RMB143.1 million, representing a decrease of RMB11.6 million or 7.5% from the corresponding period in 2017. The adjusted net profit margin of the Group was 29.3% and 33.6% for the years ended 31 August 2018 and 31 August 2017, respectively. The decrease in the adjusted net profit was mainly due to the increase in staff cost in Shangqiu College.

The net profit of the Group amounted to RMB118.9 million and RMB151.6 million for the years ended 31 August 2018 and 31 August 2017, respectively. The net profit margin of the Group amounted to 24.4% and 32.9% for the years ended 31 August 2018 and 31 August 2017, respectively.

Revenue

Our revenue increased by 5.8% from RMB460.9 million for the year ended 31 August 2017 to RMB487.8 million for the year ended 31 August 2018, primarily due to the increase of the Group's student enrollment and average tuition fees.

Management Discussion and Analysis

Revenue from Shangqiu University Kaifeng Campus increased by 40.6% from RMB57.6 million for the year ended 31 August 2017 to RMB80.9 million for the year ended 31 August 2018. The increase was primarily due to an increase in student enrolment from 4,449 for the 2016/2017 school year to 6,437 for the 2017/2018 school year. As Shangqiu University Kaifeng Campus increased its capacity from 5,430 for the 2016/2017 school year to 7,848 for the 2017/2018 school year, it received a significantly larger admission quota for the 2017/2018 school year, which was the primary reason for the increase in its student enrolment. In addition, Shangqiu University Kaifeng Campus started its junior college to bachelor's degree transfer programmes in the 2017/2018 school year, which also contributed to the increase in its student enrolment. The increase in revenue from Shangqiu University Kaifeng Campus was also due to an increase in the average tuition fee level, as Shangqiu University Kaifeng Campus increased the average tuition fee rate applicable to students newly admitted in the 2017/2018 school year.

Revenue from Anyang University increased by 2.3% from RMB205.4 million for the year ended 31 August 2017 to RMB210.1 million for the year ended 31 August 2018. The increase was primarily due to an increase in student enrolment from 18,351 for the 2016/2017 school year to 19,524 for the 2017/2018 school year. As Anyang University increased its capacity from 19,604 for the 2016/2017 school year to 20,528 for the 2017/2018 school year, it received a larger admission quota for the 2017/2018 school year, which contributed to the increase in its student enrolment. The increase in revenue from Anyang University was also due to an increase in the average tuition fee level, as Anyang University increased the average tuition fee rate applicable to students newly admitted in the 2017/2018 school year.

Revenue from Shangqiu University decreased by 0.6% from RMB198.0 million for the year ended 31 August 2017 to RMB196.8 million for the year ended 31 August 2018. The decrease was primarily due to Shangqiu University allocated part of its admission quotas to Shangqiu University Kaifeng Campus, as approved by or filed with relevant local education authorities.

Overall, revenue from tuition fees and boarding fees increased by 4.8% and 15.3%, respectively from the year ended 31 August 2017 to the year ended 31 August 2018.

Cost of Revenue

Our cost of revenue increased by 20.2% from RMB170.0 million for the year ended 31 August 2017 to RMB204.4 million for the year ended 31 August 2018. As a percentage of revenue, our cost of revenue increased from 36.9% for the year ended 31 August 2017 to 41.9% for the year ended 31 August 2018. These increases were primarily due to an increase in teaching staff costs, as we increased the number of teachers in each of our colleges to continuously improve our education quality and accommodate the increase in our student enrolment.

Gross Profit and Gross Margin

As a result of the foregoing, our gross profit decreased by 2.6% from RMB290.8 million for the year ended 31 August 2017 to RMB283.4 million for the year ended 31 August 2018, and our gross profit margin decreased from 63.1% for the year ended 31 August 2017 to 58.1% for the year ended 31 August 2018.



Management Discussion and Analysis

Other Income

Our other income increased by 38.3% from RMB7.2 million for the year ended 31 August 2017 to RMB9.9 million for the year ended 31 August 2018, primarily because we started to generate service income from a third-party meal catering service provider, which amounted to RMB3.3 million for the year ended 31 August 2018.

Other Gains and Losses

We recorded other losses of RMB0.7 million for the year ended 31 August 2017, while we recorded other losses of RMB0.1 million for the year ended 31 August 2018. The other losses for the year ended 31 August 2017 were primarily attributable to miscellaneous charges.

Selling Expenses

Our selling expenses decreased by 5.8% from RMB4.2 million for the year ended 31 August 2017 to RMB4.0 million for the year ended 31 August 2018, primarily because we established long-term cooperation with some fixed advertisers to enjoy discounts.

Administrative Expenses

Our administrative expenses increased by 7.5% from RMB60.8 million for the year ended 31 August 2017 to RMB65.3 million for the year ended 31 August 2018, primarily due to increases in depreciation and amortization.

Listing Expenses

We recorded listing expenses of RMB23.5 million for the year ended 31 August 2018 in connection with the Global Offering. We recorded RMB3.1 million listing expenses for the year ended 31 August 2017.

Finance Costs

Our finance costs increased by 4.0% from RMB77.5 million for the year ended 31 August 2017 to RMB80.6 million for the year ended 31 August 2018, primarily due to an increase in the average amount of borrowings.

Taxation

We recorded nil taxation for the year ended 31 August 2017 due to applicable exemptions. However, we recorded RMB0.8 million for the year ended 31 August 2018 due to service revenue in other income.

Profit for the Year

As a result of the foregoing, our profit for the year decreased by 21.6% from RMB151.6 million for the year ended 31 August 2017 to RMB118.9 million for the year ended 31 August 2018.

Management Discussion and Analysis

Adjusted Net Profit

Our adjusted net profit decreased by 7.5% from RMB154.7 million for the year ended 31 August 2017 to RMB143.1 million for the year ended 31 August 2018.

Liquidity and Source of Funding and Borrowing

As at 31 August 2018, the Company had funded the Group's cash requirements principally from cash generated from our operation and external borrowings. The Company had cash and cash equivalents of RMB267.3 million and RMB544.6 million as of 31 August 2017 and 2018, respectively. The Company generally deposit the Group's excess cash in interest bearing bank accounts and current accounts.

As at 31 August 2018, the Group's principal uses of cash have been for the funding of required working capital, capital expenditures and other recurring expenses to support the expansion of the Group's operations. Going forward, the Company believes the liquidity requirements will be satisfied by using funds from a combination of internally generated cash, external borrowings, proceeds from the initial public offering and other funds raised from the capital markets from time to time. Any significant decrease in the student enrolment, or our tuition fees and boarding fees, or a significant decrease in the availability of bank loans or other financing may adversely impact the Group's liquidity.

Gearing Ratio

As at 31 August 2018, the gearing ratio of the Group, which was calculated as total borrowings divided by total equity as of the end of the year, was approximately 160.1%, representing a decrease of 62.8% percentage point(s) as compared with 222.9% as at 31 August 2017. The decrease was due to the fact that the Group partly repaid interest-bearing loans during the year ended 31 August 2018 and an increase in retained earnings.

Material Investments

The Group did not make any material investments during the year ended 31 August 2018.

Material Acquisitions and Disposals

Save for the Group reorganisation as described in the section headed "History, Reorganisation and Corporate Structure" in the Prospectus, the Group did not make any material acquisitions or disposals of subsidiaries during the year ended 31 August 2018.

Pledge of Assets

As at 31 August 2018, a bank loan of the Group with carrying amount of RMB19,035,000 was secured under a mortgage arrangement over the Group's office premises located in Zhengzhou to be acquired.

Contingent Liabilities

The Group had no material contingent liabilities as at 31 August 2018.

Foreign Exchange Exposure

During the year ended 31 August 2018, the Group mainly operated in the PRC and majority of the transactions were settled in RMB, the functional currency of the Group. As at 31 August 2018, the Group did not have significant foreign currency exposure from its operations.

Management Discussion and Analysis

Future Plans for Material Investments

Except as disclosed in the Prospectus and this Annual Report, the Company has no other plans for material investments or capital assets.

Employee and Remuneration Policy

As of 31 August 2017 and 2018, we had 2,275 and 2,897 employees, respectively. As of 31 August 2018, all of our employees were located in Henan Province. The following table sets forth the total number of employees by function as of 31 August 2018:

| Function | Number of employees | % of total |
|---|----------------------|------------|
| Teachers | 1,944 ⁽¹⁾ | 67 |
| Administrative staff | 379 | 13 |
| Ancillary teaching staff ⁽²⁾ | 270 | 9 |
| Other staff | 304 | 11 |
| Total | 2,897 | 100 |

Notes:

- (1) Including 1,234 full-time teachers and 710 part-time teachers.
- (2) Ancillary teaching staff includes employees providing assistance in academic activities, such as librarians, laboratory assistants and equipment maintenance staff members.

As required by the PRC laws and regulations, we participate in various employee social security insurance plans for our employees that are administered by local governments, including, among others, housing provident fund, retirement insurance, medical insurance, maternity insurance, employment injury insurance and unemployment insurance. According to the relevant laws and regulations in the PRC, the amount we are required to contribute for each of our employees under such plans should be calculated based on the employee's actual salary level of previous year, and be subject to a minimum and maximum level as from time to time prescribed by local authorities.

The Company has also adopted a Pre-IPO Share Option Scheme and a Share Award Scheme.

EVENTS AFTER THE REPORTING PERIOD

On 13 September 2018, the Shares were listed on the Main Board of the Stock Exchange. 300,000,000 Shares were issued at an offer price of HK\$2.08 per Share.

Save as disclosed in this Annual Report, there was no other significant events that might affect the Group since the end of the year ended 31 August 2018.

Directors and Senior Management

The Board consists of two executive Directors, one non-executive Director and three independent non-executive Directors.

EXECUTIVE DIRECTORS

Mr. Hou Junyu (侯俊宇), aged 27, was appointed as an executive Director of the Company on 15 November 2017 and the chief executive officer of the Company on 12 February 2018. Mr. Hou has served as the vice chairman of the Board and chief executive officer of the School Sponsor since February 2014 and leads the day-to-day operation of the Group as well as spearheading the Group's key decisions. Since August 2012, Mr. Hou has been the associate dean of Shangqiu University, where he was responsible for managing human resources, finance and student affairs. From February 2013, he has also served as the associate dean of Anyang University, where he is responsible for student admissions and enrolment, human resources and the academy's financial affairs.

Mr. Hou attended secondary school education in the PRC and studied undergraduate course in business management and economics in the University of Sussex from October 2008 to June 2012. Mr. Hou returned to the PRC in 2012 with a view to taking up the management of the Company's operations and has since devoted his full efforts to the development and operations of the Group, and has therefore not completed the undergraduate course in the University of Sussex. Mr. Hou is the son of Ms. Jiang and Chairman Hou.

Ms. Jiang Shuqin (蔣淑琴), aged 52, was appointed as an executive Director of the Company on 12 February 2018. Ms. Jiang has served as an executive Director of the School Sponsor since the establishment of the Group and has been the financial controller of each of the PRC Operating Schools since their establishment. Ms. Jiang is primarily responsible for the strategic development, daily management and overseeing financial operations of the Group. Ms. Jiang has over 13 years of experience in the education industry and financial management. Ms. Jiang attended senior secondary education in PRC. She is the spouse of Chairman Hou, mother of Mr. Hou, sister-in-law of Mr. Yang Xinzhong and cousin of Mr. Jiang Yongqi.

NON-EXECUTIVE DIRECTOR

Mr. Hou Chunlai (侯春來), aged 49, is the founder of the Group. Chairman Hou was appointed as the Company's non-executive Director and chairman of the Board on 12 February 2018. He is responsible for overseeing the corporate development and strategic planning of the Group. Mr. Hou is also concerned with the following positions:

- standing director of China Association for Private Education (since November 2011); and
- director of China Association for Private Education, Higher Education Committee (January 2010 to January 2015).

Chairman Hou is also actively engaged in civil affairs in the PRC. In particular, Chairman Hou had been a delegate of the Twelfth Henan People's Congress (河南省第十二屆人民代表大會) during the period from December 2012 to December 2017. Chairman Hou was awarded 'Advanced Individual' of Henan Private Education (河南省民辦教育先進個人) by the Education Department of Henan Province (河南省教育廳) in October 2016.

Chairman Hou graduated from Nankai University (南開大學) in December 2006 with a master's degree in business administration and obtained the qualification as an associate professorship of Shangqiu University in November 2013. Chairman Hou is the spouse of Ms. Jiang, father of Mr. Hou and cousin of spouse of Mr. Wan Peng.

Directors and Senior Management

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Jin Xiaobin (金曉斌), aged 64, was appointed as an independent non-executive Director, a member of the audit committee and a member of the nomination committee of the Board on 12 February 2018, taking effect on 31 August 2018. Dr. Jin is primarily responsible for supervising and providing independent judgement to the Board.

Dr. Jin is currently the principal of Shanghai Economics Development Research Institute (上海時代經濟發展研究院院長) and has been adjunct advisor of Fudan University (復旦大學), course professor of University of Science and Technology of China (中國科學技術大學), adjunct advisor for master students of Shanghai University of Finance Economics (上海財經大學), adjunct professor of Tongji University (同濟大學), invited research fellow of Peking University (北京大學) and of the Chinese Academy of Social Sciences (中國社會科學院), and visiting scholar of the Wharton School of University of Pennsylvania and the Australian Securities Institute.

Dr. Jin has more than 20 years of operating and management experience in securities industry. Dr. Jin joined Haitong Securities Co., Ltd. (海通證券股份有限公司) (“**Haitong**”), a company listed on the Hong Kong Stock Exchange (stock code: 6837) and the Shanghai Stock Exchange (stock code: 600837) in 1998 and had held several positions in Haitong and its subsidiaries from December 1998 to August 2015, including head of research institute of Haitong, general manager of brokerage business headquarters, assistant to the general manager of Haitong, general manager of M&A financing department, secretary to Board of Directors of Haitong, deputy director of the investment banking committee of Haitong, joint company secretary and the authorised representative of Haitong, vice president of Haitong, the chairman of Haitong Jihe Equity Investment Fund Management Co. Ltd. (海通吉禾股權投資基金管理公司) and the chairman of Haitong New Energy Equity Investment Fund Management Co. Ltd. (海通新能源股權投資基金管理公司). Dr. Jin was appointed as a director of A-Jex Investment Limited (愛建(香港)有限公司), a wholly-owned subsidiary of a company listed on the Shanghai Stock Exchange, Shanghai AJ Group Co., Ltd (上海愛建集團股份有限公司) (stock code: 600643), in April 2018.

Dr. Jin obtained a doctor’s degree in economics from Fudan University in January 1997, a master’s degree in economics from Fudan University in July 1993 and professional certification in the major in political education from Shanghai Second Institute of Education (上海第二教育學院) in July 1988. Dr. Jin worked at and conducted postdoctoral researches in finance in Shanghai University of Finance and Economics from December 1996 to July 1999. Dr. Jin has been a deputy researcher recognised by Shanghai University of Finance and Economics since June 1998 and has been an expert with special allowance from the State Council since June 2002. Dr. Jin worked in the People’s Liberation Army Navy (中國人民解放軍海軍) from December 1972 to April 1998. He acted as the deputy director of the analysts committee under the Securities Association of China from July 2000 to July 2002, from December 2002 to December 2004 and from July 2005 to July 2007. He also acted as a professional evaluation expert of securities companies in the Securities Association of China (中國證券業協會) from January 2011 to January 2012 and a member of Advisory Committee of Information Disclosure of Companies Listed on Shanghai Stock Exchange from November 2013 to November 2015. He has acted as a member of the Culture and Media Industry Committee of China Corporate Listing Association (中國上市公司協會文化傳媒行業委員會) and is a fellow member of The Hong Kong Institute of Chartered Secretaries.

Directors and Senior Management

Ms. Fok, Pui Ming Joanna (霍珮鳴), aged 39, was appointed as an independent non-executive Director, chairman of the remuneration committee, member of the audit committee and member of the nomination committee of the Board on 12 February 2018, taking effect on 31 August 2018. Ms. Fok is primarily responsible for supervising and providing independent judgement to the Board.

Ms. Fok has more than 13 years of experience in business development and recruitment planning. From October 2004 to October 2006, Ms. Fok has been a manager of Servcorp Limited (世服宏圖商務服務(北京)有限公司), where she was responsible for the sales, marketing, recruitment and training. Ms. Fok has been working at different offices of PageGroup (米高蒲志國際顧問公司), an international recruitment firm listed on the London Stock Exchange (LSE: PAGE), since 2007. From April 2007 to October 2009, Ms. Fok served as a recruitment consultant of Michael Page International (Japan) K.K. (東京米高蒲志國際顧問公司), where she was responsible for the planning of the recruitment projects in relation to human resources and information technology. From December 2009 to September 2012, Ms. Fok served as a senior recruitment consultant of Michael Page (Shanghai) Recruitment Co., Limited (上海米高蒲志國際顧問公司), where she was responsible for the planning of the recruitment projects in relation to accounting and finance. From November 2012 to August 2014, Ms. Fok served as the associate director of Michael Page International (Hong Kong) Limited (香港米高蒲志國際顧問公司), where she was responsible for the planning of recruitment projects across sectors including business services, information technology, medical, electronics, manufacturing and retail. Since June 2017, Ms. Fok has been the associate director of the human resources department of Michael Page International (Hong Kong) Limited (香港米高蒲志國際顧問公司), where she was responsible for the design and implementation of training programmes for the recruiting consultants.

Ms. Fok has obtained a bachelor's degree of science from University of British Columbia in May 2001 and a master's degree of public management from Tsinghua University in July 2004.

Mr. Lau, Tsz Man (劉子文), aged 35, was appointed as an independent non-executive Director, chairman of the audit committee and a member of the remuneration committee of the Board on 12 February 2018, taking effect on 31 August 2018. Mr. Lau is primarily responsible for supervising and providing independent judgement to the Board.

Mr. Lau has more than 11 years of experience in accounting and finance. Since August 2016, Mr. Lau has been director of Wincy Education Holdings Limited (凱晴教育控股有限公司), and since April 2017, Mr. Lau has been the chief financial officer of Nobao Energy Holdings (China) Limited (挪寶能源控股(中國)有限公司).

From September 2006 to November 2014, Mr. Lau had worked at Deloitte Touche Tohmatsu (Hong Kong branch and Shanghai branch), where he was responsible for auditing. From November 2014 to March 2016, Mr. Lau was the chief accounting officer and financial controller of Shunfeng International Clean Energy Limited, where he was responsible for finance and accounting.

Mr. Lau is a certified public accountant of the Hong Kong Institute of Certified Public Accountants and an associate of the Institute of Chartered Accountants in England and Wales. Mr. Lau obtained a bachelor's degree of business administration in marketing from City University of Hong Kong in July 2006.



Directors and Senior Management

SENIOR MANAGEMENT

Mr. Yang Xinzhong (楊新忠), aged 49, was appointed as the general manager of the Company on 12 February 2018 and has been the vice chairman of the School Sponsor since September 2013. Mr. Yang is responsible for overseeing external relations and coordinating processes and operating across our organisation. Mr. Yang has over 12 years of experience in the education industry. Mr. Yang worked at Shangqiu University between September 2005 and September 2009, where he served as the vice principal.

From March 2010 to August 2013, Mr. Yang was the person-in-charge for the construction preparation of Shangqiu University Kaifeng Campus (商丘學院應用科技學院). From September 2013 to September 2014, Mr. Yang served as the secretary of the Communist Party Committee at the Shangqiu University Kaifeng Campus (商丘學院應用科技學院). Mr. Yang graduated from Henan Normal University (河南師範大學) in July 1993 with a bachelor's degree of Arts, majoring in Chinese language and literature. Mr. Yang is brother-in-law of Ms. Jiang.

Mr. Wang Jie (王傑), aged 34, was appointed as the office manager of the Company on 12 February 2018 and has been the office manager of the School Sponsor since 18 December, 2012. Mr. Wang is responsible for overseeing our daily general office operations. Mr. Wang has over 11 years of experience in the education industry. From August 2006 to September 2007, Mr. Wang worked as an ideological and political instructor at Shangqiu University. Mr. Wang then served between September 2007 and February 2008 as the deputy office manager of Shangqiu University. From February 2008 to June 2015, Mr. Wang served as office manager of Shangqiu University. In addition to these positions, between March 2012 and December 2013, Mr. Wang also assumed the role of Head of Propaganda for the United Front Work Department of the CPC Central Committee at Shangqiu College (中共商丘學院黨委宣傳統一戰線工作部).

Mr. Wang graduated from Henan Agriculture University in 2006 with a bachelor's degree of Agriculture, majoring in Forestry.

Mr. Jiang Yongqi (蔣永旗), aged 33, was appointed as the head of human resources department of the Company on 12 February 2018 and has been the supervisor of human resources department of the School Sponsor since November 2015. Mr. Jiang is responsible for overseeing daily human resources operations. Mr. Jiang has over 10 years of experience in education and human resources management. From September 2007 to November 2011, Mr. Jiang worked in educational administration in the Dean's Office at Shangqiu University. From November 2011 to August 2012, Mr. Jiang served as the deputy section chief for the personnel department at Shangqiu University. Between August 2012 and August 2013, Mr. Jiang served as deputy manager of the personnel department at Shangqiu University. Mr. Jiang proceeded to serve as the manager of the personnel department at Shangqiu University between August 2013 and August 2016. Between November 2014 and August 2016, Mr. Jiang served as the associate dean at Shangqiu University. Mr. Jiang is qualified in China as a constructor (建造師) and he also obtained the first-class certificate of senior level of human resources management issued by Hubei Occupational Skill Testing Authority (湖北職業技能鑒定(指導)中心) in October 2016 (企業人力資源管理師一級). Mr. Jiang graduated from Henan Urban Construction Institute (河南城建學院) in July 2016 majoring in engineering cost. Mr. Jiang is a cousin of Ms. Jiang.

Mr. Wan Peng (萬鵬), aged 37, was appointed as manager of office planning and development of the Company on 12 February 2018 and has been the manager of office planning and development of the School Sponsor since November 2015. Mr. Wan is responsible for overseeing office daily development plans. Mr. Wan has over 12 years of industry experience. Between September 2005 and July 2009, Mr. Wan served as the deputy head of the Shangqiu University's school office. From August 2009 to October 2015, Mr. Wan served as the associate dean of Shangqiu University Kaifeng Campus. Mr. Wan graduated with a professional certification in financial management from Open University of China (國家開放大學) in January 2018, through long distance learning. The spouse of Mr. Wan is cousin of Chairman Hou.

Directors and Senior Management

Mr. Liu Wei (劉偉), aged 37, was appointed as the head of business support services department of the Company on 12 February 2018 and has been the general manager of the business support services department of the School Sponsor since 16 April 2013. Mr. Liu is responsible for overseeing our general business support services. Mr. Liu has over 12 years of experience in administration and business support. Prior to joining of the Group, Mr. Liu worked in the Chengguan Town, Yucheng County municipal government. Between September 2005 and March 2006, Mr. Liu worked in the business support services department at Shangqiu University. From April 2006 to March 2013, Mr. Liu served as the head of the general affairs department at Shangqiu University. Mr. Liu graduated with a professional certification in financial management from Open University of China (國家開放大學) in January 2018, through long distance learning.

Mr. Zhao Zhen (趙振), aged 34, was appointed as the chief financial officer of the Company on 12 February 2018 and was the deputy chief financial officer of the School Sponsor from September 2016 to February 2018. Mr. Zhao is primarily responsible for overseeing financial operations of the Group. Mr. Zhao has over 10 years of experience in financial management and in the education industry. He worked at Shangqiu University from September 2007 to August 2009 where he served as an accountant in the finance department. From March 2008 to August 2009, Mr. Zhao also served as the head of the treasury within the finance department at Shangqiu University. Between August 2009 and December 2015, Mr. Zhao served as the head of finance department at Anyang University. Since January 2016, Mr. Zhao has been the vice principal of Anyang University.

Mr. Zhao is also a qualified intermediate accountant (中級會計師) of the PRC since April 2015. Mr. Zhao has received numerous awards, including being named by Henan Provincial Department of Education (河南省教育廳) the “2016 Annual Private Education Advanced Individual” (2016年度民辦教育先進個人) and being recognised in January 2017 with the title of “advanced personal” (先進個人) by the Anyang City Examination of Accounting Exercise Leading Group (會計專業技術資格考試領導小組). Mr. Zhao graduated from Zhengzhou University with a bachelor’s degree of management, majoring in accounting, in June 2007. Mr. Zhao also received a postgraduate degree in Business Management from Wuhan Institute of Technology in December 2017.

COMPANY SECRETARY

Mr. Wong Yu Kit (黃儒傑), the company secretary, was appointed on 22 June 2018. Mr. Wong is an assistant vice president of SWCS Corporate Services Group (Hong Kong) Limited, a professional services provider specialising in corporate services. Mr. Wong obtained a bachelor’s degree in the Business Administration and Management from the University of Huddersfield and a master’s degree in corporate governance from the Open University of Hong Kong. Mr. Wong is an associate member of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in the United Kingdom.

CHANGES TO DIRECTORS’ INFORMATION

As at the date of this Annual Report, there has been no change to the information of the Directors which is required to be disclosed in this Annual Report pursuant to Rule 13.51B(1) of the Listing Rules.

Report of Directors

The Board of the Company is pleased to present this Directors' report together with the consolidated financial statements of the Group for the year ended 31 August 2018.

DIRECTORS

The Directors who held office during the year ended 31 August 2018 and up to the date of this Annual Report are:

Executive Directors:

Mr. Hou Junyu (侯俊宇) (*Chief Executive Officer*)

Ms. Jiang Shuqin (蔣淑琴)

Non-executive Director:

Mr. Hou Chunlai (侯春來) (*Chairman*)

Independent Non-executive Directors:

Dr. Jin Xiaobin (金曉斌)

Ms. Fok, Pui Ming Joanna (霍珮鳴)

Mr. Lau, Tsz Man (劉子文)

Biographical details of the Directors and senior management of the Group are set out in the section headed "Directors and Senior Management" on pages 16 to 20 of this Annual Report.

GLOBAL OFFERING

The Company was incorporated in the Cayman Islands on 15 November 2017 as an exempted limited liability company under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company's Shares were listed on the Main Board of the Stock Exchange on 13 September 2018.

In accordance with Article 112 of the Articles, any Director appointed by the Board to fill a casual vacancy shall hold office only until the first general meeting of the Company after his appointment and be subject to re-election at such meeting. Any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Accordingly, Dr. Jin Xiaobin, Ms. Fok, Pui Ming Joanna and Mr. Lau, Tsz Man, who were appointed as Directors on 12 February 2018, will retire from office at the forthcoming annual general meeting of the company and, being eligible, offer themselves for re-election.

In accordance with Article 108(a) of the Articles, at each annual general meeting 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. Accordingly, Mr. Hou Junyu will retire by rotation at the forthcoming annual general meeting of the company and, being eligible, offers himself for re-election.

Report of Directors

PRINCIPAL ACTIVITIES

The Group's main operating activities include its wholly-owned sponsored schools, including Anyang University, Shangqiu University and Shangqiu University Kaifeng Campus, which were established in the PRC and engaged in private higher education.

Analysis of the principal activities of the Group during the year ended 31 August 2018 is set out in Note 6 to the consolidated financial statements.

BUSINESS REVIEW

A fair review of the business of the Group as required by Schedule 5 to the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), including an analysis of the Group's financial performance, an indication of likely future developments in the Group's business and the Group's key relationships with its stakeholders who have a significant impact on the Group and on which the Group's success depends, is set out in the section headed "Management Discussion and Analysis" of this Annual Report. These discussions form part of this report. Events affecting the Company that have occurred since the end of the financial year is set out under "Events after the reporting period" in the section headed "Management Discussion and Analysis" in this Annual Report.

The environmental policies and performance, compliance with relevant laws and regulations and relationships with employees are also discussed in the Environmental, Social and Governance Report on pages 49 to 95 of this Annual Report.

FINANCIAL SUMMARY

A summary of the audited consolidated results and the assets and liabilities of the Group for the last four financial years, as extracted from the audited consolidated financial statements, is set out on page 5 of this Annual Report. This summary does not form part of the audited consolidated financial statements.

SHARE CAPITAL AND SHARES ISSUED

Details of movements in the share capital of the Company for the year ended 31 August 2018 and details of the Shares issued during the year ended 31 August 2018 are set out in Note 23 to the consolidated financial statements.

SUBSIDIARIES

Particulars of the Company's subsidiaries are set out in Note 31 to the consolidated financial statements.

KEY RELATIONSHIP WITH STAKEHOLDERS

The Company is committed to maintaining a good relationship with teachers, students and other stakeholders that have a significant impact on the Company and on which the Company's success depends. Further details are set out in the "Environmental, Social and Governance" section of this Annual Report.



Report of Directors

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is committed to fulfilling social responsibility, promoting employee benefits and development, protecting the environment and giving back to community and achieving sustainable growth.

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

As far as the Board and management are aware, the Group has complied in all material aspects with the relevant laws and regulations that have a significant impact on the business and operation of the Group. During the year ended 31 August 2018, there was no material breach of, or non-compliance, with applicable laws and regulations by the Group.

PRINCIPAL RISKS AND UNCERTAINTIES

Save as disclosed in the section headed “Risks relating to the Contractual Arrangements” in this Annual Report, the following list is a summary of certain principal risks and uncertainties facing the Group, some of which are beyond its control.

- our operations and business prospects;
- our business and operating strategies and our ability to implement such strategies;
- our ability to develop and manage our operations and business;
- our ability to maintain or increase student enrolment in our colleges;
- our ability to maintain or increase tuition fees;
- our ability to maintain or increase utilisation of our facilities;
- our capital expenditure programmes and future capital requirements;
- our future general and administrative expenses;
- competition for, among other things, capital, technology and skilled personnel (including teaching staff);
- our ability to control costs;
- our ability to remit dividends; and
- changes to regulatory and operating conditions in the industry and geographical markets in which we operate.

However, the above is not an exhaustive list. Investors are advised to make their own judgment or consult their own investment advisors before making any investment in the Shares.

Report of Directors

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association or the laws of the Cayman Islands which would oblige the Company to offer new Shares on a pro-rata basis to the existing Shareholders.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Company and the Group during the year ended 31 August 2018 are set out in Note 14 to the consolidated financial statements.

The book value of the properties held by the Group for owner occupation at 31 August 2018 as included in the financial statements in this Annual Report was RMB624.3 million.

DEBENTURE ISSUED

The Group did not issue any debenture since the Listing Date and up to the date of this Annual Report.

EQUITY-LINKED AGREEMENTS

Save for the Pre-IPO Share Option Scheme and the Share Award Scheme of the Group as set out in this section, no equity-linked agreements were entered into by the Group, or existed during the year ended 31 August 2018.

DIVIDENDS

The Board does not recommend the payment of final dividend for the year ended 31 August 2018 (2017: nil).

PERMITTED INDEMNITY

Pursuant to the Articles of Association and subject to the applicable laws and regulations, every Director shall be indemnified and secured harmless out of the assets and profits of the Company against all actions, costs, charges, losses, damages and expenses which they or any of them may incur or sustain in or about the execution of their duty in their offices.

Such permitted indemnity provision has been in force for the year ended 31 August 2018. The Company has taken out liability insurance to provide appropriate coverage for the Directors.

DISTRIBUTABLE RESERVES

Details of the movements in the reserves of the Company during the year ended 31 August 2018 are set out in Note 30 to the financial statements. The distributable reserve of the Company as at 31 August 2018 was nil.

Report of Directors

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Group as at 31 August 2018 are set out in the section headed “Management Discussion and Analysis” in this Annual Report and Note 22 to the consolidated financial statements.

TAX RELIEF AND EXEMPTION

The Company is not aware of any tax relief and exemption available to the Shareholders by reason of their holding of the Company’s securities.

MAJOR CUSTOMERS AND SUPPLIERS

Our customers primarily are our students. We did not have any single customer who accounted for more than 5% of our revenue for each of the years ended 31 August 2017 and 2018.

Our suppliers primarily comprise suppliers of textbooks, uniforms and teaching equipment, and construction companies for building campus facilities. For the years ended 31 August 2017 and 2018, purchases from our five largest suppliers amounted to RMB60.2 million and RMB161.4 million, respectively, which represented 63.0% and 71.4% of our total purchases in the respective periods. During the same periods, purchases from our largest supplier amounted to RMB32.1 million and RMB46.9 million, respectively, which represented 33.6% and 20.7% of our total purchases in the respective periods. Our largest supplier during the year ended 31 August 2018 is a construction company that we engaged to construct campus facilities.

None of our Directors, their respective associates, or any Shareholder who, to the knowledge of our Directors, owns more than 5% of our issued capital, has any interest in any of our five largest suppliers during the year ended 31 August 2018 and up to the date of this Annual Report.

EMPLOYEE AND REMUNERATION POLICIES

As at 31 August 2018, the Group had 2,897 employees (31 August 2017: 2,275). The number of employees employed by the Group varies from time to time depending on need. Employees’ remuneration is determined in accordance with prevailing industry practice and employees’ educational backgrounds, experiences and performance. The remuneration policy and package of the Group’s employees are periodically reviewed. As required by the PRC laws and regulations, the Company participates in various employee social security plans for its employees that are administered by local governments, including among others, housing provident funds, pension, medical insurance, social insurance and unemployment insurance.

Compensation of key executives of the Group is reviewed by the Company’s remuneration committee which is based on the Group’s performance and the executives’ respective contributions to the Group.

The Company has also adopted a Pre-IPO Share Option Scheme and a Share Award Scheme.

The total remuneration cost incurred by the Group for the year ended 31 August 2018 was RMB143.9 million (for the year ended 31 August 2017: RMB102.9 million).

Report of Directors

PRE-IPO SHARE OPTION SCHEME

In order to incentivize the Directors, senior management and other employees for their contribution to the Group and to attract and retain suitable personnel to the Group, the Company adopted the Pre-IPO Share Option Scheme effective from 9 August 2018. The purpose of the Pre-IPO Share Option Scheme is to provide selected participants with the opportunity to acquire proprietary interests in the Company and to encourage selected participants to work towards enhancing the value of the Company and its Shares for the benefit of the Company and its Shareholders as a whole. The Pre-IPO Share Option Scheme will provide the Company with a flexible means of retaining, incentivising, rewarding, remunerating, compensating and/or providing benefits to selected participants.

As at the Listing Date, share options for 35,950,000 Shares were granted to 27 participants under the Pre-IPO Share Option Scheme. No further options have or will be granted under the Pre-IPO Share Option Scheme subsequent to the Listing Date.

A summary of the terms of the Pre-IPO Share Option Scheme is set out below:

Maximum Number of Shares Available for Issue under the Pre-IPO Share Option Scheme

The overall limit on the number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Pre-IPO Share Option Scheme at any time shall not exceed 35,950,000 Shares, representing approximately 4% of the total number of issued Shares of the Company as at the date of this Annual Report.

Exercise Period

An option may be exercised in accordance with the terms of the Pre-IPO Share Option Scheme at any time during a period to be determined and notified by the Directors to each grantee, which period may commence on a day after the date upon which the offer for the grant of options is made but shall end in any event not later than 20 years from the date of grant of the option subject to the provisions for early termination under the Pre-IPO Share Option Scheme.

Payment on Acceptance of Share Option

An amount of RMB1.00 is payable upon acceptance of the grant of an option.

Determination of Exercise Price

The exercise price in relation to each option granted under the Pre-IPO Share Option Scheme is HK\$0.00001 per Share or such other price as may be determined by the Board.

Life of the Pre-IPO Share Option Scheme

The Pre-IPO Share Option Scheme is effective for 20 years until 9 August 2038.

Report of Directors

Outstanding Share Options

The table below shows details of the outstanding share options granted to all grantees under the Pre-IPO Share Option Scheme. For further details on the movement of the options during the Reporting Period please see Note 24 to the financial statements.

| Grantee | Position held with the Group | Date of Grant | Option period | Exercise price | Outstanding as at the Listing Date | Exercised during the Period | Cancelled/ Lapsed during the Period | Outstanding as at the date of this report |
|------------------------------------|--|---------------|---------------------------------|----------------|------------------------------------|-----------------------------|-------------------------------------|---|
| Director of the Company | | | | | | | | |
| Chairman Hou | Non-executive Director and chairman of the Board | 9 August 2018 | 20 years from the date of grant | HK\$0.00001 | 8,000,000 | - | - | 8,000,000 |
| Ms. Jiang | Executive Director | 9 August 2018 | 20 years from the date of grant | HK\$0.00001 | 8,000,000 | - | - | 8,000,000 |
| Mr. Hou | Executive Director and chief executive officer | 9 August 2018 | 20 years from the date of grant | HK\$0.00001 | 6,000,000 | - | - | 6,000,000 |
| Other grantees in aggregate | | 9 August 2018 | 20 years from the date of grant | HK\$0.00001 | 13,950,000 | - | - | 19,950,000 |
| TOTAL | | | | | 35,950,000 | - | - | 35,950,000 |

As at the date of this Annual Report, none of the options granted referred to above had been forfeited or cancelled or had lapsed.

SHARE AWARD SCHEME

The Company adopted the Share Award Scheme by the resolutions in writing of the Shareholders on 24 August 2018. The Share Award Scheme is not a share option scheme and is not subject to the provisions of Chapter 17 of the Listing Rules.

The purpose of the Share Award Scheme is to align the interests of eligible persons with those of the Group through ownership of Shares, dividend and other distributions paid on Shares and/or the increase in value of the Shares, and to encourage and retain eligible persons to make contributions to the long term growth and profits of the Group.

Number of Shares Available under the Share Award Scheme

The aggregate number of Shares underlying all grants made pursuant to the Share Award Scheme (excluding share which have been forfeited in accordance with the Share Award Scheme) will not exceed 84,000,000 Shares (representing 7% of the aggregate nominal amount of the issued capital of the Company as at the Listing Date) without further Shareholders' approval (the "**Share Award Scheme Limit**").

Under the current Share Award Scheme Limit, new Shares of up to 84,000,000 Shares may be issued by the Company within ten years of the Listing Date.

Report of Directors

Maximum Entitlement of Participant

Save as otherwise restricted by the Share Award Scheme Limit or the Listing Rules, there shall be no limit on the total number of non-vested Shares that may be granted to a selected participant under the Share Award Scheme.

Duration and Termination

The Share Award Scheme shall be valid and effective for a period of 10 years (after which no Awards will be granted), and thereafter for so long as there are any non-vested Shares granted prior to the expiration of the Share Award Scheme, in order to give effect to the vesting of such Shares or otherwise as may be required in accordance with the rules of the Share Award Scheme.

Restrictions

No award shall be made to selected participants with respect to a grant of an Award under the Share Award Scheme: (i) where any director of the Company is in possession of unpublished inside information in relation to the Company or where dealings by directors of the Company are prohibited under any code or requirement of the Listing Rules or any applicable laws, rules or regulations; (ii) during the period of 60 days immediately preceding the publication date of the annual results or, if shorter, the period from the end of the relevant financial year up to the publication date of the results; and (iii) during the period of 30 days immediately preceding the publication date of the half-year results or, if shorter, the period from the end of the relevant half-year period up to the publication date of the results.

Vesting and Lapse

The Board or its delegate(s) may from time to time while the Share Award Scheme is in force and subject to all applicable laws, determine such vesting criteria and conditions or periods for the Award to be vested.

If there is an event of change in control of the Company by way of a merger, a privatization of the Company by way of a scheme or by way of an offer, the Board or the committee of the Board or person(s) to which the Board has delegated its authority shall at their sole discretion determine whether the vesting dates of any Awards will be accelerated to an earlier date.

Share Award Grants

As at the date of this Annual Report, no Shares have been granted or agreed to be granted under the Share Award Scheme.

EMOLUMENT POLICY AND DIRECTORS' REMUNERATION

In compliance with the Corporate Governance Code as set out in Appendix 14 to the Listing Rules, the Company has established the remuneration committee of the Company to formulate remuneration policies. The remuneration is determined and recommended based on each Director's and senior management personnel's qualification, position and seniority. As for the independent non-executive Directors, their remuneration is determined by the Board upon recommendation from the remuneration committee. The Directors and the senior management personnel are eligible participants of the Pre-IPO Share Option Scheme and the senior management personnel are eligible participants of the Share Award Scheme. Details of the remuneration of the Directors and the five highest paid individuals are set out in Note 11 to the consolidated financial statements.

Report of Directors

None of the Directors waived or agreed to waive any remuneration and there were no emoluments paid by the Group to any of the Directors as an inducement to join, or upon joining the Group, or as compensation for loss of office.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As the Shares were not listed on the Stock Exchange as of 31 August 2018, Divisions 7 and 8 of Part XV of the SFO and section 352 of the SFO were not applicable to the Directors or chief executive of the Company as of 31 August 2018.

As at the date of this Annual Report, the interests and short positions of our Directors or chief executive of our Company in the Shares, underlying Shares and debentures of our Company or its associated corporation (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Part XV of the SFO (including the interests and short positions which the Director or chief executives of our Company is taken or deemed to have under such provisions of the SFO; or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code to be notified to the Company and the Stock Exchange, were as follows:

Interest in the Shares of the Company

| Name of Director | Capacity/Nature of Interest | Relevant Company | Number of Shares | Approximate Percentage of Shareholding in the Company ⁽¹⁾ |
|------------------|---|-----------------------------------|------------------|--|
| Mr. Hou | Interest in a controlled corporation | Chunlai Investment ⁽²⁾ | 900,000,000 | 75% |
| | Share options granted under the Pre-IPO Share Option Scheme | N/A | 6,000,000 | 0.50% |
| Chairman Hou | Share options granted under the Pre-IPO Share Option Scheme | N/A | 8,000,000 | 0.67% |
| | Interest of spouse ⁽³⁾ | N/A | 8,000,000 | 0.67% |
| Ms. Jiang | Share options granted under the Pre-IPO Share Option Scheme | N/A | 8,000,000 | 0.67% |
| | Interest of spouse ⁽³⁾ | N/A | 8,000,000 | 0.67% |

Notes:

- (1) The calculation is based on the total number of 1,200,000,000 Shares in issue as at the date of this Annual Report.
- (2) Chunlai Investment is wholly-owned by Mr. Hou. Thus, Mr. Hou is deemed to be interested in the Shares in which Chunlai Investment is interested by virtue of the SFO.
- (3) As Chairman Hou and Ms. Jiang are husband and wife, each of them is deemed to be interested in the interest held by them by virtue of the SFO.
- (4) All the Shares are held in long position (as defined under Part XV of the SFO).

Report of Directors

Interest in Associated Corporations

| Name of Director | Capacity/Nature of Interest | Name of associated corporation | Amount of issued share capital/ registered capital/ sponsor capital in the associated corporation | Percentage of holding in the associated corporation |
|------------------|---|--------------------------------|--|---|
| Mr. Hou | Beneficial owner | Chunlai Investment | US\$1 | 100% |
| | Beneficial owner | The PRC Holdco | RMB30,000,000 | 100% |
| Chairman Hou | Beneficial owner ⁽¹⁾ | The School Sponsor | RMB113,740,000 | 100% |
| | Beneficial owner ⁽¹⁾ and interest of spouse ⁽²⁾ | The School Sponsor | RMB33,780,000 | 29.7% |
| Ms. Jiang | Beneficial owner ⁽¹⁾ and interest of spouse ⁽²⁾ | The School Sponsor | RMB33,780,000 | 29.7% |

Notes:

- (1) The sponsor interest of the School Sponsor is held as to 69.3% by Mr. Hou (RMB78,821,820), as to 19.8% by Chairman Hou (RMB22,520,520) and as to 9.9% by Ms. Jiang (RMB11,260,260). Mr. Hou, Chairman Hou and Ms. Jiang agreed that Mr. Hou would effectively own the sponsor interests of the School Sponsor held by Chairman Hou and Ms. Jiang.
- (2) As Chairman Hou and Ms. Jiang are husband and wife, each of them is deemed to be interested in the interest held by them by virtue of the SFO.

Save as disclosed above, as at the date of this Annual Report, so far as is known to any Director or the chief executive of the Company, none of the Directors nor the chief executive of the Company had any interests or short positions in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Part XV of the SFO (including the interests and short positions which the Director is taken or deemed to have under such provisions of the SFO; or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code to be notified to the Company and the Stock Exchange.

Report of Directors

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As the Company was not listed on the Stock Exchange as at 31 August 2018, Divisions 2 and 3 of Part XV of the SFO and section 336 of the SFO were not applicable to the Company as at 31 August 2018. As at the date of this Annual Report, so far as the Directors are aware, the following persons (other than our Directors or chief executives of our Company) had interests or short positions in the Shares or underlying Shares of the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

| Name of Shareholder | Capacity/Nature of Interest | Number of Shares | Approximate Percentage of Shareholding |
|----------------------------------|---|------------------|--|
| Mr. Hou ⁽¹⁾ | Interest in a controlled corporation | 900,000,000 | 75% |
| | Share options granted under the Pre-IPO Share Option Scheme | 6,000,000 | 0.50% |
| Chunlai Investment | Beneficial owner | 900,000,000 | 75% |
| Xiang Rong International limited | Beneficial owner | 66,037,000 | 5.48% |

Notes:

- (1) Chunlai Investment is wholly-owned by Mr. Hou. Thus, Mr. Hou is deemed to be interested in the same number of shares in which Chunlai Investment is interested by virtue of the SFO.
- (2) All the Shares are held in long position (as defined under Part XV of the SFO).

Save as disclosed above, as at the date of this Annual Report, the Directors are not aware of any other person (other than the Directors or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company as at 31 August 2018 as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

DIRECTORS' SERVICE CONTRACTS

Each of the executive and non-executive Directors entered into a service contract with the Company on 23 February 2018. The initial term of their service contract shall commence from the date of their appointment as an executive Director or a non-executive Director (as the case may be) and continue for a period of three years after or until the third annual general meeting of the Company since the Listing Date, whichever is earlier.

Each of the independent non-executive Directors has entered into an appointment letter with the Company on 23 February 2018. The initial term for their appointment letters shall be three years from the date of the appointment letter or until the third annual general meeting of the Company since the Listing Date, whichever is sooner.

None of the Directors proposed for re-election at the annual general meeting has a service contract with any members of the Group that is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

Report of Directors

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

Save as disclosed in this Annual Report, none of the Directors nor any entity connected with the Directors had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party subsisting during or at the end of the year ended 31 August 2018.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in this Annual Report, at no time during the reporting period was the Company or any of its subsidiaries, a party to any arrangement that would enable the Directors to acquire benefits by means of acquisition of Shares in, or debentures of, the Company or any other body corporate, and none of the Directors or any of their spouses or children under the age of 18 were granted any right to subscribe for the equity or debt securities of the Company or any other body corporate or had exercised any such right.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Save and except for the interests of the Controlling Shareholders in the Group, during the year ended 31 August 2018, neither the Controlling Shareholders nor any of the Directors had any interest in a business, apart from the business of the Group, which competes or is likely to compete, directly or indirectly, with the Group's business, which would require disclosure under Rule 8.10 of the Listing Rules.

CONTRACTS WITH CONTROLLING SHAREHOLDERS

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

MANAGEMENT CONTRACTS

No contract, concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed 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.

Report of Directors

Contractual Arrangements

Reasons for the Contractual Arrangements

We currently conduct our private education business through our consolidated affiliated entities in the PRC because PRC laws and regulations, or the implementation of those laws and regulations by the relevant government authorities, generally prohibit or restrict foreign ownership in the private education industry in the PRC. Currently, PRC laws and regulations restrict the operation of higher education institutions to Sino-foreign cooperative joint venture ownership, in addition to imposing a qualification requirement on the foreign owners. Further, government approvals in respect of Sino-foreign cooperative joint venture ownership in the private education sector have, with very limited exceptions, been withheld in practice. The Contractual Arrangements, through which we are able to exercise control over and derive the economic benefits from our consolidated affiliated entities, have been narrowly tailored to achieve our business purpose and minimise the potential conflict with relevant PRC laws and regulations.

In order to comply with the PRC laws and regulations as set out above while availing ourselves to international capital markets and maintaining effective control over all of our operations, our wholly-owned subsidiary, WFOE, entered into various agreements that together constitute the Contractual Arrangements with, among others, our consolidated affiliated entities, under which substantially all economic benefits arising from the businesses of our consolidated affiliated entities are transferred to WFOE to the extent permitted under the PRC laws and regulations by means of service fees payable by our consolidated affiliated entities to WFOE.

Our Directors (including the independent non-executive Directors) are of the view that the Contractual Arrangements and the transactions contemplated therein are fundamental to our Group's legal structure and business, that such transactions have been entered into: (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms; and (iii) in accordance with the respective agreement governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

Risks relating to the Contractual Arrangements

The Company believes the following risks are associated with the Contractual Arrangements. Further details of these risks are set out on pages 43 to 50 of the Prospectus.

- The PRC government may find that the agreements that establish the structure for operating our business in China do not comply with applicable PRC laws and regulations, which may subject us to severe penalties and our business may be materially and adversely affected.
- The Draft Foreign Investment Law proposes significant changes to the PRC foreign investment legal regime, which will likely to have a significant impact on businesses in China controlled by foreign invested enterprises through contractual arrangements, such as our business.
- The Contractual Arrangements may not be as effective in providing control over our consolidated affiliated entities as direct ownership.
- The beneficial owners of our consolidated affiliated entities may have conflicts of interest with us, which may materially and adversely affect our business and financial condition.
- Our exercise of the option to acquire the equity interests or sponsor interests (as the case may be) of our consolidated affiliated entities may be subject to certain limitations and we may incur substantial costs.

Report of Directors

- Any failure by our consolidated affiliated entities or their respective shareholders or sponsors to perform their obligations under our Contractual Arrangements would potentially lead to the incurrence of additional costs and the expending of substantial resources on our part to enforce such arrangements, temporary or permanent loss of control over our primary operations or loss of access to our primary sources of revenue.
- The Contractual Arrangements may be subject to the scrutiny of the PRC tax authorities and additional tax may be imposed, which may materially and adversely affect our results of operations and value of your investment.
- Certain terms of the Contractual Arrangements may not be enforceable under PRC laws.
- The School Sponsor is a private non-enterprise entity (民辦非企業單位), the sponsor interest of which is not capable of being pledged in favour of WFOE under PRC laws. Our Contractual Arrangements implement alternative arrangements that may not achieve the level of protection equivalent to typical contractual arrangements where the school sponsor is an enterprise, the equity interest of which is subject to equity pledge arrangements.
- We rely on dividend and other payments from the WFOE to pay dividends and other cash distributions to our Shareholders and any limitation on the ability of the WFOE to pay dividends to us would materially and adversely limit our ability to pay dividends to our Shareholders.
- If any of our consolidated affiliated entities becomes subject to winding up or liquidation proceedings, we may lose the ability to enjoy certain important assets, which could negatively impact our business and materially and adversely affect our ability to generate revenue.

Contractual Arrangements in Place

The Contractual Arrangements that were in place as at 31 August 2018 are as follows:

- an irrevocable power of attorney dated 22 February 2018 executed by Mr. Hou, Chairman Hou and Ms. Jiang in favour of the PRC Holdco, pursuant to which the PRC Holdco (or its designated person(s)) was appointed as attorney-in-fact to exercise all the rights of Mr. Hou, Chairman Hou and Ms. Jiang in relation to the School Sponsor at the discretion of the PRC Holdco (or its designated person(s));
- an irrevocable power of attorney dated 22 February 2018 executed by the PRC Holdco in favour of WFOE, pursuant to which WFOE (or its designated person(s)) was appointed as attorney-in-fact to exercise all the rights of the PRC Holdco in relation to the School Sponsor, Anyang University and Shangqiu University (including Shangqiu University Kaifeng Campus) at the discretion of WFOE (or its designated person(s));
- an irrevocable power of attorney dated 22 February 2018 executed by Mr. Hou in favour of WFOE, pursuant to which WFOE (or its designated person(s)) was appointed as attorney-in-fact to exercise all the rights of Mr. Hou in relation to the PRC Holdco at the discretion of WFOE (or its designated person(s));
- an irrevocable power of attorney dated 22 February 2018 executed by the School Sponsor in favour of WFOE, pursuant to which WFOE (or its designated person(s)) was appointed as attorney-in-fact to exercise all the rights of the School Sponsor in relation to Anyang University and Shangqiu University (including Shangqiu University Kaifeng Campus) at the discretion of WFOE (or its designated person(s));

Report of Directors

- (e) an exclusive management consultancy and business cooperation agreement dated 22 February 2018 entered into by and between (i) WFOE, (ii) the PRC Holdco, (iii) the subsidiary entities of the PRC Holdco as described in the exclusive management consultancy and business cooperation agreement, including the School Sponsor, Anyang University and Shangqiu University (including Shangqiu University Kaifeng Campus), the list of which is to be updated from time to time pursuant to the exclusive management consultancy and business cooperation agreement to include entities that the PRC Holdco invests in and controls (including via contractual arrangements), including but not limited to companies, schools and related entities which the PRC Holdco and the School Sponsor directly or indirectly hold more than 50% investment interests thereof ((ii) and (iii) collectively, the “**Consolidated Affiliated Entities**”), and (iv) Mr. Hou, pursuant to which WFOE agreed to provide to the Consolidated Affiliated Entities exclusive corporate management consultancy, educational management consultancy, intellectual property licensing as well as technical and business support, and in return, the Consolidated Affiliated Entities shall pay service fees to WFOE;
- (f) an exclusive call option agreement dated 22 February 2018 entered into by and between WFOE, Mr. Hou, Chairman Hou, Mr. Jiang, the PRC Holdco and the School Sponsor, pursuant to which WFOE (or its designated third party) was unconditionally and irrevocably granted an exclusive option to purchase all or part of the equity interests or sponsor interests (as the case may be) in any of the PRC Holdco, the School Sponsor, Anyang University and Shangqiu University (including Shangqiu University Kaifeng Campus);
- (g) an equity pledge agreement dated 22 February 2018 entered into by and between WFOE, Mr. Hou and the PRC Holdco, pursuant to which Mr. Hou unconditionally and irrevocably pledged all of his equity interests in the PRC Holdco to WFOE;
- (h) a receivables pledge agreement dated 22 February 2018 entered into by and between WFOE, Shangqiu University (including Shangqiu University Kaifeng Campus) (“**Shangqiu University**”), Anyang University (together with Shangqiu University, the “**Schools**”) and the School Sponsor, pursuant to which the School Sponsor and the Schools agreed to, among other things, grant first priority pledge to WFOE over, (i) the Schools’ existing and future receivables from tuition fees and boarding fees, (ii) the Schools’ existing and future creditor’s rights arising from leasing the Schools’ properties, (iii) the Schools’ existing and future creditor’s rights arising from its services and (iv) the relevant proceeds received by the School Sponsor from third parties due to sale, transfer, assignment or any other forms of disposal of the sponsor interests in the schools held by it.

During the year ended 31 August 2018, there was no material change in the Contractual Arrangements. There was also no termination of the Contractual Arrangements, nor was there any failure to terminate when the restrictions that led to the adoption of the Contractual Arrangements are removed.

The extent to which the Contractual Arrangements relate to requirements other than the foreign ownership restriction

All of the Contractual Arrangements are subject to the restrictions as set out on pages 183 to 190 of the Prospectus.

Mitigation actions taken by the Company

The Company’s management works closely with Mr. Hou and its external legal counsels and advisors to monitor the regulatory environment and developments in PRC laws and regulations to mitigate the risks associated with the Contractual Arrangements.

Report of Directors

Revenue and Assets subject to the Contractual Arrangements

The revenue, profit before tax and total assets subject to the Contractual Arrangements are set out as follows:

| | Year ended 31 August 2018 <i>RMB'000</i> | Year ended 31 August 2017 <i>RMB'000</i> |
|-------------------|--|--|
| Revenue | 487,791 | 460,889 |
| Profit before tax | 147,055 | 151,649 |
| | As at 31 August 2018 <i>RMB'000</i> | As at 31 August 2017 <i>RMB'000</i> |
| Total assets | 2,065,882 | 1,783,708 |

For the year ended 31 August 2018, the revenue and profit before tax subject to the Contractual Arrangements amounted to approximately 100% (2017: 100%) and 122.78% (2017: 100%) of the revenue and profit before tax of the Group.

As at 31 August 2018, the total assets subject to the Contractual Arrangements amounted to approximately 99.55% (2017: 100%) of the total assets of the Group.

Listing Rule Implications

Mr. Hou is an executive Director and our Controlling Shareholder, and therefore a connected person of our Company under Rule 14A.07(1) of the Listing Rules.

Waiver from the Stock Exchange and Annual Review

The Stock Exchange has granted the Company 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 under the Contractual Arrangements pursuant to Rule 14A.105 of the Listing Rules; and (ii) the requirement of setting an annual cap for the transactions under the Contractual Arrangements under Rule 14A.53 of the Listing Rules.

Report of Directors

As the Company was not yet listed on the Stock Exchange during the year ended 31 August 2018, the relevant requirements in respect of continuing connected transactions under Chapter 14A of the Listing Rules were not applicable to the Company during the period under review. The Company will comply with relevant provisions of the Listing Rules including annually review of the Contractual Arrangements by the Auditor and independent non-executive Directors and disclose details in the Company's annual report on an on-going basis.

Save as disclosed above, during the year ended 31 August 2018, no other transaction constituted a connected transaction or continuing connected transaction which should be disclosed pursuant to the Listing Rules. The Company has complied with the disclosure requirements prescribed in Chapter 14A of the Listing Rules with respect to the continuing connected transactions entered into by the Group during the year under review.

Other than the aforementioned continuing connected transactions, the related party transactions disclosed in Note 27 to the Financial Statements are in compliance with relevant and applicable the requirements under Chapter 14A of the Listing Rules.

QUALIFICATION REQUIREMENT

Draft New Foreign Investment Law

On 19 January 2015, the Ministry of Commerce of China (“**MOFCOM**”) released a draft version of the Foreign Investment Law (中華人民共和國外國投資法(草案徵求意見稿)) (“**Draft FIL**”) for public comment. The Draft FIL, if adopted in its current form, would introduce significant changes to the foreign investment regime of the PRC.

Unlike the current system, the definition of “foreign investment” in the Draft FIL expressly includes control by other means, e.g. contractual arrangements, in addition to equity ownership. Therefore, for any future investment made through contractual arrangements, so long as ultimate investor is a foreign investor, MOFCOM will treat the investment, albeit through contractual arrangements, as a foreign investment. For those contractual arrangements made before the Draft FIL becoming effective, the Draft FIL leaves a placeholder for dealing with them but acknowledges in an explanatory note that in light of the different views expressed by the public, a further study based on the public comments would be necessary.

Given that the Draft FIL is only at the consultation stage and information on how existing contractual arrangements would be dealt with is still outstanding, the Company believes that any attempt to evaluate the potential impact that it will have on the Contractual Arrangements and the business of our Group would be premature. The Board will continuously monitor any updates on the Draft FIL and seek guidance from our PRC legal advisor to ensure compliance with all relevant rules and regulations in the PRC at all times.

Report of Directors

Updates in Relation to the Qualification Requirement

The foreign investor in a Sino-foreign joint venture school for PRC students at higher education institutions must be a foreign educational institution with relevant qualification and high quality of education (the “**Qualification Requirement**”). The foreign portion of the total investment in a sino-foreign joint venture private school should be below 50% (the “**Foreign Ownership Restriction**”) and the establishment of these schools is subject to approval of education authorities at the provincial or national level.

On the basis that (a) the principals and other chief executive officers of our PRC Operating Schools and Hubei College are PRC nationals; and (b) the representatives or the directors of our PRC Operating Schools and Hubei College are appointed by PRC entities, our PRC Legal Adviser is of the view that our PRC Operating Schools and Hubei College are in full compliance with the Foreign Control Restriction as stipulated above.

Our PRC Legal Adviser has advised that it is currently uncertain as to what specific criteria must be met by a foreign investor (such as length of experience and form and extent of ownership in the foreign jurisdiction) in order to demonstrate to the relevant education authority that it meets the Qualification Requirement.

Efforts and Actions Undertaken to Comply with the Qualification Requirement

The Group is implementing a business plan with a view to expanding our education operations overseas. The Group believes that such business plan represents our commitment and a meaningful endeavour to demonstrate compliance with the Qualification Requirement.

The Group is also in the process of communicating or negotiating with certain experienced and reputational overseas education service providers in various forms of potential cooperation, including but not limited to expanding our school network abroad. Our subsidiary in Hong Kong, Chunlai (Hong Kong), will serve as the main control hub of our overseas business and will be responsible for, among other things:

1. negotiating and executing contracts for international business cooperation, such as contracts for cooperation with foreign education institutions in organising international classes or courses;
2. investing in or acquiring overseas education businesses as and when appropriate;
3. holding our overseas intellectual property rights and licensing them to our international partners; and
4. recruiting and employing overseas education business professionals and advisers outside of PRC.

Report of Directors

CHANGE OF SCHOOL SPONSOR OF HUBEI COLLEGE SUBJECT TO MOE APPROVAL

As disclosed in the Prospectus, the Company is in the course of applying for the change of school sponsor of Hubei College, subject to MOE approval. As of 31 August 2018, the application is pending the final approval of the MOE and registration with the provincial civil affairs authorities. Based on our understanding of the process involved and communication with the relevant government authorities (including the consultations as mentioned in the Prospectus), we do not expect any material impediment to completing the administrative procedures in respect of the application.

REGULATORY UPDATE

On 7 November 2016, the 2016 Decision, namely the Decision on Amending the Law for Promoting Private Education of the PRC (《關於修改的決定》) was approved by the Standing Committee of the National People's Congress, which became effective on 1 September 2017. The 2016 Decision has made certain amendments to the Law for Promoting Private Education. According to the 2016 Decision, school sponsors of private schools can choose to establish schools as non-profit or for-profit entities, with the exception of schools providing compulsory education, which can only be established as non-profit entities.

Under the 2016 Decision, a private school electing to re-register as a for-profit school must carry out financial settlement procedures, clarify property ownership, pay relevant taxes and fees, and re-apply for registration. The specific registration requirements for existing private schools shall be formulated by the provincial governments. Pursuant to the Henan Implementation Opinions, Private HEIs in Henan Province shall complete the re-registration procedures by the end of year 2022. Despite the issuance of the Henan Implementation Opinions and the Hubei Implementation Opinions, the specific requirements, policies and procedures for re-registration as for-profit or non-profit private schools remain unclear in Henan and Hubei provinces. As such, we are unable to quantify the impact that the 2016 Decision may have on our business operations. As of 31 August 2018, there is no update in relation to the Group's re-registration as a for-profit or non-profit private school.

UPDATE ON NON-COMPLIANCE MATTERS

As of 31 August 2018, we owned buildings with a total ground floor area of approximately 0.59 million sq.m. We have not obtained building ownership certificates for a substantial portion of our buildings primarily because they were not constructed in full compliance with applicable rules and regulations in the PRC. We commenced construction of these buildings on land when the relevant land use right certificates were still under application, as our management believed that it was a practice acceptable to the relevant local authorities and in compliance with local policies.

We are proactively liaising with the relevant government authorities with a view to complying with the relevant requirements as soon as practicable. As of 31 August 2018, we were in the process of applying for the relevant construction land use planning permits (建設用地規劃許可) and construction planning permits (建設工程規劃許可) for our non-compliant buildings.

Report of Directors

We consider that the non-compliance issues concerning our buildings will not have any material adverse effect on our operations as a whole.

The Company undertakes that it will rectify all non-compliances in a timely manner and will update the progress of the rectification of the non-compliance incidents in the Company's subsequent interim and annual reports.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Since the Company was not listed on the Stock Exchange during the year ended 31 August 2018, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's securities listed on the Stock Exchange during the year ended 31 August 2018.

MATERIAL LITIGATION

The Group was not involved in any material litigation or arbitration during the year ended 31 August 2018. The Directors are also not aware of any material litigation or claims that are pending or threatened against the Group since the Listing Date and up to the date of this Annual Report.

USE OF NET PROCEEDS FROM THE LISTING

With the Shares listed on the Stock Exchange on 13 September 2018, the net proceeds from the Global Offering were approximately HK\$552.6 million, which will be utilized for the purposes as set out in the prospectus of the Company dated 31 August 2018.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this Annual Report, the Company has maintained the prescribed percentage of public float under the Listing Rules.

AUDITOR

A resolution will be proposed at the forthcoming annual general meeting for the re-appointment of Deloitte Touche Tohmatsu as the independent auditor of the Company.

By the order of the Board

Mr. Hou Chunlai
Chairman

Hong Kong
30 November 2018

Corporate Governance Report

The Board of Directors is pleased to present the corporate governance report for the Company for the year ended 31 August 2018.

CORPORATE GOVERNANCE PRACTICES

The Company is committed to achieving high corporate governance standards. The Board believes that high corporate governance standards are essential in providing a framework for the Group to safeguard the interests of Shareholders and to enhance corporate value and accountability.

As the Company was not yet listed on the Stock Exchange during the year ended 31 August 2018, the principles and code provisions of the CG Code as set out in Appendix 14 to the Listing Rules was not applicable to the Company during the period under review. The Company has adopted the principles and code provisions of the CG Code as the basis of the Company's corporate governance practices, and the CG Code has been applicable to the Company with effect from the Listing Date.

The Company has complied with all the applicable code provisions set out in the CG Code throughout the period from the Listing Date up to the date of this Annual Report.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as its own securities dealing code to regulate all dealings by Directors in the securities of the Company and other matters covered by the Model Code. As the Company was not yet listed on the Stock Exchange as at 31 August 2018, the provisions under the Listing Rules in relation to compliance with the Model Code by the Directors regarding securities transactions were not applicable to the Company for the year ended 31 August 2018.

Specific enquiry has been made of all the Directors and the relevant employees and they have confirmed that they have complied with the Model Code since the Listing Date and up to the date of this Annual Report.

BOARD OF DIRECTORS

The Board currently comprises six members, consisting of two executive Directors, one non-executive Director and three independent non-executive Directors.

During the year ended 31 August 2018 and up to the date of this corporate governance report, the composition of the Board comprises the following Directors:

Executive Directors

Mr. Hou Junyu (侯俊宇) (*Chief Executive Officer*)

Ms. Jiang Shuqin (蔣淑琴)

Non-executive Director

Mr. Hou Chunlai (侯春來) (*Chairman*)

Independent non-executive Directors

Dr. Jin Xiaobin (金曉斌)

Ms. Fok, Pui Ming Joanna (霍珮鳴)

Mr. Lau, Tsz Man (劉子文)

Corporate Governance Report

The biographical details of the Directors are set out in the section headed “Directors and Senior Management” on pages 16 to 20 of this Annual Report.

Ms. Jiang Shuqin is the spouse of Chairman Hou and mother of Mr. Hou. Mr. Hou is the son of Chairman Hou and Ms. Jiang. Save as disclosed, none of the members of the Board is related to one another.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The position of Chairman is held by Mr. Hou Chunlai (侯春來) and the position of Chief Executive Officer is held by Mr. Hou Junyu (侯俊宇). The Chairman provides leadership and is responsible for the effective functioning and leadership of the Board. The Chief Executive Officer focuses on the Company’s business development and the daily management and operations generally. The respective responsibilities are clearly defined and set out in writing.

BOARD MEETINGS

Code provision A.1.1. of the Corporate Governance Code stipulates that board meetings should be held at least four times a year at approximately quarterly intervals with active participation of the majority of the Directors, either in person or through electronic means of communications.

As the Company was only listed on 13 September 2018, the Board convened only one meeting on 30 November 2018 to consider and approve the annual results announcement and Annual Report for the year ended 31 August 2018. The Company expects to convene at least four regular meetings in each financial year at approximately quarterly intervals in accordance with code provision A.1.1 of the Corporate Governance Code.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Board at all times after the Listing Date met the requirements of the Listing Rule 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 Board has received from each of the independent non-executive Directors a written annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and considers each of them to be independent. Each of the independent non-executive Directors has signed a letter of appointment with the Company for an initial term of three years with effect from the date of the Prospectus or until the third annual general meeting of the Company since the Listing Date (whichever is sooner).

Corporate Governance Report

Responsibilities, Accountabilities and Contributions of the Board and Management

The Board is the primary decision making body of the Company and is responsible for overseeing 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 makes decisions objectively in the interests of the Company.

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

The Group's senior management is responsible for the day-to-day management of the Group's business and is responsible for overseeing the general operation, business development, finance, marketing, and operations.

BOARD COMMITTEES

The Board has established three committees, namely, the audit committee, the remuneration committee and the nomination committee, for overseeing particular aspects of the Company's affairs. Each of these committees are established with defined written terms of reference. The terms of reference of the Board committees are available on the websites of the Company and the Stock Exchange.

Audit Committee

The Company has established an Audit Committee in compliance with Rule 3.21 of the Listing Rules and the Corporate Governance Code set out in Appendix 14 of the Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal controls and risk management systems of the Group, review and approve connected transactions and to advise the Board.

The Audit Committee comprises three independent non-executive Directors, namely Dr. Jin Xiaobin, Ms. Fok, Pui Ming Joanna and Mr. Lau, Tsz Man. Mr. Lau, Tsz Man is the chairman of the Audit Committee and is appropriately qualified as required under Rules 3.10(2) and 3.21 of the Listing Rules.

The Audit Committee shall meet at least twice annually, or more frequently if circumstances require, to review interim and annual financial results and reports for the year 2019 and significant issues on the financial reporting and compliance procedures, internal control and risk management systems, scope of work and appointment of external auditors, connected transactions and confidential arrangements for employees to raise concerns about possible improprieties.

The Audit Committee will also meet the external auditors twice annually without the presence of the executive Directors.

Corporate Governance Report

Remuneration Committee

The Company has established a Remuneration Committee in compliance with Rule 3.25 of the Listing Rules and the Corporate Governance Code set out in Appendix 14 of the Listing Rules. The primary duties of the Remuneration Committee is to review and make recommendations to the Board regarding the terms of remuneration packages, bonuses and other compensation payable to the Directors and other senior management.

The Remuneration Committee comprises one executive Director, namely Ms. Jiang Shuqin, and two independent non-executive Directors, namely Ms. Fok, Pui Ming Joanna and Mr. Lau, Tsz Man. Ms. Fok, Pui Ming Joanna is the chairperson of the Remuneration Committee.

The Remuneration Committee shall meet at least once annually, or more frequently if circumstances require, to review and make 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.

Details of the remuneration payable to each Director of the Company for the year ended 31 August 2018 are set out in Note 11 to the Financial Statements.

The remuneration of the members of senior management by band for the year ended 31 August 2018 is set out below:

| Remuneration bands (RMB) | Number of persons |
|--------------------------|-------------------|
| Nil to 1,000,000 | 6 |

Nomination Committee

The Company has established a Nomination Committee in compliance with the Corporate Governance Code set out in Appendix 14 to the Listing Rules. The primary duties of the Nomination Committee are to make recommendations to the Board on the appointment of Directors and management of Board succession.

The Nomination Committee comprises one executive Director, namely Mr. Hou Junyu, and two independent non-executive Directors, namely Dr. Jin Xiaobin and Ms. Fok, Pui Ming Joanna. Mr. Hou Junyu is the chairman of the Nomination Committee.

The Nomination Committee shall meet at least once a year, or more frequently if circumstances require to review the Board composition, developing and formulating relevant procedures for the nomination and appointment of directors and to develop and evaluate the corporate governance practices of the Company.

Corporate Governance Report

Board Diversity Policy

The Company has adopted a board diversity policy (the “**Diversity Policy**”) which sets out the approach to achieve diversity of the Board. The Company embraces the benefits of having a diverse Board to enhance the quality of its performance.

Pursuant to the Diversity Policy, the Company seeks to achieve Board diversity through the consideration of a number of aspects, including, but not limited to, gender, age, culture and educational background, professional qualifications, skills, knowledge and industry and regional experience.

In identifying and selecting suitable candidates to serve as a director of the Company, the nomination committee would consider the above criteria necessary to complement the corporate strategy and achieve Board diversity, where appropriate, before making recommendations to the Board.

The Board will consider setting measurable objectives to implement the Diversity Policy and review such objectives from time to time to ensure their appropriateness and ascertain the progress made towards achieving those objectives. At present, the Board has not set any measurable objectives.

The nomination committee will review the Diversity Policy, as appropriate, to ensure its effectiveness.

CORPORATE GOVERNANCE FUNCTION

The Board is responsible for performing the functions set out in code provision D.3.1 of the Corporate Governance Code.

The Board would review the Company’s corporate governance policies and practices, training and continuous professional development of the Directors and senior management, the Company’s policies and practices on compliance with legal and regulatory requirements, and the Company’s compliance with the Corporate Governance Code and disclosure in its Corporate Governance Report.

The Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. The joint company secretaries of the Company may from time to time and as the circumstances require provide updated written training materials relating to the roles, functions and duties of a director of a company listed on the Stock Exchange.

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.

Corporate Governance Report

CONTINUOUS PROFESSIONAL DEVELOPMENT OF DIRECTORS

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

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 Company 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 Corporate Governance Code with regards to continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. The Company has arranged briefings for Directors on their duties under the SFO and Listing Rules before Listing. All Directors are encouraged to attend relevant training courses at the Company's expenses.

AUDITOR'S RESPONSIBILITY AND REMUNERATION

The Company appointed Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong ("**Deloitte**") as the external auditor for the year ended 31 August 2018. A statement by Deloitte about their reporting responsibilities for the financial statements is included in the Independent Auditor's Report on pages 96 to 99.

Details of the fees paid or payable in respect of the audit and non-audit services provided by Deloitte for the year ended 31 August 2018 are set out in the table below:

| Services rendered for the Company | Fees charged <i>RMB '000</i> |
|---|--|
| Audit services: | |
| Audit services | 1,580 |
| Reporting accountants' services in relation to Listing | 3,440 |
| Non-audit services: | |
| Internal control review services in relation to Listing | 366 |
| Total | 5,386 |

Corporate Governance Report

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board acknowledges that it is responsible for the Company's risk management and internal control systems and reviewing their effectiveness. The risk management and internal control measures 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 Board has delegated its responsibilities (with relevant authorities) of risk management and internal control to the Audit Committee, who oversees management in the design, implementation and monitoring of the risk management and internal control systems, and management has provided a confirmation to the Audit Committee (and the Board) on the effectiveness of these systems for the year ended 31 August 2018. The Board had conducted a review of the effectiveness of the internal control system of the Company in respect of the year ended 31 August 2018 and considered the system effective and adequate.

The Group has established an internal control department and maintain an internal audit function for the year ended 31 August 2018. Each of its schools has designated the relevant personnel who will be responsible for identifying and monitoring the Group's risks and internal control issues and reports directly to the Board of any findings and follow-up actions. Each of the Group's schools is required to adhere strictly to the Group's internal control procedures and report to the internal control team of any risks or internal control measures.

The Group has also adopted an information disclosure policy which has set out comprehensive guidelines in respect of handling and dissemination of inside information. The Board is responsible for monitoring and implementing the procedural requirements in the information disclosure policy. Release of inside information shall be overseen by the Board. Unless authorised by the Board, the staff members of the Group shall not disseminate inside information relating to the Group to any external parties and shall not respond to media or market speculation which may materially affect the trading price or volume of the Shares on the market.

COMPANY SECRETARY

Mr. Wong Yu Kit, of SWCS Corporate Services Group (Hong Kong) Limited, has been engaged by the Company as its company secretary, and is responsible for advising the Board on corporate governance matters and ensuring that Board policy and procedures, and applicable laws, rules and regulations are followed.

Mr. Hou, an executive Director and the chief executive officer, is the primary point of contact at the Company for Mr. Wong.

For the year ended 31 August 2018, Mr. Wong has undertaken not less than 15 hours of relevant professional training respectively in compliance with Rule 3.29 of the Listing Rules.

Corporate Governance Report

SHAREHOLDERS' RIGHTS

Convening of Extraordinary General Meetings ("EGM") by Shareholders

Pursuant to article 64 of the Articles of Association, the Board may, whenever it thinks fit, convene an EGM. EGMs shall also be convened on the requisition of one or more Shareholders holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Board or the company secretary for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Putting Forward Enquiries to the Board

Shareholders may send written enquiries to the Company for the attention of the Company Secretary at the Company's principal place of business in Hong Kong.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS RELATIONS

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 endeavours to maintain an on-going dialogue with shareholders and in particular, through annual general meetings and other general meetings. At the forthcoming annual general meeting, Directors (or their delegates as appropriate) will be available to meet Shareholders and answer their enquiries.

CHANGES IN CONSTITUTIONAL DOCUMENTS

The Company has not made any changes to its Articles of Association on or after the Listing Date. 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.

Environmental, Social and Governance Report

CONTENTS

| | |
|--|----|
| 1. About this Report | 50 |
| 2. Introduction to the Group's Business | 51 |
| 2.1. An Overview of our Colleges | 51 |
| 2.2. Awards and Recognitions | 52 |
| 3. Realise Responsible Governance | 56 |
| 3.1. Our Strategies on Sustainable Development | 56 |
| 3.2. Setting up Anti-Corruption Measures | 57 |
| 3.3. Suppliers' Management | 58 |
| 3.4. Information Disclosure Security | 59 |
| 3.5. Handling Opinions on Teaching | 60 |
| 4. Lead with Our Education Philosophy | 61 |
| 4.1. Excellent Faculty | 61 |
| 4.2. Employment System with Equal Opportunities | 62 |
| 4.3. Comprehensive Benefits and Salaries | 63 |
| 4.4. Training of Teaching Staff | 64 |
| 4.5. Healthy and Safe Campus | 66 |
| 5. Construct a Green Ecology | 70 |
| 5.1. Implement Energy Conservation and Emission Reduction | 70 |
| 5.2. Build a Green Campus | 73 |
| 6. Jointly Creating a Harmonious Society | 81 |
| 6.1. Cultivating Local Talents | 82 |
| 6.2. Building a Socially-Inclusive Community | 84 |
| 6.3. Assisting the Poor and the Elderly | 86 |
| 7. Summary of Sustainable Development Data | 87 |
| 8. Appendix: Index to the ESG Reporting Guide of Hong Kong Stock Exchange | 90 |

Environmental, Social and Governance Report

1. ABOUT THIS REPORT

China Chunlai Education Group Co., Ltd. (hereinafter referred to as “Chunlai Education”) and its subsidiaries (hereinafter referred to as “Group”, “our Group”, “the Group”, “we”, “us” or “our”) are institutions providing private higher education. The Group is pleased to present its first Environmental, Social and Governance Report (hereinafter referred to as the “ESG Report” or “this Report”), which summarises our initiatives, strategies and objectives relating to environmental, social and governance issues, and describes our vision and commitment to fulfilment of sustainable development philosophy, as well as our corporate social responsibilities.

Reporting Standard

This Report is published in accordance with the Environmental, Social and Governance Reporting Guide (“ESG Reporting Guide”) set out in Appendix 27 to the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited (the “Listing Rules”) issued by The Stock Exchange of Hong Kong Limited (the “Hong Kong Stock Exchange”). The reporting contents covered herein are in compliance with the “comply or explain” principle required in the ESG Reporting Guide. An index for major categories of ESG Reporting Guide prepared in accordance with the contents of this Report is inserted in the last chapter of this Report for readers’ easy reference. You should read this Report together with the chapter headed “Corporate Governance Report” in this Annual Report to have a comprehensive understanding of the Group’s environmental, social and governance practices.

Reporting Boundary

This Report describes the sustainable development policies related to core businesses and the overall performance of performing corporate social responsibility from 1 September 2017 to 31 August 2018 (hereinafter referred to as the “Year” or the “Reporting Period”). Unless otherwise specified, this Report covers the businesses directly controlled by Chunlai Education, and the data collection of the Key Performance Indicators (KPIs) under the Subject Area – Environmental covering Shangqiu University, Anyang University and Shangqiu University Kaifeng Campus, all of which are located in Henan Province. The Group will continue to optimise its data collection system and expand the scope of disclosure.

Language of this Report

This Report is available in two languages, including Traditional Chinese and English versions. Should there be any inconsistency between them, the Traditional Chinese version shall prevail.

Feedback on this Report

We highly value your feedback on this Report. Should you have any questions or suggestions, please do not hesitate to contact us through the following channels:

Address: No. 66, Beihai East Road, Shangqiu City, Henan Province
E-mail: cljyt@chunlaiedu.com
Tel: (86)0370-3555128

Environmental, Social and Governance Report

2. INTRODUCTION TO THE GROUP'S BUSINESS

Chunlai Education

Chunlai Education is a private provider of higher education, ranking first in Central China and fourth nationwide. Since its establishment, the Group adheres to its educational philosophy of “continuously improving the quality of talent cultivation and the ability to serve society through character building and talent fostering, persisting with scientific development, reform and innovation, education in full legal compliance to embark on its journey to internal, innovative and distinctive development”. The Group provides students with academic programmes including bachelor’s degree, junior college, bachelor’s degree transfer, junior college diploma and vocational education. Through cooperation with more than 200 companies as well as providing employment guidance and support, students can not only gain professional industry information in the classroom or lectures, but also enhance their competitive edge in the employment market via invaluable internships and training opportunities. The effectiveness of our practical curricula and training programmes is reflected through the exceptionally high initial employment rate among our graduates.

In 2018, with the successful listing of Chunlai Education on the Hong Kong Stock Exchange, the Group entered the international capital market, which commenced a brand new chapter in and injected new momentum for our future development. Each college has been preparing construction projects to expand and add multiple teaching facilities in order to raise our market share and meet the long-term demand as a result of the growth in student numbers.

2.1. An Overview of our Colleges

Shangqiu University

The predecessor of Shangqiu University was Huayu College of Henan Agricultural University (河南農業大學華豫學院), which obtained approval from the MOE in 2005 to be established as an independent college and was later renamed as Shangqiu University in 2011. Shangqiu University is well-renowned for its engineering programmes with multiple recognitions from provincial-level institutions. In the 2017/2018 school year, a total of 19,249 students were enrolled. Upon recognition of the high demand of the pre-school education due to the relaxation of one-child policy, Shangqiu University added pre-school education programmes in 2014. The programme was well-received among students. The first graduating class had achieved an initial employment rate of 96.2%.

Anyang University

The predecessor of Anyang University was the College of Humanities and Management of Anyang Normal University (安陽師範學院人文管理學院) (the “College of Humanities and Management”). In 2009, a new campus was established at the current location of Anyang University. Anyang University is known for its liberal arts programmes with multiple recognitions from provincial-level institutions. In the 2017/2018 school year, a total of 20,066 students were enrolled. In response to the development of the aviation industry in the Anyang area, the School of Aeronautical Engineering was launched in 2014. Anyang University has specifically expanded student dormitories, classrooms, other teaching facilities and acquired electric gliders and other electronic equipment for the mentioned programmes.

Shangqiu University Kaifeng Campus

Shangqiu University Kaifeng Campus, established in 2013, is a branch college of Shangqiu University. The college is renowned for its civil engineering programmes. In the 2017/2018 school year, a total of 6,437 students were enrolled. Looking forward, the college is planning to file an application to transform Shangqiu University Kaifeng Campus into an independent Private HEI that operates in full compliance with the requirements of relevant PRC laws and regulations. All current campus expansion plans at the college are implemented with the objective to be qualified as a Private HEI and to lay the groundwork for increased enrolment rate.

Environmental, Social and Governance Report

2.2. Awards and Recognitions

The Group has received many awards over the years thanks to the efforts of our teaching staff and students, including honours such as “2016 Model School of Henan Province (河南省2016年度文明學校)”, “2015 Outstanding Private School (2015年度優秀民辦學校)”, “2014 Outstanding Educational Institution (2014年度先進辦學單位)” and “Most Beautiful University Campus in Henan Province (河南省最美大學校園)”. Moreover, each Chunlai Education college adheres to the doctrines on emphasising innovative scientific development, and continuing to get inventions that combine high level of practicality and artistic value, many of which have already acquired patents. The colleges will continue to input resources in presenting more inventions that can contribute to society. These recognitions have encouraged us to march on and constantly enhance our competitive edge and development potential in the industry. In 2018, the Group obtained numerous awards, including:

| Awards and Recognitions | Hosting/Awarding Organisation | Awarded Entity |
|---|---|---------------------|
| 3rd Prize for Outstanding Cultural Construction in a High School Campus in Henan Province (河南省普通高等學校校園文化建設優秀成果三等獎) | The Education Department of Henan Province, the Higher Education Committee of the CPC Henan Provincial Committee (中共河南省委高校工委河南省教育廳) | Shangqiu University |
| Outstanding College in University-Industry Partnerships (校企合作優秀院校) | Zhengzhou Suning Logistics Co., Ltd. (鄭州蘇寧物流有限公司) | Shangqiu University |
| Outstanding Group in Stability Maintenance in Henan Province (河南省維穩工作先進集體) | The Education Department of Henan Province, Higher Education Committee of the CPC Henan Provincial Committee (中共河南省委高校工委河南省教育廳) | Shangqiu University |
| Outstanding Institution on Fire-Prevention Promotion in 2017 (2017年度消防宣傳先進單位) | The Health and Safety Education Portal of China and the Promotion and Service Centre of Fire Protection Association in Henan (中國安全健康教育網、河南省消防協會宣傳與服務中心) | Shangqiu University |
| Outstanding Institution in Party Construction (黨建工作先進單位) | Henan Province Private Education Association (河南省民辦教育協會) | Shangqiu University |
| Outstanding Scientific Research Institution (科研先進單位) | Henan Province Private Education Association (河南省民辦教育協會) | Shangqiu University |
| 3rd Place in the 2nd Henan Provincial “Sunshine” Korfball Tournament (High School Group A) (河南省第二屆「陽光」體育荷球錦標賽(高校甲組)第三名) | Education Department of Henan Province (河南省教育廳) | Anyang University |

Environmental, Social and Governance Report

| Awards and Recognitions | Hosting/Awarding Organisation | Awarded Entity |
|---|---|-------------------|
| China Mobile Cup 2017 Anyang City Football Invitational Game for Higher Education Faculty (中國移動杯2017年安陽市高校教工足球邀請賽) | Organising Committee of Invitational Games (邀請賽組委會) | Anyang University |
| The Special Prize in the 2nd "Seentao Cup" Higher Education Innovative Accounting Talent Contest (第二屆「新道杯」高等院校創新會計人才技能大賽省賽特等獎) | The Accounting Society of Henan Province (河南省會計學會) | Anyang University |
| 2017 Top Ten Universities' New Media Platforms in Henan (WeChat) (河南省2017年度十佳高校新媒體平臺(微信)) | Henan Daily Newspaper Group and Henan Society of Ideological and Political Work (河南日報報業集團、河南思想政治工作研究會) | Anyang University |
| Outstanding Social Science Work Institution of Anyang City (安陽市社會科學工作先進單位) | The Anyang City Federation of Social Science Circles (安陽市社會科學界聯合會) | Anyang University |
| 2017 "Youth Volunteers for a Civilised City-Youth Help in establishing national civilised cities Nomination" City Outstanding Organisation Award (2017年「青春志願行·共創文明城」青少年助力創建全國文明城市提名城市優秀組織獎) | The Publicity Department of Anyang City Committee, Municipal Civilisation Work Office, Working Committee Directly under Municipality, Communist Youth League of Anyang City Committee (安陽市委宣傳部·市文明辦·市直工委·共青團安陽市委) | Anyang University |
| The School's Mechatronic Engineering discipline was appraised as one of the key subjects (In Nurturing) of the 9th batch in Henan Province (第九批河南省重點學科(培育學科)) | The Education Department of Henan Province (河南省教育廳) | Anyang University |
| Second Place in the "Integrity Campus Tour" University Student Funding Knowledge Contest of Henan Province (河南省大學生「誠信校園行」學生資助知識大賽二等獎) | The Student Financial Assistance and Management Centre of Henan Province (河南省學生資助管理中心) | Anyang University |
| Recognised as "Excellent Organisation" in the 2018 National English Competition for College Students (2018年全國大學生英語競賽榮獲優秀組織獎) | The College English Teaching and Research Association of China (高等學校大學外語教學研究會) and the College English Teaching and Steering Committee of China (高等學校大學外語教學指導委員會) | Anyang University |
| Recognised as "Excellent Organisation" in the 2017 "ECHOM Design Valley" Shenyang Industrial Design Competition (2017「毅昌設計谷杯」瀋陽工業設計大賽優秀組織獎) | The Organising Committee for Shenyang Industrial Design Competition (瀋陽工業設計大賽組委會) | Anyang University |

Environmental, Social and Governance Report

| Awards and Recognitions | Hosting/Awarding Organisation | Awarded Entity |
|---|---|---------------------------------------|
| Recognised as "Excellent Organisation" at the Anyang Cultural Tourism Industry Exhibition of the 10th Anyang Aero Sports and Cultural Tourism Festival (第十屆安陽航空運動文化旅遊節安陽文化旅遊產業精品展榮獲優秀組織獎) | Anyang Culture, Radio and Television, Press and Publication Bureau (安陽市文化廣電新聞出版局) | Anyang University |
| Two top prizes and one second prize in the provincial finals of the 14th "Xin Dao Cup" National University Students Sandboxie Simulation Elite Competition (第十四屆全國大學生「新道杯」沙盤模擬精英大賽省級決賽) | Economics and Management department (經濟與管理學科組) of Experimental Teaching Demonstration Centre of Education Institutions and Seentao Technology Co., Ltd. | Anyang University |
| Recognised as "Best Organisation" at the Preliminary Contest of the 8th National Campus Finance and Accounting Contest in the "Chinaacc Cup" (「中華會計網校杯」第八屆全國校園財會大賽校園初賽最佳組織獎) | Higher Financial & Economic Education Branch of China Higher Education Association and www.chinaacc.com | Anyang University |
| Champion of the 4th Men's Basketball Championship in the "University Cup" in Anyang City (安陽市第四屆「高校杯」男子籃球賽冠軍) | The Physical Education and Sports Commission (體育運動委員會) of Anyang Normal University | Anyang University |
| Awarded 2 Gold, 1 Silver, and 1 Bronze Medals in the 7th University Aerobic Gymnastics Championship in Henan Province (河南省第七屆大學生健美操錦標賽) | China Cheerleading Association and the Gymnastics Management Centre of General Administration of Sport of China (全國啦啦操組織委員會、國家體育總局體操管理運動中心) | Anyang University |
| Awarded 3 Second Prizes and 8 Third Prizes in the National University Mathematical Contest in Modelling in the China Youth Cup (中青杯全國大學生數學建模比賽) | | Anyang University |
| Awarded 2 gold medals, 4 silver medals and 6 bronze medals at the Eighth Traditional Sports Competition of Ethnic Minorities in Henan Province (河南省第八屆少數民族傳統項目體育運動會) | Henan Organising Committee for the 8th National Traditional Games of Ethnic Minorities (河南省第八屆少數民族傳統體育運動會組委會) | Anyang University |
| Second prize in the teaching practices category for the outstanding case "Self-scripted, Self-directed and Self-curated; I learned, I acted and I improved-An Innovation in Moral Education Leading up to a Life Well-acted" (「自編自導自策劃·我學我演我昇華--創新德育教學·演好人生之戲」) hosted and submitted by Li Chan Juan (李嬋娟), a teacher from the Ideological and Political Theory Teaching Department | The University Working Committee of Henan Province (河南省高校工委), the Education Department of Henan Province (河南省教育廳) | Shangqiu University Kaifeng Campus |

Environmental, Social and Governance Report

| Awards and Recognitions | Hosting/Awarding Organisation | Awarded Entity |
|--|--|---------------------------------------|
| Excellent Organisation Prize for the Ninth Translation Contest in Henan Province (河南省第九屆翻譯競賽優秀組織獎) | Henan Translators' Association (河南省翻譯協會) | Shangqiu University Kaifeng Campus |
| Of the 5 teams representing the School in the 2018 MCM/ICM, one team won the international second prize, and the remaining four teams won the international third prize | The Mathematical Association of America (美國數學聯合會) | Shangqiu University Kaifeng Campus |
| The General Branch of Red Flag Youth Corps Committee (五四紅旗團總支) | Kaifeng Municipal Youth League Committee (開封市團委) | Shangqiu University Kaifeng Campus |
| 2 School teams taking part in the Henan Provincial University Robot Contest (河南省大學生機器人競賽) won Second Prizes | The Provincial Education Department, the Provincial Department of Science and Technology, the Publicity Department of Henan Provincial Committee, and the Provincial Association for Science and Technology, etc. (省教育廳、省科技廳、省委宣傳部、省科協等) | Shangqiu University Kaifeng Campus |
| Yu Jia Ying (余佳瑩), an associate professor at one of our colleges, was awarded the title of Pioneer in Academic Technology (學術技術帶頭人) of the Education Department of Henan Province (河南省教育廳) in 2018 | The Education Department of Henan Province (河南省教育廳) | Shangqiu University Kaifeng Campus |
| Wei Chun Xia (魏春霞), a teacher at our School of Foreign Languages, was awarded the title of "Outstanding Individual in Teachers' Ethics" (「師德先進個人」) in Hubei Province | The Education Department of Hubei Province (湖北省教育廳) | Hubei College |

Environmental, Social and Governance Report

3. REALISE RESPONSIBLE GOVERNANCE

3.1. Our Strategies on Sustainable Development

Since its establishment, Chunlai Education has always served the society by fulfilling the social responsibility of “Greater Contributions for a Great Society”. Chunlai Education is not only committed to education, but also taking an active part in social charities and looking to highlight sustainable development in our operations. For years, the Group has always dedicated itself to serving the society and has engaged with its stakeholders via various channels to formulate our strategies on sustainable development, which consist of four categories namely “Realising Responsible Governance”, “Outstanding Educational Philosophy”, “Building a Green Ecology” and “Commitment to Community Contribution”. This Report also sets forth the focal points and contributions of the Group’s annual social responsibility based on these four categories.



Stakeholder Engagement

We identify stakeholders from different sectors, including shareholders, students, parents, employees, investors, state and regulatory authorities, suppliers and the general public. To understand their opinions and expectations on the Group and to establish a long-term relationship on mutual trust, we proactively explore and learn about their areas of concerns with an open attitude, in light of which we defined the scope to be covered in this Report.



Environmental, Social and Governance Report

3.2. Setting up Anti-Corruption Measures

The Group insists on education by setting a good example, and highly values the importance of personal ethics of our teaching staff. We strictly enforce “Rules of Integrity” (《廉政準則》) and “Implementation Measures of the Accountability System for Establishing Party Conduct and Upholding Integrity” (《黨風廉政建設責任制實施辦法》). Teachers are expected to treat every student in a fair and impartial manner, and not to use their teaching positions for personal gains. Furthermore, the Group has a zero tolerance policy towards behaviours in breach of professional ethics such as fraud, money laundering, extortion, bribery, and misappropriation of public funds.

To establish an effective accountability system of supervision, we formulated the “Measures for Whistleblowing” (《舉報工作辦法》). Whistleblowers may report through public complaints and proposals, websites, phone calls and other confidential channels. The reported cases will be handled by superior authorities of discipline inspection and supervision in accordance with the Party Constitution, state laws, regulations, policies and school rules within 60 days. During the Reporting Period, no litigation regarding corruption in the Group was filed. It fully reflects the effectiveness and efficiency in building Party conduct and upholding integrity as well as anti-corruption. This year, our prevention measures include:

| Preventive Measures | Contents |
|---|--|
| Case Study-based Reform on both Symptoms and Root Causes | To analyse and deploy based on different circumstances, and establish a long-term and effective mechanism; to disclose in a timely manner to rectify corruptive conduct. |
| “Regulation of the Communist Party of China on Disciplinary Actions” | To enforce disciplinary actions against violations and offences in a fair, serious and impartial manner so that employees understand the penalties and increase their vigilance. |
| Integrity Warning Education Activities | To instill employees with ethical values on anti-corruption through case studies. |
| Work Leading Group | To lift employee’s awareness on anti-corruption and effectively supervise and enforce work plans in formulated systems through frequent communication. |

Internal Control Infrastructure

To administer and govern in accordance with the law, the Board, management and all the staff of the Group work together to develop a well-rounded internal control infrastructure. Since the founding of the group, we have adopted the Articles of Henan Shangqiu Chunlai Education Group, which emphasise a “people-oriented” approach, formulating a reasonable and clear organisation structure that clearly defines the duties and powers of each department. Members of the risk assessment committee are responsible for the study and evaluation of the Group’s risk profiles, and to develop a timely risk warning system as well as presenting proposals that serve to improve the Group’s future operations. These works are to be recorded in the Group’s risk database. Specific personnel will be assigned to update, maintain and manage the aforementioned records for reference in the future.

Environmental, Social and Governance Report

With regard to mitigation measures, we compile and analyse risk events that may cause a significant impact on our operations annually. We then prepare a risk management scheme accordingly. The scheme will be implemented upon revision and approval by the Board. All committees coordinate with relevant departments to ensure smooth communication and reporting in the process. The committees will also follow through the scheme and assess its effectiveness as per practical conditions in order to build a sound and comprehensive internal control system.

3.3 Suppliers' Management

Our suppliers are mainly located in Henan, Beijing, and Jiangsu, and the products and services we procured mainly include textbooks, uniforms, teaching equipment, software service and others. Utilising local suppliers will not only serve to vitalise the region's economy, but also reduce carbon emissions released during transportation and mitigate the impact on the environment. Chunlai Education has also actively optimised its supply chain management and strictly conformed with the Suppliers' Management System (《供應商管理制度》) to effectively evaluate and select qualified suppliers, thereby enhancing procurement quality and efficiency. The following chart shows the composition of our suppliers for the year.

| Regions of Suppliers | Numbers of Suppliers |
|----------------------|----------------------|
| Henan | 84 |
| Beijing | 8 |
| Jiangsu | 2 |
| Hebei | 1 |
| Chongqing | 1 |
| Shenzhen | 1 |

When we assess suppliers, we take price, quality, delivery, lead time, service, responsive time and the ability to meet the State's strategies on sustainable development – compliance with laws, safety and environmental protection as well as other aspects into account. This standard helps suppliers to raise their awareness of social responsibility, and to conform with green procurement and achieve a sustainable supply chain. Once suppliers are shortlisted, they are to submit their business license for appraisal on their qualifications, and will be recorded in the supplier's file. We also conduct annual assessments and reviews on suppliers and implement a disqualification mechanism, and communicate or replace unqualified suppliers in a timely manner to mitigate the risks presented in our operations.

Environmental, Social and Governance Report

3.4 Information Disclosure Security

Chunlai Education strictly complies with PRC laws and regulations, including the Regulations of the People's Republic of China for Safety Protection of Computer Information Systems (《中華人民共和國計算機信息系統安全保護條例》), the Administrative Measures for Testing and Selling License of Special Products Used for the Safety of Computer Information Systems (《計算機信息系統安全專用產品檢測和銷售許可證管理辦法》) and Opinions of the State Informatisation Leading Group for Strengthening Information Security Assurance Work (《國家信息化領導小組關於加強信息安全保障工作的意見》), and has set up the Information Security Management System for Henan Chunlai Education Technology Co., Ltd. (《河南春來教育科技有限公司信息安全管理制度》) to continue optimising and upgrading the information security system to a safe level.

Information security assurance

Our system achieves targeted level of control over information security risks by adhering to the principle of "comprehensive prevention that emphasises both management and technology emphasising safety-first and a precautionary mindset." We permanently install reliable anti-virus software on all of our computer facilities, and all replacement and introduction of hardware and software are subject to approval to protect our assets from intrusions such as Internet scams, probes, viruses and hacker attacks. Set out below are the priorities of our Information Management Department, which are strictly enforced and supervised by the security leading group:

- To carry out regular inspection on systems, computers and real-time scanning/filtering processes;
- To strengthen training, promotion and education on knowledge regarding the Internet and information security, and raise awareness on knowledge regarding emergency response to sudden information security events through drills;
- To carry out safety assessments and formulate information security strategies;
- To report and handle any existing anomalies in the operating system in a timely manner and record them in the data centre.

Strict confidentiality measures

We only collect information relevant to our business and such legitimate information collected will be kept safely. To safeguard our information security, all key personnel are required to sign a binding confidentiality agreement upon reassignment and resignation. In the future, we will consider expanding such requirement to external personnel responsible for handling information systems as well. Before accessing important and sensitive data, all staff are required to have authorisation from managers of relevant departments and complete registration procedures. Unauthorised access and copy of information are also prevented through system access control as well as encryption technology under industrial standard.

Environmental, Social and Governance Report

Protection of intellectual property rights

We regard the protection of intellectual property rights with high importance and strictly comply with the Guidelines for Genuine Software Management (《正版軟體管理工作指南》) issued by the State Intellectual Property Office. We ensure that all faculty members' computers are equipped with secured and genuine computer software. We also ensure that software licences and authorisation requirements are met through regular review. We procure products that comply with relevant State requirements with safe product selling licence and proof of intellectual property rights to construct key information systems and networks in accordance with the Regulations on Information System Construction Safety Management (《信息系統建設安全管理規定》).

Technology research and development is one of our major developmental directions, and we continue to bear fruits with collective efforts from teachers and students. We apply patents for the invented products to ensure originality and recognition of efforts of the research and development work. During the Reporting Period, we achieved encouraging results by maintaining existing registered patents for a total of 12 inventions and obtained new patents for 3 other inventions.

3.5 Handling Opinions on Teaching

We always regard feedbacks on teaching as a key driver for the Group's improvement. We have a standard procedure in place to handle complaints and teaching incidents. Upon receipt of complaints, the office of academic affairs and the teaching enhancement office will handle the cases seriously, which include holding discussion meetings, reviewing the details of the case and provide solutions and improvement plans. During the Reporting Period, we did not receive any complaint on teaching. To maintain our quality of service, we also constantly keep track of, respond to and improve upon complaints to deliver the best teaching service to enhance our competitiveness.

Strengthening communication with teachers, students and parents

As an operator of higher education institution, we, as well as the teachers, students and parents, are extremely concerned about the career development of our graduates. The annual tracking survey of the employment status of graduates can reflect whether the programmes offered by the Group can meet the demand of the employment market. It also enables us to design courses for the new semester under a better understanding of social trends. The School has also been conducting satisfaction surveys to collect opinions and advice on teaching from teachers and students, upon which management of the Group will provide timely feedback and develop solutions, thus providing a more inclusive channel for teachers and students to participate in school building and management. We also utilise highly transparent and monitored Internet information technologies, such as campus network and the OA system, to share internal teaching information, and thus realising an open and transparent communication model for school affairs.

Building brand image

Chunlai Education builds its brand on the principle of "live, work and form a career with honesty, diligence and pragmatism". We ensure that the information we release while promoting our brand, such as talent training programmes for all professionals, college data indicators and qualifications of our teaching staff, is complete, authentic and accurate for the public in order to eradicate all false and misleading descriptions which will the public.

Environmental, Social and Governance Report

4. LEAD WITH OUR EDUCATION PHILOSOPHY

Chunlai Education thoroughly implements its education philosophy of emphasising practicality and is committed to equipping our students with the practical skills required for China's economic development to promote innovation and competitiveness in the market. The core objective of our operation is to attract high-level faculty and provide a well-trained teaching staff body. Accordingly, in relation to employment and labour practices, we strictly comply with the laws and regulations including the Labour Law (《勞動法》), the Labour Contract Law (《勞動合同法》), the Regulations on the Implementation of the Labour Contract Law (《勞動合同法實施條例》), the Law on the Protection of Minors (《未成年人保護法》) and the Provisions on the Prohibition of Using Child Labour (《禁止使用童工規定》).

4.1. Excellent Faculty

The Group implements the strategy of "Strengthening University with Talents" and insists on placing the quality and interests of staff as the top priority of the Group. Key areas such as competitive human resource management policies, employee management, remuneration management, annual appraisal, promotion channel, recruitment criteria and procedure, employee compensation and benefits as well as employee training plans are set out in the Employee Manual (《職工手冊》) in detail. To recruit the best talents, Anyang University has issued the Administrative Measures of Anyang University for the Introduction of High-level Talents (《安陽學院高層次人才引進管理辦法》) to step up the efforts in attracting high-level talents, which successfully expanded the number of full-time teachers and optimised the structure of our teacher staff.

Shangqiu University 2018 Fall Semester Faculty Meeting

All faculty members of Shangqiu University attended the Shangqiu University 2018 Fall Semester Faculty Meeting. Concluding on our past performance, our objectives for the 2018/2019 school year as set out in the Shangqiu University Main Tasks of 2018 Fall Semester (《商丘學院2018年秋季學期工作要點》) include putting forward in full force our appraisal and construction work; fulfilling our fundamental mission of character building and talent fostering to enhance training quality of talents with practical skills; and facilitating school development by improving the level of assurance and service.

Senior management of the Group also provides direct feedback on issues of high concern to faculty members, highlighting the importance of these issues to us. Faculty members are confident in the work arrangement and deployment for the new semester. With passion and cooperation, we will strive together for the upcoming semester with wisdom and efforts.

Environmental, Social and Governance Report

4.2. Employment System with Equal Opportunities

In the recruitment process, the human resources department will verify the identity of all staff members. Employment of child labour and forced labour is strictly prohibited. The Company will also regularly review staff overtime and their labour intensity. Moreover, we have zero-tolerance towards discrimination in the workplace, forced labour, harassment and other acts. During the Reporting Period, the Group did not record any violation related to discrimination, employment of child labour or forced labour.

Recruitment management

The Group formulated the Administrative Measures on Recruitment (《招聘管理辦法》) and formed a recruitment leading group. We insist on merit-based appointments, and value morality in conducts as the top priority, and in addition, we ensure equal employment opportunities for candidates regardless of their gender, age, nationality or race. After passing the resume screening stage, applicants are required to provide relevant materials such as identification document, transcripts of studies, recommendation letters and certificates to the human resources department for record and stringent verification, so that we can ascertain that the candidates do possess genuine and relevant qualifications and avoid employment of child labour. In addition, the Board, school principals, the human resources department, and the office of academic affairs and the manager of the hiring college will take part in the teacher recruitment interviews to evaluate the applicants based on factors such as their character, educational background, work experience and skillsets. Once the appointments of applicants are reviewed and confirmed by the Board, we will sign an employment agreement and employment contract with the potential employee so as to protect the interests of our staff. Information of the Group's employees is set out below:

| Staff category | Number of staff |
|-----------------------------------|------------------------|
| All staff | 2,897 |
| by gender | |
| Male | 1,428 |
| Female | 1,469 |
| by employment category | |
| Short-term contracts/part-time | 720 |
| Junior level | 617 |
| Intermediate level | 473 |
| Senior level | 695 |
| Others | 392 |
| by age group | |
| Under the age of 30 | 1,099 |
| Aged 30-50 | 1,080 |
| Over the age of 50 | 718 |
| by region | |
| Staff in the Central China region | 2,086 |
| Staff in the North China region | 480 |
| Staff in the East China region | 252 |
| Staff in the Northeast region | 47 |
| Staff in the Northwest region | 18 |
| Staff in the Southern region | 14 |

Environmental, Social and Governance Report

Any engagement or departure and retention or transfer of every faculty will be taken seriously by the Group. When a resignation request is filed, the head of human resources will conduct an interview with the teacher who has filed his/her resignation for the purpose of understanding the reasons for departure, and identifying proper improvement measures to be adopted in order to promote a sense of belonging at work for the existing academic staff. Management will also continuously oversee the turnover rate and continue to maintain communication with the academic staff to develop a good employment relationship. During the Reporting Period, the employee turnover rate was as follows:

| Staff category | Turnover rate |
|-----------------------------------|----------------------|
| All staff | 9.94% |
| Turnover rate by gender | |
| Male staff | 7.28% |
| Female staff | 12.53% |
| Turnover rate by age group | |
| Staff under the age of 30 | 23.29% |
| Staff aged 30-50 | 1.67% |
| Staff over the age of 50 | 1.95% |
| Turnover rate by region | |
| Staff in the East China region | 8.33% |
| Staff in the South China region | 21.43% |
| Staff in the North China region | 7.50% |
| Staff in the Central China region | 10.79% |
| Staff in the Northeast region | 6.38% |

4.3. Comprehensive Benefits and Salaries

Chunlai Education firmly believes that academic staff is key to the Group's development and seeks to retain talented staff through comprehensive benefits and salaries. The Group formulated the Administrative Measures for Performance Appraisal (《績效考核管理辦法》) and the Benefits and Salaries of the Teaching Staff (《教職工福利與待遇》) to guarantee competitive remuneration and benefits for the teaching staff and other personnel. We make regular adjustment to the remuneration and benefits of all of our employees to reward their past contribution and hard work for our colleges based on economic conditions, price index as well as industry and development changes, so as to stabilise our core teams, and to provide work incentives and improved cohesion.

Environmental, Social and Governance Report

Benefits and Allowances

Chunlai Education provides staff benefits above the minimum legal requirements. Aside from normal rest days, employees are not only entitled to paid annual leave, statutory paid sick leave, leave of absence, maternity leave, marriage leave and bereavement leave, but also to a week of educational leaves per semester to be provided to personnel in academic pursuit while maintaining their positions. The Group implemented and fully complied with the Provisional Measures for Social Insurance Administration (《社會保險管理暫行辦法》), and made contribution to “Five Social Insurances and One Housing Fund” on behalf of employees who have entered into a valid contract and are eligible for such insurance. All teaching staff are entitled to benefits such as teacher’s day, Mid-Autumn Festival and Chinese New Year. Out-town talents with senior titles can also enjoy an additional transportation allowance in support of their home return trips during national statutory holidays as well as winter and summer vacations. In addition, we also implemented a reward and punishment system of Appraisal Measures of the Teaching Staff Term Performance (《教職工學期績效考核辦法》) to issue performance bonus to the teaching staff, on the basis of fair assessments of their work ethics, talent and performance, for the purpose of motivating the teaching staff to work proactively and perform their job duties earnestly.

4.4. Training of Teaching Staff

Establishment Plan for the “13th Five-year” Teaching Staff

The Group implemented the Party’s direction of socialist education and the policy of “standardised school operation, speed up construction and establishment, enhance quality and highlight features” and developed an “Establishment Scheme for the ‘13th Five-year’ Teaching Staff” (《“十三五”師資隊伍建設規劃》). Through the scheme, we recruited senior talents and further strengthened our “dual-qualified teachers” teaching team in line with our three key segments for the year, namely “introduce, train and utilise talents”. The Group decided to maintain the quality of the talents by setting up annual targets on the number of teaching or scientific research team talents to be trained.

Environmental, Social and Governance Report

We offer a comprehensive career plan to our teaching staff, and also encourage them to upgrade their academic qualifications and professional competency through different paths such as continuing learning and receiving on-the-job training. We provide younger teachers with capability development opportunities such as lesson observation, lesson demonstration, skill competition and outstanding lesson plan contests to broaden their horizons and to enhance their skills. Outstanding older teachers will be nominated to complete degree programmes and attending academic visits from renowned universities in China and abroad to carry out academic exchanges and cooperative research. Such training programmes could pave the foundation for key subjects and teaching quality development, which is beneficial to the further improvement of the applied education level of our colleges. The following table summarises the total training provided for the year:

| Staff category | % of staff trained | Average training hours completed per staff |
|-------------------------------|---------------------------|---|
| By gender | | |
| Female | 46.64% | 6.67 hours |
| Male | 49.90% | 3.96 hours |
| By employment category | | |
| Junior level | 52.03% | 8.96 hours |
| Intermediate level | 48.20% | 4.70 hours |
| Senior level | 32.09% | 2.43 hours |

The category, content and purpose of the Group's annual teaching staff training plan are as follows:

| Training category | Training content and purpose |
|--|--|
| Training on professional practical skills | Setting up research directions and developing potential projects collectively as well as enhancing school-corporation collaboration by nominating teachers to companies and scientific research institutions of corresponding professional specialisations for on-the-job training. |
| Training on higher education teaching qualification | We provide our teaching staff with certified training courses and examinations for further education and help them obtain teaching qualifications of higher education. |
| Academic visits and further studies overseas | We offer overseas academic visits and further studies opportunities to selected teachers for further study to broaden their knowledge of other countries and keep pace with trends and developments in international scientific research, education and administration. Once returning from the trips, the nominated teachers share notable teaching practices, methods and concepts that are worthy of reference to other teaching staff for enriching their knowledge. |

Environmental, Social and Governance Report

| Training category | Training content and purpose |
|--|---|
| Pre-employment training | New teaching staff can enhance their teaching knowledge, skills and team building through external activities for quality development, visits, project learning, thematic seminar and internal training of respective departments. |
| Apprenticeship | During the first academic year, a new teacher will be teamed up with an experienced mentor. The new teacher will be able to adapt to the new environment faster through experience sharing on lessons preparation, attending lectures, teaching in class, counselling, Q&A and homework review and marking. |
| Training on teaching methods and skills | To train up younger teaching staff on learning to combine traditional teaching theories, skills and approaches, to enhance English proficiency and to improve teaching skills and quality of business service, by working with modern educational information technology applications. |

4.5. Healthy and Safe Campus

Chunlai Education firmly believes that the physical and mental health of teaching staff and students are crucial to the educational development of its colleges. We have implemented a range of health and safety measures and arrangements, and prepared the School Safety Management Regime (《學校安全管理制度》) with respect to campus facilities, power and water consumption, power consumption for heating and the use of natural gas. The goal is to build a healthy and safe campus, and optimise the health of our employees and students, to provide safe food in our canteens and to ensure a safe teaching environment. During the Reporting Period, the Group did not record any work-related fatalities. Despite an incident that resulted in the loss of 30 working days due to work injuries at Shangqiu University, we have paid close attention to the incident and have promptly submitted reports to the Centre of Work-related Injury Insurance so that all of staff is protected under the employee social programme. In the future, we will enhance the preventive measures regarding this area to prevent similar incidents from happening again.

Health check-ups for teaching staff

The Group places the health of its employees as a priority. Anyang and Shangqiu University regularly arrange mandatory health check-ups for their teaching staff on duty and provide them with professional advice on healthcare and disease prevention and control as well as consulting services according to their individual health conditions and medical examination reports, so that employees can better understand their health conditions and achieve the goal of “early treatment if ill and early prevention if healthy.”

Environmental, Social and Governance Report

Prevention of occupational diseases of teaching

During the health check-ups, Anyang University also organises publicity activities to promote knowledge on prevention of occupational diseases related to teaching. Knowledge on prevention of occupational diseases is promoted through banners and publicity leaflets for sharing relevant knowledge with teaching staff who are unable to attend, and thus benefiting all teaching staff in the university. The infirmary of Shangqiu University even prepares brochures on “Promotion of Health Education – How to Prevent Occupational Diseases of Teaching” which help teachers recognise common symptoms of occupational diseases and propagate simple mitigation measures.

Lectures on “Health and Disease” – Shangqiu University



In June 2018, the Teacher Development Center of Shangqiu University held two sessions of health lectures on the topic of “Healthy Teachers and Students, Healthy China” and “How Teachers in Higher Education Can Self-regulate and Maintain Physical and Mental Health” which attracted more than 400 teachers and professors representatives to attend. During the session, speaking professionals brought out the awareness on the importance of understanding the body structure, having basic knowledge regarding diet for cancer or disease prevention, leading a regular lifestyle and other factors in maintaining health. The second session of the lecture explored in depth the secrets of mental health and revealed the three cornerstones of health – “Reasonable Diet, Moderate Exercise, and Psychological Balance.” The teaching staff benefited a lot from the lectures, sharing information about health and wellness with their co-workers, family, and friends to firmly establish the ethos of “Health First.”

Environmental, Social and Governance Report

Health and safety of the students

A comprehensive approach to infectious diseases can protect students and reduce operational risks. The Group prepared the Contingency Plan on Control, Prevention and Emergency Response to Infectious Diseases (《傳染病防控應急預案》) with reference to regulatory documents including the Law on Prevention and Treatment of Infectious Diseases (《傳染病防治法》), the Regulations on the Urgent Handling of Public Health Emergencies (《突發公共衛生事件應急條例》) and others. The contingency plan focuses on the review of prevention and treatment efforts, the implementation of health education and the establishment of a comprehensive monitoring and reporting mechanism. Also specified in the contingency plan are coping measures and steps addressing different situations, achieving the goal of “Early Detection, Early Reporting, Early Treatment.”

Prevention and treatment of tuberculosis – Anyang University and Shangqiu University



In response to the World Tuberculosis Day on 24 March and in order to comply with the Work Specification for Prevention and Control of Tuberculosis in School (《學校結核病防控工作規範》) prepared by the government, Shangqiu University launched a health educational promotional campaign of tuberculosis with the theme of “Taking Actions to Eliminate Tuberculosis, Establish and Share A Healthy China” to ensure the health and safety of teachers and students for the ultimate purpose of eradicating tuberculosis. Through explaining tuberculosis and its symptoms, treatments and preventions by professional healthcare personnel, it was shown that tuberculosis can be ultimately cured as long as standardised diagnoses and treatments are received in a timely manner.

Environmental, Social and Governance Report

Psychological evaluation for new students



Technology College of Shangqiu University expressed concern for student's psychological health and required new students of 2017 to complete a psychological evaluation. Under the guidance of trained staff members, new students managed to deliver accurate information through questions for professional psychological evaluation. Once understanding and grasping students' psychological health information, the college can then provide specific assistance in a timely manner.

Hygiene of teaching environment in campus – environmental monitoring activities

As we are firmly convinced that a comfortable teaching environment can enhance teaching quality, regular disinfectants spraying is conducted to clean the entire school dormitory buildings. Two hours of disinfections were carried out with ultraviolet disinfection lamps for some of the classrooms. Doctors of medical clinics in school also conducted professional monitoring on the hygiene of teaching environment and student's living environment, and submitted opinions to the heads of relevant departments to make unified rectifications.

School canteen environmental and food safety

The college pays high attention to canteen environment and food safety as to conform strictly with regulations such as the Food Safety Law of the PRC (《中華人民共和國食品安全法》), the Regulation on Hygiene Administration of School Canteens and Collective Dining of Students (《學校食堂與學生集體用餐衛生管理規定》). Anyang and Shangqiu University established a school meal management committee to ensure food safety and quality for teachers and students. The committee improves and establishes school meals management system through ways such as conducting food examinations, inspecting canteen environment, collecting feedbacks or holding regular meetings.

Environmental, Social and Governance Report

In addition, the meal service centers of the universities established Food Safety Management System (《食品安全管理制度》), Foods Retention Sample System (《食品留樣制度》), Food Safety Self-examination and Report System (《食品安全自檢自察與報告制度》) and Foods Sampling System (《食品抽檢制度》), specifying standard requirements and procedures that required strict compliance, and established an accountability system to monitor and realise food safety. The above systems include:

- Placing food operation licenses, labels of safety level for foods and beverage services, records of daily monitory and testing results in notable places of dining area;
- Displaying main food ingredients and their sources, and the food additives used in the processing process in the recipes, food-taking area and display area;
- Revealing processing process to the public in an “Open and Clear Kitchen”;
- Maintaining cleanliness of food preparation and dining area, and fulfilling hygiene requirements for food and beverage services issued by the China Food and Drug Administration;
- Requiring food sampling procedures conducted by engaged third-party testing company with sampling qualification;
- Establishing food safety management archive to keep various examination records;
- Submitting results of pesticide residue testing and restaurants finished goods for examination from times to time.

5. CONSTRUCT A GREEN ECOLOGY

5.1. Implement Energy Conservation and Emissions Reduction

The Group has been strictly complying with the Environmental Protection Law of the PRC (《中華人民共和國環境保護法》) and relevant environmental laws and regulations in which our businesses operate. There was no material environmental violation during the Reporting Period. We have always focused on all impacts and potential risks on the environment and surrounding ecosystem as a result of the operations of school buildings with the concept of “Striving for scientific development, for reform and innovation, and for education based on laws,” and encouraging all teachers and students to reduce energy consumption and waste of resources.

Environmental, Social and Governance Report

Combating climate change

Many countries around the world have signed the historically significant agreement to combat climate change, the Paris Agreement (《巴黎協議》), which was approved at the twenty-first session of the United Nations Climate Change Conference (COP21) held in Paris in determination to jointly combat climate change. The People's Republic of China also expressed a deep commitment to its undertakings in relation to honouring the agreement, through issuing significant policies such as National Planning in Response to Climate Changes (2014-2020) (《國家應對氣候變化規劃(2014-2020年)》) and National Strategies in Response to Climate Changes (《國家適應氣候變化戰略》) successively in an effort to tackle climate change. In response to the nation's energy conservation and emissions reduction campaign, the Group launched its first investigation of greenhouse gas emissions on three colleges of the Group including Shangqiu University, Anyang University and Shangqiu University Kaifeng Campus in accordance with the Greenhouse Gas Protocol (《溫室氣體盤查議定書》) developed by World Resources Institute and World Business Council for Sustainable Development and ISO14064-1 determined by the International Standardisation Organisation.

After the investigation, the Group's greenhouse gas emissions can be categorised into direct emissions (Scope 1), indirect emissions (Scope 2) and other indirect emissions (Scope 3). The greenhouse gas emissions are produced by burning natural gas and fuel consumption of vehicles and landscaping equipment of the Group (Scope 1), power consumption in operation and gas consumption (Scope 2), as well as water consumption, waste landfill and paper consumption (Scope 3), respectively. The summary of greenhouse gas emissions during the Reporting Period is as follows:

| Greenhouse gas emissions performance | Unit | 2018 |
|---|---|-----------|
| Amount of greenhouse gas emissions | | |
| Direct greenhouse gas emissions (Scope 1) | tCO ₂ e | 1,745.01 |
| Direct greenhouse gas removals (Scope 1) | tCO ₂ e | 57,339.00 |
| Indirect greenhouse gas emissions (Scope 2) | tCO ₂ e | 13,250.38 |
| Other indirect greenhouse gas emissions (Scope 3) | tCO ₂ e | 1,057.24 |
| Total amount of greenhouse gas emissions (Scope 1, 2 & 3) | tCO ₂ e | 16,052.63 |
| Intensity of greenhouse gas emissions | | |
| Per square metre of floor area (Scope 1, 2 & 3) | tCO ₂ e/floor area (square metres) | 0.008 |
| Per employee (Scope 1, 2 & 3) | tCO ₂ e/employee | 5.46 |

Scope 1: Direct greenhouse gas emissions from sources that are owned and controlled by the Company.

Scope 2: Indirect greenhouse gas emissions resulted from the generation of electricity, heating, cooling or steam purchased by the company.

Scope 3: Greenhouse gas emissions indirectly resulted from source that are relevant to the company's activities but are not owned or directly controlled by it.

Environmental, Social and Governance Report

The Group is pleased to present its first review and report on the performance of the greenhouse gas emissions of the 3 colleges of the Group for the year. The Group also expects to expand the coverage and depth of the environmental performance report in the future. We shall keep up our effort in monitoring the sustainable development performance, and conducting more in-depth analysis and revisions of the greenhouse gas emissions. In addition, the Group will conduct benchmarking analyses to improve overall environmental protection performance and assume our environmental and social responsibility.

Emissions

The Group strictly complies with the Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution (《中華人民共和國大氣污染防治法》) and the Action Plan for Environmental Pollution Prevention and Control of Shangqiu City in the Year 2017 (《商丘市2017年度環境(大氣)污染防治工作方案》). In the course of our operation, the gasoline and diesel used in our vehicles and landscaping equipment will cause air emissions, including SO₂ and NO_x. The following coping methods and emissions reduction measures have been taken:

- To ensure that engines are stopped when vehicles are not in motion
- To prioritise the use of electric or hybrid-electric vehicles
- To conduct regular check and keeping tyres inflated to ensure correct tyre pressure
- To carry out maintenance for company vehicles to reduce fuel consumption and emissions of pollutants

The Group formulated and accelerated the implementation of the action plan of natural gas renovation according to relevant key indicators as set out in the Standardised Evaluation Procedures for the School Canteens in the Higher Education Institutions of Henan Province (《河南省高等學校標準化學生食堂達標驗收評分細則》). Since October 2017, all kitchen utensils in our school canteens have been replaced with natural gas models. Old boilers are phased out and the use of hazardous combustible gas such as liquefied gas and Methanol is terminated. Combustion of natural gas, as compared with combustion of coal, can greatly reduce the emissions of pollutants such as SO₂, NO_x and respirable suspended particles, and thus reducing air pollution. In addition, we have also installed cooking fumes purifier to further reduce the release of hazardous substances and emissions.

Environmental, Social and Governance Report

Supporting renewable energy



The Group adheres to the aim of innovation and supports the concept of sustainable development, actively using renewable energy in its daily campus life. We flexibly utilise campus rooftop spaces to install solar hot water systems, with heat exchangers installed in the middle of solar panels taking advantages of heat from solar radiation to generate hot water, which is then conveyed to electric water heaters to provide teachers and students with hot water for dormitory use. Although hot water generated from the solar devices on campus is not sufficient for all teachers and students, it nevertheless provides a platform for teachers and students to participate in the exchange of knowledge and experience in the applications of solar energy, which is of even greater significance. At the same time, interactive teaching increases participating students' knowledge and attention on energy.

5.2 Build a Green Campus

Although the Group's business concentrates on the operation of schools and is not involved in production operations with high energy consumption, we are still committed to implementing various green initiatives within campus to promote environmental protection teaching concepts and educate the next generation to reduce waste of energy consumption and to cherish the resources of the Earth.

Environmental, Social and Governance Report

Green architecture

The Group is committed to building a healthy, green and highly efficient campus; the concept of green architecture has been adopted in the design of new buildings. During the design phase, the Group has adopted the reasonable layout of the building functions, minimised the use of synthetic materials, fully utilised sunlight, and saved energy, thus creating a feeling of being close to nature when inside the buildings.

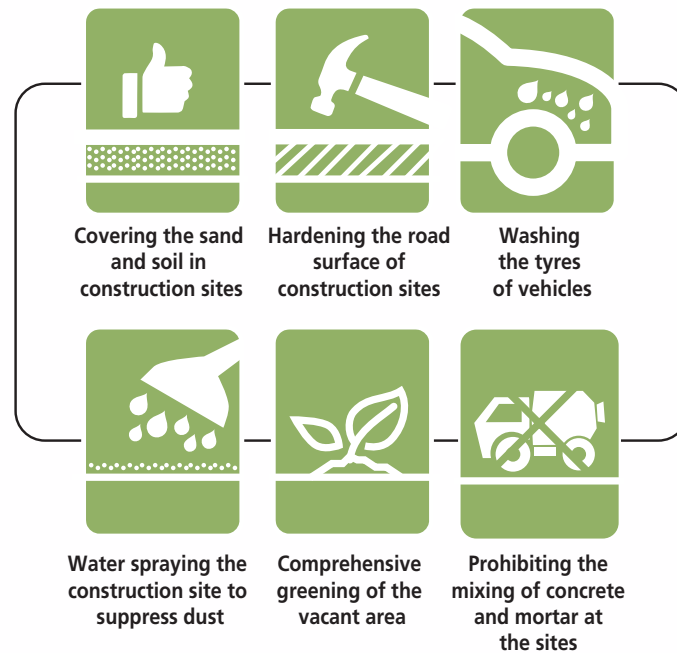
The Group has implemented the following energy saving strategies in green architecture:

- Installing an insulation layer on external walls to reduce the temperature difference between indoors and outdoors;
- Installing solar devices in both teaching buildings and dormitory buildings, convert solar energy into heat to supply domestic hot water system and reduce the consumption of electricity;
- Equipping all buildings with energy efficient lightings, and successively install energy-saving LED lights in each teaching building;
- Installing smart electricity control cabinets in the transformer rooms of each teaching building, and smartly control electricity in public areas;
- Replacing all restrooms on campus with time delay flush valves, and eliminating flushing methods with long water flow.

In addition, we also equipped various types of equipment on constructions sites, such as high-altitude spraying equipment, vehicle rinsing equipment and PM2.5 real-time air quality monitoring equipment to reduce impact on the surrounding environment. During construction, the site maintained a signage on construction profile sign, a signage on fire safety, a signage on safety production, a signage on civilised construction, a signage on management personnel as well as a signage on site supervisor phone number, and a construction site layout plan, etc. to maintain normal operation of the campus and ensure a safe environment. Our measures for dust control include:



Environmental, Social and Governance Report



Energy management

The Group's main energy consumption comes from power consumption in daily operations, burning of natural gas in the cafeteria and the gasoline and diesel consumed during transportation. Our schools actively materialise the concept of energy saving and emissions reduction by switching to natural gas stoves for all of the cafeterias in school in order to save energy. Our schools give priority to the use of lighting with high energy efficiency and the offices are divided into several different lighting areas. Each area is equipped with individually controlled light switches and motion sensors are installed in areas not frequently in use to reduce energy consumption. In addition, we have also added smart electricity control cabinets in the transformers rooms on campus, achieving smart electricity control in public areas and reducing carbon emissions.

Cherish water resources

In strict compliance with the Water Pollution Prevention and Control Law of the People's Republic of China (《中華人民共和國水污染防治法》), the Group seeks to maintain effective controls over waste water generated from manufacturing process and office use. We periodically conduct leakage tests on hidden water pipes and inspect overflowing water vats, decrease water pressure to a possible minimum level and use automatic irrigation and water saving faucets in restrooms for water conservation. Furthermore, we have installed rainwater collection devices in our schools for collecting rainwater to irrigate plants and to cherish water. In addition, drinking water purification devices are installed in our schools to strengthen the safety monitoring of water quality through the ultrafiltration water purification system.

Environmental, Social and Governance Report

Paperless office

During the year, we built up a major group information technology platform as based on the needs of various departments and institutions including the group's financial management system, supply chain system, human resource management system, asset management system and administrative office management system, etc.

We promote a paperless office by adopting smart office software to replace paper records mainly used for administrative affairs at the office, and by implementing online office and reimbursement procedures. This has not only simplified the application process of the applicant and improved the work efficiency of our schools, but it has also effectively saved considerable time and cost as well as office paper. We also encourage employees to transfer information via electronic communication technology in order to reduce paper use. We have set the computers and printers to double-sided printing and ink-saving mode, and arranged recycling stations next to printers for employees to recycle paper.

Energy Conservation And Emissions Reduction to Protect the Blue Sky

In response to "the Month of Provincial Promoting Energy Conservation" in June 2018, The Applied Science and Technology College of Shangqiu University adopted the motto of "Energy Conservation and Emissions, Reduction to Protect the Blue Sky" as its key theme to host activities relating to green life, green office and green shopping to develop good behaviours and habits in the whole college. These activities call for all of the college's faculties and departments to implement the concept of green and low carbon office in the hopes that all teachers and students would cherish each kilowatt-hour of electricity, each drop of water and each sheet of paper. In addition, it promotes "Walk Within 1 km, Bike Within 3 km, Take Public Transportation within or Over 5 km" as a green and low carbon way of commuting to work and for others purposes, motivating all personnel to implement the concept of green and healthy ecological civilisation.



Environmental, Social and Governance Report

Waste management

The Group gathers together non-hazardous waste, including household trash, kitchen waste and second-hand clothes, which will then be transported and recycled by designated environment protection agencies, complying in accordance to the provisions of the Environmental Pollution Prevention and Control Law of Solid Wastes of the People's Republic of China (《中華人民共和國固體廢物污染環境防治法》). During the periods when students are in class (except for winter and summer breaks), Shangqiu and Anyang University generated a total of 3,000 tonnes of non-hazardous waste per year. Other hazardous waste, such as toner cartridges, are all scheduled for regular care and maintenance by contractors and are all recycled for repeated use. The efforts managed to result in 100% waste recovery. We have been working hard on reducing our kitchen waste, household trash and other non-hazardous waste. During the year, the Group has launched various campaigns to promote a culture of saving resources to all teachers and students, raising awareness towards environmental protection.

Food wise culture at school canteens

Food plays an irreplaceable role in the national economy. However, global food supply is becoming increasingly tight due to lesser crop diversities and a rising global population. To fully promote a food-wise culture, we held the "Zero Food Waste" project with promotional banners that read "Civilised Dining Table" and "Zero Food Waste" displayed at key positions in the public areas of the canteens, and invited student representatives to post paintings and make "cherish food" pamphlets to promote a food-wise culture as joint effort.



Environmental, Social and Governance Report

Civilised dining table



In addition, the school organised a civilised dining tables campaign with the theme of “Promoting Frugality And Curb Waste” to encourage all teachers and students to nurture a habit of cherishing food. Publicity leaflets with topics that include the theme of “Food Saving, Civilised Dining and Green Dining Table” were distributed on the school’s main roads by students to advocate civilised dining. Furthermore, we also launched an innovative restaurant-experience campaign themed “Each and Every Grain of Rice Is the Fruit of Toiling Farmers” so that students may learn first-hand simple and safe food-processing procedures through direct participation in order to promote scientific diets. Meanwhile, we also changed the meal-serving flows at the canteens from providing set meals with fixed amounts of food to buffet style and limited the supply of meat, allowing diners to request rice and vegetables as per their own requested volume. By doing so, we managed to cut back unnecessary waste and created a harmonious dining atmosphere, while cultivating a healthy and civilised dining culture.

Environmental, Social and Governance Report

Green graduation, green gratitude



Anyang University held the 7th "Green Graduation, Green Gratitude" event. Volunteers launched a series of promotional campaigns on the event through channels such as campus bulletin boards, Weibo and posters, and drew the attention of all the teachers and students. Through this event, graduates can help on promoting green recycling on a large scale by taking practical action upon graduation. All reusable items were donated to the "Home of Love" (爱心之家) association which were then distributed to poor children living in remote mountainous areas. During the event, a total of more than 2,000 items of clothing, 500 second-hand books and 10 green wish trees were donated. Through the event, students learned to recycle and reduce resource wastage to create value for society, and through which they can fulfil their social responsibilities. In addition, the event also allowed teachers and students to show gratitude to each other and instil all continuing students with a sense of "green gratitude". Meanwhile, they can also set good examples to their junior classmates. All in all, these activities can raise the awareness of teachers and students on environmental protection through taking part in charitable activities.

Environmental, Social and Governance Report

Creativity competition on low-carbon living and environmentally designed artwork exhibition at the creative bazaar

To foster a better school environment, Anyang University held a creativity competition on low-carbon living during the year to cultivate students' interest in their professional learning. Students may create their works or make improvements through reusable materials or on existing items on hand. They could enter the competition with works such as handicrafts, artworks and poster designs, and as a result students became more conscious of environmental protection. They were also encouraged to use their professional knowledge to engage in environmental protection during non-school hours. Furthermore, an environmentally designed artwork exhibition was specially held at a creative bazaar to enhance students' value on being eco-friendly. The event helped to reflect the school's vitality and encouraged students to showcase their creativity and diversify their interests.



Greening of the environment

During the year, the Group planted and transplanted over 2,000 trees in addition to original plantation with over 45,800 trees in total among 3 schools, in order to induce a vibrant and green school environment. To instil the concept of campus greening as comprehensively as possible, we promote the message of going green to our teachers and students by planting trees such as the oriental plane, ginkgo and cedar on sidewalks. Students may then have direct contact with nature first-hand, and develop an interest in plants and foster a vision of greening the environment under the embrace of a green landscape across the campus.

Environmental, Social and Governance Report



“Going Green Fashion in Cities · Tree Planting Activity with Young People”

In response to the Outline of the 10-Year Plan for Nationwide Afforestation (《全國造林綠化十年規劃綱要》), the youth volunteers association of our school recruited 16 volunteers to take an active part in the “Going Green Fashion in Cities – Tree Planting Activity with Young People” campaign jointly launched by the Communist Youth League Commission, MOA and the Young Pioneers of China. The participating volunteers could learn through this activity the value of afforestation and planting local trees, while at the same time realising the importance of protecting the environment and jointly achieving the great mission to promote nature conservation.

6. JOINTLY CREATING A HARMONIOUS SOCIETY

The Group has been proactively devoted to social and public welfare undertakings hand in hand with its commitment to education. In response to the State’s deepening strategies on poverty alleviation, the Group has been committed to serving and giving back to society and took the initiative to shoulder its share of social responsibilities throughout the years, and insisted on helping the poor and disadvantaged groups. During the year, we contributed to the building of a more prosperous, harmonious and better society by centring on three key focus areas – “Cultivating Local Talents”, “Building a Socially-inclusive Community” and “Assisting the Poor and the Elderly”.

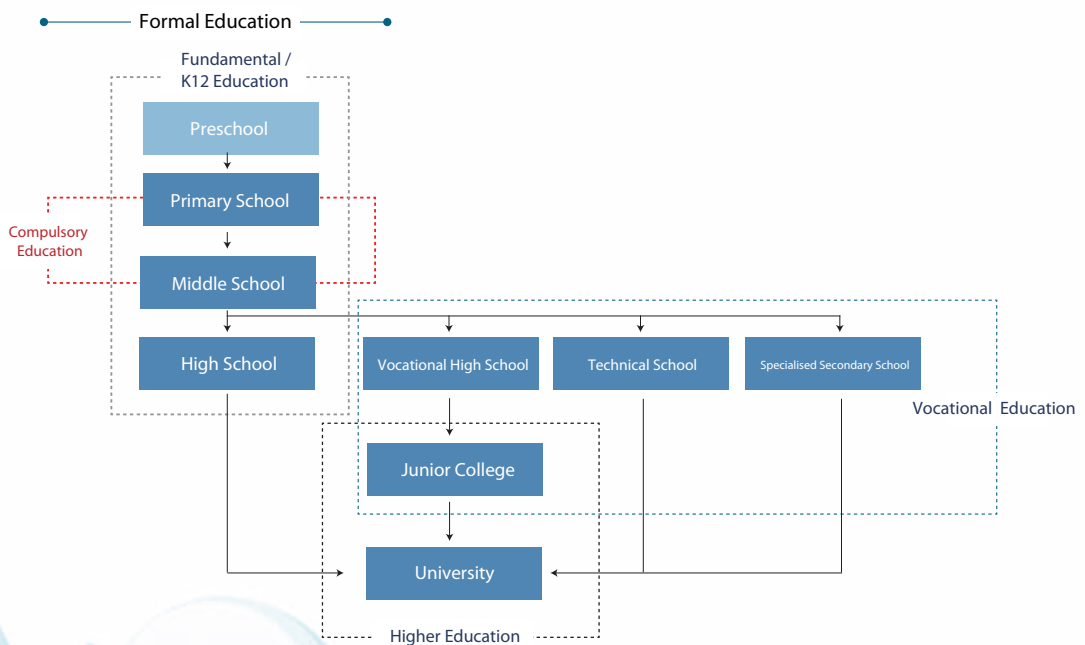
Environmental, Social and Governance Report



6.1. Cultivating Local Talents

Chunlai Education has been insisting on the educational philosophy of "Raising the Quality of Talent Cultivation and the Capacity of Serving Society". The Group has been dedicating its efforts towards private education with great visions. The formal education programmes that the Group operate comprise fundamental education from preschool to middle school, secondary vocational education and higher education. Programmes in formal higher education can be further categorised into junior colleges and universities. Junior colleges only offer junior college programmes while universities can offer both junior college programmes and bachelor's degree programmes. The following diagram illustrates the structure of China's formal education system:

Overview of the Formal Education System in China



Environmental, Social and Governance Report

Since Henan Province has a large population but its private education is relatively less developed, the Group has been leading the development of local private higher education industry. During the school year of 2017/2018, the Group's number of enrolled students exceeded 45,000, which ranked first in the higher education market (including bachelor's degree programmes, junior college to bachelor's degree transfer programmes and junior college programmes) in Central China¹.

Social practice activity

To fulfil our fundamental mission of "Character Building and Talent Fostering," our Shangqiu University organised and launched a social practice activity named "Visit Rural Areas Thrice" during the summer vacation of 2018, in accordance with the Notice Regarding Social Practice Activity in the Summer Vacation of 2018 Organised by Shangqiu University (《商丘學院關於開展2018年暑期社會實踐活動的通知》). The activity aimed to guide young students in building and practicing the core values of socialism through practical experience. It also helped university students strengthen their conviction of setting ambitious goals with realistic execution, encouraging them to be the young generation with "Three Assets" – "Ideal, Skill and Responsibility" in the new era.

Boosting employment rate

Since our inception, we have emphasised practical training through internships, in order to enhance the competitiveness of our graduates in the job market and smoothen their transition from being students to employees. Our employment-oriented curricula focus on equipping students with practical skills that will meet the demands of economic development in China. We encourage our students to seek internships, and we have established partnerships with over 200 companies to provide abundant internship and training opportunities to students. We have designed a series of training courses geared towards specific companies, and in return they provided venues for study and internships to our students. We have also invited technical experts from different companies to deliver classes at our colleges. Furthermore, we also sent our teaching staff to attend training programmes organised by these companies. In 2017, the first graduate class of Shangqiu University's pre-school education department achieved an initial employment rate of 96.2%. It fully reflects the effectiveness of our practical curricula and training programmes

Assisting in teaching in primary school

Over the year, members of the Youth Volunteer Association visited Xinan Primary School (辛安小學) in Baibi Township, Anyang City, several times to support teaching under the leadership of the Communist Youth League Committee of our colleges. Volunteers led children in exercising so as to train up their physical well-beings and improve their health. Besides, the members educated the children the knowledge of oracle bone script to help them understand more about Chinese traditional culture in addition to their day-to-day studies. The members also educated the children safety tips on earthquakes to highlight the importance of life. These activities not only reflected the spirit of volunteers but also set good examples of willingness to help each other and make selfless contributions, to primary school students through hands-on showcases.

¹ Source: Frost & Sullivan

Environmental, Social and Governance Report



6.2 Building a Socially-Inclusive Community

The Group always believes that “contributing to society and making it a better place” is our foremost responsibility. The three colleges under the Group proactively fulfil corporate social responsibility in communities and contribute to building a socially inclusive community.

Support for the vulnerable

To further promote the traditional Chinese virtues of supporting the minority and the disabled, we encourage university students to actively participate in social charities. The School of Finance and Accounting of Anyang University and the Green Ribbon Charity of Dongguan Office (東關辦事處綠絲帶公益) jointly held the 2nd Fun Sports Day for the Disabled (“第二屆殘疾人趣味運動會”) on the National Day of Assisting Disabled Persons. On the Sports Day, the disabled athletes had an exciting and intense competition with close assistance from student volunteers, thus helping to facilitate social inclusion of many disabled companions. This event helped to raise public concern further on issues regarding disability groups, and encourage more people with disabilities to actively train up themselves to lead a fulfilling and happy life. With the participation of university students, social charities were injected with new vitality. These efforts serve to foster a positive trend in support of the minority and the disabled across campuses.



Environmental, Social and Governance Report

Caring for children with special needs

On 11 November 2017, the Youth Volunteers Association of our colleges organised an event called "Caring for Children from Special Needs School: To Spread Love and Make Contribution to Public Welfare" ("關愛特殊學校兒童－傳遞愛心公益精神") in Kaifeng Special Education School (開封市特殊兒童教育學校) to support the healthy growth of the children with special needs, to give them more focus for caring and helping them achieve their goals.

Helping and supporting a student diagnosed with cancer

When one of our students was diagnosed with cancer, teachers and students of our colleges organised a one-week charity fundraising for her with their collective efforts. Everybody forwarded the "Droplet Fundraising" ("水滴籌") charity message through different channels and made donations directly at fundraising booths, which ultimately resulted in an amount of approximately RMB110,000 in just a few days' time, but the wishes from teachers and students were found even more encouraging and heart-warming. This event had shown that our colleges have truly lived up to the spirit of "showing love in hard times is priceless". We all hope that she can defeat cancer and return to campus soon.

Blood donation

In response to Kaifeng Central Blood Station's (開封市中心血站) call, our colleges organised blood donations annually in order to solve the dire need for blood within the country and among individuals and reduce the burden of medical personnel. During these donations, more than a hundred students volunteered as donors and donated over 50,000cc of blood, which helped mitigate the shortage of blood for clinical use in major hospitals during winter. The blood donation not only sparked passion in our students to donate blood as a form of contribution to public welfare, but also represented our support to the State's advocacy for blood donation.



Environmental, Social and Governance Report

6.3 Assisting the Poor and the Elderly

As an education service provider consistently performing our social responsibility, our goal is to raise our students' awareness on poverty reduction and support for the elderly. This also helps continue the tradition of respecting the elderly and loving the young, thereby promoting traditional virtues of the Chinese culture.

"Caring for the Elderly and Spreading Love Across Society"

"Honouring, Respecting, and Loving the Elderly" is the traditional virtue of the Chinese culture. To clearly understand and resolutely adhere to the spirit of the 19th CPC National Congress, build a harmonious and healthy new community and pass on Chinese traditional virtues to future generations, the Group is dedicated to promoting community activities to support and honour the elderly. During the year, we arranged more than 15 visits to the elderly, including visiting nursing homes to carry out voluntary activities. This further established the core values of socialism among our students and promoted the voluntary spirit of making progress through dedication, love and mutual assistance.



Through invaluable opportunities of having face-to-face conversations with the elderly, students not only can understand their psychological needs but also learn to cherish the time they could spend with the elders in their own homes. Some of the visiting students even voluntarily cleaned rooms for the elderly, and massaged their backs and shoulders, which promoted the traditional virtues of the Chinese culture, such as respecting the elderly and extending love and care to them.

"Achieving poverty alleviation together"



Environmental, Social and Governance Report

In response to the CPC's call for poverty reduction, we carried out poverty reduction activities, in which graduates and volunteers participated enthusiastically. Among the participants, the teachers of Anyang University launched a donation for Yihai Primary School (益海小學) in Fengjiaxiang, sending donated schoolbags, pencil cases, watercolor pens, pencils, homework books and other school supplies for children living in poverty.

Donating clothes

On 20 March 2018, the Youth Volunteer Association of our colleges held a three-day charity donation campaign, "Donate Clothes and Create Warmth" ("衣加衣"). The youth volunteers handed the donated supplies from students to the organisation "Donate Clothes to Help the Poor" ("衣往情深"). The event sent warmth and love to people in poverty-stricken areas, promoted virtues of the world and enabled students to actively participate in social charities. At the same time, the event expanded the influence and appeal of the Youth Volunteer Association, thus making it easier for them to promote voluntary service.

Developing art education

The School of Music of Anyang University also promoted their profession by arranging for outstanding graduates and volunteers to carry out internship of teaching to help rural areas develop art education, improve its quality in schools of rural areas and facilitate a balanced development between urban and rural education. Going forward, we will also fully promote the work of poverty reduction, enhance education quality in rural areas and join others in supporting poverty alleviation.

7. SUMMARY OF SUSTAINABLE DEVELOPMENT DATA

| Environmental Performance | Unit | 2018 |
|---|--|-----------|
| Amount of greenhouse gas emissions | | |
| Direct greenhouse gas emissions (Scope 1) | tCO ₂ e | 1,745.01 |
| Indirect greenhouse gas emissions (Scope 2) | tCO ₂ e | 13,250.38 |
| Other indirect greenhouse gas emissions (Scope 3) | tCO ₂ e | 1,057.24 |
| Total amount of greenhouse gas emissions (Scope 1, 2 & 3) | tCO ₂ e | 16,052.63 |
| Direct greenhouse gas removals (Scope 1) (tree planting) | tCO ₂ e | 57,339.00 |
| Intensity of greenhouse gas emissions | | |
| Per square metre of floor area (Scope 1, 2 & 3) | tCO ₂ e/m ² floor area | 0.008 |
| Per employee (Scope 1, 2 & 3) | tCO ₂ e/employee | 5.46 |
| Fixed equipment fuel consumption | | |
| LPG consumption | tonne | 32,946.00 |
| Gasoline consumption | tonne | 6.99 |
| Diesel consumption | tonne | 1.50 |
| Natural gas consumption | ten thousand m ³ | 33.67 |
| Motor vehicle fuel consumption | | |
| Gasoline consumption by the motorcade | tonne | 130.58 |
| Diesel consumption by the motorcade | tonne | 5.246 |

Environmental, Social and Governance Report

| Environmental Performance | Unit | 2018 |
|--|---------------------------------|------------|
| Energy consumption | | |
| Total energy consumption | MWh | 25,205.22 |
| Total energy consumption intensity (per m ² floor area) | MWh/m ² floor area | 0.13 |
| Total energy consumption intensity (per employee) | MWh/employee | 8.57 |
| Water consumption | | |
| Total water consumption | tonne | 288,637.22 |
| Total water consumption intensity (per m ² floor area) | tonne/m ² floor area | 0.15 |
| Total water consumption intensity (per employee) | tonne/employee | 98.11 |
| Hazardous waste production | | |
| Batteries | piece | 68 |
| Used ink cartridges and used toner cartridges | piece | 390 |
| Amount of hazardous waste recycled | | |
| Used ink cartridges and used toner cartridges | piece | 200 |
| Non-hazardous waste | | |
| Amount of general waste disposed | tonne | 6,556 |
| Amount of general waste recycled | tonne | 3,000 |
| Paper consumption | | |
| A3 paper | ream | 300 |
| A4 paper | ream | 4,689 |
| Paper consumption intensity (per staff) | ream/staff | 1.70 |
| Social performance | | |
| Total number of staff (by gender) | | |
| All staff | person | 2,897 |
| Male staff | person | 1,428 |
| Female staff | person | 1,469 |
| Total number of staff (by employment category) | | |
| Short-term contracts/part-time | person | 720 |
| Junior level | person | 617 |
| Intermediate level | person | 473 |
| Senior level | person | 695 |
| Other | person | 392 |
| Total number of staff (by age group) | | |
| Under the age of 30 | person | 1,099 |
| Aged 30-50 | person | 1,080 |
| Over the age of 50 | person | 718 |

Environmental, Social and Governance Report

| Social performance | Unit | 2018 |
|--|--------|-------|
| Total number of staff (by geographical region) | | |
| Staff in the Central China region | person | 2,086 |
| Staff in the North China region | person | 480 |
| Staff in the East China region | person | 252 |
| Staff in the Northeast region | person | 47 |
| Staff in the Northwest region | person | 18 |
| Staff in the Southern region | person | 14 |
| Staff turnover rate (by age group and gender) | | |
| All staff | % | 9.94 |
| Male staff | % | 7.28 |
| Female staff | % | 12.53 |
| Staff turnover rate (by age group) | | |
| Under the age of 30 | % | 23.29 |
| Aged 30-50 | % | 1.67 |
| Over the age of 50 | % | 1.95 |
| Staff turnover rate (by region) | | |
| Staff in the East China region | % | 8.33 |
| Staff in the South China region | % | 21.43 |
| Staff in the North China region | % | 7.50 |
| Staff in the Central China region | % | 10.79 |
| Staff in the Northeast region | % | 6.38 |
| Training staff percentage (by gender) | | |
| Male | % | 49.90 |
| Female | % | 46.64 |
| Average training hours (by employment category) | | |
| Senior level | % | 32.09 |
| Intermediate level | % | 48.20 |
| Junior level | % | 52.03 |
| Average training hours (by gender) | | |
| Male | hour | 6.67 |
| Female | hour | 3.96 |
| Average training hours (by working category) | | |
| Senior level | hour | 2.43 |
| Intermediate level | hour | 4.70 |
| Junior level | hour | 8.96 |
| Other | hour | 2.65 |

Environmental, Social and Governance Report

| Occupational health and safety | Unit | 2018 |
|--|--------|------|
| Work-related casualties of staff directly recruited | | |
| Work-related fatalities | person | 0 |
| Work-related injuries | day | 30 |
| Number of suppliers (by geographical region) | | |
| Domestic | unit | 97 |
| Overseas | unit | 0 |

8. APPENDIX: INDEX TO THE ESG REPORTING GUIDE OF HONG KONG STOCK EXCHANGE

| Indicators | | | Related Sections |
|-------------------------|--------------------|---|---|
| A. Environmental | | | |
| A1: Emissions | General Disclosure | Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste. | 5. Construct a Green Ecology – Implement Energy Conservation and Emission Reduction |
| | A1.1 | The types of emissions and respective emissions data. | 5. Construct a Green Ecology – Implement Energy Conservation and Emission Reduction 7. Summary of Sustainable Development Data |
| | A1.2 | Greenhouse gas emissions in total and intensity. | 5. Construct a Green Ecology – Implement Energy Conservation and Emission Reduction |
| | A1.3 | Total hazardous waste produced and intensity. | 7. Summary of Sustainable Development Data |
| | A1.4 | Total non-hazardous waste produced and intensity. | 7. Summary of Sustainable Development Data |
| | A1.5 | Description of measures to mitigate emissions and results achieved. | 5. Construct a Green Ecology – Implement Energy Conservation and Emission Reduction |
| | A1.6 | Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved. | 5. Construct a Green Ecology – Build a Green Campus |

Environmental, Social and Governance Report

| Indicators | | | Related Sections |
|---|-----------------------|---|---|
| A2: Use of Resources | General Disclosure | Policies on the efficient use of resources, including energy, water and other raw materials. | 5. Construct a Green Ecology – Build a Green Campus |
| | A2.1 | Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total and intensity. | 7. Summary of Sustainable Development Data |
| | A2.2 | Water consumption in total and intensity. | 7. Summary of Sustainable Development Data |
| | A2.3 | Description of energy use efficiency initiatives and results achieved. | 5. Construct a Green Ecology – Build a Green Campus |
| | A2.4 | Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved. | 5. Construct a Green Ecology – Build a Green Campus |
| | A2.5 | Total packaging material used for finished products and, if applicable, with reference to per unit produced. | Not applicable to the Group's business |
| A3: The Environment and Natural Resources | General Disclosure | Policies on minimising the issuer's significant impact on the environment and natural resources. | 5. Construct a Green Ecology – Build a Green Campus |
| | A3.1 | Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them. | 5. Construct a Green Ecology – Build a Green Campus |

Environmental, Social and Governance Report

| Indicators | | | Related Sections |
|--------------------------|--------------------|---|--|
| B. Social | | | |
| B1: Employment | General Disclosure | Information on the policies and compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare. | 4. Lead with Our Education Philosophy – Excellent Faculty, Employment System with Equal Opportunities, Comprehensive Benefits and Salaries |
| | B1.1 | Total workforce by gender, employment type, age group and geographical region. | 4. Lead with Our Education Philosophy – Employment System with Equal Opportunities |
| | B1.2 | Employee turnover rate by gender, age group and geographical region. | 4. Lead with Our Education Philosophy – Employment System with Equal Opportunities |
| B2: Health and Safety | General Disclosure | Information on providing a safe working environment and protecting employees from occupational hazards: | 4. Lead with Our Education Philosophy – Healthy and Safe Campus |
| | B2.1 | Number and rate of work-related fatalities. | 4. Lead with Our Education Philosophy – Healthy and Safe Campus 7. Summary of Sustainable Development Data |
| | B2.2 | Lost days due to work injury. | 4. Lead with Our Education Philosophy – Healthy and Safe Campus 7. Summary of Sustainable Development Data |
| | B2.3 | Description of occupational health and safety measures adopted, how they are implemented and monitored. | 4. Lead with Our Education Philosophy – Healthy and Safe Campus |

Environmental, Social and Governance Report

| Indicators | | | Related Sections |
|------------------------------------|-----------------------|---|--|
| B3: Development and Training | General Disclosure | Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities. | 4. Lead with Our Education Philosophy – Training of Teaching Staff |
| | B3.1 | The percentage of employees trained by gender and employee category (e.g. senior management, middle management). | 4. Lead with Our Education Philosophy – Training of Teaching Staff 7. Summary of Sustainable Development Data |
| | B3.2 | The average training hours completed per employee by gender and employee category. | 4. Lead with Our Education Philosophy – Training of Teaching Staff 7. Summary of Sustainable Development Data |
| B4: Labour Standards | General Disclosure | Information on preventing child and forced labour: | 4. Lead with Our Education Philosophy – Employment System with Equal Opportunities |
| | B4.1 | Description of measures to review employment practices to avoid child and forced labour. | 4. Lead with Our Education Philosophy – Employment System with Equal Opportunities |
| | B4.2 | Description of steps taken to eliminate such practices when discovered. | 4. Lead with Our Education Philosophy – Employment System with Equal Opportunities |

Environmental, Social and Governance Report

| Indicators | | | Related Sections |
|-----------------------------------|-----------------------|---|---|
| B5: Supply Chain Management | General Disclosure | Policies on managing environmental and social risks of the supply chain. | 3. Realise Responsible Governance – Suppliers' Management |
| | B5.1 | Number of suppliers by geographical region. | 3. Realise Responsible Governance – Suppliers' Management 7. Summary of Sustainable Development Data |
| | B5.2 | Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored. | 3. Realise Responsible Governance – Suppliers' Management |
| B6: Product Responsibility | General Disclosure | Information on health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress: | 3. Realise Responsible Governance – Information Disclosure Security |
| | B6.1 | Percentage of total products sold or shipped subject to recalls for safety and health reasons. | Not applicable to the Group's business |
| | B6.2 | Number of products and services related complaints received and how they are dealt with. | 3. Realise Responsible Governance – Handling Opinions on Teaching |
| | B6.3 | Description of practices relating to observing and protecting intellectual property rights. | 3. Realise Responsible Governance – Information Disclosure Security |
| | B6.4 | Description of quality assurance process and recall procedures. | Not applicable to the Group's business |
| | B6.5 | Description of consumer data protection and privacy policies, how they are implemented and monitored. | 3. Realise Responsible Governance – Information Disclosure Security |

Environmental, Social and Governance Report

| Indicators | | | Related Sections |
|-----------------------------|--------------------|--|---|
| B7: Anti-corruption | General Disclosure | Information on prevention of bribery, extortion, fraud and money laundering: | 3. Realise Responsible Governance – Setting up Anti-Corruption Measures |
| | B7.1 | Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the case. | 3. Realise Responsible Governance – Setting up Anti-Corruption Measures |
| | B7.2 | Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored. | 3. Realise Responsible Governance – Setting up Anti-Corruption Measures |
| B8: Community Investment | General Disclosure | Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests. | 6. Jointly Creating a Harmonious Society – Cultivating Local Talents, Building a Socially-Inclusive Community |
| | B8.1 | Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport). | 6. Jointly Creating a Harmonious Society – Cultivating Local Talents, Building a Socially-Inclusive Community |
| | B8.2 | Resources contributed to the focus area. | 6. Jointly Creating a Harmonious Society |

Independent Auditor's Report

Deloitte.

德勤

TO THE SHAREHOLDERS OF CHINA CHUNLAI EDUCATION GROUP CO., LIMITED

(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of China Chunlai Education Group Co., Limited (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 100 to 146, 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 Hong Kong Standards on Auditing ("HKSA") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). 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 HKICPA's 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 MATTER

Key audit matter is the matter that, in our professional judgment, was of most significance in our audit of the consolidated financial statements of the current period. The matter was 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 the matter.

Independent Auditor's Report

Key audit matter

Recognition of revenue from tuition fees

Tuition fees from students, in accordance with the programme enrolled, are generally collected in advance at the beginning of the school year. Tuition fees received from students but not earned are initially recorded as deferred revenue, and subsequently recognised as revenue proportionately over the relevant period of the applicable programme. Given revenue from tuition fees is one of the key performance indicators of the Group, we identified it as a key audit matter. The accounting policy of revenue recognition and analysis of revenue are included in notes 4 and 6 to the consolidated financial statements, respectively.

How our audit addressed the key audit matter

Our audit procedures included :

- Testing the key controls over the recognition of tuition fees;
- Reconciling the number of students to the relevant official records registered with the education authorities;
- Checking the information about the receipts of tuition fees and student enrollments, on a sample basis, to supporting documents of payments, authorised fee levels, and official student records registered with the education authorities; and
- Performing analytical procedures to test the amount of tuition fees recognised during the year.

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.

Independent Auditor's Report

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 HKSAAs 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 HKSAAs, 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.

Independent Auditor's Report

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

- 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 the matter that was of most significance in the audit of the consolidated financial statements of the current period and is therefore the key audit matter. We describe the matter 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 Jacky Wong Suk Hung.

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 | 487,791 | 460,889 |
| Cost of revenue | | (204,363) | (170,043) |
| Gross profit | | 283,428 | 290,846 |
| Other income | 7 | 9,891 | 7,150 |
| Other gains and losses | | (126) | (717) |
| Selling expenses | | (3,988) | (4,234) |
| Administrative expenses | | (65,313) | (60,784) |
| Listing expenses | | (23,499) | (3,086) |
| Finance costs | 8 | (80,620) | (77,526) |
| Profit before tax | 10 | 119,773 | 151,649 |
| Income tax expense | 9 | (825) | – |
| Profit and total comprehensive income for the year | | 118,948 | 151,649 |
| Profit and total comprehensive income for the year attributable to owners of the Company | | 118,948 | 151,649 |
| Basic earnings per share (RMB cents) | 13 | 14 | 21 |
| Diluted earnings per share (RMB cents) | 13 | 14 | N/A |

Consolidated Statement of Financial Position

At 31 August 2018

| | Notes | 2018 RMB'000 | 2017 RMB'000 |
|---------------------------------------|-------|------------------|-----------------|
| Non-current assets | | | |
| Property, plant and equipment | 14 | 878,131 | 707,306 |
| Prepaid lease payments | 15 | 354,499 | 351,101 |
| Prepayment for cooperation agreements | 17 | 100,000 | 100,000 |
| Other non-current assets | 18 | 142,058 | 42,962 |
| | | 1,474,688 | 1,201,369 |
| Current assets | | | |
| Trade and other receivables | 16 | 47,443 | 34,397 |
| Amount due from the shareholder | 19a | 7 | – |
| Amounts due from related parties | 19b | – | 172,448 |
| Prepaid lease payments | 15 | 8,387 | 8,150 |
| Restricted bank balance | 20b | – | 100,000 |
| Bank balances and cash | 20a | 544,620 | 267,344 |
| | | 600,457 | 582,339 |
| Current liabilities | | | |
| Deferred revenue | | 358,366 | 195,776 |
| Other payables and accrued expenses | 21 | 169,014 | 108,321 |
| Income tax payable | | 825 | – |
| Amount due to a related party | 19c | – | 2,100 |
| Borrowings | 22 | 265,353 | 473,824 |
| | | 793,558 | 780,021 |
| Net current liabilities | | (193,101) | (197,682) |
| Total assets less current liabilities | | 1,281,587 | 1,003,687 |
| Non-current liabilities | | | |
| Amount due to a related party | 19c | – | 40,000 |
| Borrowings | 22 | 686,753 | 518,505 |
| | | 686,753 | 558,505 |
| Net assets | | 594,834 | 445,182 |

Consolidated Statement of Financial Position

At 31 August 2018

| | <i>Notes</i> | 2018 <i>RMB'000</i> | 2017 <i>RMB'000</i> |
|-------------------------------|--------------|-------------------------------|------------------------|
| Capital and reserves | | | |
| Share capital/paid-in-capital | 23 | 7 | 112,600 |
| Reserves | | 594,827 | 332,582 |
| Total equity | | 594,834 | 445,182 |

The consolidated financial statements on pages 100 to 146 were approved and authorised for issue by the Board of Directors on 30 November 2018 and are signed on its behalf by:

Mr. Hou Junyu
DIRECTOR

Ms. Jiang Shuqin
DIRECTOR

Consolidated Statement of Changes in Equity

For the Year Ended 31 August 2018

| | Share capital/ Paid-in capital RMB'000 | Capital reserve RMB'000 | Share-based payment reserve RMB'000 | Statutory reserve RMB'000 (Note iii) | Retained earnings RMB'000 | Total RMB'000 |
|---|--|-------------------------------|--|---|---------------------------------|------------------|
| Balance at 1 September 2016 | 112,600 | – | – | 89,697 | 91,236 | 293,533 |
| Profit and total comprehensive income for the year | – | – | – | – | 151,649 | 151,649 |
| Transfer | – | – | – | 42,903 | (42,903) | – |
| Balance at 31 August 2017 | 112,600 | – | – | 132,600 | 199,982 | 445,182 |
| Profit and total comprehensive income for the year | – | – | – | – | 118,948 | 118,948 |
| Capital injection (note i) | 30,000 | – | – | – | – | 30,000 |
| Issue of shares | 7 | – | – | – | – | 7 |
| Group reorganisation (note ii) | (142,600) | 142,600 | – | – | – | – |
| Recognition of equity-settled share-based payments | – | – | 697 | – | – | 697 |
| Transfer | – | – | – | 29,737 | (29,737) | – |
| Balance at 31 August 2018 | 7 | 142,600 | 697 | 162,337 | 289,193 | 594,834 |

Notes:

- i. It represented the capital contribution upon establishment of Chunlai Technology (as defined in Note 2) prior to the Group Reorganisation (as defined in Note 2).
- ii. As disclosed in Note 2 to the consolidated financial statements, the China Chunlai Education Group Co., Ltd. (the "Company") and its subsidiaries (collectively referred to as the "Group") became the holding company of the Group on 22 February 2018, when the Structured Contracts (as defined in Note 2) became effective. The capital reserve represented the combined paid-in capitals of Henan Chunlai (as defined in Note 2) and Chunlai Technology upon the completion of Group Reorganisation.
- iii. Pursuant to the relevant laws and regulations 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 boards of directors of the relevant PRC subsidiaries. These reserves include (i) general reserve fund of the limited liability companies; and (ii) the development fund of schools.

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

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

Consolidated Statement of Cash Flows

For the Year Ended 31 August 2018

| | 2018 RMB'000 | 2017 RMB'000 |
|--|------------------|-----------------|
| OPERATING ACTIVITIES | | |
| Profit before tax | 119,773 | 151,649 |
| Adjustments for: | | |
| Finance costs | 80,620 | 77,526 |
| Interest income | (3,591) | (3,190) |
| Depreciation of property, plant and equipment | 64,143 | 53,808 |
| Release of prepaid lease payments | 8,250 | 8,150 |
| Share-based payment expenses | 697 | – |
| Loss on disposal of property, plant and equipment | 63 | 3 |
| Operating cash flows before movements in working capital | 269,955 | 287,946 |
| Increase in trade and other receivables | (13,046) | (26,912) |
| Increase (decrease) in deferred revenue | 162,590 | (47,744) |
| Increase in other payables and accruals | 18,092 | 2,525 |
| NET CASH FROM OPERATING ACTIVITIES | 437,591 | 215,815 |
| INVESTING ACTIVITIES | | |
| Purchase of property, plant and equipment | (186,189) | (153,713) |
| Prepayment/deposits paid for acquisition of property, plant and equipment | (43,263) | (1,744) |
| Prepaid lease payments | (11,885) | – |
| Prepayment for prepaid lease payments | (59,108) | – |
| Interest income received | 1,866 | 2,995 |
| Advance to related parties | (22,500) | (96,348) |
| Repayment from related parties | 194,948 | 22,200 |
| Advance to a third party | – | (36,300) |
| Repayment from a third party | 5,000 | – |
| Placement of restricted bank balance | – | (100,000) |
| Redemption of restricted bank balance | 100,000 | – |
| NET CASH USED IN INVESTING ACTIVITIES | (21,131) | (362,910) |
| FINANCING ACTIVITIES | | |
| Proceeds from borrowings | 450,000 | 525,633 |
| Repayment of borrowings | (490,223) | (396,100) |
| Repayment to third parties | – | (5,250) |
| Repayment to related parties | (42,100) | (1,000) |
| Proceeds from capital contributed by a shareholder | 30,000 | – |
| Issue costs paid | (5,551) | – |
| Interest paid | (81,310) | (80,554) |
| NET CASH (USED IN) FROM FINANCING ACTIVITIES | (139,184) | 42,729 |
| NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS | 277,276 | (104,366) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR, REPRESENTED BY BANK BALANCES AND CASH | 267,344 | 371,710 |
| CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, REPRESENTED BY BANK BALANCES AND CASH | 544,620 | 267,344 |

Notes to the Consolidated Financial Statements

1. GENERAL

The Company was incorporated as an exempted company with limited liability under the Companies Law of the Cayman Islands on 15 November 2017. The registered office address of the Company is Cayman Corporate Centre, 27 Hospital Road, George Town, Grand Cayman KY1-9008, Cayman Islands and the address of principal place of business of the Company is 40/F, Sunlight Tower, 248 Queen's Road East, Wanchai, Hong Kong. Its parent is Chunlai Investment Co., Limited ("Chunlai Investment"), which was incorporated in the British Virgin Islands and its ultimate controlling shareholder is Mr. Hou Junyu ("Mr. Hou"). The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 13 September 2018 (the "Listing").

The Company is an investment holding company. The principal activities of its subsidiaries are mainly engaged in the operation of private higher education institutions. The Company and its subsidiaries are collectively referred to as the "Group".

The consolidated financial statements are presented in Renminbi ("RMB"), which is the same as the functional currency of the Company and its subsidiaries.

2. GROUP REORGANISATION AND BASIS OF PREPARATION

Prior to the incorporation of the Company and the completion of the reorganisation, the main operating activities of the Group were carried out by Henan Shangqiu Chunlai Education Corporation 河南商丘春來教育集團 ("Henan Chunlai") and its wholly sponsored schools, including Anyang University 安陽學院, Shangqiu University 商丘學院 and Shangqiu University Applied Science and Technology College 商丘學院應用技術學院 ("Kaifeng Campus"), collectively referred as the "Consolidated Affiliated Entities", which were established in the PRC and engage in operation of private higher education. Henan Chunlai was controlled by Mr. Hou.

In preparation for the listing of the Company's shares on the Main Board of the Stock Exchange, the Company underwent a series of reorganisation (the "Group Reorganisation") as below:

- (1) In November 2017, December 2017 and January 2018, the Company incorporated its wholly owned subsidiaries, including China Chunlai Education (BVI) Limited ("Chunlai BVI"), China Chunlai Education (Hong Kong) Limited ("Chunlai Hong Kong") and Henan Chunlai Education Information Consultancy Co., Ltd. ("Chunlai Information") respectively.
- (2) In August 2017, Mr. Hou established a limited liability company in the PRC, named Henan Chunlai Education Technology Co., Ltd. ("Chunlai Technology"), which became a sponsor of Henan Chunlai by acquiring 1% interest in Henan Chunlai.
- (3) Chunlai Technology entered into agreements with the holders of the remaining 99% interest in Henan Chunlai, and assumed management responsibility in Henan Chunlai and became entitled to appoint members of the board of directors of Henan Chunlai.

Notes to the Consolidated Financial Statements

2. GROUP REORGANISATION AND BASIS OF PREPARATION (continued)

Due to the restrictions imposed by the relevant laws and regulatory regime of the PRC on foreign ownership of companies engaged in the business carried out by the Consolidated Affiliated Entities, the Company has entered into, via Chunlai Information, various agreements with the Consolidated Affiliated Entities, Chunlai Technology, Mr. Hou and the remaining interest holders of Henan Chunlai (the "Structured Contracts"), which, effective from 22 February 2018, enable Chunlai Information and the Company to:

- exercise effective financial and operational control over the Consolidated Affiliated Entities and Chunlai Technology;
- exercise equity holders' voting rights of the Consolidated Affiliated Entities and Chunlai Technology;
- receive substantially all of the economic interest returns generated by the Consolidated Affiliated Entities and Chunlai Technology in consideration for the business support, technical and management consultancy services provided by Chunlai Information;
- obtain an irrevocable and exclusive right to purchase all or part of the interests in Chunlai Technology and/or any assets that are held by the Consolidated Affiliated Entities at the lowest purchase price permitted under PRC laws and regulations and exercise such right from time to time in the event that PRC laws and regulations permit;
- prevent the Consolidated Affiliated Entities and Chunlai Technology and their sponsor interest or equity holders to sell, assign, transfer, or otherwise dispose of or create encumbrance over their interests in the equity and/or the assets of the Consolidated Affiliated Entities and Chunlai Technology without prior consent of Chunlai Information;
- prevent the Consolidated Affiliated Entities and Chunlai Technology from making any distributions to their equity holders without prior consent of Chunlai Information.

The Company does not have any equity interest in the Consolidated Affiliated Entities and Chunlai Technology. However, the Structured Contracts enable the Company to have the power over the Consolidated Affiliated Entities and Chunlai Technology, rights to variable returns from its involvement with the Consolidated Affiliated Entities and Chunlai Technology and the ability to affect those returns through its power over the Consolidated Affiliated Entities and Chunlai Technology. Consequently, the Company regards the Consolidated Affiliated Entities and Chunlai Technology as indirect subsidiaries.

Notes to the Consolidated Financial Statements

2. GROUP REORGANISATION AND BASIS OF PREPARATION (continued)

The Group comprising the Company and its subsidiaries (including the Consolidated Affiliated Entities and Chunlai Technology) is regarded as a continuing entity. The consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows of the Group for the years ended 31 August 2018 and 2017 have been prepared as if the current group structure had been in existence throughout the years ended 31 August 2018 and 2017 or since the respective dates of incorporation/establishment of the relevant companies now comprising the Group where this is a shorter period. The consolidated statement of financial position of the Group as at 31 August 2017 has been prepared to present the assets and liabilities of the companies now comprising the Group as if the current group structure were in existence at that date. Therefore, the consolidated financial statements have been prepared and presented using carrying amounts of assets and liabilities of the group entities including Consolidated Affiliated Entities and the Company (as appropriate) for the year ended 31 August 2017.

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

| | Year ended 31 August | |
|-------------------------|----------------------|-----------------|
| | 2018 RMB'000 | 2017 RMB'000 |
| Revenue | 487,791 | 460,889 |
| Profit before tax | 147,055 | 151,649 |
| Non-current assets | 1,474,688 | 1,201,369 |
| Current assets | 591,194 | 582,339 |
| Current liabilities | (781,699) | (780,021) |
| Non-current liabilities | (686,753) | (558,505) |

Notes to the Consolidated Financial Statements

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

The Group has consistently applied all the International Accounting Standards (“IASs”), IFRSs issued by the International Accounting Standards Board (“IASB”), amendments and the related interpretations (“IFRICs”), which are effective for the accounting period beginning on 1 September 2017.

New and revised IFRSs in issue but not yet effective

At the date of this report, the following new standards, amendments and interpretations have been issued but are not yet effective. The Group has not early adopted these standards, amendments and interpretations in the preparation of the consolidated financial statements for the year ended 31 August 2018.

| | |
|----------------------------------|---|
| IFRS 9 | <i>Financial Instruments</i> ¹ |
| IFRS 15 | <i>Revenue from Contracts with Customers and the related Amendments</i> ¹ |
| IFRS 16 | <i>Leases</i> ² |
| IFRS 17 | <i>Insurance Contracts</i> ⁴ |
| IFRIC 22 | <i>Foreign Currency Transactions and Advance Consideration</i> ¹ |
| IFRIC 23 | <i>Uncertainty over Income Tax Treatment</i> ² |
| Amendments to IAS 1 and IAS 8 | <i>Definition of Material</i> ⁶ |
| Amendments to IFRS 2 | <i>Classification and Measurement of Share-based Payment Transactions</i> ¹ |
| Amendments to IFRS 3 | <i>Definition of a Business</i> ⁵ |
| Amendments to IFRS 4 | <i>Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts</i> ¹ |
| Amendments to IFRS 9 | <i>Prepayment Features with Negative Compensation</i> ² |
| Amendments to IFRS 10 and IAS 28 | <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ³ |
| Amendments to IAS 19 | <i>Plan Amendment, Curtailment or Settlement</i> ² |
| Amendments to IFRS 28 | <i>Long-term Interests in Associates and Joint Ventures</i> ² |
| Amendments to IAS 28 | <i>As part of Annual Improvements to IFRS Standards 2014-2016 Cycle</i> ¹ |
| Amendments to IAS 40 | <i>Transfers of Investment Property</i> ¹ |
| Amendments to IFRSs | <i>Annual Improvements to IFRSs Standards 2015-2017 Cycle</i> 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 period beginning on or after 1 January 2020

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

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.

Notes to the Consolidated Financial Statements

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

New and revised IFRSs in issue but not yet effective (continued)

IFRS 9 “Financial Instruments” (continued)

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

- 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 flow 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. All other debt instruments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- 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 wording, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Based on the Group’s financial instruments and risk management policies as at 31 August 2018, the management of the Group anticipates the following potential impact on initial application of IFRS 9:

Classification and measurement

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

Impairment

In general, the management of the Group anticipates that the application of the expected credit loss model of IFRS 9 will result in early provision of credit losses which are not yet incurred in relation to the Group’s financial assets measured at amortised costs and the respective items that subject to impairment provisions of IFRS 9.

Notes to the Consolidated Financial Statements

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

New and revised IFRSs in issue but not yet effective (continued)

IFRS 9 “Financial Instruments” (continued)

Based on the assessment by the management of the Group, if the expected credit loss model were to be applied by the Group as at 1 September 2018, the amount of impairment loss to be recognised by Group would not be materially changed as compared to the amount estimated under IAS 39. The above assessments were made based on an analysis of the Group’s financial assets as at 31 August 2018 on the basis of the facts and circumstances that existed at that date. The Group intends to apply practical expedients prescribed in the standard upon the first adoption. It is also expected that the adoption of IFRS 9 in the future may not have other significant impact on amounts reported in respect of the Group’s financial assets and financial liabilities based on an analysis of the Group’s financial instruments as at 31 August 2018.

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 recognise 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 International Accounting Standards Board issued Clarifications to IFRS 15 in relation to the identification of performance obligations, principal versus agent consideration, as well as licencing application guidance.

Notes to the Consolidated Financial Statements

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

New and revised IFRSs in issue but not yet effective (continued)

IFRS 15 “Revenue from Contracts with Customers” (continued)

The directors of the Company have assessed the revenue generated from tuition and boarding services, for which these performance obligations are satisfied over time and the input method is used to measure the progress towards complete satisfaction of these performance obligations which is considered appropriate under IFRS 15.

The directors of the Company intend to apply the full retrospective method of transition to IFRS 15.

The management of the Group anticipated that the application of IFRS 15 in the future may result in more disclosure, however, the management of the Group did not anticipate that the application of IFRS 15 could have a material impact on the timing and amounts of revenue recognised on the Group's future financial statements.

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 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 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.

Furthermore, extensive disclosures are required by IFRS 16.

As at 31 August 2018, the Group has no material non-cancellable operating lease commitments.

Notes to the Consolidated Financial Statements

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

New and revised IFRSs in issue but not yet effective (continued)

IFRS 16 “Leases” (continued)

The management of the Group did not expect the adoption of IFRS 16 as compared with the current accounting policy would result in significant impact on the Group’s financial position and financial performance in future.

IFRIC 23 “Uncertainty over Income Tax Treatments”

IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The interpretation requires an entity to determine whether uncertain tax positions are assessed separately or as a group; and assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings.

As disclosed in note 9, the detailed implementation rules of New Law for Promoting Private Education has not yet been announced, the schools of the Group have not yet elected to be for-profit or not-for-profit schools, there will be uncertainty whether the schools could follow previous PRC Enterprise Income Tax (“EIT”) exemption treatment for the tuition related income when facts and circumstances change or new information become available.

The directors of the Company would reassess any judgements and estimates if the facts and circumstances change or new information becomes available.

Except as described above, the management of the Group anticipated that the application of other new and amendments to IFRSs and interpretations would have no material impact on the financial statements of the Group in the future.

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with the following accounting policies which conform 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 and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis. 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 share-based payment transactions that are within the scope of 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.

Notes to the Consolidated Financial Statements

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 the asset or liability.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group 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 the decisions need to be made, including voting patterns at previous shareholders' meetings.

Notes to the Consolidated Financial Statements

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of 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.

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.

Merger accounting for business combination involving entities under common control

The consolidated financial statements incorporate the financial statements items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or bargain purchase gain at the time of common control combination.

The consolidated statement of profit or loss and other comprehensive income includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period.

The comparative amounts in the consolidated financial statements are presented as if the businesses had been combined at the end of the previous reporting period or when they first came under common control, whichever is shorter.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable.

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 universities of the Group.

Notes to the Consolidated Financial Statements

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Tuition and boarding fees are generally received in advance prior to the beginning of each school year, and are initially recorded as deferred revenue. The fees are recognised proportionately over the relevant period of the applicable programme. The portion of the fees received from students but not earned is recorded deferred revenue and is reflected as a current liability as such amounts represent revenue that the Group expects to earn within one year.

Ancillary and other service income is recognised when services are provided.

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.

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 exchange 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.

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

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.

Government grants that are receivable as compensation for expenses or 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 period in which they become receivable.

Notes to the Consolidated Financial Statements

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Retirement benefit costs

Payments to defined contribution retirement benefit plans and state-managed retirement benefit schemes are charged 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

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-based payment 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-based payment reserve.

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-based payment reserve will be transferred to retained earnings.

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 the profit before tax 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 the reporting period.

Notes to the Consolidated Financial Statements

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the 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. 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 deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

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.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (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.

Property, plant and equipment

Property, plant and equipment held for use in the supply of services, or for administrative purposes (other than properties under construction 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.

Notes to the Consolidated Financial Statements

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

Properties in the course of construction for supply or administrative purposes 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 assets other than properties under construction 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 the 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.

Prepaid lease payment

Prepaid lease payments represent payments for obtaining land use right and is amortised to profit or loss on a straight-line basis over the lease terms as stated in the relevant land use right certificate granted for usage by the Group in the PRC or the best estimate based on the normal terms in the PRC. Prepaid lease payments which is to be amortised to profit or loss in the next twelve months is classified as current assets.

Impairment of assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets with finite useful lives 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 individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When 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 asset (or a cash generating unit) for which the estimates of future cash flows have not been adjusted.

Notes to the Consolidated Financial Statements

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of assets (continued)

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 asset (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 the other asset on a pro-rata basis based on the carrying amount of each assets 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 asset (or a cash-generating unit) is increased to the revised estimate 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.

Financial instruments

Financial assets and financial liabilities are recognised 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 are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Group's financial assets are classified into 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 debt instrument 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 debt instrument, 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.

Notes to the Consolidated Financial Statements

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 trade and other receivables, amounts due from related parties/the shareholder, restricted bank balance and bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment.

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

Objective evidence of impairment could include:

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

Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit terms of the customers, observable changes in national or local economic conditions that correlate with defaults on receivables.

For financial assets carried at amortised cost, the amount of the 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 with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

Notes to the Consolidated Financial Statements

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

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

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either 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 an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

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 other payables, amount due to a related party and borrowings are subsequently measured at amortised cost, using the effective interest method.

Notes to the Consolidated Financial Statements

4. SIGNIFICANT ACCOUNTING POLICIES (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 assets 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 liabilities 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 JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 4, management of the Group is required to make judgements, 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 judgement

The following is the critical judgement, apart from those involving estimations, that the management of the Group has 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.

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 and Chunlai Technology. The management of the Group assessed whether or not the Group has control over the Consolidated Affiliated Entities and Chunlai Technology based on whether the Group has the power over the Consolidated Affiliated Entities and Chunlai Technology, has rights to variable returns from its involvement with the Consolidated Affiliated Entities and Chunlai Technology and has the ability to affect those returns through its power over the Consolidated Affiliated Entities and Chunlai Technology. After assessment, the management of the Group concluded that the Group has control over the Consolidated Affiliated Entities and Chunlai Technology as a result of the Contractual Arrangements and other measures and accordingly, the Group has included the financial information of Consolidated Affiliated Entities and Chunlai Technology in the consolidated financial statements throughout the year or since the respective dates of incorporation/establishment, whichever is the shorter period.

Notes to the Consolidated Financial Statements

5. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Critical accounting judgement (continued)

Contractual Arrangements (continued)

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 Chunlai Technology and uncertainties presented by the PRC legal system could impede the Group's beneficiary rights of the results, assets and liabilities of the Consolidated Affiliated Entities and Chunlai Technology. The management of the Group, based on the advice of its legal counsel, considers that the Contractual Arrangements among Chunlai Information, the Consolidated Affiliated Entities and Chunlai Technology and their sponsor holders or equity holders are in compliance with the relevant PRC laws and regulations and are legally enforceable.

Income taxes

Management judgement is required in interpreting the relevant tax rules and regulation so as to determine whether the Group is subject to EIT as disclosed in note 9. 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.

According to the Implementation Rules for EIT Law, qualified incomes received by non-profit making organisation and engaged in the provision of formal education services is exempted from EIT. According to the relevant provisions of New Implementation Rules for the Law for Promoting Private Education effective from 1 September 2017, private schools for which the school sponsors do not require reasonable returns/schools are elected as to be not-for-profit schools are eligible to enjoy the same preferential tax treatment as public schools. As a result, private schools, which are providing academic qualification education, are eligible to enjoy income tax exemption treatment if the school sponsors of such schools do not require reasonable returns/the schools are elected to be not-for-profit schools. However, the detailed implementation rules of New Law for Promoting Private Education has not yet been announced, the relevant guidelines from the provincial government where the schools of the Group are located required the private higher institutions to complete their registration before 2022. Given that Anyang University, Shangqiu University (including Kaifeng Campus) have not yet elected to be for-profit or not-for-profit schools, according to the relevant in-charge tax bureau, the schools could follow previous EIT exemption treatment for the tuition related income.

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 have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Notes to the Consolidated Financial Statements

5. CRITICAL ACCOUNTING JUDGEMENT 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 assessed 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 will change the depreciation charge where useful lives are estimated to be different from previously estimated, or will write off or write down obsolete assets that have been abandoned or impaired. As at 31 August 2018, the carrying amount of property, plant and equipment is RMB878,131,000 (31 August 2017: RMB707,306,000). Any changes in these estimates may have a material impact on the results of the Group.

6. REVENUE AND SEGMENT INFORMATION

The Group is mainly engaged in the provision of private higher education services in the PRC. Revenue represents service incomes from tuition and boarding fees less sales related tax.

Information reported to the Group's chief operating decision maker ("CODM"), Mr. Hou, for the purpose of resource allocation and assessment of segment performance is on a school by school basis. Each individual school constitutes an operating segment. The services provided and type of customers are similar in each operating segment, and each operating segment are subject to similar regulatory environment. Accordingly, their segment information is aggregated as a single reportable segment which is the same as the statements of profit or loss and other comprehensive income as disclosed on page 6. The accounting policies of the reportable segment are the same as the Group's accounting policies described in note 4.

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

| | 2018 RMB'000 | 2017 RMB'000 |
|---------------|-----------------|-----------------|
| Tuition fees | 435,677 | 415,686 |
| Boarding fees | 52,114 | 45,203 |
| Total revenue | 487,791 | 460,889 |

Major customers

No single customer contributes 10% or more of total revenue of the Group during the year ended 31 August 2018 (2017: nil).

Notes to the Consolidated Financial Statements

6. REVENUE AND SEGMENT INFORMATION (continued)**Geographical information**

The Group primarily operates in the PRC. All of the Group's revenue was generated in the PRC and all of the Group's non-current assets are located in the PRC.

7. OTHER INCOME

| | 2018 <i>RMB'000</i> | 2017 <i>RMB'000</i> |
|-----------------------------------|-------------------------------|------------------------|
| Government grants (<i>Note</i>) | 1,896 | 1,921 |
| Academic administrative income | 957 | 1,916 |
| Interest income | 3,591 | 3,190 |
| Service income | 3,302 | – |
| Others | 145 | 123 |
| | 9,891 | 7,150 |

Note: Government grants mainly represent unconditional subsidies from government for recognition of the relevant academic performance of the schools of the Group.

8. FINANCE COSTS

| | 2018 <i>RMB'000</i> | 2017 <i>RMB'000</i> |
|---|-------------------------------|------------------------|
| Interest expense in relation to: | | |
| – Bank borrowings | 31,630 | 29,247 |
| – Borrowing from non-banking institutes | 48,821 | 42,506 |
| – Loan from a related party | 169 | 4,812 |
| – Loan from third parties | – | 961 |
| | 80,620 | 77,526 |

No borrowing cost has been capitalised during the year ended 31 August 2018 (2017: nil).

9. INCOME TAX EXPENSE

The income tax expense of the Group during the year is analysed as follow:

| | 2018 <i>RMB'000</i> | 2017 <i>RMB'000</i> |
|---------------------------|-------------------------------|------------------------|
| Current tax: | | |
| PRC Enterprise Income Tax | 825 | – |

Notes to the Consolidated Financial Statements

9. INCOME TAX EXPENSE (continued)

Income tax expense for the year can be reconciled to the profit before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

| | 2018 RMB'000 | 2017 RMB'000 |
|---|-----------------|-----------------|
| Profit before tax | 119,773 | 151,649 |
| Tax calculated at a the PRC EIT rate of 25% | 29,943 | 37,912 |
| Tax effect of profit from non-profit making organisation exempted for tax purpose | (29,118) | (37,912) |
| Income tax expense for the year | 825 | – |

The Company was incorporated in the Cayman Islands and Chunlai BVI was incorporated in the BVI, both jurisdictions are tax exempted.

No provision for Hong Kong profit tax was provided as the Company and the group entities did not have assessable profits in Hong Kong during the year ended 31 August 2018 (2017: nil).

EIT is provided on taxable profits of entities established in the PRC. Pursuant to the Enterprise Income Tax Law of the PRC (the "EIT Law"), the EIT rate was 25% during the year ended 31 August 2018 (2017: 25%).

As mentioned in note 5, given that Anyang University, Shangqiu University (including Kaifeng Campus) have not yet elected to be for-profit or not-for-profit schools, according to the relevant in-charge tax bureau, the schools could follow previous EIT exemption treatment for the tuition related income. For the year ended 31 August 2018, Anyang University, Shangqiu University (including Kaifeng Campus) received EIT exemption confirmations/approvals from relevant local tax authorities and the non-taxable tuition related income of these schools amounted to approximately RMB487,791,000 (2017: RMB460,889,000).

10. 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 | 130,616 | 94,507 |
| – Share based payment | 697 | – |
| – Retirement benefit scheme contributions | 12,540 | 8,377 |
| Total staff costs | 143,853 | 102,884 |
| Auditor's remuneration | 1,580 | – |
| Depreciation of property, plant and equipment | 64,143 | 53,808 |
| Release of prepaid lease payments | 8,250 | 8,150 |

Notes to the Consolidated Financial Statements

11. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

| | 2018 RMB'000 | 2017 RMB'000 |
|---------------------------------------|-----------------|-----------------|
| – Salaries and allowance | 2,890 | 2,496 |
| – Equity-settled share based payments | 429 | – |
| | 3,319 | 2,496 |

Details of the emoluments paid or payable by the entities comprising the Group to the directors and chief executive of the Company (including emoluments for services as employees/directors of the group entities prior to becoming the directors of the Company) for the year are as follows:

| | Salaries and allowance RMB'000 | Equity-settled share-based payments RMB'000 | Total RMB'000 |
|--------------------------------------|---|--|------------------|
| For the year ended 31 August 2018 | | | |
| Chairman and non-executive director: | | | |
| Mr. Hou Chunlai | 1,056 | 156 | 1,212 |
| Executive directors: | | | |
| Mr. Hou (note) | 918 | 117 | 1,035 |
| Ms. Jiang Shuqin | 916 | 156 | 1,072 |
| Total | 2,890 | 429 | 3,319 |
| For the year ended 31 August 2017 | | | |
| Chairman and non-executive director: | | | |
| Mr. Hou Chunlai | 936 | – | 936 |
| Executive directors: | | | |
| Mr. Hou | 762 | – | 762 |
| Ms. Jiang Shuqin | 798 | – | 798 |
| Total | 2,496 | – | 2,496 |

Note: Mr. Hou is also chief executive of the Company. The emoluments disclosed above include those for service rendered by him as the chief executive.

Notes to the Consolidated Financial Statements

11. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS (continued)

The executive directors' of the Company's emoluments shown above were paid for their services in connection with the management of affairs of the Company and the Group for the year and the non-executive director received remuneration for his service as director of the relevant subsidiaries.

The independent non-executive directors, namely Dr. Jin Xiaobin, Ms. Fok, Pui Ming Joanna and Mr. Lau, Tsz Man were appointed by the Company on 12 February 2018. Pursuant to their service contracts with the Company, the independent non-executive directors are entitled to an annual director's fee effective from the date of the Listing, therefore no emoluments were paid or are payable to the independent non-executive directors in respect of the year ended 31 August 2018.

Employees

Of the five individuals with the highest emoluments in the Group, three were directors of the Company for the year ended 31 August 2018 (2017: 3 directors), whose emoluments are included in the disclosures above. The emoluments of the remaining two individuals (2017: 2 individuals) are as follows:

| | 2018 RMB'000 | 2017 RMB'000 |
|-------------------------------------|-----------------|-----------------|
| Salaries and other benefits | 521 | 720 |
| Equity-settled share-based payments | 39 | – |
| | 560 | 720 |

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

| | 2018 | 2017 |
|----------------------|------|------|
| Nil to HK\$1,000,000 | 2 | 2 |

During the year, no emoluments were paid by the Group to the directors of the Company or five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office (2017: nil). Neither the chief executive nor any of the directors of the Company waived any emoluments during the year ended 31 August 2018 (2017: nil).

During the year ended 31 August 2018, certain directors and employees were granted share options, in respect of their services to the Group under the share option scheme of the Company. Details of the share option scheme are set out in note 24.

Notes to the Consolidated Financial Statements

12. DIVIDENDS

No dividends were paid or proposed by the Company during the year ended 31 August 2018 (2017: nil), nor has any dividend been proposed subsequent to 31 August 2018.

13. EARNINGS PER SHARE

| | 2018 | 2017 |
|--|--------------------|-------------|
| Earnings: | | |
| Earnings for the purpose of calculating basic and diluted earnings per share (Profit attributable to the owners of the Company) (in RMB'000) | 118,948 | 151,649 |
| Number of shares: | | |
| Weighted average number of ordinary shares for the purpose of calculating basic and diluted earnings per share | 878,212,838 | 710,659,187 |

The calculation of the basic earnings per share attributable to the owners of the Company for the years ended 31 August 2017 and 2018 is based on the consolidated profit attributable to the owners of the Company and the weighted average number of shares outstanding, taking into account the share allotment as described in note 23, the capital injection during the year ended 31 August 2018 and after retrospective adjustments on the assumption that the Group Reorganisation had been in effect at 1 September 2016.

The computation of diluted earnings per share does not assume the exercise of the Company's share options granted under the Pre-IPO Option Scheme as defined in note 24 as the potential ordinary shares are anti-dilutive for the year ended 31 August 2018.

No diluted earnings per share for the year ended 31 August 2017 was presented as there were no dilutive potential ordinary shares in issue during the year.

Notes to the Consolidated Financial Statements

14. PROPERTY, PLANT AND EQUIPMENT

| | Buildings RMB'000 | Furniture and fixtures RMB'000 | Motor vehicles RMB'000 | Electronic equipment RMB'000 | Construction in progress RMB'000 | Total RMB'000 |
|---|----------------------|---|------------------------------|------------------------------------|--|------------------|
| COST | | | | | | |
| At 1 September 2016 | 689,507 | 67,979 | 11,782 | 121,256 | 374 | 890,898 |
| Additions | 2,330 | 12,870 | 213 | 19,568 | 83,938 | 118,919 |
| Disposals | – | (80) | – | – | – | (80) |
| Transfer from construction in progress | 57,133 | – | – | – | (57,133) | – |
| At 31 August 2017 | 748,970 | 80,769 | 11,995 | 140,824 | 27,179 | 1,009,737 |
| Additions | 13,559 | 20,559 | 1,499 | 30,148 | 169,266 | 235,031 |
| Disposals | – | (1,043) | (179) | (26) | – | (1,248) |
| Transfer from construction in progress | 73,526 | – | – | – | (73,526) | – |
| At 31 August 2018 | 836,055 | 100,285 | 13,315 | 170,946 | 122,919 | 1,243,520 |
| DEPRECIATION | | | | | | |
| At 1 September 2016 | 136,598 | 33,842 | 4,770 | 73,490 | – | 248,700 |
| Provided for the year | 34,925 | 7,693 | 1,078 | 10,112 | – | 53,808 |
| Eliminated on disposals | – | (77) | – | – | – | (77) |
| At 31 August 2017 | 171,523 | 41,458 | 5,848 | 83,602 | – | 302,431 |
| Provided for the period | 40,234 | 9,989 | 1,868 | 12,052 | – | 64,143 |
| Eliminated on disposals | – | (990) | (170) | (25) | – | (1,185) |
| At 31 August 2018 | 211,757 | 50,457 | 7,546 | 95,629 | – | 365,389 |
| CARRYING VALUES | | | | | | |
| At 31 August 2018 | 624,298 | 49,828 | 5,769 | 75,317 | 122,919 | 878,131 |
| At 31 August 2017 | 577,447 | 39,311 | 6,147 | 57,222 | 27,179 | 707,306 |

The above items of property, plant and equipment, other than construction in progress, are depreciated on a straight-line basis at the following rate per annum:

| | |
|------------------------|------------|
| Buildings | 4.75% |
| Furniture and fixtures | 9.5% – 19% |
| Motor vehicles | 19% – 32% |
| Electronic equipment | 9.5% – 19% |

The Group's buildings are located in the PRC.

As of 31 August 2018, the Group was in the process of obtaining the property certificates for the buildings with an aggregate carrying value of RMB605,703,000 (31 August 2017: RMB558,030,000) which are located in the PRC.

Notes to the Consolidated Financial Statements

15. PREPAID LEASE PAYMENTS

| | 2018 RMB'000 | 2017 RMB'000 |
|-------------------------------------|-----------------|-----------------|
| Analysed for reporting purposes as: | | |
| Non-current asset | 354,499 | 351,101 |
| Current asset | 8,387 | 8,150 |
| | 362,886 | 359,251 |

The prepaid lease payments are amortised on a straight-line basis over a period of 50 years, which is based on the lease terms or estimated by the management with reference to the normal terms in the PRC.

16. TRADE AND OTHER RECEIVABLES

| | 2018 RMB'000 | 2017 RMB'000 |
|--|-----------------|-----------------|
| Tuition and boarding fee receivables (Note i) | 12,339 | 10,504 |
| Third party payment platform receivables (Note ii) | 22,920 | – |
| Other receivables | 1,031 | 1,971 |
| Refundable deposit for purchase of new office (Note iii) | – | 20,200 |
| Deferred share issue costs | 8,115 | 1,029 |
| Prepaid expenses | 2,938 | 593 |
| Deposits | 100 | 100 |
| | 47,443 | 34,397 |

The following is an ageing analysis of tuition and boarding fee receivables at the end of the reporting period.

| | 2018 RMB'000 | 2017 RMB'000 |
|--|-----------------|-----------------|
| Ageing of tuition and boarding fee receivables | | |
| 0-30 days | 11,512 | 10,483 |
| 181-365 days | 819 | 21 |
| More than 1 year | 8 | – |
| Total | 12,339 | 10,504 |

Notes:

- (i) The students are required to pay tuition fees and boarding fees in advance for the upcoming school years, which normally commences in August and September. The outstanding receivables mainly represent amounts related to the registered students who have applied for the delayed payment of tuition fees and boarding fees. These delay payments were primarily due to the application of students' loan, which generally take a few months to be settled from governmental institutions. There is no fixed credit term for payments. In view of the aforementioned and the fact that the Group's tuition receivables related to a large number of individual students, there is no significant concentration of credit risk and no impairment is considered necessary based on the historical settlement pattern from students. The Group does not hold any collateral or other credit enhancement over its tuition receivables balance.
- (ii) It represented the outstanding balances of tuition and boarding fees that have been received through a third party payment platform which are normally collected within 30 days.
- (iii) A group entity prepaid refundable deposits for purchasing office premises located in Zhengzhou, Henan Province and the amounts were subsequently refunded in October 2017 due to a revised purchase contract entered into with another group entity with a prepayment of RMB42,458,000 made and recorded as non-current assets (note 18). The purchase of office premises was subsequently completed and the properties have been handed over to the Group in September 2018.

Notes to the Consolidated Financial Statements

17. PREPAYMENT FOR COOPERATION AGREEMENTS

| | 2018 RMB'000 | 2017 RMB'000 |
|--|-----------------|-----------------|
| Prepayment for cooperation agreements-YU | 100,000 | 100,000 |

College of Engineering and Technology of Yangtze University 長江大學工程技術學院 (“Hubei College”) is an independent college and originally established by “Yangtze University” 長江大學 (“YU”) in Hubei Province. In December 2014, the Group entered into a cooperation agreement and supplementary agreements. Pursuant to these agreements, the Group has obtained the right to manage the Hubei College at a consideration of RMB120 million, among which RMB100 million has been paid upon entering the agreements in December 2014. These agreements have also authorised the Group the right to transfer the sponsorship of Hubei College from YU. Up to the date of issuance of the report, the transfer of sponsorship has not yet been completed as the transfer is pending for the final approval of the Ministry of Education of the PRC and the registration with the provincial civil affairs authorities. Upon the approvals and registration of the governments, the down payment for cooperation agreement of RMB100 million will be treated as part of the consideration of business combination.

18. OTHER NON-CURRENT ASSETS

| | 2018 RMB'000 | 2017 RMB'000 |
|--|-----------------|-----------------|
| Prepayment for prepaid lease payments | 59,108 | – |
| Prepayment/deposits paid for acquisition of property, plant and equipment | 49,544 | 6,281 |
| Loan receivables (<i>Note</i>) | 33,406 | 36,681 |
| | 142,058 | 42,962 |

Note: The carrying amount represents the loans to Hubei College which bears interest at 4.75% per annum. The repayment term is negotiated annually. The management of the Group agreed in writing that the Group will not collect the loan and interest balances within the next 12 months.

Notes to the Consolidated Financial Statements

19. AMOUNT DUE FROM THE SHAREHOLDER/RELATED PARTIES AND AMOUNTS DUE TO RELATED PARTIES**(a) Amount due from the shareholder**

The amount due from the shareholder of the Company is non-trade in nature, unsecured, non-interest bearing and repayable on demand.

(b) Amounts due from related parties

| | 2018 <i>RMB'000</i> | 2017 <i>RMB'000</i> |
|--|-------------------------------|------------------------|
| Zhongzhou Airlines Co., Ltd.* (中州航空有限責任公司 (Note i)) | – | 5,000 |
| Zhan Yang 戰陽 (Note ii) | – | 167,448 |
| | – | 172,448 |

Maximum amounts outstanding during the years ended 31 August 2017 and 2018 are as follows:

| | 2018 <i>RMB'000</i> | 2017 <i>RMB'000</i> |
|---|-------------------------------|------------------------|
| Zhongzhou Airlines Co., Ltd.* (中州航空有限責任公司) | 5,000 | 5,000 |
| Zhan Yang 戰陽 | 167,948 | 178,648 |
| Zhongzhou Tengfei Co., Ltd.* (中州騰飛國際貨運代理有限公司 (Note i)) | 22,000 | – |

* English name is translated for identification purpose only.

Notes to the Consolidated Financial Statements

19. AMOUNTS DUE FROM THE SHAREHOLDER/RELATED PARTIES AND AMOUNT DUE TO RELATED PARTIES (continued)**(c) Amounts due to related parties**

| | 2018 RMB'000 | 2017 RMB'000 |
|--|-----------------|-----------------|
| Non current | | |
| Chunlai High School* (虞城縣春來高級中學 (Notes i, iii)) | - | 40,000 |
| Current | | |
| Henan Sanle Catering Service Company* (河南三樂餐飲服務有限公司 (Note i)) | - | 2,100 |

* English name is translated for identification purpose only.

Notes:

- i. The entities are controlled by close family members of Mr Hou.
- ii. The person is the close family member of Mr. Hou. The repayment term of the balances is negotiated annually.
- iii. The balance bore interest at 10.80% per annum and was originally repayable in five years terms and due in May 2019. It had been repaid during the year ended 31 August 2018.

Unless specified above, all the balances are or were non-trade in nature, unsecured, non-interest bearing and repayable on demand. All the above mentioned balances due from/(to) related parties had been settled or repaid during the year ended 31 August 2018.

20. BANK BALANCES AND CASH, RESTRICTED BANK BALANCE

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

As at 31 August 2018, the Group's bank deposits carried a weighted-average interest rate of 0.35% per annum (31 August 2017: 0.35%).

- b. The restricted bank balance as at 31 August 2017 was pledged as collateral and was released in February 2018 when the short-term bill was settled.

Notes to the Consolidated Financial Statements

21. OTHER PAYABLES AND ACCRUED EXPENSES

| | 2018 RMB'000 | 2017 RMB'000 |
|--|-----------------|-----------------|
| Accrued annual fee (Note) | – | 17,711 |
| Interest payables | 8,743 | 9,433 |
| Accrued staff benefits and payroll | 17,671 | 14,508 |
| Payables for purchase of property, plant and equipment and construction | 73,988 | 25,146 |
| Receipt on behalf of ancillary services providers | 19,033 | 16,417 |
| Other payables, accruals and deposits received | 30,207 | 14,452 |
| Other taxes payables | 7,513 | 7,454 |
| Accrued share issue costs/listing expenses | 11,859 | 3,200 |
| | 169,014 | 108,321 |

Note: In 2004, the Group entered into a cooperation agreement with Henan Agricultural University 河南農業大學 (“HAU”) for establishing Huayu college of Henan Agricultural University 河南農業大學華豫學院 (“HAUHY”) for 20 years. The Group agreed to pay HAU an annual fee based on the tuition fee received by HAUHY annually. In 2009, the Group has terminated the cooperation and converted HAUHY into an independent private university, namely Shangqiu University in 2011. The balance represented the outstanding unpaid annual fee due to HAU prior to the termination, which was settled during the year ended 31 August 2018.

Notes to the Consolidated Financial Statements

22. BORROWINGS

| | 2018 RMB'000 | 2017 RMB'000 |
|--|-----------------|-----------------|
| Unsecured and unguaranteed | | |
| – Loan from Hubei College (Note i) | 3,824 | 3,824 |
| Secured and guaranteed (Note ii) | 589,035 | 460,000 |
| Secured and unguaranteed (Note ii) | 30,000 | 180,000 |
| Unsecured and guaranteed (Note iii) | 329,247 | 348,505 |
| | 952,106 | 992,329 |
| The carrying amount of the above borrowings are repayable based on scheduled repayment dates set out in loan agreements: | | |
| – Within one year | 265,353 | 473,824 |
| – Within a period of more than one year but not exceeding two years | 570,879 | 170,000 |
| – Within a period of more than two years but not exceeding five years | 107,710 | 348,505 |
| – Within a period of more than five years | 8,164 | – |
| | 952,106 | 992,329 |
| Less: current portion | 265,353 | 473,824 |
| Non-current portion | 686,753 | 518,505 |
| The exposure of borrowings | | |
| – Fixed-rate | 633,071 | 842,329 |
| – Variable-rate | 319,035 | 150,000 |
| | 952,106 | 992,329 |

Notes:

- i. The loan from Hubei College was unsecured and carried at fixed interest rate without fixed repayment term.
- ii. Certain bank borrowings and the financing arranged by a trust fund were secured by the rights to receive the tuition fees of Anyang University, Shangqiu University and Kaifeng Campus, among which RMB570,000,000 as at 31 August 2018 (31 August 2017: RMB460,000,000) were also guaranteed by Mr. Hou Chunlai, Mr. Hou and Ms. Jiang Shuqin jointly and severally.

A bank loan of the Group with carrying amount of RMB19,035,000 was secured under a mortgage arrangement over the Group's office premises located in Zhengzhou to be acquired (see note 16) and also guaranteed by Mr. Hou (2017: nil).
- iii. Certain bank borrowing and the financing arranged by a trust fund of Henan Chunlai were unsecured and guaranteed by Mr. Hou Chunlai, Mr. Hou and Ms. Jiang Shuqin jointly and severally.

All of the borrowings are denominated in RMB. The variable-rate borrowings carry interest with reference to the benchmark borrowing rate of the People's Bank of China.

Notes to the Consolidated Financial Statements

22. BORROWINGS (continued)

The range of effective interest rates per annum (which are also equal to contracted interest rates) on the Group's borrowings is as follows:

| | 2018 RMB'000 | 2017 RMB'000 |
|--------------------------|----------------------|-----------------|
| Effective interest rate: | | |
| Fixed-rate | 6.4% to 10.4% | 5.0% to 10.4% |
| Variable-rate | 5.7% to 6.57% | 6.2% |

23. SHARE CAPITAL/PAID-IN CAPITAL

The paid-in-capital of the Group presented as at 31 August 2017, represented the paid-in-capital of Henan Chunlai prior to the completion of the Group Reorganisation as stipulated in Note 2 of the consolidated financial statements. The share capital as at 31 August 2018 represented the share capital of the Company.

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 15 November 2017 with an authorised share capital of HK\$500,000 divided into 50,000,000,000 shares with par value of HK\$0.00001. On the same date, Chunlai Investment acquired one share in the Company at par value and 899,999,999 shares were further issued and allotted to Chunlai Investment as fully-paid at par value with a share capital of HK\$9,000 on 12 February 2018.

| | Number of shares | Amount HK\$ | Amount RMB | Show in the Consolidated Financial Statements RMB'000 |
|--|---------------------|----------------|---------------|---|
| Ordinary shares of HK\$0.00001 each | | | | |
| Authorised | | | | |
| At 15 November 2017 (date of incorporation) and 31 August 2018 | 50,000,000,000 | 500,000 | 424,570 | N/A |
| Issued and fully paid | | | | |
| At 15 November 2017 (date of incorporation) | 1 | – | – | N/A |
| Issue of shares on 12 February 2018 | 899,999,999 | 9,000 | 7,251 | 7 |
| As at 31 August 2018 | 900,000,000 | 9,000 | 7,251 | 7 |

Notes to the Consolidated Financial Statements

24. SHARE-BASED PAYMENTS

Pre-IPO Share Option Scheme

The Pre-IPO Share Option Scheme was adopted pursuant to a Board of director's resolution passed on 9 August 2018, for the primary purpose of providing incentives to directors and eligible employees, and will expire no later than 10 years from the date of the Listing. Under the Pre-IPO Share Option Scheme, the total number of Company's shares was 35,950,000. The exercise price of all the options granted under the Pre-IPO Share Option Scheme is HK\$0.00001 per Share. For details of the Pre-IPO Share Option Scheme please refer to the section "Appendix V" of the Prospectus of the Company dated 31 August 2018.

At 31 August 2018, the number of options that have been granted and remained outstanding under the Pre-IPO Share Option Scheme was 35,950,000, representing approximately 4.00% of the shares of the Company in issue at that date.

Details of specific categories of Pre-IPO Share Options are as follows:

| Tranche | Date of grant | Number of Shares | Vesting period | Exercise period |
|---------|---------------|------------------|-----------------------|-----------------------|
| A | 09/08/2018 | 10,465,000 | 09/08/2018-09/08/2021 | 10/08/2021-09/08/2038 |
| B | 09/08/2018 | 7,350,000 | 09/08/2018-09/08/2023 | 10/08/2023-09/08/2038 |
| C | 09/08/2018 | 7,190,000 | 09/08/2018-09/08/2025 | 10/08/2025-09/08/2038 |
| D | 09/08/2018 | 10,945,000 | 09/08/2018-09/08/2028 | 10/08/2028-09/08/2038 |

The following table discloses movements of the Company's Pre-IPO Share Options held by the directors of the Company and employees during the year:

| Option type | Outstanding at 1 September 2017 | Granted during the year | Lapsed during the year | Exercised during the year | Outstanding at 31 August 2018 |
|------------------------------------|---------------------------------|-------------------------|------------------------|---------------------------|-------------------------------|
| Directors | | | | | |
| Mr. Hou Chunlai | – | 8,000,000 | – | – | 8,000,000 |
| Mr. Hou | – | 6,000,000 | – | – | 6,000,000 |
| Ms. Jiang Shuqin | – | 8,000,000 | – | – | 8,000,000 |
| Directors in aggregate | – | 22,000,000 | – | – | 22,000,000 |
| Employees in aggregate | – | 13,950,000 | – | – | 13,950,000 |
| Total | – | 35,950,000 | – | – | 35,950,000 |
| Exercise price | – | HK\$0.00001 | – | – | HK\$0.00001 |
| Exercisable at the end of the year | | | – | | – |

Notes to the Consolidated Financial Statements

24. SHARE-BASED PAYMENTS (continued)

The fair value of the share options was calculated using the binomial model. The inputs into the model were as follows:

| | Date of grant |
|-------------------------|---------------|
| Exercise price | HK\$0.00001 |
| Expected volatility | 51.49% |
| Expected life | 20 years |
| Risk-free rate | 2.19% |
| Expected dividend yield | 0% |
| Forfeiture rate | 0% |

The variables and assumptions used in computing the fair value of the share options are based on the best estimate of the directors of the Company. The estimated fair value of the share options granted on that date was RMB59,844,000.

The Group recognised share based compensation expense of RMB697,000 for the year ended 31 August 2018 (2017: nil).

25. CAPITAL COMMITMENTS

| | 2018 RMB'000 | 2017 RMB'000 |
|---|-----------------|-----------------|
| Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements | 238,543 | 23,399 |
| Capital expenditure in respect of prepaid land lease payments | 11,460 | 59,984 |
| Capital expenditure in respect of acquisition of Hubei College (Note 17) | 20,000 | 20,000 |
| | 270,003 | 103,383 |

26. RETIREMENT BENEFITS SCHEMES

During the year, the employees of the PRC subsidiaries are members of the state-management 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 contribution under the scheme.

The amounts of contributions made by the Group in respect of the retirement benefit scheme during the year are disclosed in Note 10.

Notes to the Consolidated Financial Statements

27. RELATED PARTY TRANSACTIONS

During the year, besides the disclosures elsewhere in the consolidated financial statements, the Group entered into the following transactions with related parties:

(i) Compensation of key management personnel

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

| | 2018 RMB'000 | 2017 RMB'000 |
|--|-----------------|-----------------|
| Short-term benefits | 3,428 | 2,946 |
| Equity-settled share-based payments | 554 | – |
| Retirement benefit scheme contribution | 73 | 61 |
| | 4,055 | 3,007 |

28. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that it will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debt, which includes the borrowings, amounts due to related parties and equity attributable to owners of the Company, which includes the share capital and reserves.

The Group's management reviews the capital structure regularly. The Group considers the cost of capital and the risks associated with each class of capital, and will balance its overall capital structure through the payment of dividends, issuance of new shares as well as raising of bank borrowings, if necessary.

29. FINANCIAL INSTRUMENTS

29a. Categories of financial instruments

The carrying amounts of financial assets and financial liabilities are as follows:

| | 2018 RMB'000 | 2017 RMB'000 |
|---|-----------------|-----------------|
| Financial assets | | |
| Loans and receivables (including cash and cash equivalents) | 581,017 | 572,567 |
| Financial liabilities | | |
| Amortised cost | 1,095,936 | 1,120,788 |

Notes to the Consolidated Financial Statements

29. FINANCIAL INSTRUMENTS (continued)

29b. Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, amounts due from (to) the shareholder and related parties, bank balances and restricted bank balance, other payables and borrowings. Details of these financial instruments are disclosed in respective notes. The risk associated with these financial instruments include market risk (mainly interest rate risk), credit risk and liquidity risk. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) Interest rate risk

The Group is exposed to cash flow interest rate risk in relation to bank balances and variable-rate borrowings due to the fluctuation of the prevailing market interest rates. It is also exposed to fair value interest rate risk in relation to the restricted bank balances, time deposits and fixed-rate borrowings.

The Group currently does not have any interest rate hedging policy in relation to interest rate risks. The management of the Group will continuously monitor interest rate fluctuation and will consider hedging interest rate risk should the need arise.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for the variable interest-bearing borrowings at the end of each reporting date. The management of the Group consider the Group's exposure to the interest rate risk of bank balances is not significant.

A 100 basis point increase or decrease in variable interest rates on borrowings represents managements' assessment of the reasonably possible change in interest rates. The following shows the impact to the post-tax profit for the year if interest rates on borrowings had been 100 basis points higher and all other variables were held constant.

| | 2018 RMB'000 | 2017 RMB'000 |
|--|-----------------|-----------------|
| Decrease in post-tax profit for the year | 3,190 | 1,500 |

The post-tax profit for the year would be increased by an equal and opposite amount if interest rates on borrowings had been 100 basis points lower and all other variables were held constant.

Notes to the Consolidated Financial Statements

29. FINANCIAL INSTRUMENTS (continued)

29b. Financial risk management objectives and policies (continued)

Credit risk

The Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties arises from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk on trade and other receivables, management makes periodic collective assessments as well as individual assessment on the recoverability of other receivables based on historical settlement records and past experience. The management of the Group believes that there is no material credit risk inherent in the Group's outstanding balances of trade and other receivables.

The credit risk on bank balances and restricted bank balances are limited because the counterparties are reputable financial institutions.

Liquidity risk

The management of the Group has adopted an appropriate liquidity risk management framework for the management of the Group's funding and liquidity management requirements. The Group manages liquidity risk by closely and continuously monitoring the financial positions of the Group. The Group recorded net current liabilities of RMB193,101,000 as at 31 August 2018 (31 August 2017: 197,682,000). In view of the net current liabilities position, the management of the Group has given careful consideration to the future liquidity and performance of the Group and its available sources of finance in assessing whether the Group will have sufficient financial resources to continue as a going concern. Having considered the cash inflow from operations, renewing the existing bank borrowings and obtaining new bank facilities, the management of the Group is satisfied that the Group is able to meet in full its financial obligations as they fall due for the foreseeable future.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows on financial liabilities based on the earliest date on which the Group and the Company is required to pay. The table includes both interest and principal cash flow. To the extent that interest rates and floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

Notes to the Consolidated Financial Statements

29. FINANCIAL INSTRUMENTS (continued)

29b. Financial risk management objectives and policies (continued)

Liquidity risk (continued)

| | Weighted average effective interest rate % | On demand or less than 1 year RMB'000 | 1-2 years RMB'000 | 2-5 years RMB'000 | Above 5 years RMB'000 | Total undiscounted cash flows RMB'000 | Carrying amount RMB'000 |
|----------------------------------|--|--|----------------------|----------------------|-----------------------------|--|-------------------------------|
| Other Payables | – | 143,830 | – | – | – | 143,830 | 143,830 |
| Borrowings | | | | | | | |
| – fixed rate | 8.0 | 231,375 | 470,069 | – | – | 701,444 | 633,071 |
| – variable rate | 5.9 | 91,633 | 142,041 | 109,340 | 11,971 | 354,985 | 319,035 |
| At 31 August 2018 | | 466,838 | 612,110 | 109,340 | 11,971 | 1,200,259 | 1,095,936 |
| Other Payables | – | 86,359 | – | – | – | 86,359 | 86,359 |
| Amount due to a related party | 10.8 | 42,479 | – | – | – | 42,479 | 42,100 |
| Borrowings | | | | | | | |
| – fixed rate | 8.5 | 524,525 | 198,105 | 185,437 | – | 908,067 | 842,329 |
| – variable rate | 6.2 | 7,410 | 8,158 | 178,867 | – | 194,435 | 150,000 |
| At 31 August 2017 | | 660,773 | 206,263 | 364,304 | – | 1,231,340 | 1,120,788 |

29c. Fair value

The fair values of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The management of the Group consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

Notes to the Consolidated Financial Statements

29. FINANCIAL INSTRUMENTS (continued)

29d. 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.

| | Interest payable RMB'000 | Borrowings RMB'000 | Amount due to related parties RMB'000 | Amounts due to third parties RMB'000 | Accrued share issue costs RMB'000 | Total RMB'000 |
|----------------------------|-----------------------------|-----------------------|--|---|--------------------------------------|------------------|
| At 1 September 2016 | 13,480 | 861,777 | 43,100 | 5,250 | – | 923,607 |
| Financing cash flow (Note) | (80,554) | 129,533 | (1,000) | (5,250) | – | 42,729 |
| Finance cost recognised | 76,507 | 1,019 | – | – | – | 77,526 |
| Issue costs accrued | – | – | – | – | 1,029 | 1,029 |
| At 31 August 2017 | 9,433 | 992,329 | 42,100 | – | 1,029 | 1,044,891 |
| Financing cash flow (Note) | (81,310) | (40,223) | (42,100) | – | (5,551) | (169,184) |
| Finance cost recognised | 80,620 | – | – | – | – | 80,620 |
| Issue costs accrued | – | – | – | – | 7,487 | 7,487 |
| At 31 August 2018 | 8,743 | 952,106 | – | – | 2,965 | 963,814 |

Note: The cash flows represent the proceeds from and repayment of borrowings, repayment to third parties, repayment to a related party and interest paid in the consolidated statement of cash flows.

Notes to the Consolidated Financial Statements

30. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

| | At 31 August 2018 RMB'000 |
|---------------------------------------|---------------------------------|
| Non-current asset | |
| Investment in a subsidiary (Note) | – |
| Current assets | |
| Amount due from the shareholder | 7 |
| Trade and other receivables | 9,256 |
| | 9,263 |
| Current liabilities | |
| Amounts due to a subsidiary | 23,982 |
| Accrued expenses | 11,859 |
| | 35,841 |
| Net current liabilities | (26,578) |
| Total assets less current liabilities | (26,578) |
| Capital and reserves | |
| Share capital | 7 |
| Reserves | (26,585) |
| Total equity | (26,578) |

Note: The investment in a subsidiary is US\$1.

Reserves of the Company

| | Share-based payment reserve RMB'000 | Accumulated losses RMB'000 | Total RMB'000 |
|---|--|----------------------------------|------------------|
| At 15 November 2017 (date of incorporation) | – | – | – |
| Recognition of equity-settled share-based payments | 697 | – | 697 |
| Loss and total comprehensive expense for the period | – | (27,282) | (27,282) |
| At 31 August 2018 | 697 | (27,282) | (26,585) |

Notes to the Consolidated Financial Statements

31. PARTICULARS OF SUBSIDIARIES

As at 31 August 2018, the Company has direct or indirect interests in the following subsidiaries:

| Name of subsidiary | Place and date of incorporation/ establishment | Issued and fully paid share/ registered capital | Equity interest attributable to the Group At 31 August | | Principal activity |
|--------------------------|--|---|--|------|---------------------------------|
| | | | 2017 | 2018 | |
| <i>Directly owned:</i> | | | | | |
| Chunlai BVI | 28 November 2017 BVI | US\$1 | N/A | 100% | Investment holding |
| <i>Indirectly owned:</i> | | | | | |
| Chunlai Hong Kong | 19 December 2017 Hong Kong | HK\$1 | N/A | 100% | Investment holding |
| Henan Chunlai | 11 April 2002 The PRC | RMB113,740,000 | 100% | 100% | Investment holding |
| Chunlai Information | 19 January 2018 The PRC | US\$1,000,000 | N/A | 100% | Rendering of education services |
| Chunlai Technology | 1 August 2017 The PRC | RMB30,000,000 | 100% | 100% | Investment holding |
| Shangqiu University | 21 June 2004 The PRC | RMB80,322,912 | 100% | 100% | Rendering of education services |
| Anyang University | 27 November 2008 The PRC | RMB80,000,000 | 100% | 100% | Rendering of education services |
| Kaifeng Campus | 16 May 2013 The PRC | RMB89,005,477 | 100% | 100% | Rendering of education services |

The Company's financial year end date is 31 August, which is consistent with the school year. The subsidiaries in the PRC adopt 31 December as their financial year end date, while the other Non-PRC subsidiaries adopt 31 August as their financial year end date.

32. EVENTS AFTER THE REPORTING PERIOD

The following events took place subsequent to the reporting date:

On 13 September 2018, the Company issued 300,000,000 shares to the public at a price of HK\$2.08 per share, which were listed on the Stock Exchange on the same date.

Definitions

| | |
|---------------------------------|---|
| “affiliate” | means a company that directly, indirectly through one or more intermediaries, controls or is controlled by, or is under common control with, the Company and includes any company which is (a) the holding company of the Company; or (b) a subsidiary of holding company of the Company; or (c) a subsidiary of the Company; or (d) a fellow subsidiary of the Company; or (e) the controlling shareholder of the Company; or (f) a company controlled by the controlling shareholder of the Company; or (g) a company controlled by the Company; or (h) an associated company of the holding company of the Company; or (i) an associated company of the Company; or (j) associated company of controlling shareholder of the Company |
| “Anyang University” | Anyang University (安陽學院), a Private HEI (formerly an independent college known as College of Humanities and Management of Anyang Normal University) (安陽師範學院人文管理學院) that obtained approval from MOE for its establishment on 25 April 2003 (excluding the Wenming Avenue (文明大道) campus of the College of Humanities and Management of Anyang Normal University, which was managed by Anyang Normal University) and one of our PRC Operating Schools |
| “Articles of Association” | the articles of association of the Company adopted on 24 August 2018 with effect from the Listing Date, as amended from time to time |
| “associate(s)” | has the meaning ascribed thereto under the Listing Rules |
| “Auditor” | Deloitte Touche Tohmatsu |
| “Board” or “Board of Directors” | the board of directors of the Company |
| “BVI” | the British Virgin Islands |
| “Central China” | Henan Province, Hubei Province and Hunan Province of China |
| “Chairman Hou” | Mr. Hou Chunlai (侯春來), a PRC citizen, a non-executive Director and Chairman of the Board, and spouse of Ms. Jiang and father of Mr. Hou |
| “China” or “PRC” | the People’s Republic of China and, except where the context requires otherwise and only for the purposes of this Annual Report, references to China or the PRC exclude Hong Kong, Macau and Taiwan; the term “Chinese” has a similar meaning |
| “Chunlai (Hong Kong)” | China Chunlai Education (Hong Kong) Limited (中國春來教育(香港)有限公司), a company with limited liability incorporated in Hong Kong on 19 December 2017 and a wholly-owned subsidiary of our Company |
| “Chunlai Investment” | Chunlai Investment Co., Ltd (春來投資有限公司), a company incorporated in the BVI with limited liability on 13 July 2017 and one of the Controlling Shareholders |
| “Companies Ordinance” | the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) effective from 3 March 2014, as amended, supplemented or otherwise modified from time to time |

Definitions

| | |
|--|--|
| “Company”, “the Company” or “our Company” | China Chunlai Education Group Co., Ltd (中國春來教育集團有限公司), an exempted company with limited liability incorporated in the Cayman Islands on 15 November 2017 |
| “connected person(s)” | has the meaning ascribed to it under the Listing Rules |
| “connected transaction(s)” | has the meaning ascribed to it under the Listing Rules |
| “consolidated affiliated entities” or “consolidated affiliated entity” | the entities we control through the Contractual Arrangements, being the PRC Holdco, the School Sponsor and the PRC Operating Schools |
| “Contractual Arrangements” | the series of contractual arrangements entered into by, among others, WFOE, Mr. Hou, Chairman Hou, Ms. Jiang and the Group’s consolidated affiliated entities, details of which are described in the section headed “Contractual Arrangements” in the Prospectus |
| “Controlling Shareholders” | has the meaning ascribed to it under the Listing Rules and unless the context otherwise requires, refers to Mr. Hou and Chunlai Investment |
| “Corporate Governance Code”, or “CG Code” | the Corporate Governance Code and Corporate Governance Report set out in Appendix 14 of the Listing Rules |
| “Director(s)” | the director(s) of the Company from time to time |
| “Frost & Sullivan” | Frost & Sullivan (Beijing) Inc., Shanghai Branch Co., an independent global market research and consulting Company |
| “Global Offering” | the Hong Kong public offering and the international offering as described in the section headed “Structure of the Global Offering” of the Prospectus |
| “Group”, “our Group”, “the Group”, “we”, “us” or “our” | the Company, its subsidiaries and the consolidated affiliated entities from time to time or, where the context so requires, in respect of the period prior to the Company becoming the holding company of its present subsidiaries, such subsidiaries as if they were subsidiaries of the Company at the relevant time |
| “HK\$” | Hong Kong dollars, the lawful currency of Hong Kong |
| “Henan Implementation Opinions” | the Implementation Opinions of Henan Government on Encouraging the Operation of Education by Social Forces and Promoting the Healthy Development of Private Education (《河南省人民政府關於鼓勵社會力量興辦教育進一步促進民辦教育健康發展的實施意見》) promulgated by the Henan Municipal Government on 2 February 2018 |
| “Hong Kong” or “HK” | the Hong Kong Special Administrative Region of the PRC |
| “Hubei College” | College of Engineering and Technology of Yangtze University (長江大學工程技術學院), an independent college of Yangtze University (長江大學) located in Hubei Province, the PRC that obtained approval from MOE for its establishment on 18 March 2004 |
| “IFRS” | International Financial Reporting Standards, as issued from time to time by the International Accounting Standards Board |

Definitions

| | |
|-------------------------------|---|
| “IPO” | initial public offering of the Shares on 13 September 2018 |
| “Listing” | the listing of the Shares on the Main Board of the Stock Exchange on 13 September 2018 |
| “Listing Date” | 13 September 2018, the date the Shares were listed on the Main Board of the Stock Exchange |
| “Listing Rules” | the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time |
| “Main Board” | the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operates in parallel with the Growth Enterprise Market of the Stock Exchange |
| “Model Code” | the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules |
| “MOE” | the Ministry of Education of the PRC (中華人民共和國教育部) |
| “MOFCOM” | the Ministry of Commerce of the PRC (中華人民共和國商務部) |
| “Mr. Hou” | Mr. Hou Junyu (侯俊宇), a PRC citizen, an executive Director, our chief executive officer and our controlling shareholder, and son of Chairman Hou and Ms. Jiang |
| “Ms. Jiang” | Ms. Jiang Shuqin (蔣淑琴), a PRC citizen and an executive Director, and spouse of Chairman Hou and mother of Mr. Hou |
| “PRC Holdco” | Henan Chunlai Education Technology Co., Ltd. (河南春來教育科技有限公司), a limited liability company established in the PRC on 1 August 2017 and one of our consolidated affiliated entities |
| “PRC Legal Adviser” | Tian Yuan Law Firm, our legal adviser as to PRC laws and regulations |
| “PRC Operating Schools” | Shangqiu University (including Shangqiu University Kaifeng Campus) and Anyang University |
| “Pre-IPO Share Option Scheme” | the share option scheme effective from 9 August 2018, the principal terms of which are set out in the section headed “Statutory and General Information – D. Pre-IPO Share Option Scheme and Share Award Scheme – 1. Pre-IPO Share Option Scheme” in Appendix V to the Prospectus |
| “Prospectus” | the prospectus of the Company published on 31 August 2018 |
| “RMB” | Renminbi, the lawful currency of PRC |
| “Reporting Period” | the year ended 31 August 2018 |

Definitions

| | |
|--------------------------------------|---|
| “School Sponsor” | Henan Shangqiu Chunlai Education Corporation (河南商丘春來教育集團), a private non-enterprise entity (民辦非企業單位) established in the PRC on 18 October 2014, one of our consolidated affiliated entities and the sole school sponsor of each of our PRC Operating Schools |
| “SFO” | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time |
| “Shangqiu University” | Shangqiu University (商丘學院), a Private HEI (formerly an independent college known as Huayu College of Henan Agricultural University (河南農業大學華豫學院) that obtained approval from MOE for its establishment on 14 July 2005) and one of our PRC Operating Schools; operating and financial data stated to be of Shangqiu University presented in this document do not include contributions by Shangqiu University Kaifeng Campus, unless otherwise specified |
| “Shangqiu University Kaifeng Campus” | Shangqiu University Applied Science and Technology College (商丘學院應用科技學院), a branch college (下屬學院) of Shangqiu University located in Kaifeng, Henan Province, the PRC that obtained approval from the Education Department of Henan Province (河南省教育廳) for its establishment on 16 May 2013 |
| “Share(s)” | ordinary share(s) in the Company of par value of HK\$0.00001 each |
| “Share Award Scheme” | the share award scheme approved and adopted by the sole shareholder of the Company on 24 August 2018, the principal terms of which are set out in the section headed “Statutory and General Information – D. Pre-IPO Share Option Scheme and Share Award Scheme – 2. Share Award Scheme” in Appendix V to the Prospectus |
| “Shareholder(s)” | holder(s) of Share(s) |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited |
| “subsidiary(ies)” | has the meaning ascribed thereto in section 15 of the Companies Ordinance |
| “Substantial Shareholder” | has the meaning ascribed to it under the Listing Rules |
| “United States” or “U.S.” | the United States of America, its territories, its possessions and all areas subject to its jurisdiction |
| “US\$” | United States dollars, the lawful currency of the United States |
| “WFOE” | Henan Chunlai Education Information Consultancy Co., Ltd. (河南春來教育信息諮詢有限公司), a company established in the PRC with limited liability on 19 January 2018 and a wholly-owned subsidiary of our Company |
| “%” | percent |

Glossary

| | |
|---|---|
| “college” | a higher educational institution offering bachelor’s degree programmes and junior college diploma programmes, which may be a branch college (下屬學院) and may not be a separate legal entity |
| “combined vocation education and junior college diploma programme” | a five-year education programme that generally enrolls middle school graduates and upon the completion of which a junior college diploma will be granted |
| “formal education” | education system that provides students with the opportunity to earn official certificates from the PRC government |
| “high school” | a school that provide education for students in grade 10 through grade 12 |
| “higher education” | an optional final stage of formal learning that occurs after secondary education, which is often delivered at universities, academies, colleges and institutes of technologies |
| “independent college” | a bachelor-degree level higher education institution established by a public university that provides formal education in bachelor-degree level or above in association with individuals or social organisations other than governmental institutions using non-state funds |
| “initial employment rate” | the percentage of graduates who entered into full-time employment contracts, were self-employed, accepted an offer for higher degree or equivalent programmes, or accepted an offer to pursue overseas study or employment, before graduation. There may be variation to the meaning of this term depending on the relevant school and type of graduates considered |
| “junior college to bachelor’s degree transfer programme” | a two-year post-secondary formal education programme that generally enrolls graduates of junior college degree programmes who have taken the National Higher Education Entrance Exam, and upon completion of which a bachelor’s degree will be granted |
| “National Higher Education Entrance Exam” | also known as “Gaokao” (高考), an academic examination held annually in the PRC, and a prerequisite for entrance into most higher education institutions at the undergraduate level in the PRC |
| “one-child policy” | China’s population control policy implemented by the Population and Family Planning Law of the PRC, according to which a family can have only one child, with certain exceptions |
| “private HEI”, “private higher education institution” or “private university” | a PRC private higher education institution (民辦高等教育機構) not affiliated with any public universities that is operated by nongovernmental entity(ies) or individual(s) where government funding is not a major source of capital and has open admission and enrolment to the public |

Glossary

| | |
|----------------------------------|---|
| “private school” | a school that is not run by local, provincial or national governments |
| “public school” | a school that is run by local, provincial or national governments |
| “school sponsor” | an individual or entity that funds or holds interests in an educational institution |
| “vocational education programme” | a three-year vocational education programme that generally enrolls middle school graduates or a one-year vocational education programme that generally enrolls high school graduates, and upon the completion of which a vocational high school diploma will be granted |

