# 中國教育集團控股有限公司
# CHINA EDUCATION GROUP HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability and carrying on business in Hong Kong as "ChinaEdu中教常春藤")

Stock Code : 839

# To Pioneer Excellence and Innovation in Education

ANNUAL REPORT 2018

For the eight months ended 31 August 2018

# OUR MISSION

PREPARING STUDENTS FOR SUCCESS THROUGH
EXCELLENCE AND INNOVATION IN EDUCATION

This report is printed on environmentally friendly paper

# Contents

# Corporate Information

## BOARD OF DIRECTORS

### Executive Directors

Mr. Yu Guo *(Co-chairman)*
Mr. Xie Ketao *(Co-chairman)*
Dr. Yu Kai *(Chief Executive Officer)*
Ms. Xie Shaohua

### Independent Non-Executive Directors

Dr. Gerard A. Postiglione
Dr. Rui Meng
Dr. Wu Kin Bing

## AUDIT COMMITTEE

Dr. Rui Meng *(Chairman)*
Dr. Gerard A. Postiglione
Dr. Wu Kin Bing

## REMUNERATION COMMITTEE

Dr. Gerard A. Postiglione *(Chairman)*
Dr. Yu Kai
Dr. Rui Meng

## NOMINATION COMMITTEE

Mr. Yu Guo *(Chairman)*
Dr. Gerard A. Postiglione
Dr. Wu Kin Bing

## COMPANY SECRETARY

Mr. Mok Kwai Pui Bill

## AUTHORISED REPRESENTATIVES

Dr. Yu Kai
Mr. Mok Kwai Pui Bill

## AUDITOR

Deloitte Touche Tohmatsu
35/F, One Pacific Place
88 Queensway
Hong Kong

## COMPLIANCE ADVISER

Somerley Capital Limited
20/F, China Building
29 Queen's Road Central
Hong Kong

## REGISTERED OFFICE IN CAYMAN ISLANDS

The offices of Walkers Corporate Limited
Cayman Corporate Centre
27 Hospital Road
George Town
Grand Cayman KY1-–9008
Cayman Islands

## PRINCIPAL OFFICE IN HONG KONG

Suite 1504, Two Exchange Square
8 Connaught Place
Central
Hong Kong

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Walkers Corporate Limited
Cayman Corporate Centre
27 Hospital Road
George Town
Grand Cayman KY1–9008
Cayman Islands

# Corporate information

## 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

## COMPANY WEBSITE

www.chinaeducation.hk

## STOCK CODE

839

# MILESTONES

## 2017 DECEMBER


Listed on The Stock Exchange of Hong Kong Limited

## 2018 MARCH

Became constituent stock of Hang Seng Composite Index and its subdivision of SmallCap Index and Hang Seng Consumer Goods & Services Index

Completion of acquisition of Zhengzhou Transit School

Selected as a Shenzhen-Hong Kong Stock Connect eligible stock

Completion of acquisition of Xi'an Railway College

# MILESTONES

## 2018 MAY/JUNE

## 2018 SEPTEMBER

Entered into a loan facility agreement for up to US$200 million with IFC, a member of the World Bank Group in May

Became a constituent of Hang Seng Composite Index series, including the Hang Seng Composite LargeCap & MidCap Index

Completion of acquisition of Songtian University and Songtian College

Cooperated with Value Partners to set up a RMB5 billion private equity fund in June

Selected as a Shanghai-Hong Kong Stock Connect eligible stock

To pioneer excellence
and innovation in education

# Co-chairmen's statement

"We believe the quality of our operation is as cardinal as the quantity, and thus the post-acquisition management is undoubtedly an integral part of our individual careers as well as China Education Group's mission — to Pioneer Excellence and Innovation in Education."

**Dear Shareholders,**

On behalf of the board of directors of China Education Group Holdings Limited, we are pleased to present to you the 2018 annual report for the eight months ended 31 August 2018.

## OVERVIEW OF THE GROUP

Less than a year ago, our Company was listed on the Main Board of Stock Exchange of Hong Kong and has become the largest listed education provider in Asia as well as the one of the largest in the world with regard to market capitalisation. As at the date of this report, the Group has seven schools in its portfolio, including the largest private university, the largest private secondary vocational school, the largest and the second largest private technician colleges in China, with regard to student enrollment. A majority of our operating schools are top-ranked and long-established private education institutions that have been recognized as some of the best in China with leading rankings in terms of competitive strengths.

The Company is dedicated to provide quality higher and vocational education services and has accumulated three decades of experience in achieving excellence through operating a list of time-honored private education institutions backed by a centralized professional management team. As a leading applied-education provider, we employ student-centered teaching strategies and methods, emphasise the teaching of practical skills and knowledge, and focus on workplace simulation training to improve the employability of our graduates. We integrate education, research and application to produce practical and workforce-ready graduates from a broad range of academic programmes prepared to excel in a technologically driven world.

Shortly after the Company was listed, it has been selected as a constituent stock of Hang Seng Composite LargeCap and MidCap Index and is the only education constituent stock in the Shanghai Hong Kong Stock Connect. Despite the unfavorable and fluctuating market environment this year, our stock has remained strong and has been one of the best-performing education stocks that attracted world-renowned investors since listed last year.

# CO-CHAIRMEN'S STATEMENT

Jiangxi University of Technology


Above: Baiyun Technician College
Below: Guangdong Baiyun University

## Operational Highlights

The year of 2018 marked the beginning of the Group's new post-IPO journey. Over eleven months after listing, the Group has welcomed four new schools — Zhengzhou Transit School, Xi'an Railway College, Songtian University and Songtian College to the China Education Group family. Each of the new member schools has its unique strength and enormous potential to develop into another elite private school just like our Jiangxi University or Guangdong Baiyun University. As a result of the acquisitions, our number of schools has increased from three at the time of listing to seven and our student enrollment has almost been doubled from the time of listing. Further, our business coverage has expanded into central and western regions of China.

However, at the same time, massive expansion has imposed challenges in post-acquisition management. To integrate, improve and manage the newly-acquired schools are never easy, but we clearly understand the amount of responsibilities borne by our management team and all the personal sacrifices that ones have to make. Throughout the past eleven months, we have devoted a considerable amount of time and resources and have sent outstanding managerial talents to new member schools to lead and assist with the post-acquisition management in teaching quality improvement, student career and development, student recruitment and finance, etc. The takeaways we have, however, are extremely rewarding: the wonderful teamwork experiences, as well as the great deal of satisfaction and the sense of accomplishment when we saw our new member schools getting better step by step. A couple of examples we would like to share are:

# Co-chairmen's statement

Xi'an Railway College won first-class honored award in Shaanxi technician college teaching competition this year, Zhengzhou Transit School kicked off ISO29990 certification for education quality management project, and Songtian University held a meeting on academic improvement plan (which is published on the website of Guangdong Provincial Department of Education) for the next three years, etc. We believe the quality of our operation is as cardinal as the quantity, and thus the post-acquisition management is undoubtedly an integral part of our individual careers as well as China Education Group's mission — to Pioneer Excellence and Innovation in Education.

Meanwhile, the Group has elevated its long-term relationship with its cornerstone investors, which would sufficiently underwrite its future strategic expansion plan and amply provide it with global education and networking resources. In May 2018, the Group entered into a loan facility agreement for up to US$200 million with IFC (International Finance Corporation, a member of the World Bank Group); the funding would be used for our future acquisitions and existing campus development. We have also cooperated with Value Partners, a leading investment fund house in Asia, to set up a RMB5 billion private equity fund to support the expansion of our school portfolio in the near future.

## Future Strategy

Looking forward, while it is important for the Group to keep on exploring more high-quality expansion and cooperation opportunities as a primary development strategy, it is equally important for the Group to maintain a high level of operation standard and commitment to excellent, for both existing and new member schools. None of the schools of China Education Group is the same as each school is unique in its own brand, identity, history, culture, strength and potential. Such inherent characteristic differences are what make our post-acquisition management full of challenges but meaningful at the same time; our management is way beyond running a chain operation; it is all about offering scrupulous individualized care and specified development strategy to each member school powered by a centralized management to maintain a sounded internal control and corporate governance as well as to realize Group synergy and economics of scale.

The Group strives to provide reasonable and affordable quality education to benefit students by optimising tuition pricing strategies without compromising its competitive edges. The Group is adamant in positioning itself as a valuable supplementary player to the public education system, compensating the resources shortage in non-compulsory education, and contributing to local communities that has limited access to public education. Likewise, the Group will continue to adhere to the government policies, to preserve its "inclusive business model" (as identified by IFC), and to strive to benefit many more students, teachers and local economics with the best education possible.

## Sincere Acknowledgement

On behalf of the Board, we would like to take this opportunity to thank students and their parents for choosing China Education Group's operating schools to pursue higher or vocational education and congratulation on making one of the best decisions in their life.

We would also like to appreciate our every single employee for his or her everyday meticulous work and contribution which are the source and guarantee of China Education Group's highest quality education services. In addition, we thank investors for their continuous support. Furthermore, we would like to thank governments' constant support in the development of the private education sector. Finally, our most sincere gratitude to new member schools for choosing and having faith in China Education Group and we are looking forward to build our future together.

Last but not least, we from time to time encourage and welcome prospective students and parents, employees, investors, and anyone with interest in China Education Group to schedule a campus tour with any of our operating schools to see what is studying, working, and investing in China Education Group are like, as well as to explore our difference and uniqueness.

**Yu Guo** and **Xie Ketao**
*Co-Chairmen*

Hong Kong, 20 November 2018

NUMBER OF STUDENTS

# 121,000+

AS AT 31 AUGUST 2018

# 129

VOCATIONAL EDUCATION PROGRAMMES

# 86

BACHELOR'S DEGREE PROGRAMMES

# 112

CONTINUING EDUCATION PROGRAMMES

# 43

JUNIOR COLLEGE DIPLOMA PROGRAMMES

# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

We are a leading private higher and vocational education provider in China. As at 31 August 2018, the Group operated two universities and three vocational schools located in four provinces, namely Jiangxi, Guangdong, Henan and Shaanxi, and recruited students across all provinces in mainland China. As at 31 August 2018, the Group had approximately 121,000 students attending 86 bachelor's degree programmes, 43 junior college diploma programmes, and 129 vocational education programmes.

In the academic year of 2017/2018, the disciplines provided by us covered 97.7% of undergraduate students' choices and 91.9% of junior college students' choices in China.

### Growth Strategy

Given the high-barrier of entrance to the higher education sector, we have formulated our merger and acquisition strategy as the key strategy to achieve our growth target. Within eight months after Listing, we have consolidated two schools and added about 45,000 students to our student enrollment base. We will continue to explore other merger and acquisition opportunities and to select the ones with good growth potential at reasonable valuation.

### Acquisitions Completed During The Reporting Period

On 23 March 2018, the Group completed two acquisitions, namely Zhengzhou Transit School and Xi'an Railway College, to expand its business coverage into the central and the western regions of China. Through welcoming two schools on board, we have expanded our school portfolio from three schools into five schools. At the same time, our student enrollment base increased by 61.2% from approximately 75,000 students at the time of our initial public offering to approximately 121,000 students. Both acquired schools focus on providing railway-related vocational education to students to equip them for their career development in the growing China's railway industry.

Under the guidance and support of the state's macro policies, China's rail transit has begun to boom during the 13th Five-Year Plan period. With the rapid development of China's high-speed rail, metro, intercity railways, and civil aviation, we envisage that there will be a promising demand for the graduates of both Zhengzhou Transit School and Xi'an Railway College in the job market.

Railway attendant training,
Zhengzhou Transit School

# MANAGEMENT DISCUSSION AND ANALYSIS

Freshmen military training, Zhengzhou Transit School

### Acquisition of Zhengzhou Transit School

On 23 March 2018, the Group completed the acquisition of 80% equity interest in the sponsorship holding company which owns the entire school sponsor interest of Zhengzhou Transit School, for a total consideration of RMB855.0 million. The consideration was comprised of RMB120.0 million for the transfer of equity interest and RMB735.0 million for capital injection to reduce the debts of school and to finance its continuous expansion. Zhengzhou Transit School was established in 2010 with the approval by Zhengzhou Municipal Education Bureau. The school locates in Xinzheng Xincun Industrial Park, Zhengzhou City, Henan Province with site area and gross floor area of approximately 423,000 square meters and over 300,000 square meters, respectively. As at 31 August 2018, Zhengzhou Transit School had over 24,000 students. The school provides a variety of urban rail transit programmes and has established cooperation with many large cities (such as Beijing, Shanghai, Shenzhen, Guangzhou and Tianjin) to increase the employment opportunities of its graduates.

### Acquisition of Xi'an Railway College


Xi'an Railway College

On 23 March 2018, the Group completed the acquisition of 62% equity interest in the sponsorship holding company which owns the entire school sponsor interest of Xi'an Railway College, for a total consideration of RMB576.6 million. The consideration was comprised of RMB472.2 million for the transfer of equity interest and RMB104.4 million for capital injection to reduce the debts of school and to finance its continuous expansion.

Xi'an Railway College was founded in 2006 under the former name of 西安數字科技專修學院 and changed its present name to 西安鐵道技師學院 in 2015 with the approval of the Department of Human Resources and Social Security of Shaanxi

# MANAGEMENT DISCUSSION AND ANALYSIS

School etiquette team training, Xi'an Railway College


Songtian University

Province. Xi'an Railway College is a mechanic and technician college that nurtures professional talents for rail transportation. Since its establishment, the school has received significant supports from the Department of Human Resources and Social Security and the provincial government of Shaanxi Province and has been developed into a prominent incubator for high-skilled talents to cater for the rapid economic growth of central-west region of China. Located in Xi'an, Shaanxi Province, Xi'an Railway College is open to students from all over the country. As at 31 August 2018, the school had over 20,000 students.

### Acquisition In Progress During The Reporting Period

On 14 June 2018, the Group entered into an agreement with an Independent Third Party to acquire 100% ownership of a target company whose principal business is investment in Songtian Company, which in turn owns sponsor interest of the Songtian Schools (Songtian University and Songtian College).

In September 2018 (after the reporting period), the acquisition of Songtian University and Songtian College was duly completed. Transfer of equity interest and change in the board of directors and the legal representatives of Songtian Company (the 100% co-sponsor of Songtian University and 100% sponsor of Songtian College) have been completed and duly registered with the relevant government departments in the PRC.

The Directors believe that the transaction marks the Group's continuous efforts to expand its school network and increase market penetration. The Directors consider that Songtian Schools are located in the economically vibrant Pearl River Delta Economic Zone and will benefit from the economic development of Guangdong-Hong Kong-Macao Greater Bay Area. The Board sees good potential in Songtian Schools to increase student enrollment and the Group will be able to leverage on its competitive advantages to streamline the operation of Songtian Schools and to enhance their financial performance. The Group intends to efficiently integrate Songtian Schools into the Group's school network and implement the Group's centralised management system to improve their operational efficiencies, increase their school sizes, optimise their pricing strategies and as a result improve the profitability of the Group as a whole.

# MANAGEMENT DISCUSSION AND ANALYSIS

### Songtian University

Founded in 2000, Songtian University is a private university (independent college) approved by the Ministry of Education in April 2004 and operated by Songtian Company in collaboration with Guangzhou University. Located in Guangzhou, Guangdong Province, the PRC, the University conducts unified student recruitment on a national scale. Songtian University has eight faculties and three academic departments and offers full-time undergraduate programmes. In 2017/2018 academic year, Songtian University had more than 8,700 students. The initial employment rate of Songtian University in 2017 was approximately 95.6% while China's overall initial employment rate for higher education graduates in the same year was approximately 77.0%. Songtian University earned the Award for Guangdong's Most Competitive Independent College in the 30 Years of Reform and Opening-Up (改革開放30周年廣東最具競爭力獨立學院獎) by Guangzhou Daily. Songtian University also won the Guangzhou's Garden Organisation title from Guangzhou government for its beautiful landscape.

### Songtian College

Founded in 2000, Songtian College is registered as a full-time higher vocational college with the Ministry of Education of the PRC and is established with the approval from People's Government of Guangdong Province. The College locates in Guangzhou, Guangdong Province, the PRC. Songtian College has seven faculties/academic departments and commenced recruiting students in 2007. In 2017/2018 academic year, Songtian College had approximately 3,300 full-time students. The initial employment rate of Songtian College in 2017 was approximately 98.4% while China's overall initial employment rate for higher education graduates in the same year was approximately 77.0%. According to a report commissioned by Guangdong Department of Education in 2012, Songtian College achieved the highest satisfaction on current employment from graduates among vocational colleges in the province.

### Our Schools

As at 31 August 2018, we operated two universities and three vocational schools (31 December 2017: two universities and one vocational school). The following table sets forth certain details of our five schools.

| School | Year Founded | Date of Joining the Group | Description |
|---|---|---|---|
| Jiangxi University of Technology | 1993 | December 2007 | Ranked number one private university in China for nine consecutive years<br><br>The largest private university in China in terms of student enrollment<br><br>One of the first few private universities approved by the Ministry of Education |
| Guangdong Baiyun University | 1989 | December 2007 | Ranked number one private university in Guangdong Province for twelve consecutive years<br><br>One of the first few private universities approved by the Ministry of Education |

# Management Discussion and Analysis

| School | Year Founded | Date of Joining the Group | Description |
|---|---|---|---|
| Baiyun Technician College | 1989 | August 2017 | Ranked number one vocational college in Guangdong Province for seven consecutive years<br><br>The second largest private technician college in China in terms of student enrollment |
| Zhengzhou Transit School | 2010 | March 2018 | The largest private secondary vocational school in China in terms of student enrollment |
| Xi'an Railway College | 2006 | March 2018 | The largest private technician college in China in terms of student enrollment |

## Student Enrollment

As at 31 August 2018, the total number of enrolled students of our Group was 121,315, up 61.2% from enrollment as at 31 August 2017.

| | As at 31 August 2018 | As at 31 August 2017 |
|---|---|---|
| Jiangxi University of Technology | **36,368** | 35,982 |
| Guangdong Baiyun University | **26,416** | 25,741 |
| Baiyun Technician College | **13,420** | 13,532 |
| Zhengzhou Transit School | **24,476** | N/A* |
| Xi'an Railway College | **20,635** | N/A* |
| **Total** | **121,315** | 75,255 |

* *Zhengzhou Transit School and Xi'an Railway College were not yet our operating schools as at 31 August 2017.*

# MANAGEMENT DISCUSSION AND ANALYSIS

### Tuition Fees and Boarding Fees

In general, we adjust our tuition fees between 0% and 10% among various programmes on annual basis. The tuition fee adjustment is determined by our school management teams subject to the operating costs and market conditions.

| | Listed tuition fees in academic year | | Boarding fees in academic year | |
|---|---|---|---|---|
| | **2017/2018** | 2016/2017 | **2017/2018** | 2016/2017 |
| | ***RMB*** | *RMB* | ***RMB*** | *RMB* |
| **Jiangxi University of Technology** | | | | |
| Bachelor's degree programmes | **15,000–20,000** | 14,000–18,000 | **1,600–2,000** | 1,480–1,680 |
| Junior college diploma programmes | **12,500–14,000** | 11,300–12,500 | **1,600–2,000** | 1,480–1,680 |
| Continuing education programmes | **5,000** | 7,300–7,800 | **N/A** | N/A |
| **Guangdong Baiyun University** | | | | |
| Bachelor's degree programmes | **19,000–28,000** | 19,000–26,000 | **1,500** | 1,500 |
| Junior college diploma programmes | **30,000** | 30,000 | **1,500** | 1,500 |
| Continuing education programmes | **3,000–6,000** | 3,000–6,000 | **N/A** | N/A |
| **Baiyun Technician College** | | | | |
| Post-secondary vocational diploma programmes | **11,500–14,000** | 11,500–12,000 | **1,500** | 1,500 |
| Secondary vocational diploma programmes | **11,000–13,500** | 11,000–11,500 | **1,500** | 1,500 |
| Technician diploma programmes | **12,500** | 12,500 | **1,500** | 1,500 |
| **Zhengzhou Transit School** | | | | |
| Secondary vocational diploma programmes | **7,300** | N/A* | **1,000** | N/A* |
| **Xi'an Railway College** | | | | |
| Technician diploma programmes | **9,800–16,000** | N/A* | **1,000** | N/A* |

* *Zhengzhou Transit School and Xi'an Railway College were not yet our operating schools in the academic year 2016/2017.*

## OUTLOOK

In China today, there are over 700 private higher education institutions, including private universities, private junior colleges, independent colleges, and thousands of private vocational schools. Most of these private higher education institutions and private vocational schools are owned and operated independently. Hence, the ownership and operation of these institutions and schools are scattered. This translates into huge potentials for merger and acquisition opportunities as well as significant room for enhancing the quality of education at the schools. On 10 August 2018, the Ministry of Justice of the People's Republic of China issued Draft Amendments on the Implementation Rules for the Law for Promoting Private Education (the "Proposed Implementation")

(《中華人民共和國民辦教育促進法實施條例(修訂草案)(送審稿)》) to seek views and comments on the proposed changes. The key objectives of the Proposed Implementation are to foster the steady growth and healthy development of the private education in China. We believe the Proposed Implementation is beneficial and favorable to the development of the private higher education sector.

Based on our preliminary review of the current draft, we expect more private higher education institutions, particularly the independent colleges, are willing to sell. According to the current draft of the Proposed Implementation, the public education institutions are prohibited to use their brand name to make profits. Hence, the public institutions can no longer allow the independent schools attaching to them and paying them management fees. The independent schools need to be separated from the public institutions. However, given the current draft of Proposed Implementation is subject to amend or change, we will assess the development of the Proposed Implementation from time to time and adjust our corporate strategies if necessary.

### Entering Into A Framework Agreement For The Establishment of China Education Fund

On 29 June 2018, the Group entered into the framework agreement with VP Shenzhen, a subsidiary of Value Partners Group Limited, for the establishment of the China Education Fund, with a targeted asset under management of RMB5 billion. The Group (and/or its affiliates and nominee(s)) and Value Partners Group Limited (and/or its subsidiary(ies)) will make an initial contribution of RMB250 million and RMB370 million, respectively, to the China Education Fund. It is expected that Huajiao Education (or its nominee) and VP Shenzhen are to be the co-general partners of the China Education Fund. The Directors believe that the Group's cooperation with Value Partners Group Limited, a leading investment fund house in Asia, will enhance the performance of the China Education Fund by combining the Group's experience in private higher and vocational education in China and the investment expertise of Value Partners Group Limited.

Construction of Guangdong Baiyun University's new campus

# Management discussion and analysis

### Development of New Campus

The construction work of the new campus of Guangdong Baiyun University in Zhongluotan, Guangzhou, Guangdong Province, has been proceeding as planned. With a site area of 489,000 square meters, the development is divided into two phases with the first phase to be completed in 2019. The first phase will provide a student capacity of 8,000 while the second phase will accommodate 18,000 students when it is completed in 2021.

## FINANCIAL REVIEW

On 3 August 2018, the Company announced to change its financial year-end date from 31 December to 31 August so as to align the financial year-end date of the Group with the academic year of the schools operated by the Group in the PRC, which ends in August each year. As a result of this, the annual results covered the eight months ended 31 August 2018, instead of the usual twelve-month results. The corresponding comparative amounts shown covered twelve-month period from 1 January 2017 to 31 December 2017, and therefore are not directly comparable with the amounts shown for the current period.

To provide meaningful comparative information, the Group prepared pro forma financial information covering the eight months ended 31 August 2017. The pro forma figures have not been audited. They are derived by subtracting the unaudited results of Baiyun Technician College from the audited results of the Group for the year ended 31 December 2017; and thereafter subtracting the financial results for the period from 1 September 2017 to 31 December 2017 on a proportion basis from the remaining amount. The reason to subtract the unaudited results of Baiyun Technician College is because the acquisition of Baiyun Technician College was completed on 14 August 2017.

The key highlights for the eight months ended 31 August 2018 and the pro forma period 2017, which refer to the eight months ended 31 August 2017, are as follows:

| | **Eight months ended 31 August** | | |
|---|---|---|---|
| | **2018 (audited)** ***RMB'000*** | 2017 (pro forma) *RMB'000* | **% change** |
| Revenue | **932,910** | 588,109 | 58.6% |
| Cost of revenue | **360,238** | 252,790 | 42.5% |
| Gross profit | **572,672** | 335,319 | 70.8% |
| Gross profit margin | **61.4%** | 57.0% | 4.4% |
| Profit and total comprehensive income for the period | **401,082** | 241,810 | 65.9% |
| Adjusted net profit | **481,625** | 295,680 | 62.9% |

For the eight months ended 31 August 2018, the Group recorded revenue increased by 58.6% of RMB932.9 million compared to RMB588.1 million recorded in the pro forma period 2017. Adjusted net profit increased by 62.9% to RMB481.6 million compared to RMB295.7 million recorded in the pro forma period 2017.

# Management Discussion and Analysis

## Adjusted Net Profit

For the eight months ended 31 August 2018, excluding foreign exchange loss, listing expenses and share-based payments, the adjusted net profit amounted to RMB481.6 million. When reviewing the previous year ended 31 December 2017, the adjusted net profit amounted to RMB482.7 million.

| | | Eight months ended 31 August 2018 RMB'000 | Year ended 31 December 2017 RMB'000 |
|---|---|---|---|
| Profit and total comprehensive income for the period/year | | **401,082** | 428,872 |
| Adjustments for: | Foreign exchange loss | **39,864** | 5,295 |
| | Share-based payments | **40,679** | 3,077 |
| | Listing expenses | **–** | 45,498 |
| | | **80,543** | 53,870 |
| Adjusted net profit | | **481,625** | 482,742 |

## Revenue

The Group's revenue reached RMB932.9 million for the eight months ended 31 August 2018, up 58.6% as compared to RMB588.1 million for the pro forma period 2017. The significant increase in revenue was mainly driven by the inclusion of three vocational schools, namely Baiyun Technician College, Zhengzhou Transit School and Xi'an Railway College. Baiyun Technician College acquisition was completed on 14 August 2017 while both Zhengzhou Transit School and Xi'an Railway College acquisitions were completed on 23 March 2018.

## Cost of Revenue

The cost of revenue increased from approximately RMB252.8 million for the pro forma period 2017 to approximately RMB360.2 million for the eight months ended 31 August 2018, representing a 42.5% increase.

## Gross Profit and Gross Profit Margin

The Group's gross profit was RMB572.7 million for the eight months ended 31 August 2018 as compared to RMB335.3 million for the pro forma period 2017. The gross profit margin was improved from 57.0% for the pro forma period 2017 to 61.4% for the eight months ended 31 August 2018. The improvement was mainly due to implementation of cost control measures.

## Other Income

Other income primarily included government grants, academic administration income and management fee income.

## Other Gains and Losses

The other gains and losses were recorded at a loss about RMB43.6 million for the eight months ended 31 August 2018 which was mainly attributable to the foreign exchange loss of RMB39.9 million, a result of exchanging Hong Kong dollars to the appreciated Renminbi during the period.

# MANAGEMENT DISCUSSION AND ANALYSIS

### Selling Expenses

The Group's selling expenses was RMB18.2 million for the eight months ended 31 August 2018 as compared to RMB9.7 million for the year ended 31 December 2017. It represented about 2.0% of the revenue for the eight months ended 31 August 2018 and was increased as compared to that of 1.0% for the year ended 31 December 2017. The significant increase of selling expenses incurred for the eight months ended 31 August 2018 was mainly related to the increase in marketing and student recruitment expenses of the schools. The two universities incurred RMB5.0 million while the three vocational schools reported a total selling expense of RMB13.2 million.

### Administrative Expenses

The Group's administrative expenses was RMB167.5 million for the eight months ended 31 August 2018 as compared to RMB133.4 million for the year ended 31 December 2017. It represented about 18.0% of the revenue for the eight months ended 31 August 2018 and was increased as compared to that of 14.1% for the year ended 31 December 2017. The increase of administrative expenses incurred for the eight months ended 31 August 2018 was mainly related to share-based payments of approximately RMB40.7 million, the inclusion of the administrative expenses of the three vocational schools, totaling at RMB30.9 million, as well as those of Huajiao Education and Hong Kong offices, totaling at RMB28.3 million.

### Finance Costs

The finance costs of RMB24.4 million for the eight months ended 31 August 2018 represented the interest expenses on bank and other borrowings and imputed interest on deferred cash considerations.

### Net Profit and Net Profit Margin

The Group's net profit was approximately RMB401.1 million for the eight months ended 31 August 2018, representing growth of 65.9% compared to RMB241.8 million for the pro forma period 2017. The net profit margin was slightly increased from 41.1% for the pro forma period 2017 to 43.0% for the eight months ended 31 August 2018.

### Property, Plant and Equipment

Property, plant and equipment as at 31 August 2018 increased by 23.5% to approximately RMB3,258.7 million from approximately RMB2,638.6 million as at 31 December 2017. Increase in property, plant and equipment was mainly due to the inclusion of Zhengzhou Transit School and Xi'an Railway College.

### Prepayments for Acquisition of Business

The prepayments represent the amounts made for the acquisition of Songtian University and Songtian College which was announced on 14 June 2018, 3 September 2018 and 26 September 2018. The acquisition was duly completed in September 2018.

### Total Bank Balances and Cash

Including structured deposits recognised in financial assets at fair value through profit or loss and restricted bank deposits, the total bank balances and cash was decreased from approximately RMB3,293.6 million as at 31 December 2017 to approximately RMB1,907.1 million as at 31 August 2018. Most of the cash was used for school acquisitions.

# Management Discussion and Analysis

## Capital Expenditure

Our capital expenditures for the eight months ended 31 August 2018 were approximately RMB77.2 million and were primarily related to maintaining and upgrading the existing school premises, and construction of new buildings.

## Liquidity, Financial Resources and Gearing Ratio

As at 31 August 2018, the Group had total bank balances and cash (including structured deposits recognised in financial assets at fair value through profit or loss and restricted bank deposits) of approximately RMB1,907.1 million (31 December 2017: RMB3,293.6 million) and bank and other borrowings of approximately RMB237.0 million (31 December 2017: nil).

As at 31 August 2018, the gearing ratio, which is calculated on the basis of total borrowings and total equity of the Group, was 3.7% (31 December 2017: 0%).

## Foreign Exchange Risk Management

The majority of the Group's revenue and expenditures are denominated in Renminbi, the functional currency of the Company, except that certain expenditures are denominated in Hong Kong dollars. The Group also has certain foreign currency bank balances and other payables denominated in Hong Kong dollars and US dollars, which would expose the Group to foreign exchange risk. The Group did not use any financial instruments for hedging purposes. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure when the need arises.

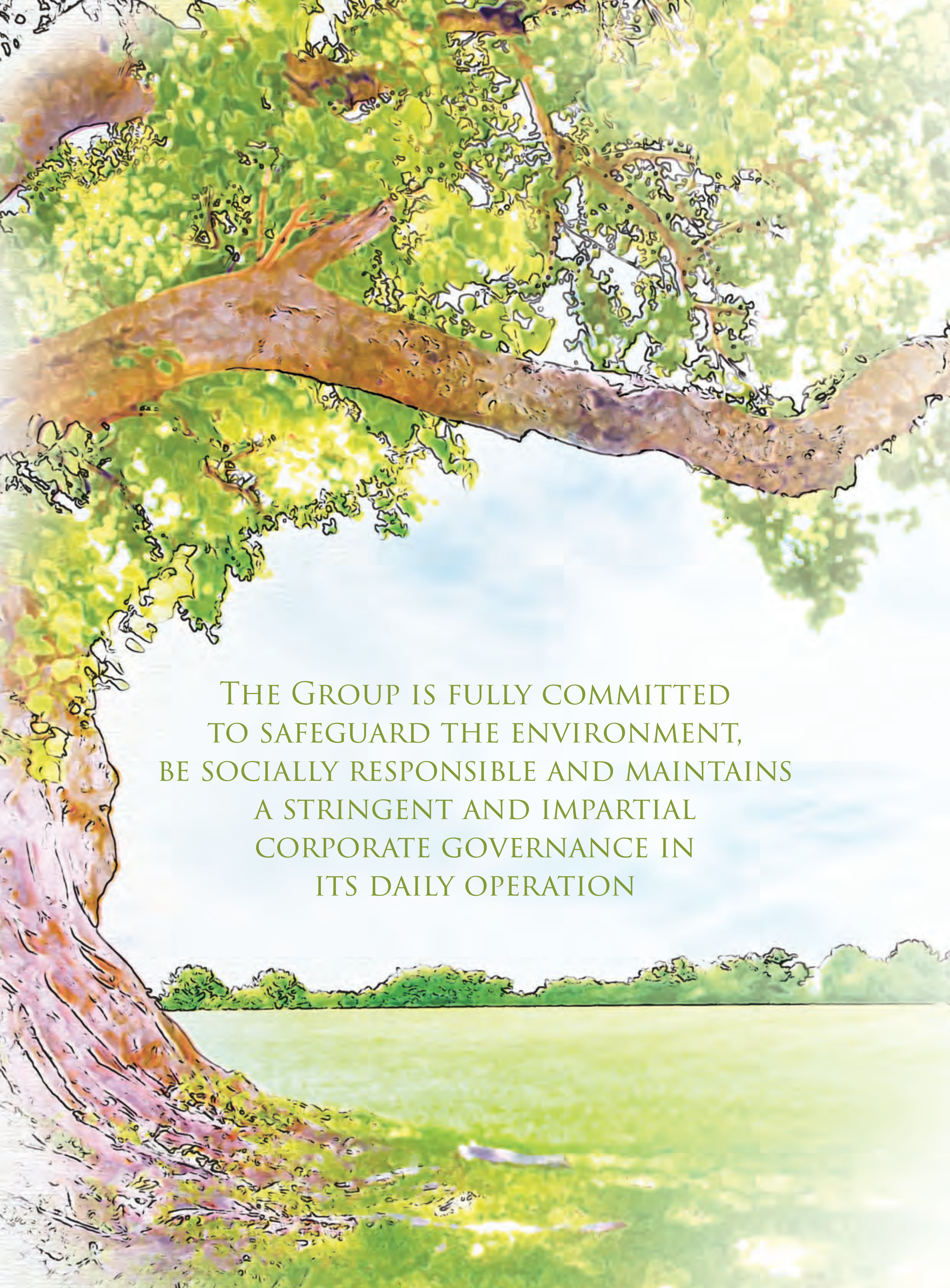
## Charges on the Group's Assets

As at 31 August 2018, 50% of the equity interest of Huajiao Education owned by the Group is pledged to a financial institution to secure banking facilities granted to the Group.

Save as above, there was no other material charge on the Group's assets as at 31 August 2018 and 31 December 2017.

## Contingent Liabilities

As at 31 August 2018 and 31 December 2017, the Group had no significant contingent liabilities.



The Group is fully committed
to safeguard the environment,
be socially responsible and maintains
a stringent and impartial
corporate governance in
its daily operation

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## 1. ABOUT THIS REPORT

### 1.1 Reporting Guidelines

Our Company is not only a paragon of private higher and vocational education in China but also an exemplar of staunch guardian of Environmental, Social and Governance ("ESG") practice. We are fully committed to safeguard the environment, be socially responsible and maintain a stringent and impartial corporate governance in our daily operation.

This report, prepared by the Company in accordance with the "Environmental, Social and Governance Reporting Guide" under Appendix 27 of the Listing Rules, aims to provide the environmental and social performance of China Education Group Holdings Limited for the eight months ended 31 August 2018. We set out below our efforts to mitigate the negative influence to the environment, to promote our employees' well-being and to contribute to the local communities during the reporting period.

### 1.2 Reporting Scope & Reporting Period

Unless otherwise stated, the reporting scope of this report covers the Group's major subsidiaries, namely China Education Group (Hong Kong) Limited ("HK China Education Group"), Huajiao Education Technology (Jiangxi) Company Limited ("WFOE"), Jiangxi University of Technology, Guangdong Baiyun University, Baiyun Technician College, Zhengzhou Transit School and Xi'an Railway College.

Unless otherwise stated, the reporting period of this report is from 1 January 2018 to 31 August 2018, which is tantamount to the reporting period covered in the 2018 Annual Report.

### 1.3 Report Statement

This report is solely prepared by the Company. The data and information used in this report are derived from our internal source (such as questionnaires, records, statistics and in-house researches) and external data (such as estimations and measurements provided by independent third-party professionals engaged by the Company). The Board and senior management, to their best knowledge, have monitored and guarantee the completeness, reliability, authenticity and objectivity of the information included in this report. We also hope to strengthen our communication with the stakeholders and increase the transparency of the Company through the publication of this report, to achieve economic, social and environmental sustainable development.

This report is available in both English and Chinese. However for any discrepancies, the Chinese version will prevail.

# Environmental, social and governance report

### 1.4 Stakeholder Engagement

In order to achieve completeness and to report the most significant aspects for the Group in this report, we have engaged the key stakeholders, including but not limited to government authorities, non-governmental institutions and organizations, shareholders, students, employees and suppliers, in discussion sessions to discuss and to review areas of attention which will help the Company to meet its potential growth and be prepared for future challenges.

### 1.5 Information and Feedback

We welcome stakeholders' feedback on our environmental, social and governance approach and performance. Please provide us with your views or suggestions via email to sprg_chinaeducation@sprg.com.hk.

## 2. PARTNERING WITH INTERNATIONAL FINANCE CORPORATION (IFC) IN ESG COMPLIANCE AND PROMOTION

### 2.1 Inclusive Business

IFC has identified the Group as having an inclusive business model due to its reach to underserved students. Inclusive businesses provide goods, services, and livelihoods on a commercially viable basis to people at the base of the pyramid. G20 leaders have highlighted the important role of inclusive businesses in the implementation of the United Nations' Sustainable Development Goals. Inclusive businesses re-define business-as-usual to help eradicate poverty and boost shared prosperity. The Group is proud of being identified as an inclusive business model and will continue to commit itself in offering high quality education with affordable tuition to students.

### 2.2 Compliance with IFC Performance Standards

The Group will collect data to monitor environmental and social status, review and report on our environmental and social policy; this report covers the status of our compliance with IFC Performance Standards and applicable local governmental, social, labor, safety, security and health registration and standards and measures taken to remedy any non-compliance. We agree to achieve, as a minimum, the standards set out in IFC's Environmental and Social Policies and IFC Performance Standards, and the World Bank Group Environmental, Health, and Safety General Guidelines. Such requirements define approaches for managing business operations and investment projects and include Performance Standards in areas such as environmental and social management system, labor and working conditions, land acquisition and involuntary resettlement, and life and fire safety. We have agreed to implement an action plan to adopt measures to enable our operations to be conducted in compliance with the IFC Performance Standards. We will also comply with applicable environmental, social, labor, health, security and safety legislations and guidelines and standards in countries where we operate.

### 2.3 IFC Green Buildings Project

Meeting the stringent IFC Performance Standards is not our ultimate goal in corporate sustainability and environment protection; we strive to go well beyond regulatory compliance. In November 2017, the Group has committed to implement IFC Green Building standards that adopt IFC EDGE certification (new buildings designed and constructed must meet 20% improvement in energy, water, and materials usage as measured against local construction practices) for energy efficiency and material consumption sustainability. We are pleased to apply IFC Green Building standards across our existing and future new school/campus project(s).

During the reporting period, Guangdong Baiyun University's new campus project, the Company's only new school/campus project, has started preparing its new buildings to be IFC EDGE certified. IFC EDGE certified buildings are financially and environmentally rewarding, making them more investment worthy and marketable properties.

We believe a commitment to apply IFC Green Building standards can help the Group to enhance its profitability through resource and cost efficiency. More importantly, this commitment would complement the Group's strong brand value and strengthen the Group's leadership position among HKEx's listed education companies.

## 3. ENVIRONMENT

### 3.1 Emissions

***General***

The Group is principally engaged in education services, hence, the types and volumes of emissions generated in our daily operations are limited. Our major sources of emission are exhaust from our motor vehicles and canteens, catering and domestic wastewater from schools, and the domestic wastes from schools. Our schools strictly comply with the Notice on Further Promoting the Energy Conservation of Public Buildings of the Ministry of Finance and the Ministry of Housing & Urban-Rural Department, the PRC Energy Conservation Law, and all other relevant laws and regulations relating to exhaust gas and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous wastes. In addition, our schools preserve the natural environment by focusing on the management of the polluting sources of schools pursuant to the PRC Environment Protection Law and other relevant laws and regulations. During the reporting period, one of our schools failed to meet the sewage test (one of the pollutant emissions detected slightly exceeded the standard level). The school however has taken prompt action to clean the sewage pipelines.

***Types of emissions and respective emission data***

Our source of **exhaust gases and greenhouse gases** is mainly from stationary combustion (such as canteens) and company-owned vehicles. The air emissions of motor vehicles include nitrogen oxides ($NO_x$), sulphur oxides ($SO_2$) and respiratory suspended particles (PM), while the greenhouse gas emissions include carbon dioxide ($CO_2$), methane ($CH_4$) and nitrous oxide ($N_2O$). We also produce carbon dioxide indirectly through electricity consumption.

Our **liquid emissions** are mainly domestic wastewater from dormitories and canteens. Domestic wastewater is discharged into the municipal sewage pipelines in compliance with municipal requirements.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

As for the **solid emissions**, our hazardous wastes are light tubes and bulbs. Our major source of non-hazardous wastes is from various recyclable and non-recyclable domestic wastes produced from schools. The Company's domestic wastes are collected and categorised by qualified professional property companies and are transferred by municipal disposal companies to the garbage transfer station designated by government health authorities. The garbage generated by the schools each day is removed, disinfected and cleaned by property management companies, and is transferred to the garbage transfer station for disposal. The detailed emission data of the Group during the reporting period is as follows:

| | Measure | Eight months ended 31 August 2018 | Year ended 31 December 2017 |
|---|---|---|---|
| **Air Emissions (excluding greenhouse gas emissions)** | | | |
| Nitrogen oxides ($NO_x$) | kg | **2,525.1** | 4,543.9 |
| Sulphur oxides ($SO_2$) | kg | **2.8** | 3.7 |
| Particulate matter (PM) | kg | **198.1** | 318.5 |
| Total air emissions: | kg | **2,726.0** | 4,866.1 |
| | | | |
| **Liquid Emissions** | | | |
| Domestic wastewater (from dormitories) | tonnes | **1,006,251** | 1,469,203 |
| Domestic wastewater (from canteens) | tonnes | **121,613** | 139,039 |
| Total liquid emissions: | tonnes | **1,127,864** | 1,608,242 |
| | | | |
| **Solid Emissions** | | | |
| of which: hazardous waste (light tubes and bulbs) | number | **16,759** | 17,120 |
| of which: non-hazardous waste | tonnes | **7,554** | 6,711 |
| Less: recycled portion | tonnes | **(182)** | (530) |
| Total non-hazardous solid emissions: | tonnes | **7,372** | 6,181 |

| | Measure | Eight months ended 31 August 2018 | Year ended 31 December 2017 |
|---|---|---|---|
| **Greenhouse Gas Emissions** | | | |
| Combustion of fuels in stationary sources (scope 1) | tonnes | **1,128** | 1,427 |
| Combustion of fuels in mobile sources (scope 1) | tonnes | **479** | 641 |
| Less: greenhouse gas offset by our trees (scope 1) | tonnes | **(466)** | (435) |
| Energy indirect emissions (scope 2) | tonnes | **28,456** | 23,327 |
| Total: | tonnes | **29,597** | 24,960 |

# Environmental, social and governance report

***Measures to mitigate emissions and results achieved***

In order to reduce gas emissions (mainly emissions from vehicles), the Group provides trainings to drivers to enhance their driving skills and their management and operation capabilities of the school vehicles team. We encourage our drivers to study traffic rules, traffic atlas and routes when their vehicles are idle, making them less likely to take wrong paths and to save time and fuels. We perform school vehicles inspection and maintenance regularly to ensure our vehicles are always in good conditions. In addition, our drivers are required to be proficient in various types of vehicles' technical performance. Secondly, we use renewable energy for emission reduction, which plays a positive and promotive role to ease the power shortage, to reduce the total energy consumption of the society, and to improve the environment and enhance the comfort of residential housing. For example, our five operating schools arrange school buses for employees to commute between schools and their residential districts, so as to reduce the local transportation usage and thus the emissions of exhaust gas to a certain extent. Another examples such as Jiangxi University of Technology uses ground source heat pump (GSHP) system (a renewable and clean energy) instead of hot and cold air-conditioning in the music and dancing building, and Zhengzhou Transit School adopts solar power generation in the student dormitories. Thirdly, we attach great importance to the afforestation of campus and proactively carry out tree planting activities to increase the green coverage of campus. As at 31 August 2018, Jiangxi University of Technology and Xi'an Railway College have afforestation rates as high as 60% and 75% respectively. During the reporting period, we introduced more than 200 new trees and replanted more than 52,000 shrubs and saplings. During the reporting period, the greenhouse gas offset by the Group's owned trees amounted to 466 tonnes, which effectively offsets the greenhouse gas emissions of 1.6%. Strengthening campus greening management not only protects and improves the ecological environment, but also beautifies the campus and creates an elegant and comfortable education environment.

The Group proactively carries out emissions reduction and water saving campaigns to reduce liquid emissions (mainly catering wastewater emission and domestic wastewater emission from schools). For example, Jiangxi University of Technology carries out water saving and emission reduction campaigns and education in line with other environmental campaigns such as "National Energy Saving Publicity Week","National Metropolitan Water Saving Publicity Week", "World Environment Day" and "Earth Day". Our schools strictly comply with the relevant requirements relating to the management of urban sewage discharge. Domestic wastewater is discharged into urban facilities within the permitted scope. All domestic sewage of the schools is treated in biochemical pools before discharging into municipal sewage treatment pipeline through the sewage system, to avoid the domestic wastewater generated by schools from contaminating the nearby water body.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

***How non-hazardous waste is handled, reduction initiatives and results achieved***

The schools of the Group carry out environmental protection campaign and education for students through the management personnel or student cadres or the electronic display screens at the entrance of dormitories and classroom buildings, to imperceptibly enhance the environmental awareness of our students.

In order to reduce recyclable solid emissions, we proactively implement paperless office and online office to reduce paper consumption. Our schools discourage students and canteens using or providing plastic bags and disposable tableware so as to reduce the production and discharge of domestic waste, significantly reducing the consumption of plastic bags, disposable lunch boxes and other environmental pollutants.

Our schools have been committed to promoting sustainable development and dedicating themselves to recycle the recyclable solid waste. The garbage and waste generated by the schools are classified and collected by cleaning staff each day. The recyclable items are recycled, while the remaining non-recyclable waste is handled by cleaning companies. During the reporting period, the Group recycled 182 tonnes of recyclable waste in total, sufficiently reducing landfills in respective schools' local communities.

*Waste Recycling Statistics of the Group in 2018**

| | Types of recycled wastes (Measure: tonnes) | | | | | |
|---|---|---|---|---|---|---|
| School/Subsidiary | Water bottles | Card board | Books and misc plastic | Cans | Used clothing | Recycled Total |
| Jiangxi University of Technology | 6 | 15 | 5 | 1 | 3 | 30 |
| Guangdong Baiyun University | 9 | 78 | 4 | 7 | 3 | 101 |
| Baiyun Technician College | 14 | 27 | 2 | 4 | 4 | 51 |
| Total: | 29 | 120 | 11 | 12 | 10 | 182 |

* *For the eight months ended 31 August 2018.*

### 3.2 Use of Resources

***General***

In order to promote the reasonable consumption and conservation of energy and thus to enhance the overall efficiency of energy consumption, our schools have assessed the energy reduction goals and have improved the management system of energy saving and energy saving records in accordance with the Energy Conservation Law of the People's Republic of China and the relevant documents issued by the provincial and municipal commission of industry and information technology and the city energy saving office. The energy reduction goals are segmented and the stage of completion of the energy reduction goals is evaluated regularly. The formulation and improvement of various energy reduction systems create a regulated environment with rules and precedents for our schools to follow so as to develop a saving concept throughout the campus. We have formulated various energy reduction systems in line with the actual situation of the development of schools and each department is constrained to strictly comply with the systems.

For example:

| | |
|---|---|
| The Regulation of Energy Management (for upper management): | *The Duties of Water Conservation Leading Team, the Duties of Leader of Energy Saving Team, Responsibilities of Water Management Positions, the Standards of Water Saving Work* |
| The Management System of Energy Saving and Usage: | *The Management System of Energy Usage, Notices for Strengthening of Energy Saving Management of School Air Conditioners, Provisions on Administration of Water Reduction and Water Usage Management, the Management System of Planned Water Usage, the Management System of Incentive and Penalties of Water Usage* |
| The Management and Analysis Regulation of Energy Measurement: | *The Management Regulation of Energy Consumption Statistics and Usage Analysis, the Management Regulation of Energy Measurement, the Requirements of Energy and Water Measurement, the Measures for Administration of Energy and Water Measurement and Energy Saving* |
| The Usage and Maintenance Regulation of Energy-based Devices: | *Operating Instructions of Air Conditioners, the Scheduled Maintenance Regulation of Water Equipment, Appliances and Pipes, the Operation and Management Regulation of Water Saving Equipment* |

***Total consumption of resources/energy***

The Group adheres to the principle of conservation and exercises stringent management of energy consumption. The total energy consumption of the Group during the reporting period is as follows:

| Resources/Energy Categories | Measure | Eight months ended 31 August 2018 | Year ended 31 December 2017 |
|---|---|---|---|
| Electricity | kWh | **37,514,822** | 38,235,180 |
| Water | $m^3$ | **2,000,976** | 2,145,399 |
| Natural gas | $m^3$ | **285,001** | 530,000 |
| Gasoline | liter | **65,092** | 94,408 |
| Diesel | liter | **114,651** | 146,082 |
| Liquefied petroleum gas | kg | **56,810** | 53,773 |
| Alcohol-based fuels | kg | **371,095** | 191,130 |

***Energy use efficiency initiatives and results achieved***

During the reporting period, the initiatives made by our schools to enhance the energy use efficiency and the results achieved are mainly reflected by the electricity and water saving. Our efforts at **electricity saving** include: firstly, certain old low-voltage cabinets in various buildings are replaced; secondly, traditional street lights in campuses and lighting in classrooms are gradually replaced with LED energy-saving lamps; thirdly, the regulation for energy conservation of water heaters and air conditioners in student dormitories are strengthened. The water heaters, air conditioners and other high-power equipment are switched off timely when they are operated under electrical overload, to ensure the safety and stability on using electricity in schools. Specific measures taken by the schools are: air conditioner temperature is set to 26°C or above in the summer; and all staff and students leaving classrooms or offices are required to switch off lighting devices and lights; private power connect or high energy-consuming appliances are not allowed on campuses. These measures proactively help to ease the power shortage, to reduce the total energy consumption, and to improve the environment and enhance the comfort of residential housing; they are important guarantees for economic sustainable development. From a macro-economic view, unit energy consumption is reduced and tight energy supply is eased on one hand, while the environmental pollution is mitigated and the air environment is improved on the other hand.

Various measures are adopted by the schools in **water saving**: firstly, implement water conservation and renovation projects such as utilising water conservation taps, water saving storage-type toilet flushing valves, environmental automatic micro-irrigation and so on to effectively reduce the total water consumption in campuses; secondly, proactively carry out publicity campaign on energy conservation and provide environmental training by displaying posters in campuses to promote the importance of environmental protection to students and teachers and enhance their environmental awareness; thirdly, inspect the electricity and power equipment regularly to prevent water pipe leakage. Our efforts in water conversation are well recognised by the government.

***Water fit for purpose and packaging material***

The Company does not have any problems in sourcing water that is fit for purpose. All of our schools have stable sources of water supply from municipal pipes and the water quality meets the national safety standard. The Group engages in the business of education services but not industrial manufacturing, thus no packaging material is consumed.

## 3.3 Environment and Natural Resources

***General***

The Group strictly abides by and implements the relevant national and provincial policies, in order to reduce damage to the environment and natural resources. During the reporting period, the Group abode by the following policies which have a significant impact on the environment and natural resources, including but not limited to: **national policies**, such as, *Notice of the Ministry of Finance and the Ministry of Housing and Urban-Rural Development on Further Promoting Energy Efficiency in Public Buildings and Energy Conservation Law of the PRC*; **provincial policies**, such as, *Notice on Launching Activities to Create Water-saving Colleges and Universities* by the Jiangxi Provincial Education Department and the Provincial Department of Water Resources; **municipal-level policies**, such as, *Notice on Launching Activities to Create Water-saving Colleges and Universities of Nanchang City by Nanchang Water Affairs Bureau, Notice on Further Strengthening School Electricity Safety Management and Notice on A Good Management of Winter Electricity Safety*. In addition, the schools emphasise the development of campus culture, strive to create a clean, civilised and harmonious campus environment, by doing a good job in campus greening, sanitation and hygiene management, implementing a target management system in accordance with the school quality management system, and regularly reviewing the implementation of various policies aiming to further reduce the impacts on the environment.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

**Bill Mok** *(Chief Financial Officer)*

*"Compared with 0% in 2017's, our 2018 Annual Report is 100% made of environmentally-friendly paper; the 2018 Annual Report is not only "greener" but also lighter in weight."*

***Environmental and resource conservation actions which we have taken***

Our schools emphasise the environment protection and stick to the sustainable development in daily management. In order to reduce environmental pollution, the Group has integrated energy conservation and emission reduction into the entire teaching and service processes, and has actively established and promoted conservation-oriented campuses so that energy conservation work can be carried out in the schools in a concerted manner. During the reporting period, the relevant management actions we have taken are: (1) **Energy-saving renovation for buildings**. We built an energy-saving supervision platform on campus, in order to supervise the water and electricity consumption in the students' dormitories and the use of air conditioners during the course of administration, teaching and in the office, so as to ensure the real-time transmission of data and remote monitoring and management. (2) **Strengthening water saving measures**. We strictly regulate water consumption, promote water conservation, oppose the waste of water resources, and encourage water recycling. The schools have actively carried out activities to create "Water-saving Colleges and Universities" based on The Assessment Standard for Water- Saving Colleges and Universities promulgated by respective provincial governments. (3) **Strengthening energy-saving measures for office equipment**. According to our internal statistics, reducing the standby time of office equipment can greatly reduce power consumption and extend the equipment service life. While we actively cultivate employees' awareness of energy conservation in reducing power consumption caused by standby time, we also plan to use some automated technology to achieve energy conservation in reducing power consumption caused by standby time. In addition, we have phased out old equipment with high power consumption and gradually replaced them with green products and equipment. We give priority to energy efficiency in the purchasing of electrical appliances and equipment. (4) Carrying out the investigation, monitoring and analysis (such as real-time tracking and management) of water and electricity usage and establishing the energy saving incentives and restraint mechanisms. (5) The Group encourages a paperless office environment, gradually bans the cafeteria to provide students with plastic bags and recycles all recyclable garbage as much as possible, so as to effect earnest enforcement in environmental protection.

# 4. SOCIAL

## 4.1 Employment and Labor Standards

### *4.1.1 Employment*

***General***

Remuneration

Remuneration policy of our schools is formulated under the guidance of the PRC law and is also based on the industry characteristics as well as various market factors. Staff congress (majority schools of the Group), president's office, and board of directors together approve the compensation range. Our member schools determine their respective compensation standards based on the employment by function (teachers, teaching assistants, administrative personnel and workers, etc.) and position (entry-level, team lead, and manager, etc.). Some of our member schools pay fixed annual salary to senior management and top talents such as directors, deans/department heads, administrative leads, and professors. Schools participate in social insurance (pension, medical, unemployment, work injury and maternity insurance) plans under the guidance of relevant national, provincial, and municipalities policies and provide a variety of benefits for employees. For example, Jiangxi University of Technology participates in enterprise annuity for employees plan and Zhengzhou Transit School pays commercial insurance for its retired employees, etc.

Dismissal

The guidelines and procedures for the dismissal of employees and the termination of contracts with schools are stipulated in the *Teacher and Employee Manual* and *Employment Contract*. In general, employees are terminated by the schools only if they violate the national laws, the rules and regulations of the schools, or the relevant provisions of the *Employment Contract*. The schools provide economic compensation to eligible terminated employees according to the *PRC Labor Contract Law*.

Recruitment

We strictly follow the *PRC Labor Law*, *Labor Contract Law*, *Employment Promotion Law*, *Labor Dispute Mediation* and *Arbitration Law* as well as provincial and local labor laws and regulations (of where the operating schools locate and operate) in our recruitment process. We prohibit discrimination of staff by age, sex, race, nationality, religion or disability, ensuring everyone has equal employment opportunities and respects.

# Environmental, social and governance report

Schools hire talents based on business development and operational needs, as well as candidate's integrity and professionalism. Our talent selection policy does not only focus on professional knowledge, experience, and relevant qualification, but also on candidate's morality, professional ethics and discipline. Our schools carry out their recruitment works based on the *Teacher and Employee Manual* and the *Methods for Implementing Teachers' Recruitment Work*, and continuously to improve and refine their recruitment processes. School staff recruitment procedures/cycle can be summarised as follows: pre-hiring advertisement, resume screening, interview invitation, HR interview, professional qualification assessment, employer business assessment, departmental and school senior management interview, background investigation, conditional employment offer, physical examination, and formal employment offer. All candidates with employment offer will have to sign the employment contract no later than one month since the first day report to work, and we stipulate the probation period according to law. Near the end of the probation period, HR department will work with the candidates' respective departments to conduct comprehensive assessments on new employees' performance and personality fit during the probation period, to decide whether we should officially offer the position as scheduled or ahead of the schedule, or terminate the employment.

We actively attract talents through contacting the target colleges, participating in talent recruitment fairs and industry conferences, and encouraging our staff to take advantage of social media to refer and recommend talented candidates to join us. In addition, we provide pre-employment and on-the-job trainings such as assigning coaches (experienced teachers) for newly hired teachers to ensure they have faster and easier transitions and integrations.

Promotion

The Group believes that the teaching quality depends largely on the quality of teachers. To improve the teaching quality and enhance teachers' work initiatives, as well as to ensure teachers are fairly rewarded and compensated based on their efforts and work qualities, most of our member schools have formulated the *Measures for Determination of Performance Awards* and recommended teachers and employees to conduct annual assessments.

The schools promote teachers and employees based on their work performance, individual performance, and job qualifications, etc. For professional and technical positions, we promote the eligible employees among the best professional and technical personnel based on their performance results and service time at the current positions and promote them within the systems of post ranking. For management positions, we select the eligible employees among the best based on their performance, results and annual assessments and promote them in the case of vacant posts. In the case of no vacant posts, we shall appropriately raise the salaries of the qualified employees.

# Environmental, social and governance report

Working hours and vacations

The Group strictly implements the system of working, resting and vacation according to the *Teacher and Employee Manual* and other national regulations. Our standard working hours are eight hours per day, five days per week, or no more than 40 normal working hours per week, with at least one day off. Except for unusual circumstances, such as at the end of the year, we do not advocate overtime work. For those who have been approved to work overtime due to business needs, the schools shall pay the overtime fees according to regulations. Teachers and employees are legally entitled to statutory holiday, winter and summer vacations (or annual leaves), casual leaves, sick leaves, marriage leaves, compassionate leaves, maternity leaves (and paternity leaves) and other paid or unpaid leaves.

Equal opportunities

Teachers and employees enjoy equal opportunities for education, professional development and promotion and are not discriminated against due to their races, genders, religions or cultural backgrounds.

Diversification

The backgrounds of our teachers and employees are highly diverse; they come from different provinces in China or foreign countries; they graduated from schools in China and abroad; their experiences (prior to joining us) include government agencies, institutions, enterprises, private non-enterprises, and industry organisations; we also have foreign teachers from other countries. The Group has made great efforts to attract social talents to join the teaching team and to promote its diversity, and to fully utilise the valuable experience of the retired and re-employed personnel. For example, Jiangxi University of Technology employs a number of retirees from the industries and schools, while Zhengzhou Transit School recruits outstanding retirees from the rail transit industry as practical training teachers.

Anti-discrimination

We provide equal opportunities in recruitment and employment, and oppose any types of discrimination. The Company resolutely resists and opposes any forms of discrimination or forced labor practices, including forced labor, racial discrimination, and improper punitive measures. We strive to create a harmonious and equal working environment for all employees. During the reporting period, the Group did not receive any complaints related to any form of discrimination or forced labor.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

***Total number of employees by gender, type of employment, age group and geographical region***

As at 31 August 2018, the Group had a total of 6,307 employees, a 35.3% increase from 2017 mainly due to acquisition of two schools. Please refer to the following four tables for detailed disclosure by category.

Total number of employees by gender

| Gender | | **At 31 August 2018 (person(s))** | At 31 December 2017 (person(s)) |
|---|---|---|---|
| Male | | **3,345** | 2,525 |
| Female | | **2,962** | 2,135 |
| | Total: | **6,307** | 4,660 |

Total number of employees by type of employment

Our main employees are teachers and teaching support staff, accounting for nearly 80% of the total number of employees. Our teachers and teaching support staff are our greatest and most valuable human resource asset.

| Type of Employment | | **At 31 August 2018 (person(s))** | At 31 December 2017 (person(s)) |
|---|---|---|---|
| Directors & senior management of the Group* | | **9** | 9 |
| Teachers | | **4,317** | 3,589 |
| Teaching support staff | | **709** | 116 |
| Administrative staff | | **643** | 467 |
| Accounting and internal control staff | | **66** | 37 |
| Campus security staff | | **118** | 84 |
| Other staff | | **445** | 358 |
| | Total: | **6,307** | 4,660 |

* *Details of directors & senior management of the Group are set out in directors and senior management on page 73 to 81.*

# Environmental, Social and Governance Report

Total number of employees by age group

About 53% of our employees are between the ages of 31 and 50; this group mainly consists of teachers and professors with teaching experience of 10–20 years. In addition, the number of employees under the age of 30 is also considerable, accounted for 31% of the total employees; this group mainly consists of youth teachers with teaching experience of or less than 10 years or youth teachers working toward their teacher qualification certificates, with tremendous supports from the Group.

| Age Group | | **At 31 August 2018 (person(s))** | At 31 December 2017 (person(s)) |
|---|---|---|---|
| 30 or below | | **1,924** | 716 |
| 31–40 | | **2,240** | 1,995 |
| 41–50 | | **1,119** | 1,108 |
| 51–60 | | **780** | 676 |
| Over 60 | | **244** | 165 |
| | Total: | **6,307** | 4,660 |

Total number of employees by geographical region

Similar to our students, our employees also come from foreign countries and various regions in China, despite our five schools are located in only four provinces. As at 31 August 2018, around 28% of our employees were from foreign countries and other provinces or municipalities in China.

| Geographical Region | | **At 31 August 2018 (person(s))** | At 31 December 2017 (person(s)) |
|---|---|---|---|
| Jiangxi Province | | **1,746** | 1,751 |
| Guangdong Province | | **1,358** | 1,308 |
| Henan Province | | **923** | N/A* |
| Shaanxi Province | | **522** | N/A* |
| Other regions | | **1,758** | 1,601 |
| | Total: | **6,307** | 4,660 |

* *Zhengzhou Transit School and Xi'an Railway College were not yet our operating schools in 2017.*

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

***Employee turnover rate by gender, age group and geographical region***

We have a very stable teachers and management workforce. During the reporting period, the Group had a total of 376 resigned employees, representing an employee turnover rate of 5.6%. Please refer to the following three tables for detailed disclosure by category:

Employee turnover by gender

| Gender | | Eight months ended 31 August 2018 (person(s), %) | Year ended 31 December 2017 (person(s), %) |
|---|---|---|---|
| Male | | **190 (2.8%)** | 107 (2.2%) |
| Female | | **186 (2.8%)** | 63 (1.3%) |
| | Total: | **376 (5.6%)** | 170 (3.5%) |

Employee turnover by age group

| Age Group | | Eight months ended 31 August 2018 (person(s), %) | Year ended 31 December 2017 (person(s), %) |
|---|---|---|---|
| 30 or below | | **227 (3.4%)** | 68 (1.4%) |
| 31–40 | | **81 (1.2%)** | 57 (1.2%) |
| 41–50 | | **27 (0.4%)** | 20 (0.4%) |
| 51–60 | | **27 (0.4%)** | 16 (0.3%) |
| Over 60 | | **14 (0.2%)** | 9 (0.2%) |
| | Total: | **376 (5.6%)** | 170 (3.5%) |

Employee turnover by geographical region

| Geographical Region | | Eight months ended 31 August 2018 (person(s), %) | Year ended 31 December 2017 (person(s), %) |
|---|---|---|---|
| Jiangxi Province | | **24 (0.4%)** | 13 (0.3%) |
| Guangdong Province | | **117 (1.7%)** | 65 (1.3%) |
| Henan Province | | **157 (2.3%)** | N/A* |
| Shaanxi Province | | **25 (0.4%)** | N/A* |
| Other regions | | **53 (0.8%)** | 92 (1.9%) |
| | Total: | **376 (5.6%)** | 170 (3.5%) |

* *Zhengzhou Transit School and Xi'an Railway College were not yet our operating schools in 2017.*

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

### 4.1.2 Health and Safety

**General**

In order to ensure the normal teaching order of the Group and the health and safety of the employees and students, the Group has established strict safety management regulations and standards for fire safety, campus safety and health environment construction, facilities and equipment management, and anti-smoking management, etc., to provide staffs and students with a healthy and safe working and learning environment. While strictly complying with PRC *Infectious Diseases Prevention Law*, *School Health Work Regulations*, *Fire Protection Law* and other relevant laws and regulations in formulating safety management systems, the Group has also established a safety and health work leading team to effectively supervise the implementation of safety inspection system and a safety accountability system to ensure the health and safety of teachers and students. Baiyun Technician College, one of our operating schools, has established an ISO 9001 quality management system in earlier years, in addition to *QB-0703-04 Work Environment Management Procedures* and *QB-0810-18 Protection Control Procedures* to effectively protect the occupational and environmental safety of employees and students.

The Group also provides employees with relevant accident protection as required by national regulations such as the PRC *Labour Law* and the *Regulations on Work Injury Insurance*. The Group provides necessary labour protection supplies and other measures to ensure employees have a safe working environment that free from occupational hazards. In addition, the Group participates in annual employee work-related injury insurance and basic medical insurance, which can help its schools and its employees to mitigate accidental risk and damage to a certain extent.

***Work injuries and accidents***

During the reporting period, the Group did not have any work-related fatalities.

During the reporting period, the Group had three employees who had work-related injuries, resulting a total of 72 lost days. In response to these three work-related injuries, the Group actively applied for work-related injury certification for employees, arranged hospital visits, and compensated for work-related injuries to ensure employees obtain insurance coverage and salary as required by relevant laws.

***Occupational health and safety measures and related implementation and monitoring methods***

Due to the characteristics and working environment of the education industry, most employees, such as teachers and administrative staff, do not expose to any inherent occupational hazard risks. A small group of employees, such as maintenance technicians and other outdoor workers, expose to limited occupational hazards risk. Schools mainly adopt the following measures to avoid occupational hazards: (i), to provide necessary protection and communication tools for safety and security personnel; (ii), to provide labour protection supplies for maintenance personnel; (iii), to provide refreshing drinks for workers in high temperature environment in summer; (iv), to formulate safe operating procedures and provide safety trainings for employees.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Our schools have adopted the following measures to ensure the safety of employees:

First, implementation of safety education and safety precautions. In order to enhance employees' healthcare awareness and physical well-being, most of our operating schools' labour contracts stipulate that a free health check-up for all employees should be conducted every one or two years.

Second, establishment of safety and health supervision projects. We have strengthened safety inspections in key areas and key locations to eliminate safety hazards in a timely manner. As at the end of the reporting period, the safety and health supervision projects established by the Company mainly include: safety and health publicity and education, investigation and rectification of hidden safety hazards, power safety usage management, management of hazardous chemicals, safety management of food and boilers in canteens, policies and security work requirements, clinic and health management, dormitory safety management and school bus safety management, and improvement for campus and surrounding environment. We are equipped with necessary video surveillance equipment in public areas, and assign security guards to safety and health supervision projects, with clear division of labour and responsibility. As for campus environment, our schools regularly disinfect different areas of campuses on a weekly basis, and makes sufficient efforts on environmental hygiene and disease prevention. In addition, air conditioning maintenance work is conducted every semester. At the same time, anti-smoking is strictly enforced, and tobacco control inspections are regularly conducted to ensure the health of staffs and students and to avoid any incidents that endanger the safety of our school campuses.

Xi'an Railway College is hosting a large-scale fire drill for over 5,000 students

Third, cracking down fire safety issues. The group attaches great importance to campus fire safety; all our schools issue fire safety notices at the beginning of academic year, holidays, important periods and sensitive periods. Jiangxi University of Technology and Guangdong Baiyun University hold large-scale fire drills on the annual fire prevention publicity day to enhance the fire safety awareness and self-rescue capability of teachers and students. For example, in August 2018 Jiangxi University of Technology conducted Fall semester assessment on fire control, safety inspection and security risks, and promptly rectified any existing potential issues. During the reporting period, all our operating schools carried out comprehensive and in-depth fire safety inspections on large and small buildings on campuses, to eliminate any hidden concerns or dangers, and to timely carry out rectification on issues identified.

### 4.1.3 *Development and Training*

**General**

The Group attaches great importance to employee training and development. In order to maintain and enhance staffs' teaching and management skills, the Group and its operating schools have formulated employee training programmes for the entire academic year based on the actual needs. The training activities focus on the dissemination of culture and the improvement of business capabilities. Taking the extraction and inheritance of experience as the goal, the training model of case analysis is mainly used to comprehensively upgrade employees' knowledge reserves and business. The Group strongly encourages teaching staff to participate in pre-employment training, as well as professional trainings that lead to professional teacher and counsellor qualifications, academic lectures, and innovation and entrepreneurship trainings. The Group also encourages them to participate in forums, seminars, meetings and professional training in other disciplines, as well as overseas exchange opportunities.


Graduation ceremony for employees successfully completed 839 University training in Summer 2018

# Environmental, Social and Governance Report

During the reporting period, our training programmes and projects at **Group-level** mainly include:

First, in 2018, the Group established 839 University, an internal training and development platform that periodically provides professional trainings for our employees. We aim to ameliorate staff qualities and skills, to promote staff professional development, to improve service standard, and to realise value-addition of human capital.

The Group highly emphasis good corporate governance. Internal control department carried out trainings on risk management and internal control in March, April and June 2018 at operating schools respectively; the trainings focus on risk management awareness and importance of risk responsibility consciousness.

839 University training in Summer 2018

In July 2018, 839 University provided training to 56 accounting and procurement staffs. In July to August 2018, 839 University conducted training in teaching quality for 56 teaching (management level) staffs.

Second, accounting and internal control training (external). In addition to the internal training offered by 839 University, the Company periodically invites external professionals to provide training to our accounting and internal control staffs. For example, in January 2018, the Company invited Deloitte to Guangdong Baiyun University to deliver a two-day internal control training for senior management of all operating schools of the Group.

# Environmental, Social and Governance Report

During the reporting period, our training programmes and projects at **school-level** mainly include:

1. Support and encourage our teachers to pursue master or doctoral degrees. For example, during the reporting period, Jiangxi University of Technology and Guangdong Baiyun University have actively carried out training programmes such as the "Master Training Programme", "PhD Training Programme", "Double-qualification Teacher Training Programme", and "100 High-level Talents Introduction and Training Programme". For example, during the reporting period, nine Jiangxi University of Technology faculties have granted doctoral degrees under the training programmes.

2. Short-term studies at domestic and foreign universities. For example, during the reporting period, Jiangxi University of Technology organised and selected more than 140 teachers to participate in teaching skill training programmes such as receiving further education abroad and visiting domestic and foreign universities.

3. Practicing and serving temporary positions in enterprises. For example, Zhengzhou Transit School has sent more than 100 teachers to other schools and enterprises to participate in key teaching personnel and double-qualification teacher training this summer. Guangdong Baiyun University arranges over 60 teachers to go to enterprises for a month-long practice working on regular positions every summer. Participating teachers work at professional counterpart positions in enterprises to enhance their practical work abilities. After the end of practice, they can bring real projects and industrial experiences back to school and utilise and incorporate them in classroom teaching.

4. Carrying out cooperation in production, learning and research. For example, Guangdong Baiyun University and enterprises have carried out in-depth cooperation in production, learning and research, and has established a number of masters' studios in school with enterprises. One of the studios was even named "National Master Studio" by the Ministry of Human Resources and Social Security.

5. Carrying out teaching skill training for teachers; encouraging teachers to participate in forums, seminars, meetings in other disciplines and professional training. For example, in Summer 2018, Jiangxi University of Technology held the *American Class and Classroom Management Talk* and the training was open to more than 240 full-time teachers.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

6. Encouraging teaching staff to obtain teacher qualifications and counsellor qualifications. For example, Jiangxi University of Technology, Guangdong Baiyun University and Zhengzhou Transit School have issued the *Notice on Launching the 2017 Teacher Qualification Accreditation Work* in accordance with the *Notice on Teacher Qualification Accreditation Work* from the Provincial Education Department, and have set the teacher qualification certificate as a basic condition for promotion to advanced or senior positions. The basic condition is to actively encourage teachers and counsellors to apply for teacher qualification accreditation and guide them to become more foresighted, innovated, and be responsible educators.

7. Pre-employment training for new employees. All our schools carry out pre-employment training for new teachers and counselors at the beginning of each academic year. Through centralised training, practice and follow-up training, we help new employees quickly familiarise themselves with school cultures and management procedures (such as teaching, research, HR, etc.) thus they can grasp the essentials of teaching methods and integrate them into teaching.

***Percentage of trained employees by gender and employee category***

During the reporting period, the Group provided on-the-job training that benefit employees' personal and professional development for a total of 3,162 staffs, accounted for 50.1% of total employees. Please refer to the following two tables for detailed disclosure by category:

Number and percentage (%) of employees who received training by gender

| Gender | | Eight months ended 31 August 2018 (person(s), %) | Year ended 31 December 2017 (person(s), %) |
|---|---|---|---|
| Male | | **1,617 (25.6%)** | 1,608 (34.5%) |
| Female | | **1,545 (24.5%)** | 1,523 (32.7%) |
| | Total: | **3,162 (50.1%)** | 3,131 (67.2%) |

Number and percentage (%) of trained employees by employee category

| Employee Category | | Eight months ended 31 August 2018 (person(s), %) | Year ended 31 December 2017 (person(s), %) |
|---|---|---|---|
| Senior management | | **57 (0.9%)** | 20 (0.4%) |
| Middle management | | **335 (5.3%)** | 182 (3.9%) |
| Other staff | | **2,770 (43.9%)** | 2,929 (62.9%) |
| | Total: | **3,162 (50.1%)** | 3,131 (67.2%) |

### *Weighted average training hours completed per employee by gender and employee category*

During the reporting period, the weighted average training hours completed per employee of the Group was 42 hours. Please refer to the following two tables for detailed disclosure by category:

Average training hours completed per employee by gender

| Gender | **Eight months ended 31 August 2018 (hour(s))** | Year ended 31 December 2017 (hour(s)) |
|---|---|---|
| Male | **40** | 197 |
| Female | **44** | 191 |
| Weighted average training hours: | **42** | 194 |

Average training hours completed per employee by employee category

| Employee Category | **Eight months ended 31 August 2018 (hour(s))** | Year ended 31 December 2017 (hour(s)) |
|---|---|---|
| Senior management | **48** | 83 |
| Middle management | **48** | 70 |
| Other staff | **41** | 202 |
| Weighted average training hours: | **42** | 194 |

### *Employment of employees with disabilities and employees with material family difficulties*

The Group actively safeguards the employment opportunities for all types of people and prohibits discrimination in all aspects to ensure that every employee is respected and treated fairly. We are a disabled-friendly company and we actively solve the employment problem for the disabled. Under the same circumstances, we give priority to people with disabilities and people with material family difficulties in making hiring decisions. As at 31 August 2018, the Group had a total of 23 disabled employees and 33 employees with material family difficulties, respectively accounted for 0.4% and 0.5% of the total employees.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

**Bian Xiaofang** *(Dean of School of Fashion and Design, Jiangxi University Technology)*

*"I joined Jiangxi University of Technology in 1994, exactly 24 years ago, and have experienced how the school developed into one of the top private universities in China. School attaches great importance to faculty team building which I have immensely benefited from professionally; the master degree promotion for youth teacher program and key teacher scholar visit program sponsored by the school, have helped me to complete Master of Arts study at East China University and scholar visit at Tsinghua University. At the same time, as the first private university to implement "five insurances and two funds" in China, school has provided me a stable job security."*

**Fang Jiansong** *(Vice Dean of College of Art and Design, Guangdong Baiyun University)*

*"After finishing Graduate School 10 years ago, I joined Guangdong Baiyun University and have worked for the it ever since. Over the past 10 years, I have grown with the school and witnessed school's remarkable achievements in applied-education institution transformation as well as applied talents cultivation. As a selected employee in key teacher training program, I have received tremendous amount of support from school in completing the short-term studies at domestic universities and international academic exchanges. Company's public listing not only has guaranteed a more solid backup for school development but also has provided a broader platform for employee development. I am confident about my future!"*

**Zhou Qiang** *(Director of Academic Affairs, Baiyun Technician College)*

*"Since I started working at Baiyun Technician College 21 years ago, I have personally experienced and witnessed the college has developed from a small school with less than fifty employees to the top private technical school in the country. Over the past eight months, the Group has greatly helped each member school in IT platform construction, risk control, standardised management, teaching team building and resource sharing. It also has offered more opportunities for each faculty member for personal and professional development. I firmly believe the Group will gets better and better. As a member of the China Education Group family, I couldn't be heartfelt prouder."*

**Liu Wenjuan** *(Office Director, Zhengzhou Transit School)*

*"Since Zhengzhou Transit School joined the Group six months ago, I have personally witnessed the tangible changes that the Group has brought to the school: a more sounded management system, a more standardised workflow, and a more efficient mode of operation. In particular, the establishment of the 839 university, has set up a more professional training platform for us. I firmly believe the school will have a more prosperous and promising future as well as my personal and career development with China Education Group!"*

**Liu Qian** *(Teacher, Xi'an Railway College)*

*"We are very excited to become a member of the China Education Group family and we believe that with the tremendous support from the Group, we would be able to embark on a new journey, conquer any challenges ahead and continue to flourish. The Group has provided each of the diligent teachers with abundant resources that further accelerated the learning curve. We wholeheartedly appreciate the training that China Education Group has invested into the teachers."*

### 4.1.4 Labour Standards

**General**

The Company prohibits and resolutely resists hiring child labour or forced labour and in strict compliance with the relevant requirements of the *PRC Labour Law, Labour Contract Law, Teachers Law, Law on the Protection of Minors, Provisions on the Prohibition of Using Child Labour* and the *Special Rules on Labour Protection of Female Employees*. Our human resources departments examine the identity of job applicants and employees recruited, conducts inspection on child labour and illegal labour, performs detailed background check on high end talents and employees who hold key positions, and enters into contracts with all full-time employees in accordance with relevant laws and protects their legitimate rights and interests. During the reporting period, the Group was not involved in any illegal labour, child labour or forced labour.

***Strict prohibition of child labour and forced labour***

Our schools check the ages of job applicants in a strict manner in resume screening, qualification examination and background check during recruitment, and include relevant requirements of strict prohibition of child labour and forced labour in the employment contract.

The Group respects and upholds internationally recognised human rights and actively resists any actions disregarding and abusing human rights. In accordance with the *Labour Law, Labour Contract Law, Union Law, Provisions on the Prohibition of Using Child Labour*, the *Special Rules on Labour Protection of Female Employees* of the People's Republic of China and other national laws, the Group has formulated the Teacher and Employee Manual which prohibits the use of child labour and forced labour. The Group also prohibits forced labour or servitude in any forms, and ensures that all employees work on a voluntary basis. The Group recruits staff based on the open, fair, justice, and voluntary basis, and prohibits the recruitment and employment through forced actions or fraudulence.

If any non-compliance related to child labour and forced labour is found, the disciplinary supervision department and the management shall review the entire recruitment and management procedures, and identify the defects and make targeted improvement on relevant procedures to prevent the reoccurrence of similar incidents. The disciplinary supervision department will conduct inspection on incidents in relation to potential employment of children under the age of 16. If such incidents are found to be true, the disciplinary supervision department, together with the relevant personnel of the local labour protection and social security authorities, will contact the labour protection and social security authorities of the children's registered residence, and to escort the relevant children to their parents or guardians with all transportation and accommodation expenses covered by the Group. Our five schools have never been involved in any illegal labour, child labour or forced labour since their establishments.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## 4.2 Operation Practices

### 4.2.1 Supply Chain Management

***General***

As an education services provider, we engage our suppliers to provide us with office supplies, furniture, teaching devices and equipment, teaching material and supplementary teaching material and uniforms. In order to standardise the material supply procedures, to enhance the working efficiency, to facilitate the quality and efficient material supply, and to strengthen the supervision and management of partnered customers and lower the risks in relation to procurement, our schools have formulated the *Procurement Management System*, the *Supplier Management Evaluation System*, and the *Tendering Procedures for Equipment Procurement* and other policies to manage the suppliers in a scientific manner. In addition, we have established a supplier database to perform categorised management of suppliers, to conduct "qualified supplier assessment" on an annual basis and will terminate the cooperation with disqualified suppliers in a timely manner.

Group Logistics Department implements centralised purchasing of large-scale commodities in demand (e.g. student uniforms, student bedding items, textbooks, etc.). For goods with sporadic demand but large cumulative consumption (e.g. laptops, projectors, air conditioners, etc.), we enter into long-term supply contracts with suppliers and implement long-term contract prices. Centralised procurement at Group level makes full use of economics of scale and effectively reduces procurement costs. In addition, internal control and other related departments fully participate in the centralised procurement process to ensure supplier supervision is well implemented.

***Number of suppliers by geographical region***

During the reporting period, about 88% of the Group's suppliers are from the four provinces where our five schools are located.

| Province | Eight months ended 31 August 2018 (number) | Year ended 31 December 2017 (number) |
|---|---|---|
| Jiangxi Province | **251** | 66 |
| Guangdong Province | **107** | 70 |
| Henan Province | **190** | N/A* |
| Shaanxi Province | **41** | N/A* |
| Other regions | **80** | 44 |
| Total: | **669** | 180 |

* *Zhengzhou Transit School and Xi'an Railway College were not yet our operating schools in 2017.*

***Practices of supplier engagement and implementation and supervision of such practices***

Our schools take into full consideration of the suppliers' environmental and social risk factors in supplier selection. Group internal control and audit department fully participates and supervises all schools' large/key supplier selection as well as to promote healthy and fair competitions among suppliers. Firstly, we will verify and conduct due diligence on the legitimacy (such as the validity of business license, tax registration certificate and organisation code certificate), qualification, business scope and operating and financial results in last three years of relevant suppliers.

We will then require the suppliers to provide quality examination reports, quality certification and other relevant materials of specific products. For example, in procurement of bedding products for students, we require the suppliers to provide quality examination certificates or reports issued by governmental authorities; and in procurement of furniture, electric appliances and teaching equipment, we examine the product quality certification provided by the suppliers.

Our schools' procurement departments have matured and complete supplier engagement systems in place. For procurement projects with small contract amount, we engage the suppliers based on the principle of "emphasising on efficiency while ensuring quality" and make comparison among different suppliers for specific products. For example, the procurement of minor commodities, requires quotation from at least three suppliers and shall be subject to discussion on regular meetings. For projects with large contract amount, we assess and select the suppliers through public tender or competitive bidding procedures in strict accordance with relevant system of the schools. For example, the procurement departments shall select and engage the suppliers with full consideration of the product quality and price (such as horizontal comparison between local market price and proposed price) based on the local market conditions, to achieve an equilibrium between product quality and price.

### *4.2.2 Service Responsibility*

***We provide education services in strict compliance with relevant national laws***

The schools under the Group operate in accordance with the *PRC Education Law*, the *Law for Promoting Private Education*, the *Several Provisions on the Administration of Non-state-operated Colleges and Universities*, the *Several Opinions of the State Council on Encouraging Social Power to Set up Education to Promote the Healthy Development of Private Education* and other national laws and regulations, to provide high quality higher and vocational education services, as well as accommodation, meal catering and other ancillary services.

# Environmental, social and governance report

***How do we maintain consistent high-quality education?***

To provide high-quality education service to students has always been our relentless pursuit. Firstly, our schools have formulated and implemented the *Teaching Standards for Teachers*, the *Measures on Identification and Handling of Teaching Non-Compliance*, the *Scoring Measure on Teaching and Teaching Management* and other rules and systems. Through the management system, our schools have specified the quality standards of formulation (and revision) of cultivation proposals, formulation (and revision) of course syllabus, teaching preparation, teaching research, classroom teaching, teaching organisation, after-class tutoring, homework review, teaching practices and other teaching procedures, and have formed a complete and standardised system of teaching management and teaching quality assurance. Secondly, periodic inspections are conducted at different phases. At the beginning of semester, our schools will carry out initial teaching examination with focus on examining the compilation of course syllabus, class preparation by teachers, teaching PPT preparation and plans for teaching research activities by the teaching research office. In the middle of semester, schools will carry out mid-term teaching examination with focus on examining the implementation of activities of the teaching research office, completion of research report and guidance on dissertation preparation. At the end of semester, schools will carry out final examination with focus on examining the content of test papers and teachers' procedural assessment on students. In addition, we will conduct online mutual evaluation on teaching and learning experience between teachers and students for every academic year and publish the year-end ranking (comprehensive ranking of teaching units and year-end performance ranking of teachers). Thirdly, schools will hold monthly meetings to discuss teaching quality. Through preparation of briefing reports and meetings, we receive and review feedbacks to solve the problems and improve the quality.

Our schools have formulated and implemented the *Teaching Standards for Teachers*, the *Measures on Identification and Handling of Teaching Non-Compliance*, the *Scoring Measure on Teaching and Teaching Management* and other rules and systems, which specified the standards of political ideology and teaching qualification of teachers in providing education services and the standards for different teaching aspects as well as the severity, handling procedures and appealing review procedures for non-compliant teachers.

Our schools have formulated the *Test Management Rules, Test Paper Management Measures*, the *Student Assessment Measures* and other management systems to standardise the organisation and implementation of tests and prevent the occurrence of accidents related to security and confidentiality of examination rooms and test paper due to human error.

# Environmental, social and governance report

***Teaching quality management***

We adhere to the "student-oriented" teaching strategies and the quality management philosophy of "continuous improvement" to build a teaching quality assurance system. The Group attaches great importance to the assurance and improvement of teaching quality; we mainly protect our quality management through the following two aspects:

First, to strengthen the conditions and guarantees of quality control; to strengthen teaching quality assurance in terms of organization, personnel, system and funds. For example, during the reporting period, Jiangxi University of Technology has more than 100 institutional documents including the *Management Manual for Teaching*, the *Compilation of Teaching Quality Monitoring Systems*, *Teacher's Manual and College Student's Handbook* in effect, which are mainly prepared and refined by 15 academic departments based on their respective characteristics and circumstances.

Second, to optimise the process management of quality control. We constantly improve the standards of personnel training and teaching quality and optimise the quality assurance system to monitor the quality of teaching. The schools adhere to the Teaching Evaluation as the starting point, and through the combination of campus assessment and off-campus assessment, comprehensively monitor the teaching and teaching management process and constantly stabilise the teaching quality.

In addition, we collect comprehensive data and assess information validity in real time. Our schools collect the basic status data of higher education each year and report it to the education authorities. Through undergraduate data collection and in-depth analysis and summary, we timely monitor the schools' core teaching data, which has become an important basis for the summarisation and adjustment of teaching policies and measures and has helped schools to improve performance to the various indicators meet or even exceed the national standards.

For example, during the reporting period, Zhengzhou Railway College has arranged 306 teachers to attend classes/lectures, covered 100% of the faculty. Special inspections were carried out for teaching plans, teaching schedules progress, implementation of curriculum standards, etc. During the reporting period, 302 student teaching and administrative staff have reported a total of 131,158 pieces of teaching information, which cover lecture quality and classroom discipline, etc. The collection, summary and analysis of various types of data provide an important basis for schools to summarise and adjust the teaching management system and measures.

# Environmental, social and governance report

***Quality improvement***

In order to achieve a closed-loop quality control, our schools have formed a quality improvement model of timely feedback, dynamic management and continuous improvement. There are improvement procedures and mechanisms from finding problems, reporting problems, conducting rectification, reviewing rectification. For the problem of teaching quality, feedback will be provided in a timely manner, and relevant departments are required to carry out rectification. Based on the self-rectification of departments, the schools pay attention to the review of rectification. Our quality improvement of personnel training is mainly implemented in three levels: (1) Instant improvement through classroom monitoring, (2) Focused improvement through regular teaching inspections, and (3) Systematic improvement through special teaching evaluation. We examine and recover the teaching quality through quality improvement programmes.

***How do we ensure the physical health and safety of students?***

In order to ensure the safe and stable development of students, our schools have issued the *Student Management Rules*, the *Measures on Assessment of Comprehensive Quality of Students*, the *Rules on Management of Class Attendance Rate*, the *Handling methods for students' violation of discipline*, the *Rules on Leave Application of Students,* the *Student Apartment Management Rules*, the *Housekeeping Standards in Student Dormitory*, and other management rules to regulate and procure our students to develop good and healthy behavior and habits in their school years.

To ensure the campus safety, the schools have put great efforts in the following aspects: firstly, the schools focus on the management of areas with safety hazard (such as the campus gate, teaching buildings, dormitories and canteens) and assign security guards to patrol such areas; in addition, the schools conduct special inspection before and during major events, festivals and socially sensitive periods to eliminate security and safety hazard. For example, Xi'an Railway College inspects banned goods on campus and holds safety education seminar on a weekly basis. Secondly, the schools have strengthened the technical protection facilities. For example, as at 31 August 2018, Zhengzhou Transit School has set up an electronic monitoring room, installed 17 video recorders and 320 surveillance cameras to monitor the entire teaching and residential area. In addition, an alarm system and an automated access control management system were installed to further improve the school security monitoring system. Thirdly, the schools have strengthened the security force. For example, Jiangxi University of Technology maintains a security force on the basis of three security personnel for every one thousand students in the campus; it also establishes a campus security team of 90 competent members and a voluntary fire response team of 50 members based on paramilitary standard, allocates one or two building managers for each building and maintains an emergence response team of 20 members for each academic department. The campus security team patrols the campus on a daily basis and the team lead receives weekly study and appraisal in order to prepare for emergence response at all time.

# Environmental, Social and Governance Report

Our schools organise activities of safety education such as legal knowledge promotion, fire drills and safety knowledge promotion for our teachers and students on a regular basis. For example, in the beginning of Fall semester, the schools invite legal experts to give lectures on legal knowledge to the freshman students, to educate them on relevant cases and the security situation in the campus neighborhood, to enhance their awareness of self-protection, and to deliver the promotional brochure of legal education prepared by the schools. In every March, we will carry out the activity of promotion month of comprehensive security management and legal education to enhance the awareness of security protection among teachers and students. On our fire safety promotion day (9 November), our schools will carry out large-scale fire drill and invite the firefighters to the campus to provide training on fire safety and firefighting practices so as to enhance the fire safety awareness and self-rescue ability of teachers and students. In every December, we cooperate with the provincial education department to organise Q&A sections on legal and safety knowledge for freshman students.

The Group attaches great importance to food safety. We conduct daily inspection on the canteens in schools. The inspection covers food ingredient procurement and documentation, utensils sterilisation and recording and food ingredient storage, etc. Meanwhile we maintain a good document filing and sorting system (for food safety database). In order to strengthen the training on food safety, the schools invite experts from the municipal food and drug administration to provide training to the staff every year, thereby enhancing their awareness of food safety, regulating the food safety operating procedures and protecting the physical health of teachers and students. No food safety accident has occurred at our schools for the last decade.

***How do we ensure the psychological health of students?***

The Group strikes to promote students' all-round and healthy development especially in mental health and good social adaptability training. For example, Jiangxi University of Technology includes psychology as elective course into its syllabus, and carries out mental health exam and establishes database for freshmen in October. Likewise, all our schools have psychological counseling rooms and provide counseling services to students. In addition, we regularly organise activities such as "Mental Health Promotion Month" to create a campus atmosphere that embrace psychological education so that students can cultivate positive mental well-beings though participating in interesting activities.

***How do we ensure the objectivity of our enrollment advertisement?***

We promote our schools mainly through the advertisement on traditional mainstream media such as official website, newspaper, TV, and journals on higher education entrance examination published by provincial education authorities and on emerging media such as internet media, mobile newspaper, mobile application of mainstream media and official account on WeChat platform.

# Environmental, social and governance report

The Group carries out promotional activities in strict compliance with relevant laws and regulations, and has formulated the *Enrollment Information Approval and Publish Mechanism*, the *Enrollment Advertisement Content Management and Filing and the Enrollment Promotion Platform Maintenance and Management in accordance with the Education Law of the PRC*, the *Advertisement Law of the PRC and the Provincial Measures on Filing and Management of Enrollment Advertisement of Non-state-operated Colleges and Universities*, to make filing and effect management and control of the advertisement and promotional information published by the Group. The publish platforms mainly include the schools' enrollment website, official account on WeChat platform, printed enrollment brochure and the special journals on higher education entrance examination issued by the provincial education departments. All advertisement and promotional information are accurate, objective, true and not misleading. We also actively seek advices and supervision from the supervisory personnel of provincial governments and the provincial enrollment supervision team. Our effort in objective advertising is highly recognised by students, parents and the public.

***Number of students who withdraw from our schools***

During the reporting period, a total of 1,132 students withdrew from our schools, all withdraws were due to personal reasons; none were due to factors related to the schools such as dissatisfaction of education services, accommodation safety or food safely. The schools have made relevant refunds in accordance with relevant policies.

***How do we respond to the complaints from the students and employees?***

During the reporting period, the Group received a total of two complaints from the employees and 34 complaints from the students. The complaints were mainly related to public facility repair and dissatisfied food taste in the canteens. The logistics department has taken active measures of improvement for reasonable requests.

In order to effectively protect the rights and benefits of our students and employees, our schools continuously maintain a channel for students and employees to express their demands and concerns. Firstly, the communications offices of the schools have designated special personnel to handle various kinds of oral and written inquiries at different levels. Secondly, the schools hold the "Meeting with the Principal Day" once every two months and assign the Communist Youth League Committee to collect the problems raised by the students. We listen to and solve the students' problems on study and daily life in a timely manner, and encourage students to fully participate in the schools' daily management, to enhance the level of democratic management of the schools. Thirdly, the schools have made amendment to the *Students Complaints Handling Rules* and set up offices in the student affairs department with the principal as the director, vice-principal as the deputy director and the heads of different functional departments as members, to handle daily affairs. Meanwhile, the schools also hold student forums from time to time to collect concerns raised by students. During the reporting period, the Group was not involved in any material litigations, complaints, disputes or negative news coverage.

# Environmental, Social and Governance Report

***Safeguard and protection of our intellectual property rights***

The Group strictly protects the intellectual property rights of schools and students in accordance with the *Patent Law of PRC* and the *Implementation Rules of Patent Law of the PRC*. In addition, the schools of the Group have also introduced and implemented their respective *Administrative Measures for Scientific Research Projects and Administrative Measures on Intellectual Property Rights*. During the reporting period, the Group was not involved in material complaints or disputes related to intellectual property rights.

During the reporting period, our higher education institutions' efforts to safeguard and protect the intellectual property rights of the schools and students include: (1) To improve the management of intellectual property rights. The schools have set up Intellectual Property departments under the Scientific Research Office, to be responsible for the application, protection, and transfer of the intellectual property rights of schools and students. The schools have also established a conversion agency for intellectual property rights, which comprises of a dedicate team to promote the transfer of intellectual property rights and coordinate the disputes caused by intellectual property rights, in order to protect the intellectual property rights of teachers and students. In addition, the schools have also established a patent application fund for intellectual property rights; The schools have set up a special account for funds of intellectual property rights, which is used to subsidise the intellectual property innovation activities of teachers, and the maintenance and improvement of patents at later stages; (2) To well protect the intellectual property documents of the schools. We have developed intellectual property confidentiality regulations and implement the protection of intellectual property rights in various aspects of the schools. We have strengthened the promotion and learning of the confidentiality regulations so that teachers and students can clearly identify the bottom line that they cannot reach, and clearly define their own activities so as to better protect their intellectual property rights. Respective academic departments and research institutes appoint speciailised personnel to archive and backup the results of the laboratory, confidential files of the archives and competitive scientific research items. We have strengthened the education in the protection awareness of intellectual property right protection during external communication. Their own essays, research results, academic theories must be checked one by one and protective measures should be taken. (3) The schools implement graduation project (graduation dissertation). We will educate the students and ask the students to modify or rewrite the graduation dissertation for which the repetition rate exceeds the standard. If there are serious acts of plagiarism, we will handle it in accordance with the *Measures for the Prevention and Handling of Academic Misconduct in Colleges and Universities* and the *Implementation Rules of handling Measures for Dissertation Fraud*.

While we protect our intellectual property rights, we also protect the intellectual property rights of external educational resources. The Group's schools have issued *Management Regulations for Teaching Materials* to ensure the textbooks used by the schools are all ordered from regular publishers, and we have purchased online resources for our teachers to ensure the teaching materials and educational resources they use are those with copyrights.

# Environmental, social and governance report

***Personal data protection and privacy policy***

The Group strictly implements the *Provisions on the Administration of Internet Forum and Community Services*, the *Provisions on the Administration of Internet Comments Posting Services and the Provisions on the Administration of Internet Group Information Services*. The service providers of Internet forum community, comments posting, and group information shall take necessary measures to protect the safety of the personal information of users and shall not disclose, falsify, damage or illegally sell or provided such information to others. We strictly follow the relevant national laws and regulations related to the protection of personal information, especially for works that involving personal information of teachers and students, and the privacies of them and their families shall not be involved. For the promotion role model behavior of teachers and students, we need to obtain the consents of teachers and students first. No personal sensitive information of teachers and students, such as ID number, home address, telephone number, date of birth, etc., shall be released to the public.

To ensure the personal data safety of students and safeguard the safety and interests of the Group, we strictly implement the No. 9 Warning (protecting the school's personal information and privacy, subsidising workers shall "tighten this string") issued by the National Student Financial Aid Management Center and the requirements of the *Notice on Prohibiting Publicizing Sensitive Personal Information of Teachers and Students*, as well as the *Student Management Provisions*, the *Implementing Rules for the Management of Teaching Archives*, the *Administrative Measures for Informatization Data* and the *Administrative Measures for the Change of Basic Information of Students' Enrollment Status* issued by the schools, to protect personal information security. We also have signed confidentiality agreements with staff who involved in the safety and privacy of student information, effectively protects the privacy of students and the Group from information leakage in any form. In addition, each school will also conduct regular training to educate teachers and employees to strictly abide confidentiality obligations and respect student privacy. We strictly implement our work according to the rules and regulations. For student-related information, we set permissions according to different levels of confidentiality with no one has the permission to read and use. If the privacy of the students and the Group is leaked, the Group will promptly take remedial actions and penalise the responsible individuals accordingly.

### 4.2.3 Anti-corruption

**General**

The Group resolutely opposes illegal operations such as bribery, extortion, fraud and money laundering and prohibits any actions that may harm the interests of customers and the Group. The Group strictly abides by national and regional anti-corruption laws and regulations, including the *Criminal Law of the PRC*, the *Anti-Money Laundering Law of the PRC*, the *Anti-Unfair Competition Law of the PRC*, the *Securities Law of the PRC*, and the *Criminal Procedure Law of the PRC* and the *Interpretation of the Supreme People's Court and the Supreme People's Procuratorate on Several Issues concerning the Application of Law in the Handling of Criminal Cases of Embezzlement and Bribery*, etc. We also formulated internal policies, such as *Notice on the Duties of the Printing Department (Compilation)* and the *Provisions on Employees' Compensation and Penalty*, *Notice on Prohibition of Accepting Gifts*, Gift Money and Flowers and *Honesty and Self-discipline Commitment of the Faculty*, in order to regulate the professional behaviors and professional ethics of all employees of the Group, to establish a good atmosphere of integrity and diligence and to prevent frauds.

We have included the rules on integrity and self-discipline as the teaching staff's professional ethics and code of conduct in the *Teacher and Employee Manual*. Integrity and self-discipline is not only an important factor in selection and appointment of middle management for our schools, but also a year-end evaluation. The compliance of integrity and self-discipline is also an important part of the evaluation, the results of which are correlated to bonuses.

During the reporting period, the Group and our employees did not involve any cases related to bribery, extortion, fraud, or money laundering.

***Preventive measures and whistle-blowing procedures, and related implementation and monitoring methods***

For bribery, extortion, fraud and money laundering, the Company takes precautionary measures as the main measure and monitoring/reporting as the supplementary measures.

The precautionary measures include:

- The integrity and self-discipline education for teachers and employees is included in the training plan, and regular training and education are provided for teaching staffs. The heads of the departments in relation of party and administration matters and departmental cadres of designed entities shall regularly talk with teaching staffs. Meanwhile, senior management shall carry out conversations with the teaching staffs who show signs of violating the regulations or committed violation.

- We will establish and improve internal control mechanisms for financial assets, help to handle issues as early as possible. For general issues, we will warn and educate the relevant persons in timely manner and fully use methods such as inquiry letters, persuading talks and organisation processing. For issues which have shown signs or tendency, we will handle them as early as possible and prevent the minor issues from becoming serious mistakes.

# Environmental, social and governance report

The monitoring/reporting measures:

- The whistle-blower can use telephone, telegrams, letters, face to face reports, etc., or can entrust others to report. The whistle-blower should, as far as possible, truthfully inform the supervisory authority of the alleged wrongdoer's name, department, and the specific circumstances and evidence of violations. After receiving relevant reports, the relevant school departments will carry out investigations, and after verification, they will propose handling suggestions and report them to the school leaders for approval and enforcement. For the violations of laws, the cases will be referred to the judicial authorities for handling. Those who intentionally fabricate facts by means of reports, falsely accuse others, or create troubles in the name of reports, interfere with the normal work of the supervisory authority, will be severely dealt with in accordance with relevant regulations, and in the case of constituting a crime, they shall be transferred to judicial authority for handling.

## 4.3 Community Investment

***General***

Our schools have always adhered to the fundamental tasks of "Educating people with good morals" to realise the throughout and comprehensive education, focusing on the growth of students, strengthening the education of ideals and beliefs of students, and continuously improving the sense of social responsibility and historical mission of students. During the reporting period, our schools have developed and implemented a variety of policies that considered the interests of local communities.

For example, Jiangxi University of Technology has formulated and implemented the *Notice on Red Cross Voluntary Blood Donation in the 2017/2018 Academic Year* and the *Notice on Voluntary Registration for the 2018 College Student Voluntary Service Program*; Guangdong Baiyun University has formulated and implemented the *Notice on Promoting Registered Volunteer Certificate Work in the University* and the *Notice on Promoting Social Work Practice of College Students of Guangdong Baiyun University in 2018 Summer*; Zhengzhou Transit School has formulated and implemented a series of policies such as the *Sunshine March 2018 Series Activity Program of Zhengzhou Transit School*, to actively guide students to participate in social practice and contribute to society.

# Environmental, Social and Governance Report

### *Community contribution*

During the reporting period, while our five schools operated in compliance with laws and integrity, they all actively implemented corporate social responsibility in their respective communities and made great contributions to the development of community public welfare. Below are some of the highlights:


Summer Social Practices of *"Bring Scientific and Literacy Knowledge and Offer Medical Service to Rural Areas"*, by Jiangxi University of Technology

More than 200 volunteers were selected by the University to participate, and more than RMB20,000 of goods were donated


Volunteer Activities for Poverty Alleviation, by Jiangxi University of Technology

More than 40 volunteers have set up pair support with more than 100 left-behind children

Red Cross Society, Guangdong Baiyun University

The society regularly delivers life and health education to students, the elderly, children, women and the disabled

Voluntary Blood Donation, by Baiyun Technician School

We gratefully received a total of 410,000 milliliters blood donations from more than 1,800 students and teachers


Volunteering for Zheng-Kai International Marathon, by Zhengzhou Transit School

2018 is the sixth consecutive year for the school to participate in this activity; the marathon is proudly escorted by 120 teachers and students

Caring Visits, by Xi'an Railway College

Volunteers are paying caring visits to senior nursing homes, sending love and warmth to more than 100 elderly people

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## 5. APPENDIX

### ESG Reporting Guide Content Index

| Subject Areas, Aspects, General Disclosures and KPIs | | Disclosure Level: Full (✓) or None (✗) with remark |
|---|---|---|
| **A. Environmental** | | |
| **Aspect A1. Emissions** | | |
| General Disclosure | Policies and 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 | ✓ |
| KPI A1.1 | The types of emissions and respective emissions data | ✓ |
| KPI A1.2 | Greenhouse gas emissions in total and, where appropriate, intensity | ✓ |
| KPI A1.3 | Total hazardous waste produced and, where appropriate, intensity | ✓ |
| KPI A1.4 | Total non-hazardous waste produced and, where appropriate, intensity | ✓ |
| KPI A1.5 | Description of measures to mitigate emissions and results achieved | ✓ |
| KPI A1.6 | Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved | ✓ |
| **Aspect A2. Use of Resources** | | |
| General Disclosure | Policies on the efficient use of resources, including energy, water and other raw materials | ✓ |
| KPI A2.1 | Direct and/or indirect energy consumption by type in total and intensity | ✓ |
| KPI A2.2 | Water consumption in total and intensity | ✓ |
| KPI A2.3 | Description of energy use efficiency initiatives and results achieved | ✓ |
| KPI A2.4 | Description of whether there is any issue in sourcing water, water efficiency initiatives and results achieved | ✓ |
| KPI 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 |
| **Aspect A3. The Environment and Natural Resources** | | |
| General Disclosure | Policies on minimizing the issuer's significant impact on the environment and natural resources | ✓ |
| KPI A3.1 | Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them | ✓ |
| **B. Social** | | |
| **Employment and Labour Practices** | | |
| ***Aspect B1. Employment*** | | |
| General Disclosure | 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 | ✓ |
| KPI B1.1 | Total workforce by gender, employment type, age group and geographical region | ✓ |
| KPI B1.2 | Employee turnover rate by gender, age group and geographical region | ✓ |
| ***Aspect B2. Health and Safety*** | | |
| General Disclosure | Policies and compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards | ✓ |
| KPI B2.1 | Number and rate of work-related fatalities | ✓ |
| KPI B2.2 | Lost days due to work injury | ✓ |
| KPI B2.3 | Description of occupational health and safety measures adopted, how they are implemented and monitored | ✓ |

# Environmental, Social and Governance Report

| Subject Areas, Aspects, General Disclosures and KPIs | | Disclosure Level: Full (✓) or None (✗) with remark |
|---|---|---|
| ***Aspect B3. Development and Training*** | | |
| General Disclosure | Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities | ✓ |
| KPI B3.1 | The percentage of employees trained by gender and employee category | ✓ |
| KPI B3.2 | The average training hours completed per employee by gender and employee category | ✓ |
| ***Aspect B4. Labour Standards*** | | |
| General Disclosure | Policies and compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour | ✓ |
| KPI B4.1 | Description of measures to review employment practices to avoid child and forced labour | ✓ |
| KPI B4.2 | Description of steps taken to eliminate such practices when discovered | ✓ |
| **Operating Practices** | | |
| ***Aspect B5. Supply Chain Management*** | | |
| General Disclosure | Policies on managing environmental and social risks of the supply chain | ✓ |
| KPI B5.1 | Number of suppliers by geographical region | ✓ |
| KPI B5.2 | Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored | ✓ |
| ***Aspect B6. Product Responsibility*** | | |
| General Disclosure | Policies and compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress | ✓ |
| KPI B6.1 | Percentage of total products sold or shipped subject to recalls for safety and health reasons | ✓ |
| KPI B6.2 | Number of products and service related complaints received and how they are dealt with | ✓ |
| KPI B6.3 | Description of practices relating to observing and protecting intellectual property rights | ✓ |
| KPI B6.4 | Description of quality assurance process and recall procedures | ✓ |
| KPI B6.5 | Description of consumer data protection and privacy policies, how they are implemented and monitored | ✓ |
| ***Aspect B7. Anti-corruption*** | | |
| General Disclosure | Policies and compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering | ✓ |
| KPI 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 cases | ✓ |
| KPI B7.2 | Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored | ✓ |
| **Community** | | |
| ***Aspect 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 | ✓ |
| KPI B8.1 | Focus areas of contribution | ✓ |
| KPI B8.2 | Resources contributed to the focus area | ✓ |

# CORPORATE GOVERNANCE REPORT

The Board believes that good corporate governance is essential in enhancing the confidence of the Shareholders, potential investors and business partners and is consistent with the Board's pursuit of value creation for the Shareholders. The Company has applied the principles of the code provisions set out in the CG Code. During the eight months ended 31 August 2018, the Company has complied with all the code provisions set out in the CG Code.

## THE BOARD

The Board has currently four Executive Directors, namely Mr. Yu Guo, Mr. Xie Ketao, Dr. Yu Kai and Ms. Xie Shaohua, and three INEDs, namely Dr. Gerard A. Postiglione, Dr. Rui Meng and Dr. Wu Kin Bing. All the Directors have profound knowledge and extensive experience in the business of the Group.

Structure, size and composition of the Board are reviewed from time to time to ensure the Board has a balance of skills and experience appropriate for the requirements of the business of the Group and there is a strong independent element on the Board to safeguard the interests of the Shareholders.

Save as Mr. Yu Guo is the father of Dr. Yu Kai and Mr. Xie Ketao is the brother of Ms. Xie Shaohua, there is no other relationship among members of the Board.

The profile of the Directors is set out in the "Directors and Senior Management" section of this annual report.

### Responsibilities and Delegation

The Board, which is accountable to Shareholders for the long-term performance of the Company, sets the Group's overall objectives and strategies, monitors and evaluates the operating and financial performance and reviews the corporate governance practices and standard of the Group. The Board delegates the authority and responsibility for implementing its business strategies and managing the daily operations of the Group's businesses to the Executive Directors and members of senior management.

Major issues of the Company which are reserved for the decision of the Board include the approval of interim and annual results of the Group, payment of dividend, approval of any transaction which is discloseable under the Listing Rules, changes in the capital structure of the Company, appointment or removal of Directors, secretary or auditors of the Company.

The functions and power that are so delegated are reviewed periodically to ensure that they remain appropriate. The Board has also established the Audit Committee, the Nomination Committee and the Remuneration Committee to perform various responsibilities as delegated by the Board. Further details of these Board committees are set out below.

### Co-Chairmen and Chief Executive Officer

The Co-Chairmen of the Board are responsible for the management of the Board. The Chief Executive Officer of the Company leads the day-to-day management of the business of the Group. There is a clear and effective division of responsibilities between the Co-Chairmen and the Chief Executive Officer to ensure a balance of power and authority.

Major responsibilities of the Co-Chairmen include leading and overseeing the functioning of the Board, encouraging Directors to make active contribution and to develop effective communication with the Shareholders.

Major responsibilities of the Chief Executive Officer include implementing the strategies and development plans as established by the Board, managing and coordinating the overall business operation of the Group.

## Appointment and Re-election of Directors

The procedures and process of appointment, re-election and removal of Directors are laid down in the Company's Articles of Association (the "Articles of Association").

In accordance with the Articles of Association, at each AGM of the Company, one-third of the Directors shall retire from office by rotation provided that every Director shall be subject to retirement by rotation at least once every three years. Any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following AGM of the Company and shall then be eligible for re-election. Any Director appointed by the Board to fill a casual vacancy shall hold office only until the first general meeting of the Company after the appointment and be subject to re-election at such meeting.

All INEDs are appointed for an initial period of three years from 5 December 2017 or until the third AGM of the Company since the Listing Date (whichever is sooner). They are subject to retirement and re-election at AGMs in accordance with the Articles of Association.

## Independence of INED

The role of INEDs is to provide independent and unbiased opinions to the Board, giving adequate control and balances for the Group to protect the overall interests of the Shareholders and the Group. INEDs serve actively on the Board and the Board committees to provide their independent, constructive and informed comments.

The Company has received from each of the INEDs an annual written confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all the INEDs meet the independence criteria set out in Rule 3.13 of the Listing Rules.

## Corporate Governance Function

The Board is primarily responsible for the corporate governance functions of the Company, to develop the policies and practices on corporate governance and the compliance with the legal and regulatory requirements, to monitor the training and continuous professional development of Directors and senior management, to develop the code of conduct and compliance manual applicable to the Directors and employees, and to review the compliance with the CG Code and the disclosure in the Corporate Governance Report.

The Board will continuously evaluate and strive for continual development and improvement in the corporate governance practices of the Group.

# Corporate Governance Report

## Board Diversity Policy

The Company has adopted a Board diversity policy to ensure that the Company will consider Board diversity in terms of, among other factors, gender, age, cultural and educational background, ethnicity, professional experience, skills and knowledge, when determining the composition of the Board, although Board appointment will be ultimately based on merit and contribution that the selected candidates will bring to the Board. The Nomination Committee monitors the implementation of the Board diversity policy and will review the policy periodically for any necessary update.

The Company's existing Board members, as well as its senior management team, are highly diverse in gender, age, cultural and educational background, ethnicity and professional experience.

## Board Meetings

The Board meets regularly and at least four times a year. Notice of at least 14 days in advance for the regular Board meeting is given, and the agenda together with Board papers are sent to the Directors in a timely manner before the intended date of Board meeting.

During the eight months ended 31 August 2018, three regular Board meetings were held. After the period under review and up to the date of this annual report, one regular Board meeting was held for the purposes of, among others, considering and approving the annual results of the Group for the eight months ended 31 August 2018.

## Attendance at Meetings

The following table shows the attendance of the Directors at the Board, Board committees and general meetings held during the eight months ended 31 August 2018:

| | Number of Meetings Attended/Held | | | | |
|---|---|---|---|---|---|
| Name of Directors | Board | Audit Committee | Remuneration Committee | Nomination Committee | AGM held on 14 June 2018 |
| **Executive Directors** | | | | | |
| Mr. Yu Guo *(Co-chairman)* | 3/3 | — | — | 1/1[C] | 1/1 |
| Mr. Xie Ketao *(Co-chairman)* | 3/3 | — | — | — | 1/1 |
| Dr. Yu Kai *(Chief Executive Officer)* | 3/3 | — | 1/1 | — | 1/1 |
| Ms. Xie Shaohua | 3/3 | — | — | — | 1/1 |
| **INEDs** | | | | | |
| Dr. Gerard A. Postiglione | 3/3 | 3/3 | 1/1[C] | 1/1 | 1/1 |
| Dr. Rui Meng | 3/3 | 3/3[C] | 1/1 | — | 1/1 |
| Dr. Wu Kin Bing | 3/3 | 3/3 | — | 1/1 | 1/1 |

C — Chairman of the Board committee

## BOARD COMMITTEES

The Board has established three Board committees, namely, the Audit Committee, the Remuneration Committee and the Nomination Committee for overseeing various aspects of the Company's affairs. All Board committees have been established with defined written terms of reference, which are available on the websites of the Company and HKEXnews, and report to the Board on their decisions or recommendations made. The written terms of reference of the Audit Committee and the Nomination Committee have been updated to align with the amendments to the Listing Rules to be effective on 1 January 2019.

The Board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances at the Company's expenses.

### Audit Committee

The Audit Committee was established on 29 November 2017 and comprises three members, namely Dr. Rui Meng, Dr. Gerard A. Postiglione and Dr. Wu Kin Bing, all of them are INEDs. The chairman of the Audit Committee is Dr. Rui Meng who possesses the appropriate professional qualifications and accounting and related financial management expertise as required under Rule 3.10(2) of the Listing Rules.

The principal duties of the Audit Committee include monitoring the integrity of the financial statements, reviewing the continuing connected transaction and the Company's financial control, risk management and internal control systems. The Audit Committee also acts as an important link between the Board and the Company's external auditor.

During the eight months ended 31 August 2018, three Audit Committee meetings were held. The major work performed by the Audit Committee include the approval of the terms of engagement, fees and scope of services of the external auditor, the review of the internal audit plan, the audited consolidated financial statements of the Group for the year ended 31 December 2017, the unaudited condensed consolidated results of the Group for the six months ended 30 June 2018, the 2017 audit completion report, the 2018 interim review completion report, the continuing connected transactions, the internal audit progress report, the financial control, risk management and internal control systems of the Group and the adequacy of the accounting, internal audit and financial reporting functions of the Group and the assessment of the independence of the external auditor, and the recommendation to the Board on re-appointment of the external auditor. The Audit Committee had a private session with the external auditor in the absence of management.

### Remuneration Committee

The Remuneration Committee was established on 29 November 2017 and comprises three members, namely Dr. Gerard A. Postiglione, Dr. Rui Meng and Dr. Yu Kai. The chairman of the Remuneration Committee is Dr. Gerard A. Postiglione and majority of the members are INEDs.

The principal duties of the Remuneration Committee are to make recommendations to the Board in determining the policy and structure for the remuneration of Directors and senior management, on the remuneration packages of Executive Directors and senior management, on the remuneration of Non-Executive Directors and to review and approve the management's remuneration proposals with reference to the corporate goals and objectives resolved by the Board from time to time.

# CORPORATE GOVERNANCE REPORT

During the eight months ended 31 August 2018, one Remuneration Committee meeting was held to review the policy and structure of the remuneration of the Directors and senior management, the remuneration package of the Executive Directors and senior management and the director's fee of the INEDs, and recommended to the Board on the voluntary reduction of annual director's fee of each of Mr. Yu Guo and Mr. Xie Ketao from HK$3,500,000 to RMB960,000 effective from 1 February 2018.

### Nomination Committee

The Nomination Committee was established on 29 November 2017 and comprises three members, namely Mr. Yu Guo, Dr. Gerard A. Postiglione and Dr. Wu Kin Bing. The chairman of the Nomination Committee is Mr. Yu Guo and majority of the members are INEDs.

The principal duties of the Nomination Committee are to formulate and review the nomination and Board diversity policies, review the size, structure and composition of the Board, assess the independence of INEDs, and to make recommendations to the Board on nominations, appointment of Directors and Board succession with adequate consideration to the Board diversity policy.

During the eight months ended 31 August 2018, one Nomination Committee meeting was held to review the structure, size and composition of the Board, assess the independence of each INED and recommend to the Board on the re-election of the Directors retiring at the AGM held on 14 June 2018.

## REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The remuneration package of the Directors is backed up by formal and transparent policy. Directors are fairly paid and their remunerations are commensurate with their experiences, responsibilities, workloads, performances, as well as Group's performance. No Director is involved in deciding his/her own remuneration. While the Company maintains a competitive remuneration level to attract and retain Directors to run the Company successfully, it strictly enforces the Director remuneration policy and budgets carefully without paying the Directors more than necessary.

Details of the emoluments paid or payable to the Directors for the eight months ended 31 August 2018 are set out in note 13 to the consolidated financial statements.

The remuneration paid or payable to the senior management (excluding the Directors) by band for the eight months ended 31 August 2018 is set out below:

| Remuneration Bands | Number of Employees |
|---|---|
| HK$2,000,001 — HK$2,500,000 | 1 |
| HK$7,000,001 — HK$7,500,000 | 1 |

# Corporate Governance Report

## MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as the Group's code of conduct to regulate the securities transactions of the Directors and the relevant employees. Having made specific enquiries, all Directors confirmed that they have complied with the required standards set out in the Model Code throughout the eight months ended 31 August 2018.

## CONTINUOUS TRAINING AND PROFESSIONAL DEVELOPMENT

The Company periodically organises training courses for the Directors, senior management and staff to develop and refresh their knowledge in areas which are relevant to the performance of their daily duties and the growth of the business of the Group under the changing economic environment.

During the eight months ended 31 August 2018, the Company organised training courses to the Directors, senior management, personnel in the finance department and/or relevant staff from the operation and administration departments. The training received by the Directors during the period under review is as follows:

| Name of Directors | Training on corporate governance, risk management, internal control, environmental, social and governance, and/or regulatory update |
|---|---|
| **Executive Directors** | |
| Mr. Yu Guo *(Co-chairman)* | ✓ |
| Mr. Xie Ketao *(Co-chairman)* | ✓ |
| Dr. Yu Kai *(Chief Executive Officer)* | ✓ |
| Ms. Xie Shaohua | ✓ |
| **INEDs** | |
| Dr. Gerard A. Postiglione | ✓ |
| Dr. Rui Meng | ✓ |
| Dr. Wu Kin Bing | ✓ |

## DIRECTORS' AND AUDITOR'S ACKNOWLEDGEMENT

The Board is responsible for presenting a balanced, clear and understandable assessment of the annual and interim reports, price sensitive announcements and other disclosures required under the Listing Rules and other regulatory requirements. The management has provided such explanation and information to the Board as necessary to enable the Board to make an informed assessment of the financial information and position of the Group put forward to the Board for approval.

The Directors have acknowledged their responsibilities for preparing the financial statements of the Company for the eight months ended 31 August 2018.

# Corporate governance report

Deloitte Touche Tohmatsu, the auditor of the Company, has acknowledged its responsibilities in the independent auditor's report on the consolidated financial statements for the eight months ended 31 August 2018.

There are no material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

## AUDITOR'S REMUNERATION

For the eight months ended 31 August 2018, professional fees paid or payable to Deloitte Touche Tohmatsu, the auditor of the Company, for audit and non-audit services provided to the Group are as follows:

| Services | Fees charged<br>*RMB$'000* |
|---|---|
| **Audit services** | |
| Audit services | 4,260 |
| **Non-audit services** | |
| Interim review | 2,350 |
| Contractual arrangement review | 150 |
| Preliminary announcement review | 100 |
| **Total** | 6,860 |

## COMPANY SECRETARY

Mr. Mok Kwai Pui Bill is the company secretary and chief financial officer of the Company, the profile of Mr. Mok is set out in the "Directors and Senior Management" section of this annual report. Mr. Mok is a full-time employee of the Company and reports to the Co-chairmen and the Chief Executive Officer of the Company on corporate governance issues.

Mr. Mok confirmed that he had taken no less than 15 hours of relevant professional training for the eight months ended 31 August 2018.

## RISK MANAGEMENT AND INTERNAL CONTROL

The Board acknowledges its responsibility for maintaining a sound and effective risk management and internal control systems and reviewing their effectiveness. The Group's internal control system is designed to ensure the schools' operations in compliance with the laws and regulations, the authenticity and completeness of the financial reports, to safeguard assets against misappropriation and unauthorised disposition and to enhance operational efficiency and risk prevention. Review of the Group's internal controls covering major financial, operational and compliance controls, as well as risk management functions. The controls built into the risk management system are intended to manage significant risks in the Group's business.

# CORPORATE GOVERNANCE REPORT

The Board is primarily in charge of managing the overall risks of our Group. Significant business decision that involves material risk exposures, such as expansion of the school network into new geographic areas and to enter into cooperative business relationships with third parties to establish new schools, are subject to assessment and approval of the Board.

The Audit Committee is delegated with the responsibility to review the financial control, risk management and internal control systems of the Group, to consider any major investigation findings on risk management and internal control matters and the response of the management to such findings. The Audit Committee also reviews the external independent auditor's management letter, any material queries raised by the auditor about accounting records, financial accounts or systems of control and management's response. The Audit Committee reports to the Board on the matters considered by the Audit Committee and its recommendations to the Board.

The Company also has an internal audit function which primarily carries out the analysis and independent appraisal of the adequacy and effectiveness of the risk management and internal control systems of the Group and reports their findings to the Audit Committee and the Board.

The Group's internal control system includes Three Lines of Defence in risk management, a well-established organizational structure with clearly defined lines of authority and an internal control information system (ERP system). Each of our schools is managed on a day-to-day basis by its president, who is assisted by several vice presidents responsible for one or more specific aspects of our schools' operations. The board of directors of each of our respective schools is responsible for the overall management and decisions on matters that are significant to each of our schools. The board of directors, president and vice presidents of our schools are required to manage the operation of the schools within the scope of the delegated authority and to implement and strictly adhere to the strategies and policies set by the Company from time to time. They are also required to keep the Executive Directors informed of the material development and to report on the implementation of the policies and strategies set by the Company on a regular basis. Each of our school has also designated the relevant personnel who will be responsible for monitoring the ongoing compliance with the relevant PRC laws and regulations that govern the business operations and overseeing the implementation of any necessary measures.

Each of our schools has appointed counsellors to serve as a bridge between students and colleges. Counsellors are students' primary contact for questions and concerns they may encounter in their school life, they provide support and guidance to the students and educate the various rules formulated by our schools. Counsellors also regularly inspect the student dormitories to ensure orderly, safe, clean and healthy living conditions for our students and help students with social and behavioural issues. Our schools have also implemented complaint channels and established a task force comprising of principal and head of school departments with a view to understanding, responding and resolving complaints from students.

# Corporate Governance Report

The Group has formulated internal control system manuals on corporate governance, operations, management, legal matters, finance and auditing setting out the internal approval and review procedures pursuant to which our employees are mandated to comply with. The Group has also established a set of policies and procedures for property purchase and leasing arrangement and maintains insurance coverage which is in line with customary practice in the PRC education industry, including school liability insurance, student liability insurance and school property insurance.

The Company is committed to build up an effective internal control and risk management systems. The internal audit function gives directions to the schools, oversees and improves their internal control system on an ongoing basis and set up a regime for continuous monitoring and improvement. During the reporting period, the internal audit function provided guidance to the schools on building up of internal control and risk management systems and formulation of internal control and management manual for its own reference in implementation of the audit work. The Company has appointed Somerley Capital Limited as the compliance adviser upon the Listing to advise on the on-going compliance with the Listing Rules. Additional personnel with professional experience and qualifications will be hired where necessary to support the expansion of our business operation. The Company will also engage external professional advisers to provide professional advice and guidance to our Group and to provide internal trainings to ensure our Directors and employees are kept up-to-date on any legal and regulatory developments. The internal audit function had provided trainings to the schools on topics related to the internal control with an aim to increasing their risk awareness. The Company promotes internal control and risk management through budgetary control and ERP system.

The Group regulates the handling and dissemination of inside information according to the "Guidelines on Disclosure of Inside Information" published by the Securities and Futures Commission in June 2012 to ensure inside information remains confidential until the disclosure of such information is appropriately approved, and the dissemination of such information is efficiently and consistently made. The Company regularly reminds the Directors and employees about due compliance with all policies regarding the inside information.

The Board will conduct a review on the effectiveness of the internal control and risk management systems of the Group at least once in a financial year. Such review shall cover all material controls, including financial, operational and compliance controls and risk management functions. The Board will also continually evaluate the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting, internal audit and financial reporting functions.

The Board, through the Audit Committee, has conducted a review on the effectiveness of the Group's internal control and risk management systems for the eight months ended 31 August 2018 and is satisfied that such systems are effective and adequate. It has also reviewed and satisfied with the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting, internal audit and financial reporting functions.

## COMMUNICATION WITH SHAREHOLDERS

The Company believes that effective communication with Shareholders is essential for enhancing investor relations and investors' understanding of the Group's business performance and strategies. The Group also recognises the importance of transparency and timely disclosure of its corporate information, which enables Shareholders and investors to make the best investment decision.

The Company maintains a website at www.chinaeducation.hk as a communication platform with Shareholders and investors, where information and updates on the Company's business developments and operations and other information are available for public access. The memorandum and articles of association of the Company are available on the websites of the Company and HKEXnews. No changes have been made to the memorandum and articles of association of the Company since Listing. To facilitate communication between the Company and the investment community, the Company conducts briefings and meetings with institutional investors and analysts on a regular basis as well as media interviews and roadshows to provide up-to-date and comprehensive information of the Company.

Shareholders are encouraged to attend the AGM and have face-to-face interaction with the Directors. The Company held its first AGM on 14 June 2018 since Listing. The representative of Deloitte Touche Tohmatsu and all of the Directors attended the AGM. All resolutions proposed at the AGM were passed and the poll results were published on the websites of the Company and HKEXnews.

## SHAREHOLDERS' RIGHTS

### Propose a Person for Election as a Director

Pursuant to the Article 113 of the Articles of Associations, no person, other than a retiring Director, shall, unless recommended by the Board for election, be eligible for election to the office of Director at any general meeting, unless notice in writing of the intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected shall have been lodged at the principal office of the Company. The period for lodgement of the notices will commence no earlier than the day after the despatch of the notice of the general meeting appointed for such election and end no later than seven days prior to the date of such general meeting and the minimum length of the period during which such notices to the Company may be given will be at least seven days.

If a Shareholder wishes to propose a person (the "Candidate") for election as a Director at a general meeting, he/she shall deposit a written notice (the "Notice") at the Company's principal office in Hong Kong. The Notice must: (i) include the personal information of the Candidate as required by Rule 13.51(2) of the Listing Rules; and (ii) be signed by the Shareholder concerned and signed by the Candidate indicating his/her willingness to be elected and consent of publication of his/her personal information.

The period for lodgement of the Notice shall commence on the day after the despatch of the notice of general meeting and end no later than seven (7) days prior to the date of such general meeting. In order to allow the Shareholders to have sufficient time to consider the proposal of election of the Candidate as a Director, Shareholders who wish to make the proposal are urged to submit and lodge the Notice as early as practicable.

# Corporate governance report

### Convene an Extraordinary General Meeting

Pursuant to Article 64 of the Articles of Association, any 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 carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition and sent to the Board or the company secretary at the Company's principal office in Hong Kong, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and 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/herself (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.

### Put Forward Proposals at General Meetings

Shareholders who wish to move a resolution may request the Company to convene a general meeting in accordance with the procedures set out in the preceding paragraphs to consider the business specified in the requisition.

### Put Enquiries to the Board

Shareholders may send any comments or inquiries to the Board by email to sprg_chinaeducation@sprg.com.hk or in writing to the company secretary at the Company's principal office in Hong Kong.

# DIRECTORS AND SENIOR MANAGEMENT

The Board consists of four Executive Directors and three Independent Non-Executive Directors.

## EXECUTIVE DIRECTORS

**YU GUO (于果)**, aged 56, was appointed as a Director in May 2017 and was redesignated as an Executive Director in August 2017. Mr. Yu is the co-chairman of the Board and the chairman of the nomination committee.

Mr. Yu is the founder and the chairman of the board of directors of Jiangxi University of Technology. He is a director of certain subsidiaries and consolidated affiliated entities of the Company.

Mr. Yu has over 24 years of experience in the education industry. He is actively engaged in the educational and civil affairs in the PRC. Key positions held by Mr. Yu include:

| Period | Association | Position |
|---|---|---|
| March 1998 to March 2003 | Ninth National People's Congress (第九屆全國人民代表大會) | Representative |
| July 2002 to present | Jiangxi Federation of Industry and Commerce (江西省工商業聯合會) | Vice Chairman |
| March 2003 to March 2008 | Tenth National People's Congress (第十屆全國人民代表大會) | Representative |
| March 2008 to March 2013 | Eleventh National People's Congress (第十一屆全國人民代表大會) | Representative |
| January 2008 to present | China Association for Private Education (中國民辦教育協會) | Vice Chairman |
| March 2013 to March 2018 | Twelfth Jiangxi People's Congress (第十二屆江西省人民代表大會) | Member of the Standing Committee |
| March 2018 to present | Thirteenth Jiangxi People's Congress (第十三屆江西省人民代表大會) | Member of the Standing Committee |
| March 2013 to present | Jiangxi Youth Federation (江西省青年聯合會) | Honorary Chairman |

# DIRECTORS AND SENIOR MANAGEMENT

Key awards received by Mr. Yu for his contribution to the development of education in the PRC include:

| Date | Awards | Awarding Authority |
|---|---|---|
| November 1998 | National Glorious Industry Career Award (中國光彩事業獎) | China Society for Promotion of the Guangcai Programme (中國光彩事業促進會) |
| November 2000 | China's Top Ten Outstanding Young Persons (中國十大傑出青年) | All-China Youth Federation (中華全國青年聯合會), China Youth Development Foundation (中國青少年發展基金會) and ten other media organisations |
| September 2004 | National Outstanding Education Worker Award (全國優秀教育工作者) | MOE |
| April 2005 | National Outstanding Worker Award (全國先進工作者) | State Council of the PRC |
| January 2007 | National Award for Outstanding Non-Public Economic Establisher of Business in Communism with Chinese Characteristics (全國非公有制經濟人士優秀中國特色社會主義事業建設者) | All-China Federation of Industry and Commerce (中華全國工商業聯合會) |

Mr. Yu was a director of Jiangxi Fashion TV Shopping Co., Ltd. (江西風尚電視購物股份有限公司), a company listed on the New OTC Market of the National Equities Exchange and Quotations ("OTC Market") from August 2012 to May 2018 and a director of China Science & Merchants Investment Management Group (中科招商投資管理集團股份有限公司) ("CSM Investment Group"), a company previously listed on OTC Market, from September 2014 to September 2017.

Mr. Yu graduated from the Master's programme in Business and Economics at the Graduate School of Chinese Academy of Social Sciences (中國社會科學院研究生院) in 1998. Mr. Yu completed the China Europe International Business School-Harvard Business School-IESE Business School Global CEO Programme for China in 2006.

Mr. Yu is the father of Dr. Yu Kai, an Executive Director and the chief executive officer of the Company.

# DIRECTORS AND SENIOR MANAGEMENT

**XIE KETAO (謝可滔)**, aged 54, was appointed as a Director in May 2017 and was redesignated as an Executive Director in August 2017. Mr. Xie is the co-chairman of the Board.

Mr. Xie is the founder of Guangdong Baiyun University and Baiyun Technician College and is the chairman of the board of directors of both schools. He is a director of certain subsidiaries and consolidated affiliated entities of the Company.

Mr. Xie has over 29 years of experience in the education industry. He is actively engaged in the educational and civil affairs in the PRC. Key positions held by Mr. Xie include:

| Period | Association | Position |
|---|---|---|
| February 2003 to January 2008 | Ninth Guangdong Province Committee of the Chinese People's Political Consultative Conference (第九屆廣東省中國人民政治協商會議委員會) | Committee Member |
| August 2004 to July 2008 | Guangzhou Vocational Technical Education Research Committee (廣州市職業技能教學研究會) | Vice Chairman (last position) |
| January 2008 to January 2013 | Tenth Guangdong Province Committee of the Chinese People's Political Consultative Conference (第十屆廣東省中國人民政治協商會議委員會) | Committee Member |
| May 2008 to present | China Association for Private Education (中國民辦教育協會) | Vice Chairman |
| January 2013 to January 2018 | Twelfth Guangdong People's Congress (廣東省第十二屆人民代表大會) | Representative |

# DIRECTORS AND SENIOR MANAGEMENT

Key awards received by Mr. Xie for his contribution to the development of education in the PRC include:

| Date | Awards | Awarding Authority |
|---|---|---|
| May 1999 | Sixth Guangzhou Municipal Ten Outstanding Youth (第六屆廣州市十佳青年) | Guangzhou Municipal People's Government (廣州市人民政府) |
| December 2007 | Outstanding Contribution Award to Chairmen in Private Schools (民辦學校董事長突出貢獻獎) | Guangdong Provincial Association for the Education Promotion (廣東省教育促進會) |
| December 2008 | Individual Award for Outstanding Contribution for Guangdong Province Private Education (廣東省民辦教育傑出貢獻人物) | Southern Metropolis Daily (南方都市報) |
| June 2011 | China Private Higher Education Outstanding Individuals (中國民辦高等教育先進個人) | China Association For Private Education (中國民辦教育協會) |
| September 2015 | Guangdong Contemporary Private Education Sponsor Excellent Contribution Award (廣東當代民辦教育舉辦人突出貢獻獎) | Guangdong Society of Education (廣東教育學會), Guangdong Education Foundation (廣東省教育基金會) and Guangdong Provincial Institute of Contemporary Private Education Management (廣東省當代民辦教育管理研究院) |

Mr. Xie was a supervisor of CSM Investment Group from September 2014 to September 2017.

Mr. Xie graduated from the Master's programme in Vocational and Technical Education at the East China Normal University (華東師範大學) in 1999. Mr. Xie has also been a National Ministry of Labour and Social Security (中華人民共和國勞動和社會保障部) accredited Senior Vocational Counsellor (高級職業指導師) since March 2002.

Mr. Xie is the brother of Ms. Xie Shaohua, an Executive Director.

**YU KAI (喻愷)**, aged 33, was appointed as an Executive Director and the chief executive officer of the Company in August 2017. Dr. Yu is a member of the remuneration committee.

Dr. Yu is a director of certain subsidiaries and consolidated affiliated entities of the Company. He is also a director of Jiangxi University of Technology.

# Directors and Senior Management

Dr. Yu has over 8 years of experience in the education industry. Dr. Yu was the executive director of the Centre for the Study of Graduate Education of the Shanghai Jiao Tong University Graduate School of Education from November 2009 to June 2017. Dr. Yu has also been a PhD Adviser at Shanghai Jiao Tong University in the field of Economics and Administration of Education since August 2014, and a Post-doctorate Adviser since October 2014.

Dr. Yu served as an educational consultant to the World Bank from April 2010 to June 2010 and from December 2010 to April 2011. He also provided research services to the MOE Higher Education Department (from September 2010 to May 2011), the Degrees Commission of the State Council of the PRC (in September 2013), the MOE Degree Management and Graduate Education Department (from March 2015 to June 2015) and the Research Office of the Jiangxi People's Government (since November 2016). Dr. Yu has authored ten books and 35 journal articles covering topics ranging from policy, learning, financing, and investment in education. Dr. Yu served as a reviewer of textbooks for Cambridge University Press in October 2016.

Key awards received by Dr. Yu include:

| Date | Awards | Awarding Authority |
|---|---|---|
| June 2010 | Shanghai Municipal Pujiang Talent Award (上海市浦江人才) | Shanghai Municipal Human Resources and Social Security Bureau (上海市人力資源和社會保障局) and Shanghai Municipal Science and Technology Commission (上海市科學技術委員會) |
| December 2010 | Outstanding Research and Consultation Report in Philosophy and Social Sciences Award (教育部高校哲學社會科學研究優秀諮詢報告) | MOE Department of Social Sciences (教育部社會科學司) |
| December 2010 | Shanghai Municipal Outstanding Achievement in Philosophy and Social Sciences Award Second Class Award for Papers (上海市哲學社會科學優秀成果獎論文類二等獎) | Shanghai Municipal Award Selection Committee for Outstanding Achievement in Philosophy and Social Sciences (上海市哲學社會科學優秀成果評獎委員會) |
| September 2011 | National Outstanding Achievement in Educational Sciences Research Award Second Class Award (全國教育科學研究優秀成果獎二等獎) | MOE |

# DIRECTORS AND SENIOR MANAGEMENT

| Date | Awards | Awarding Authority |
|---|---|---|
| December 2012 | Elected to join the New Century Outstanding Talent Support Plan (入選教育部新世紀優秀人才支持計劃) | MOE |
| December 2014 | Jiangxi Provincial Outstanding Achievement in Teaching Award First Class Award (江西省教學成果獎一等獎) | Jiangxi Provincial Department of Education |
| November 2015 | Jiangxi Provincial Outstanding Achievement in Educational Sciences Award First Class Award (江西省教育科學優秀成果獎一等獎) | Jiangxi Provincial Department of Education |

Dr. Yu received his Bachelor of Engineering degree in Computer Science (First Class Honours) from the Queen's University of Belfast in 2005, his Master of Science degree in Educational Studies from the University of Oxford in 2006 and his Doctor of Philosophy degree in Educational Studies from the University of Oxford in 2009. Dr. Yu also received his Master of Business Administration degree in Finance from the China Europe International Business School in 2016.

Dr. Yu is the son of Mr. Yu Guo, an Executive Director and the co-chairman of the Board. Dr. Yu is a director of Blue Sky BVI and a director of White Clouds BVI, both companies are substantial shareholder of the Company within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

**XIE SHAOHUA (謝少華)**, aged 55, was appointed as an Executive Director in August 2017.

Ms. Xie is a director of certain subsidiaries and consolidated affiliated entities of the Company. Ms. Xie is the vice chairman of the board of both Guangdong Baiyun University and Baiyun Technician College. Ms. Xie is also the vice principal of Guangdong Baiyun University.

Ms. Xie has more than 20 years of experience in the education industry. Key positions held by Ms. Xie include:

| Period | Association | Position |
|---|---|---|
| April 2003 to October 2006 | Seventh to Ninth Guangzhou Baiyun Committee of the Chinese People's Political Consultative Conference (廣州市白雲區第七一九屆政協委員會) | Member |
| January 2012 to January 2017 | Twelfth Guangdong Committee of the Chinese People's Political Consultative Conference (廣州市第十二屆政協委員會) | Member |

Key awards received by Ms. Xie include:

| Date | Awards | Awarding Authority |
|---|---|---|
| September 1996 | Excellent Educator of Guangzhou City Award (廣州市優秀教師) | Guangzhou Municipal Education Commission (廣州市教育委員會) and Guangzhou Education Foundation (廣州市教育基金會) |
| March 2008 | Guangzhou Municipal Female Employee Excellence Achievement (廣州市女職工建功立業標兵) | Guangzhou Federation of Trade Unions (廣州市總工會) |
| August 2012 | Award for honouring more than 20 years of services in technical education and vocational training in Guangzhou (從事廣州技工教育與職業培訓工作20年以上) | Guangzhou Human Resources and Social Security Bureau (廣州市人力資源和社會保障局) |

Ms. Xie received her College Diploma in Chinese Language and Literature from the Guangzhou Amateur University (廣州業餘大學) in 1991 and graduated from the Master's programme in Vocational and Technical Education at the East China Normal University (華東師範大學) in 1999.

Ms. Xie is the sister of Mr. Xie Ketao, an Executive Director and the co-chairman of the Board.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**GERARD A. POSTIGLIONE**, aged 67, was appointed as an INED in December 2017. Dr. Postiglione is the chairman of the remuneration committee, a member of the audit committee and a member of the nomination committee.

Dr. Postiglione has been an Honorary Professor of The University of Hong Kong Faculty of Education since July 2017 and a member of the academic committee at the Center for Higher Education Research, Southern University of Science and Technology (南方科技大學) since August 2018. Dr. Postiglione served as Professor, Chair of Higher Education of The University of Hong Kong Faculty of Education from June 2015 to June 2017, Associate Dean of Research of The University of Hong Kong Faculty of Education from December 2013 to July 2016, and was Director of the Wah Ching Centre for Research on Education in China, The University of Hong Kong from July 2002 to March 2005.

Dr. Postiglione has been a Consultant of Asian Development Bank since 2017 and served as a Consultant on higher education to Asian Development Bank from December 2010 to March 2011. He was a visiting fellow at Yale University in September 2003. Dr. Postiglione's academic books include Crossing Borders in East Asian Higher Education, Asian Higher Education, Education and Social Change in China and Mass Higher Education Development in East Asia.

Dr. Postiglione received his Bachelor of Science degree in 1972 and his Doctor of Philosophy Degree in 1980, both from the State University of New York.

# Directors and Senior Management

**RUI MENG (芮萌)**, aged 50, was appointed as an INED in December 2017. Dr. Rui is the chairman of the audit committee and a member of the remuneration committee.

Dr. Rui has been Professor of Finance and Accounting at China Europe International Business School since January 2012, and has held the title of Zhongkun Group Chair in Finance at China Europe International Business School since October 2015. Dr. Rui has been professionally designated as a Certified Financial Analyst (CFA) by the Association for Investment Management and Research since September 2000 and a Financial Risk Manager (FRM) by the Global Association of Risk Professionals since April 2010.

Dr. Rui is currently an independent director of Shanghai Winner Information Technology Co., Inc. (上海匯納信息科技股份有限公司), a company listed on the Shenzhen Stock Exchange. Dr. Rui is also an independent director of Shang Gong Group Co., Ltd. (上工申貝(集團)股份有限公司), a company listed on the Shanghai Stock Exchange, an independent director of COSCO Shipping Energy Transportation Co., Ltd. (中遠海運能源運輸股份有限公司), a company listed on both the Stock Exchange and Shanghai Stock Exchange, and an independent non-executive director of Country Garden Services Holdings Company Limited, a company listed on the Stock Exchange. Dr. Rui was an independent director of Midea Group Co., Ltd. (美的集團股份有限公司), a company listed on the Shenzhen Stock Exchange, from September 2015 to September 2018.

Dr. Rui received a Bachelor of Economics degree in International Economics from the Institute of International Relations in Beijing in 1990 and a Master of Science degree in Economics from Oklahoma State University in 1993. Dr. Rui also received a Master of Business Administration degree in 1996 and a Doctor of Philosophy degree in Business Administration in 1997 from the University of Houston.

**WU KIN BING (鄔健冰)**, aged 66, was appointed as an INED in December 2017. Dr. Wu is a member of the audit committee and a member of the nomination committee.

Dr. Wu was Lead Education Specialist at the World Bank from September 1994 to October 2012. In her capacity as Lead Education Specialist, Dr. Wu led in educational policy analysis, lending appraisal, and project supervision in East Asia, South Asia and Latin America and Caribbean Region. She had worked on all subsectors of education, from early childhood development, to primary, secondary and tertiary education. Her World Bank and academic publications have dealt with the finance and efficiency of the education systems and public policies towards education.

Dr. Wu has also been a founding member of the UNICEF USA Northwest Regional Board since January 2014, where she is responsible for fundraising, education, and advocacy for UNICEF's work for children around the world. She was an editor for the Harvard Educational Review in May 1989.

Dr. Wu received from Indiana University a Bachelor of Arts degree in 1972, a Master of Science degree in 1974 and a Master of Arts degree in 1976. Dr. Wu received a Doctor of Education degree from Harvard University in 1995.

## SENIOR MANAGEMENT

**MOK KWAI PUI BILL (莫貴標)**, aged 57, joined the Group in May 2017 as the chief financial officer and was appointed as the company secretary in August 2017.

Mr. Mok has 29 years' experience in accounting, finance and banking in Hong Kong and the PRC with specific expertise in managing financial and accounting operations, fund raising, investor relations and executing corporate strategy. Before joining the Group, Mr. Mok was the chief financial officer of Fortune Oil PLC from November 2011 to May 2017, a company then listed on the London Stock Exchange and voluntarily delisted in March 2015. Mr. Mok was also the chief financial officer of Far East Consortium International Limited from April 2004 to October 2010, a company listed on the Stock Exchange.

Mr. Mok is an INED of Grand Ming Group Holdings Limited and PF Group Holdings Limited, both companies are listed on the Stock Exchange.

Mr. Mok received his Bachelor of Arts Degree in Business Administration from the University of Washington in the United States in 1984 and a Master Degree in Business Administration from the Seattle University in the United States in 1987. Mr. Mok is a member of the American Institute of Certified Public Accountants and a member of the Hong Kong Institute of Certified Public Accountants.

**LI RENYI (李仁毅)**, aged 33, joined the Group as vice president for strategic investments in May 2017.

Mr. Li has nine years of experience in investment. Before joining the Group, Mr. Li worked at Prax Capital (普凱投資), a private equity firm, from June 2013 to April 2017 where he held various positions including vice president of investments, senior manager of investments and manager of investments. Mr. Li also worked as an investment manager at Shenzhen Oriental Fortune Capital Co., Ltd. (深圳市東方富海投資管理股份有限公司), a venture capital firm, from March 2012 to May 2013 and at China Renaissance (華興資本), a financial services provider, from June 2008 to May 2011 where he was financing manager and analyst.

Mr. Li received his Bachelor of Engineering degree in Information Security from Shanghai Jiao Tong University in 2008. Mr. Li received his Master of Business Administration degree in Finance from China Europe International Business School in 2017. Mr. Li has passed the Fund Practitioner Qualification Examinations (基金從業資格考試) held by the Asset Management Association of China (中國證券投資基金業協會) in 2016.

## CHANGES TO DIRECTORS' INFORMATION

Save as disclosed herein, the Directors confirm that in relation to their profile, no information is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules .

# REPORT OF THE DIRECTORS

The Directors have pleasure in presenting their report and the audited consolidated financial statements of the Group for the eight months ended 31 August 2018.

## PRINCIPAL ACTIVITIES

The Company is an investment holding company. The Group is principally engaged in the operation of private higher and vocational education institutions. Details of the activities of the principal subsidiaries and consolidated affiliated entities are set out in note 43 to the consolidated financial statements.

## CHANGE OF FINANCIAL YEAR-END DATE

To align the financial year-end date of the Group with the academic year of the schools operated by the Group in the PRC, the Board announced on 3 August 2018 the change of the financial year-end date of the Company from 31 December to 31 August. The audited consolidated financial statements of the Group in this annual report covers only the 8-month period from 1 January 2018 to 31 August 2018.

## RESULTS AND BUSINESS REVIEW

The results of the Group for the eight months ended 31 August 2018 are set out in the consolidated statement of profit or loss and other comprehensive income on pages 115 and 116.

A fair review of the business of the Group during the period and its likely future development and outlook, important events affecting the Company that have occurred during the period, an analysis of the Group's performance during the period using financial key performance indicators, discussions on the Group's environmental policies and performance, details regarding the Group's compliance with the relevant laws and regulations that have a significant impact on the Group, and the Group's key relationships with stakeholders as required under Schedule 5 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) are set out in the sections headed "Co-Chairmen's Statement", "Management Discussion and Analysis" and "Environmental, Social and Governance Report" of this annual report and which also constitute part of this report.

## PRINCIPAL RISKS AND UNCERTAINTIES

Save as disclosed in the section headed "Risks relating to the Contractual Arrangements" in this report, the following list is a summary of certain principal risks and uncertainties facing by the Group:

- our business and results of operations depend on the level of tuition fees and boarding fees we are able to charge and our ability to maintain and raise the level of tuition fees and boarding fees.

- our business is heavily dependent on the market recognition of our brand and reputation and any damage to our reputation would materially and adversely affect our business. Negative publicity concerning our schools or our Group may adversely affect our reputation, business, growth prospect and our ability to recruit qualified teachers and staff.

- we face intense competition from existing players and industry consolidation in the PRC higher education industry, which could lead to adverse pricing pressure, reduced operating margins, loss of market share, departures of qualified employees and increased capital expenditures.

- unauthorised disclosure or manipulation of sensitive personal data, whether through breach of our network security or otherwise, could expose us to litigation or could adversely affect our reputation.

- we may expand our school network through acquisitions or cooperation with third party partners and may not be able to successfully execute such expansion strategy.

- we are subject to uncertainties brought by various laws and regulations which are applicable to private higher education industry in the PRC, in particular the Law for Promoting Private Education of the PRC. Relevant laws and regulations could be changed from time to time to accommodate the development of the education industry in the PRC.

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.

## DIVIDENDS DISTRIBUTION

The Board recommends the payment of a final dividend of HK7.4 cents per ordinary share for the eight months ended 31 August 2018 (for the year ended 31 December 2017: nil) by cash to Shareholders whose names appear on the register of members of the Company on Tuesday, 5 March 2019. Subject to the approval of the Shareholders at the forthcoming AGM, the final dividend will be paid on Friday, 15 March 2019.

## ANNUAL GENERAL MEETING

The forthcoming AGM will be held on Monday, 25 February 2019. Notice convening the forthcoming AGM will be published and despatched to the Shareholders.

## CLOSURE OF REGISTER OF MEMBERS

### For the Forthcoming AGM

The register of members of the Company will be closed from Wednesday, 20 February 2019 to Monday, 25 February 2019, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the forthcoming AGM, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Tuesday, 19 February 2019.

# Report of the Directors

### For the Proposed Final Dividend

The proposed final dividend is subject to the approval of the Shareholders at the forthcoming AGM. The register of members of the Company will be closed from Friday, 1 March 2019 to Tuesday, 5 March 2019, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited at the aforementioned address not later than 4:30 p.m. on Thursday, 28 February 2019.

## SHARE CAPITAL

On 5 January 2018, the over-allotment option described in the Company's prospectus dated 5 December 2017 was partially exercised by BNP Paribas Securities (Asia) Limited and pursuant to which the Company allotted and issued 20,202,000 Shares at HK$6.45 per Share on 11 January 2018.

Details of changes in the share capital of the Company during the eight months ended 31 August 2018 are set out in note 32 to the consolidated financial statements.

## PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group during the eight months ended 31 August 2018 are set out in note 16 to the consolidated financial statements.

## DISTRIBUTABLE RESERVES OF THE COMPANY

Movements in reserves of the Company during the eight months ended 31 August 2018 are set out on page 224 in the note 44 to the consolidated financial statements.

Our reserves available for distribution to the Shareholders consist of share premium and retained profits. Under the Companies Law of the Cayman Islands and subject to compliance with the Articles of Association, the share premium account may be applied by the Company for paying distributions or dividends to the Shareholders if immediately following the date on which the distribution or dividend is proposed to be paid, we will be able to pay off our debts as they fall due in the ordinary course of business. As of 31 August 2018, the Company's reserve available for distribution to equity holders amounted to approximately RMB2,631 million.

## DIRECTORS

The Directors during the eight months ended 31 August 2018 and up to the date of this report were:

### Executive Directors

Mr. Yu Guo *(Co-Chairman)*
Mr. Xie Ketao *(Co-Chairman)*
Dr. Yu Kai *(Chief Executive Officer)*
Ms. Xie Shaohua

### Independent Non-Executive Directors

Dr. Gerard A. Postiglione
Dr. Rui Meng
Dr. Wu Kin Bing

Pursuant to Article 108 of the Articles of Association, Ms. Xie Shaohua, Dr. Gerard A. Postiglione and Dr. Rui Meng shall retire by rotation and, being eligible, have offered themselves for re-election at the forthcoming AGM.

The Company has received from each of the INEDs an annual written confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all the INEDs are independent.

## DIRECTORS' SERVICE CONTRACTS

Each of the Executive Directors has entered into a service contract with the Company for a term commencing from the date of his/her appointment/re-designation as an Executive Director which shall be for a period of three years after or until the third AGM since the Listing Date (whichever is earlier), and shall be automatically renewed for successive periods of three years (subject always to re-election as and when required under the Articles of Association). The term of each of the service contracts shall end when the service contract is terminated in accordance with the terms and conditions of the service contract or by either party giving to the other party not less than three months' prior notice in writing.

Each of our INEDs has entered into an appointment letter with the Company for an initial period of three years from 5 December 2017 or until the third AGM since the Listing Date (whichever is sooner) which may be terminated in accordance with the terms and conditions of the appointment letter or by either party serving on the other party a prior written notice of not less than three months.

Save as aforesaid, no Director proposed for re-election at the forthcoming AGM has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than normal statutory compensation.

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 August 2018, the interests and short positions of the Directors and the chief executives of the Company in the Shares, underlying Shares and debentures of the Company or of any associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) of the Company, as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

### Long Position In Shares And Underlying Shares

| Name of Director | Personal Interest | Corporate Interest | Other Interests | Total | Approximate % of Total Issued Share |
|---|---|---|---|---|---|
| Yu Guo ("Mr. Yu") | 10,000,000[(1)] | 750,000,000[(2)] | 760,000,000[(4)] | 1,520,000,000 | 75.24% |
| Xie Ketao ("Mr. Xie") | 10,000,000[(1)] | 750,000,000[(3)] | 760,000,000[(4)] | 1,520,000,000 | 75.24% |
| Yu Kai ("Dr. Yu") | 10,000,000[(1)] | — | — | 10,000,000 | 0.50% |
| Xie Shaohua ("Ms. Xie") | 10,000,000[(1)] | — | — | 10,000,000 | 0.50% |

*Notes:*

1. These are Directors' personal interests in underlying Shares. Each of Mr. Yu, Mr. Xie, Dr. Yu and Ms. Xie is entitled to receive up to 10,000,000 Shares pursuant to the exercise of options granted to him/her under the Pre-IPO Share Option Scheme of the Company. Details of the share options granted by the Company to the above Directors are set out in the section headed "Pre-IPO Share Option Scheme".

2. Mr. Yu beneficially owns the entire issued share capital of Blue Sky Education International Limited ("Blue Sky BVI") which in turn owns 750,000,000 Shares.

3. Mr. Xie beneficially owns the entire issued share capital of White Clouds Education International Limited ("White Clouds BVI") which in turn owns 750,000,000 Shares.

4. Mr. Yu, Mr. Xie, Blue Sky BVI and White Clouds BVI entered into the Concert Party Agreement to align their shareholding interests in the Company. Pursuant to the Concert Party Agreement, Mr. Yu, Mr. Xie, Blue Sky BVI and White Clouds BVI agreed to vote in concert with each other for all operational and other matters at board meetings or shareholders' meetings of the Company (through himself, Blue Sky BVI or White Clouds BVI, as the case may be).

### Directors' Interest In Associated Corporation

| Name of Director | Nature of Interest | Name of Associated Corporation | Percentage of Shareholding in the Associated Corporation |
|---|---|---|---|
| Mr. Yu | Beneficial owner | Jiangxi University of Technology | 100% |
| | Beneficial owner | Huafang Education | 50% |
| Mr. Xie | Beneficial owner | Guangdong Baiyun University | 100% |
| | Beneficial owner | Huafang Education | 50% |

Save as disclosed above, as at 31 August 2018, none of the Directors or the chief executives of the Company had or was deemed to have any interests or short positions in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which had been recorded in the register maintained by the Company pursuant to section 352 of the SFO or which had been notified to the Company and the Stock Exchange pursuant to the Model Code contained in the Listing Rules.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save for the share options granted to the Directors under the Pre-IPO Share Option Scheme of the Company, at no time during the period was the Company, or its holding companies, subsidiaries or fellow subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

# REPORT OF THE DIRECTORS

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

As at 31 August 2018, so far as the Directors are aware, the following substantial shareholders or institutions have interests or short positions of 5% or more in the Shares or underlying Shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

| Name of substantial Shareholder | Capacity | Nature of interests | Shares | Approximate % of Total Issued Shares |
|---|---|---|---|---|
| Mr. Yu | Interests of controlled corporation(1) | Long | 750,000,000 | 37.125 |
| | Personal interest | Long | 10,000,000 | 0.495 |
| | | | 760,000,000 | 37.620 |
| | Other interest(2) | Long | 760,000,000 | 37.620 |
| | | | 1,520,000,000 | 75.240 |
| Mr. Xie | Interests of controlled corporation(3) | Long | 750,000,000 | 37.125 |
| | Personal interest | Long | 10,000,000 | 0.495 |
| | | | 760,000,000 | 37.620 |
| | Other interest(2) | Long | 760,000,000 | 37.620 |
| | | | 1,520,000,000 | 75.240 |
| Blue Sky BVI | Beneficial Owner(1) | Long | 750,000,000 | 37.125 |
| | Other interest(2) | Long | 770,000,000 | 38.115 |
| | | | 1,520,000,000 | 75.240 |
| White Clouds BVI | Beneficial Owner(3) | Long | 750,000,000 | 37.125 |
| | Other interest(2) | Long | 770,000,000 | 38.115 |
| | | | 1,520,000,000 | 75.240 |

*Notes:*

(1) Mr. Yu beneficially owns the entire issued share capital of Blue Sky BVI.

(2) Mr. Yu, Mr. Xie, Blue Sky BVI and White Clouds BVI entered into the Concert Party Agreement to align their shareholding interests in the Company. Pursuant to the Concert Party Agreement, Mr. Yu, Mr. Xie, Blue Sky BVI and White Clouds BVI agreed to vote in concert with each other for all operational and other matters at board meetings or shareholders' meetings of the Company (through himself, Blue Sky BVI or White Clouds BVI, as the case may be).

(3) Mr. Xie beneficially owns the entire issued share capital of White Clouds BVI.

Save as disclosed above, as at 31 August 2018, the Directors are not aware of any other person or corporation having an interest or short position in the Shares or the underlying Shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

# REPORT OF THE DIRECTORS

## SHARE OPTION SCHEMES AND SHARE AWARD SCHEME

The Company has adopted Share Option Schemes (Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme) and Share Award Scheme for the purpose of incentivising eligible participants for their contribution to the Group.

### Pre-IPO Share Option Scheme

The following is a summary of the principal terms of the Pre-IPO Share Option Scheme ("Pre-IPO Option Scheme") which was adopted and effective on 27 November 2017. The terms of the Pre-IPO Option Scheme are not subject to the provisions of Chapter 17 of the Listing Rules as no options would be granted under the Pre-IPO Option Scheme after the Listing.

#### *Purpose*

The purpose of the Pre-IPO 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 Option Scheme provides the Company with a flexible means of retaining, incentivising, rewarding, remunerating, compensating and/or providing benefits to selected participants.

#### *Participants*

Under the Pre-IPO Option Scheme, the Board may determine any directors and employees of any member of the Group, who the Board considers, in its sole discretion, have contributed or will contribute to the Group, to take up options to subscribe for the Shares.

#### *Maximum Number Of Shares Available For Issue*

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 Option Scheme at any time shall not exceed 45,500,000 Shares, which represents approximately 2.25% of the total issued Share as at the date of this annual report.

#### *Maximum Entitlement Of Each Participant*

Under the Pre-IPO Option Scheme, the Board shall be entitled to make an offer to any participant for the grant of an option for the subscription of such number of Shares as the Board may determine.

#### *Vesting And Exercising Period*

The Board may in its absolute discretion makes an offer to a selected participant for the grant of an option to subscribe for such number of Shares and on such terms as determined by the Board. The terms of the offer may include but are not limited to, any minimum period(s) for which an option must be held and/or any minimum performance target(s) that must be achieved, before the option can be exercised in whole or in part, and may include at the discretion of the Board such other terms either on a case by case basis or generally.

# Report of the Directors

An option may be exercised in accordance with the terms of the Pre-IPO Option Scheme at any time during a period to be determined and notified by the Directors to each grantee which period shall not expire later than 10 years from the Listing Date.

### *Amount Payable On Application Or Acceptance Of Option*

An option may be accepted by a participant within ten business days from the date of the offer of grant of the option. A nominal consideration of RMB1.00 is payable upon acceptance of the grant of an option.

### *Exercise Price*

The price for the subscription of Shares in relation to each option granted under the Pre-IPO Option Scheme shall be such price as may be determined by the Board. An option may be exercised in whole or in part by the grantee and the subscription price of the Shares shall be fully paid by the grantee to the Company upon exercise of the option.

### *Life Of The Pre-IPO Share Option Scheme*

The Pre-IPO Option Scheme was adopted and effective on 27 November 2017 and valid up to 27 November 2017 (the "Pre-IPO Option Scheme Period"). After the expiry of the Pre-IPO Option Scheme Period, no further options shall be offered or granted, but in all other respects the provisions of the Pre-IPO Option Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any options granted prior thereto.

### *Movements in Options Granted Under The Pre-IPO Option Scheme*

Movements in the options granted under the Pre-IPO Option Scheme during the period are as follows:

| Grantee | Balance as at 1 January 2018 | Granted during the period | Exercised, lapsed or cancelled during the period | Balance as at 31 August 2018 |
|---|---|---|---|---|
| **Directors** | | | | |
| Yu Guo | 10,000,000 | — | — | 10,000,000 |
| Xie Ketao | 10,000,000 | — | — | 10,000,000 |
| Yu Kai | 10,000,000 | — | — | 10,000,000 |
| Xie Shaohua | 10,000,000 | — | — | 10,000,000 |
| **Employees (in aggregate)** | 5,500,000 | — | — | 5,500,000 |
| Total | 45,500,000 | — | — | 45,500,000 |

# REPORT OF THE DIRECTORS

On every anniversary of the Listing Date (from the first anniversary to the fifth anniversary), a maximum of 20% of the underlying Shares in respect of the options may be vested in the grantee, subject to the satisfaction of performance condition as determined by the Remuneration Committee at its discretion. In determining whether the performance condition is satisfied, the Remuneration Committee will assess the overall financial position and operating conditions of the Group on each vesting date, with a focus on growth, reputation, closing price of the Company's shares on the Stock Exchange, return to Shareholders, dividend paid and industry ranking. In particular, the Remuneration Committee will also benchmark the Group's key performance metrics that it considers appropriate against comparable companies in the education industry and listed on a recognised stock exchange. Notwithstanding the above, the Remuneration Committee may in its sole discretion amend the vesting schedule and vest any percentage of the underlying Shares in respect of the options.

Subject to, amongst other relevant vesting criteria, the above-mentioned vesting schedule, the options may be exercised in whole or in part by the grantees at any time during the 10 years commencing from the Listing Date. The options were granted on 14 December 2017, the date immediately preceding the Listing Date, and the exercise price of the options was determined by the Board as HK$6.45 per underlying Share, which is equal to the final price of each of the Shares first offered by the Company for subscription by the public in December 2017.

Save and except as disclosed above, no other options have been granted or agreed to be granted by the Company under the Pre-IPO Option Scheme.

## Post-IPO Share Option Scheme

The following is a summary of the principal terms of the Post-IPO Share Option Scheme ("Post-IPO Option Scheme") adopted by the resolutions in writing of the Shareholders passed on 29 November 2017.

### *Purpose*

The purpose of the Post-IPO 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 Shareholders as a whole. The Post-IPO Option Scheme will provide the Company with a flexible means of retaining, incentivising, rewarding, remunerating, compensating and/or providing benefits to selected participants.

### *Participants*

Any individual, being an employee, director, officer, consultant, advisor, distributor, contractor, customer, supplier, agent, business partner, joint venture business partner or service provider of any member of the Group or any affiliate who the Board or its delegate(s) considers, in its sole discretion, to have contributed or will contribute to the Group is entitled to be offered and granted options.

### *Maximum Number Of Shares Available For Issue*

The total number of Shares which may be issued upon exercise of all options to be granted under the Post-IPO Option Scheme and any other schemes is 200,000,000, being no more than 10% of the Shares in issue on the Listing Date (the "Post-IPO Option Scheme Mandate Limit") and represents approximately 9.90% of the total issued Share as at the date of this annual report. Options which have lapsed in accordance with the terms of the Post-IPO Option Scheme (or any other share option schemes of the Company) shall not be counted for the purpose of calculating the Post-IPO Option Scheme Mandate Limit.

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 Post-IPO Option Scheme and any other share option schemes of the Company at any time (and to which the provisions of Chapter 17 of the Listing Rules are applicable) must not exceed 30% of the Shares in issue from time to time (the "Post-IPO Option Scheme Limit"). No options may be granted under any schemes of the Company if this will result in the Post-IPO Option Scheme Limit being exceeded.

The Post-IPO Option Scheme Mandate Limit may be refreshed at any time by obtaining prior approval of the Shareholders in general meeting. However, the refreshed Post-IPO Option Scheme Mandate Limit cannot exceed 10% of the Shares in issue as at the date of such approval.

The Company may also grant options in excess of the Post-IPO Option Scheme Mandate Limit, provided such grant is to specifically identified selected participant and is first approved by Shareholders in general meeting.

### *Maximum Entitlement Of Each Participant*

Unless approved by the Shareholders, the total number of Shares issued and to be issued upon exercise of the options granted and to be granted under the Post-IPO Option Scheme and any other share option scheme(s) of the Company to each selected participant (including both exercised and outstanding options) in any 12-month period shall not exceed 1% of the total number of Shares in issue (the "Individual Limit"). Any further grant of options to a selected participant which would result in the aggregate number of Shares issued and to be issued upon exercise of all options granted and to be granted to such selected participant (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such further grant exceeding the Individual Limit shall be subject to separate approval of our Shareholders.

Where any grant of options to a substantial shareholder or an INED of the Company (or any of their respective associates) would result in the number of Shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:

(i) representing in aggregate over 0.1% (or such other higher percentage as may from time to time be specified by the Stock Exchange) of the Shares in issue; and

(ii) having an aggregate value, based on the closing price of the Shares as stated in the daily quotations sheets issued by the Stock Exchange on the date of grant, in excess of HK$5 million (or such other higher amount as may from time to time be specified by the Stock Exchange),

such further grant of options must also be first approved by the Shareholders in a general meeting.

### *Vesting And Exercising Period*

The Post-IPO Option Scheme does not set out any performance targets that must be achieved before the options may be exercised. However, the Board may at its sole discretion specify, as part of the terms and conditions of any option, such performance conditions that must be satisfied before the option can be exercised.

The period during which an option may be exercised is determined and notified by the Board to each grantee at the time of making an offer for the grant of the option and such period shall not expire later than ten years from the date of grant of the option.

### *Amount Payable On Application Or Acceptance Of Option*

An option may be accepted by a participant within 20 business days from the date of the offer of grant of the option. A nominal consideration of HK$1.00 is payable upon acceptance of the grant of an option.

### *Exercise Price*

The amount payable for each Share to be subscribed for under an option shall be determined by the Board but shall be not less than the greater of:

(i) the closing price of a Share as stated in the daily quotations sheet issued by the Stock Exchange on the date of grant;

(ii) the average closing price of the Shares as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the date of grant; and

(iii) the nominal value of a Share on the date of grant.

### *Life Of The Post-IPO Share Option Scheme*

The Post-IPO Option Scheme shall be valid and effective for the period of ten years commencing from the Listing Date (after which, no further options shall be offered or granted under the Post-IPO Option Scheme), but in all other respects the provisions of the Post-IPO Option Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any options granted prior thereto.

### *Options Granted Under The Post-IPO Share Option Scheme*

No options have been granted or agreed to be granted by the Company since the adoption of the Post-IPO Option Scheme on 29 November 2017.

## SHARE AWARD SCHEME

The following is a summary of the principal terms of the Share Award Scheme conditionally adopted by the resolutions in writing of our Shareholders on 29 November 2017. 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 issuance of new Shares pursuant to the Share Award Scheme is subject to the application by the Company and the granting by the Listing Committee of the Stock Exchange for the listing of and permission to deal in such new Shares.

### Purpose

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

### Participants

Any individual, being an employee, director, officer, consultant, adviser, distributor, contractor, customer, supplier, agent, business partner, joint venture business partner or service provider of any member of the Group or any affiliate (including nominees and/or trustees of any employee benefit trust established for them) who the Board or its delegate(s) considers, in its sole discretion, to have contributed or will contribute to the Group.

### Maximum Number Of Shares To Be Granted

An award (the "Award") granted under the Share Award Scheme gives a selected participant a conditional right, when the Shares are vested, to obtain the Shares or, if in the absolute discretion of the Board or its delegate(s), it is not practicable for the selected participant to receive the Award in Shares, the cash equivalent from the sale of the Shares. An Award includes all cash income from dividends in respect of those Shares from the date the Award is granted to the date the Award is vested. The Board at its discretion may from time to time determine that any dividends declared and paid by the Company in relation to the Shares be paid to the selected participant even though the Shares have not yet vested.

Save that the Board at its discretion may from time to time determine that any dividends declared and paid by the Company in relation to the Shares be paid to the selected participants even though the Shares have not yet vested, the selected participant only has a contingent interest in the Shares underlying an Award unless and until such Shares are actually transferred to the selected participant.

The maximum aggregate number of Shares underlying all grants made under the Share Award Scheme (excluding Shares which have been forfeited in accordance with the Share Award Scheme) is 40,000,000 Shares, being 2% of issued Shares of the Company as of the Listing Date (i.e. 2% of 2,000,000,000 Shares) (the "Share Award Scheme Limit") and represents approximately 1.98% of the total issued Share as at the date of this annual report.

### Maximum Entitlement Of Each 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.

Each grant of an Award to any Director or the chief executive officer shall be subject to the prior approval of the INEDs (excluding any INED who is a proposed recipient of the grant of an Award). The Company will comply with the relevant requirements under Chapter 14A of the Listing Rules for any grant of Award to any connected persons of the Company.

### Vesting

The Board may from time to time determine such vesting criteria and conditions or periods for the Awards to be vested under the scheme.

### Life Of The Share Award Scheme

The Share Award Scheme shall be valid and effective for the period of ten years commencing from the Listing Date.

### Awards Granted Under The Share Award Scheme

No awards have been granted or agreed to be granted by the Company since the conditional adoption of the Share Award Scheme on 29 November 2017.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the eight months ended 31 August 2018.

## BORROWINGS

As at 31 August 2018, the Group has bank and other borrowings of approximately RMB237,000,000 (31 December 2017: nil). Details of which were disclosed in note 30 to the consolidated financial statements.

## EQUITY-LINKED AGREEMENTS

Save for the Share Option Schemes and Share Award Scheme as set out above, no equity-linked agreements were entered into by the Company during or subsisted at the end of the period under review.

## DIRECTORS' INTERESTS IN TRANSACTION, ARRANGEMENT OR CONTRACT OF SIGNIFICANCE

Save as disclosed under the section headed "Connected Transactions" of this report, no Director nor an entity connected with a Director had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the eight months ended 31 August 2018.

## MANAGEMENT CONTRACT

No contracts concerning the management and administration of the whole or any substantial part of the Group's business subsisted during the eight months ended 31 August 2018.

## CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

During the period under review, save as disclosed in the section headed "Connected Transactions" in this report, no contracts of significance to which the Company or any of its subsidiaries was a party and in which any controlling shareholder (as defined in the Listing Rules) of the Company or any of its subsidiaries had a material interest, whether directly or indirectly, subsisted at the end of the eight months ended 31 August 2018 or at any time during the period under review.

## MAJOR CUSTOMERS AND SUPPLIERS

Our customers are primarily our students. For the eight months ended 31 August 2018, the percentage of revenue from sales attributable to the Group's five largest customers combined were less than 30%.

Our suppliers primarily comprise book suppliers, teaching equipment vendors, human resources services providers, equipment and materials vendors. For the eight months ended 31 August 2018, the percentage of purchases attributable to the Group's five largest suppliers combined were less than 30%.

## CONNECTED TRANSACTIONS

### Non-Exempt Continuing Connected Transactions — Contractual Arrangements

***Reasons for entering into the Contractual Arrangements***

Currently PRC laws and regulations restrict the operation of higher education institutions to Sino-foreign ownership. The Company operates the business through the consolidated affiliated entities in the PRC. In order to comply with the PRC laws and regulations while availing ourselves to international capital markets and maintaining effective control over all of our operations, the Company through its wholly-owned subsidiary, WFOE, entered into a number of continuing agreements and arrangements (the "Contractual Arrangements") with, among others, Mr. Yu, Mr. Xie, Huafang Education, Lihe Education, and our consolidated affiliated entities.

# Report of the Directors

The Company does not hold any equity interests in the consolidated affiliated entities which are held directly or indirectly by Mr. Yu and Mr. Xie. However, through the Contractual Arrangements, the Company effectively controls these consolidated affiliated entities and is able to derive substantially all of their economic benefits. The Contractual Arrangements enable the Company to (i) receive substantially all the economic benefits from the consolidated affiliated entities in consideration for the services provided by WFOE; (ii) exercise effective control over the consolidated affiliated entities; and (iii) hold an exclusive option to purchase all or part of the sponsor interests in the PRC Operating Schools when and to the extent permitted by the PRC laws.

### *Listing Rules Implications*

Mr. Yu and Mr. Xie are the Executive Directors and substantial shareholders of the Company, and therefore each of them is a connected person of the Company under Rule 14A.07(1) of the Listing Rules. The transactions contemplated under the Contractual Arrangements constitute continuing connected transactions of our Company under the Listing Rules.

### *Waiver from the Stock Exchange and Annual Review*

The Stock Exchange has granted a specific waiver to the Company from strict compliance with the connected transactions requirements of Chapter 14A of the Listing Rules in respect of the transactions contemplated under the Contractual Arrangements, including (i) the announcement and independent Shareholders' approval requirements pursuant to Rule 14A.105 of the Listing Rules, (ii) the requirement of setting an annual cap under Rule 14A.53 of the Listing Rules, and (iii) the requirement of limiting the term of the Contractual Arrangements to three years or less under Rule 14A.52 of the Listing Rules. The specific waiver granted by the Stock Exchange is subject to various conditions as disclosed in the "Connected Transactions" section of the Company's prospectus and which include, among others, disclosure in our annual reports of the Contractual Arrangements in place during each financial period, engagement of the Company's auditor to report on the transactions carried out pursuant to the Contractual Arrangements in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants and issue of letter in respect of the above continuing connected transactions in accordance with Rule 14A.56 of the Listing Rules, and annual review by the INEDs of the Contractual Arrangements and their confirmation in our annual report for the relevant year.

### *Contractual Arrangements In Place*

*Business Cooperation Agreements*

Pursuant to the business cooperation agreements entered into by and between (i) WFOE, Jiangxi University of Technology and Mr. Yu dated 30 June 2017, (ii) WFOE, Guangdong Baiyun University and Mr. Xie dated 30 June 2017 and (iii) WFOE, Baiyun Technician College, Huafang Education, Lihe Education, Mr. Yu and Mr. Xie dated 14 August 2017 (the "Business Cooperation Agreements"), WFOE has the exclusive right to provide each of our consolidated affiliated entities technical services, management support services, consulting services, intellectual property licences and other additional services as the parties may mutually agree from time to time, and in return, Jiangxi University of Technology, Guangdong Baiyun University, Baiyun Technician Collage (collectively, our "PRC Operating Schools") and other consolidated affiliated entities shall make payments accordingly.

### *Exclusive Technical Services And Management Consultancy Agreements*

Pursuant to the exclusive technical services and management consultancy agreements entered into by and between (i) WFOE and Jiangxi University of Technology dated 30 June 2017, (ii) WFOE and Guangdong Baiyun University dated 30 June 2017 and (iii) WFOE, Lihe Education, Huafang Education and Baiyun Technician College dated 14 August 2017 (the "Exclusive Technical Services and Management Consultancy Agreements"), WFOE has the exclusive right to provide, or designate any third party to provide technical services to each of our PRC Operating Schools, Lihe Education and Huafang Education, including (a) design, development, update and maintenance of software for computer and mobile devices; (b) design, development, update and maintenance of webpages and websites necessary for the education activities of our PRC Operating Schools, Lihe Education and Huafang Education; (c) design, development, update and maintenance of management information systems necessary for the education activities of our PRC Operating Schools, Lihe Education and Huafang Education; (d) provision of other technical support necessary for the education activities of our PRC Operating Schools, Lihe Education and Huafang Education; (e) provision of technical consulting services; (f) provision of technical training; (g) engaging technical staff to provide on-site technical support; and (h) other technical services reasonably requested by our PRC Operating Schools, Lihe Education and Huafang Education.

Furthermore, WFOE agreed to provide exclusive management consultancy services to our PRC Operating Schools, Lihe Education and Huafang Education, including (a) design of curriculum; (b) preparation, selection and/or recommendation of course materials; (c) provision of teacher and staff recruitment and training support and services; (d) provision of student recruitment support and services; (e) provision of public relation services; (f) preparation of long term strategic development plans and annual working plans; (g) development of financial management systems and recommendation and optimisation on annual budget; (h) advising on design of internal structures and internal management; (i) provision of management and consultancy training; (j) conduct of market research; (k) preparation of market development plan; (l) develop marketing network; and (m) provision of other services reasonably requested by our PRC Operating Schools, Lihe Education and Huafang Education.

### *Exclusive Call Option Agreements*

Under the exclusive call option agreements entered into by and between (i) WFOE, Jiangxi University of Technology and Mr. Yu dated 30 June 2017, (ii) WFOE, Guangdong Baiyun University and Mr. Xie dated 30 June 2017 and (iii) WFOE, Baiyun Technician College, Mr. Yu, Mr. Xie, Huafang Education and Lihe Education dated 14 August 2017 (the "Exclusive Call Option Agreements"), Mr. Yu, Mr. Xie, Lihe Education and Huafang Education have irrevocably granted WFOE or its designated purchaser the right to purchase all or part of the interests in our PRC Operating Schools, Huafang Education or Lihe Education (as the case may be). The purchase price payable by WFOE in respect of the transfer of such sponsor interest upon exercise of the call option shall be the lowest price permitted under the PRC laws and regulations. WFOE or its designated purchaser shall have the right to purchase such proportion of the sponsor interest in our PRC Operating Schools or the equity interests in Huafang Education or Lihe Education as it decides at any time.

# Report of the Directors

### *School Sponsors' and Directors' Rights Entrustment Agreements And Shareholders' Rights Entrustment Agreements*

Pursuant to the school sponsors' and directors' rights entrustment agreements entered into by and between (i) WFOE, Mr. Yu and each director of Jiangxi University of Technology dated 30 June 2017, (ii) WFOE, Mr. Xie and each director of Guangdong Baiyun University dated 30 June 2017 and (iii) WFOE, Lihe Education and each director of Baiyun Technician College dated 14 August 2017 (the "School Sponsors' and Directors' Rights Entrustment Agreements"), the Registered School Sponsors have irrevocably authorised and entrusted WFOE to exercise all its rights as school sponsor of each of our PRC Operating Schools to the extent permitted by the PRC laws.

Pursuant to the School Sponsors' and Directors' Rights Entrustment Agreements, each of the directors of each school (the "Appointees") has irrevocably authorised and entrusted WFOE to exercise all his/her rights as directors of our PRC Operating Schools as appointed by the Registered School Sponsors and to the extent permitted by the PRC laws.

Pursuant to the shareholders' rights entrustment agreements entered into by and between (i) WFOE, Huafang Education, Mr. Yu and Mr. Xie and (ii) WFOE, Lihe Education and Huafang Education (the "Shareholders' Rights Entrustment Agreements"), Mr. Yu, Mr. Xie and/or Huafang Education have irrevocably authorised and entrusted WFOE to exercise all his or its rights as shareholders of each of Huafang Education and Lihe Education to the extent permitted by the PRC laws.

### *Powers of Attorney*

Pursuant to the School Sponsors' Powers of Attorney executed by the Registered School Sponsors in favour of WFOE, each of the Registered School Sponsors authorised and appointed WFOE as its agents to act on its behalf to exercise or delegate the exercise of all its rights as school sponsor of each of our PRC Operating Schools.

Pursuant to the Directors' Powers of Attorney executed by each of the Appointees in favour of WFOE, each of the Appointees authorised and appointed WFOE as his/her agent to act on his/her behalf to exercise or delegate the exercise of all of his/her rights as directors of our PRC Operating Schools.

Pursuant to the Shareholders' Powers of Attorney executed by each of Mr. Yu, Mr. Xie and Huafang Education in favour of WFOE (together with the Schools Sponsors' Powers of Attorney and the Directors' Powers of Attorney), each of Mr. Yu, Mr. Xie and Huafang Education authorised and appointed WFOE, as his or its agent to act on his or its behalf to exercise or delegate the exercise of all his or its rights as shareholders of Huafang Education and Lihe Education.

*Receivables Pledge Agreements*

Pursuant to the receivables pledge agreements entered into between (i) WFOE, Jiangxi University of Technology and Mr. Yu dated 30 June 2017 and (ii) WFOE, Guangdong Baiyun University and Mr. Xie dated 30 June 2017 (the "Receivables Pledge Agreements"), each of Mr. Yu, Mr. Xie, Jiangxi University of Technology and Guangdong Baiyun University unconditionally and irrevocably pledged and granted first priority security interests over all of his or its interest in (i) receivables from the schools' boarding and tuition fees, (ii) rent from the school's properties, (iii) receivables from services provided by the school and (iv) any proceeds from the sale or transfer of the sponsor interests in Guangdong Baiyun University or Jiangxi University of Technology by Mr. Xie or Mr. Yu (as the case may be), together with all related rights thereto to WFOE as security for performance of the Contractual Arrangements and all direct, indirect or consequential damages and foreseeable loss of interest incurred by WFOE as a result of any event of default on the part of Mr. Yu and Mr. Xie or each of Jiangxi University of Technology and Guangdong Baiyun University and all expenses incurred by WFOE as a result of enforcement of the obligations of Mr. Yu and Mr. Xie and/or each of Jiangxi University of Technology and Guangdong Baiyun University under the Contractual Arrangements.

Pursuant to the Receivables Pledge Agreements, without the prior written consent of WFOE, Jiangxi University of Technology and Guangdong Baiyun University shall not transfer the receivables or create further pledge or encumbrance over the pledged interest in the receivables.

*Account Supervision Agreements*

Pursuant to the account supervision agreements entered into by and between (i) WFOE, Jiangxi University of Technology, Mr. Yu and Nanchang Agriculture Bank Holdings Company Limited Qingshanhu Branch (南昌農村商業銀行股份有限公司青山湖支行) ("Jiangxi Bank") dated 15 August 2017, and (ii) WFOE, Guangdong Baiyun University, Mr. Xie and China Construction Bank Holdings Company Limited Guangzhou Baiyun Branch (中國建設銀行股份有限公司廣州白雲支行) ("Guangdong Bank") dated 28 August 2017 (the "Account Supervision Agreements"): (a) Mr. Yu and Jiangxi University of Technology shall each set up a bank account at Jiangxi Bank; and (b) Guangdong Baiyun University and Mr. Xie shall each set up a bank account at Guangdong Bank (together, the "Designated Accounts"), for the purpose of safeguarding the WFOE's interests under the Receivables Pledge Agreements. Mr. Yu, Mr. Xie, Jiangxi University of Technology and Guangdong Baiyun University shall only use the Designated Accounts in the ordinary course of business except otherwise used with WFOE's prior consent. WFOE shall have the right to supervise the daily operation of the Designated Accounts.

Each of Mr. Yu, Mr. Xie, Jiangxi University of Technology and Guangdong Baiyun University shall deposit all of his or its proceeds from receivables or the sale or transfer of sponsor interest (as the case may be) subject to the Receivables Pledge Agreements into his or its Designated Account. Under the Account Supervision Agreements, the daily operation of the Designated Accounts shall be under the supervision of Jiangxi Bank and Guangdong Bank (as the case may be) on behalf of WFOE.

# Report of the Directors

### *Equity Pledge Agreement*

There are no equity pledge arrangements in relation to Jiangxi University of Technology and Guangdong Baiyun University. Nevertheless, there is an equity pledge agreement in relation to Baiyun Technician College. Pursuant to the equity pledge agreement entered into by WFOE, Mr. Yu, Mr. Xie, Huafang Education and Lihe Education dated 14 August 2017 (the "Equity Pledge Agreement"), Mr. Yu, Mr. Xie and Huafang Education unconditionally and irrevocably pledged and granted first priority security interests over all of his or its equity interest in Lihe Education and Huafang Education, as the case may be, together with all related rights thereto to WFOE as security for performance of the Contractual Arrangements and all direct, indirect or consequential damages and foreseeable loss of interest incurred by WFOE as a result of any event of default on the part of Mr. Yu, Mr. Xie, Huafang Education, Lihe Education or Baiyun Technician College and all expenses incurred by WFOE as a result of enforcement of the obligations of Mr. Yu, Mr. Xie, Huafang Education, Lihe Education and/or Baiyun Technician College under the Contractual Arrangements.

Pursuant to the Equity Pledge Agreement, without the prior written consent of WFOE, Mr. Yu, Mr. Xie, and Huafang Education shall not transfer the equity interest or create further pledge or encumbrance over the pledged equity interest.

### *Confirmation from INEDs*

Our INEDs have reviewed the Contractual Arrangements and confirmed that during the eight months ended 31 August 2018 (i) the transactions carried out have been entered into in accordance with the relevant provisions of the Contractual Arrangements and that the profit generated by the consolidated affiliated entities has been substantially retained by the Group, (ii) no dividends or other distributions have been made by the consolidated affiliated entities to the holders of its equity interests which are not otherwise subsequently assigned or transferred to the Group, (iii) no contracts were entered into, renewed or reproduced between the Group and the consolidated affiliated entities, and (iv) the transactions contemplated under the Contractual Arrangements were entered into in the ordinary and usual course of business of the Group and are fair and reasonable and in the interests of the Shareholders as a whole.

### *Confirmation from the Company's Independent Auditor*

Deloitte Touche Tohmatsu, the Company's independent auditor, was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants.

For the purpose of Rule 14A.56 of the Listing Rules, Deloitte Touche Tohmatsu has provided a letter to the Board, confirming that the transactions contemplating under the Contractual Arrangements:

(a) have been approved by the Board;

(b) have been entered into in accordance with the relevant Contractual Arrangements;

(c) no dividends or other distributions have been made by the consolidated affiliated entities to the holders of its equity interests which are not otherwise subsequently assigned or transferred to the Group.

During the eight months ended 31 August 2018, no related party transactions disclosed in note 42 to the consolidated financial statements constituted a connected transaction or continuing connected transaction which should be disclosed pursuant to the Listing Rules. The Directors confirmed that the Company has complied with the disclosure requirements of Chapter 14A of the Listing Rules in respect of all of its continuing connected transactions.

***Risks relating to the Contractual Arrangements***

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 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.

The Contractual Arrangements may not be as effective in providing us with 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. The sponsor interests in Jiangxi University of Technology held by Mr. Yu and in Guangdong Baiyun University held by Mr. Xie are not capable of being pledged in favour of our WFOE under the PRC laws. Our Contractual Arrangements with respect to these universities contain alternative arrangements that may not achieve the level of protection equivalent to typical contractual arrangements with equity pledge arrangements.

Our exercise of the option to acquire the sponsor interests or equity interests of our consolidated affiliated entities may be subject to certain limitations and we may incur substantial costs. Any failure by our consolidated affiliated entities or their respective school sponsors/shareholders 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.

We rely on dividend and other payments from WFOE to pay dividends and other cash distributions to our Shareholders and any limitation on the ability of 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 use and enjoy certain important assets held by our consolidated affiliated entities, which could negatively impact our business and materially and adversely affect our ability to generate revenue.

The Board will review the Contractual Arrangements at least once a year to ensure the effective implementation of the Contractual Arrangements and compliance with the relevant terms.

# REPORT OF THE DIRECTORS

## LOAN AGREEMENTS WITH COVENANT RELATING TO SPECIFIC PERFORMANCE OF THE CONTROLLING SHAREHOLDERS

On 31 May 2018, the Company and certain of its wholly-owned subsidiaries as borrowers (the "Borrowers") entered into a loan agreement and related financing documents (the "Loan Agreement") with International Finance Corporation ("IFC"), a member of the World Bank Group, as lender (the "Lender") in relation to a long-term loan facility up to US$200,000,000 (the "Loan") and with a term of up to seven years. The Loan Agreement imposes, among other things, specific performance obligations on the controlling shareholders of the Company, namely Mr. Yu Guo and Mr. Xie Ketao (collectively referred to as the "Controlling Shareholders").

Pursuant to the Loan Agreement, so long as any of the Loan remains available or outstanding, the Controlling Shareholders shall collectively maintain:

(i) at all times, effective control of the Company; and

(ii) directly or indirectly, at all times (a) on or before 15 December 2018, at least 60%; and (b) after 15 December 2018, at least 50% of the beneficial ownership of the issued Shares.

Failure of the Controlling Shareholders to comply with the aforesaid obligations could constitute an event of default under the Loan Agreement. Nevertheless, it will not be an event of default in respect of the above shareholding requirement to the extent that the failure to comply is not a result of a direct or indirect transfer of the Shares by the Controlling Shareholders.

In addition, it is also an event of default should there be a change of control of the Company or any of its relevant subsidiaries or consolidated affiliated entities, to the extent (amongst other things) any person other than the Controlling Shareholders obtains effective control (including such person having obtained directly or indirectly ownership of 20% or more of the voting share or equity in such entities) of any of them. Nevertheless, if the Controlling Shareholders collectively (whether directly or indirectly) remain as the single largest shareholder of such entity, it would not be a change of control in the context of the above requirement.

If an event of default under the Loan Agreement occurs and is continuing, the Lender may, by notice to the Borrowers, require the Borrowers to immediately repay the Loan (or such part of the Loan) and any other payments pursuant to the Loan Agreement.

# REPORT OF THE DIRECTORS

## UPDATES IN RELATION TO QUALIFICATION REQUIREMENT

Pursuant to the Foreign Investment Industries Guidance Catalogue (as amended in 2017) (《外商投資產業指導目錄》(2017年修訂)), the provision of higher education in the PRC falls within the "restricted" category. In particular, such catalogue explicitly restricts higher education institutions to Sino-foreign cooperation, meaning that foreign investors may only operate higher education institutions through cooperating with PRC incorporated entities that are in compliance with the Sino-Foreign Regulation. In addition, the catalogue also provides that the domestic party shall play a dominant role in the Sino-foreign cooperation, meaning that (a) the principal or other chief executive officer of the schools or education institutions shall be a PRC national, and (b) the representative of the domestic party shall account for no less than 50% of the total members of the board of directors, the executive council or the joint administration committee of the Sino-foreign school.

On 28 June 2018, National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會) and Ministry of Commerce of the PRC (中華人民共和國商務部) jointly promulgated the Foreign Investment Access Special Management Measures (Negative List) (2018 Version) (《外商投資准入特別管理措施（負面清單)(2018年版)》) (the "Negative List"), which became effective on 28 July 2018 and has replaced the Foreign Investment Industries Guidance Catalogue. Pursuant to the Negative List, the restriction on foreign investments in higher education remain unchanged.

In relation to the interpretation of Sino-foreign cooperation, pursuant to the Sino-Foreign Regulation, the foreign investor in a Sino-foreign school (whether as a kindergarten, high school or higher education institution, a "Sino-Foreign School") must be a foreign educational institution with relevant qualification and high quality of education (the "Qualification Requirement"). Pursuant to the Sino-foreign Vocational Skills Training Measures, the foreign investor in a Sino-foreign technical school (a "Sino-Foreign Technical School") must be a foreign education institution or a foreign vocational skills training institution with relevant qualification and high quality of education (the "Qualification Requirement"). Furthermore, pursuant to the Implementation Opinions, the foreign portion of the total investment in a Sino-Foreign 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.

The Company's PRC Legal Adviser has advised that the laws and regulations are 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 authority that it meets the Qualification Requirement. Notwithstanding the foregoing, the Company is committed to working towards meeting the Qualification Requirement and has implemented a business plan to ensure our compliance with Qualification Requirement and with a view to expanding our education operations overseas.

# REPORT OF THE DIRECTORS

In 2017 the Company established a wholly-owned subsidiary in the State of California, the United States, namely University of Science and Technology, for the operation and management of our education business in the State of California. The Company also engaged an independent education consultant with extensive experience and background in private post-secondary education to advise on and assist the Company in the establishment of our institution in the State of California which would initially offer two undergraduate degree programmes, namely, Bachelor of Science in Computer Science and Bachelor of Science in Business Management. As at the date of this report, University of Science and Technology has submitted licensing application to the Bureau for Private Post-secondary Education in California. We will continue to disclose our progress in the implementation of our overseas expansion plans and updates to the Qualification Requirement in our annual and interim reports.

## LAND USE RIGHT CERTIFICATE, BUILDING OWNERSHIP CERTIFICATES AND FIRE CONTROL ASSESSMENT REQUIREMENTS

As disclosed in the section headed "Business — Properties — Non-compliance with respect to the Land and Buildings of Guangdong Baiyun University and Baiyun Technician College" in the Company's prospectus dated 5 December 2017, land use right certificate for a parcel of land of Guangdong Baiyun University has not been obtained (the "Land Issue"), and building ownership certificates for certain buildings of Guangdong Baiyun University and Baiyun Technician College have not been obtained and the relevant fire control assessment requirements have not been complied with (the "Building and Fire Control Issues"). We have been in discussion with the relevant parties and in the process of applying for re-compliance of the relevant certificates, permits and fire control assessment procedures (the "Rectification"). As at the date of this report, the application is in progress and we have not obtained any formal approvals from the relevant government authorities for the submissions that we made in relation to the Rectification.

Since Rectification would involve protracted discussions with various government authorities and time-consuming government administrative processes, it is expected that it may take no less than two to three years for the completion of Rectification.

We had commissioned qualified independent third parties to undertake a seismic resistance assessment and fire safety assessment on the buildings that do not have building ownership certificates. According to the assessment reports, no material safety issues were identified and the relevant buildings had passed the assessments; buildings can be operated normally as long as they maintain their existing safety conditions.

Furthermore, as disclosed in the Company's prospectus, we acquired the land use right certificate for the first phase of the site of Zhongluotan Land with a site area of 188,666 sq.m. which would be developed into a new campus of Guangdong Baiyun University. The new campus would have ample capacity to accommodate the expansion of the school and to facilitate the relocation of the existing operations of the buildings (the "Old Buildings") affected by the Land Issue, and the Building and Fire Control Issues. Barring unforeseen circumstances, it is anticipated that the new campus will commence operation in the 2019/2020 academic year and the operations in the Old Buildings would also be gradually relocated to the new campus. We will continue to disclose our progress in the rectification and the relocation of the existing operations of the Old Buildings in our annual and interim report.

In view of the mitigating actions that have been taken by the Group, the Directors considered that the Land Issue, and the Building and Fire Control Issues of the Old Buildings would not have a material adverse effect on the operation of the schools.

## INTERESTS OF DIRECTORS IN COMPETING BUSINESS

None of the Directors or any of their respective associates has engaged in any business that competes or is likely to compete, either directly or indirectly, with the business of the Group or has any other conflict of interests with the Group.

## EMPLOYEES AND REMUNERATION POLICIES

### Recruitment

We strictly follow the *PRC Labor Law, Labor Contract Law, Employment Promotion Law, Labor Dispute Mediation and Arbitration Law* as well as provincial and local labor laws and regulations (of where the operating schools locate and operate) in our recruitment process. We prohibit discrimination of staff by age, sex, race, nationality, religion or disability, ensuring everyone has equal employment opportunities and respects.

Schools hire talents based on business development and operational needs, as well as candidate's integrity and professionalism. Our talent selection policy does not only focus on professional knowledge, experience, and relevant qualification, but also on candidate's morality, professional ethics and discipline. Our schools carry out their recruitment works based on the *Teacher and Employee Manual* and the *Methods for Implementing Teachers' Recruitment Work*, and continuously to improve and refine their recruitment processes. School staff recruitment procedures/cycle can be summarised as follows: prehiring advertisement, resume screening, interview invitation, HR interview, professional qualification assessment, employer business assessment, departmental and school senior management interview, background investigation, conditional employment offer, physical examination, and formal employment offer. All candidates with employment offer will have to sign the employment contract no later than one month since the first day report to work, and we stipulate the probation period according to law. Near the end of the probation period, HR department will work with the candidates' respective departments to conduct comprehensive assessments on new employees' performance and personality fit during the probation period, to decide whether we should officially offer the position as scheduled or ahead of the schedule, or terminate the employment.

We actively attract talents through contacting the target colleges, participating in talent recruitment fairs and industry conferences, and encouraging our staff to take advantage of social media to refer and recommend talented candidates to join us. In addition, we provide pre-employment and on-the-job trainings such as assigning coaches (experienced teachers) for newly hired teachers to ensure they have faster and easier transitions and integrations.

# REPORT OF THE DIRECTORS

### Remuneration

As of 31 August 2018, the Group had 6,307 employees (31 December 2017: 4,660), a 35.3% increase from 2017 mainly due to acquisition of two schools. The remuneration packages of the employees of the Group are determined with reference to individual qualification, experience, performance, contribution to the Group and prevailing market rate.

Remuneration policy of our schools is formulated under the guidance of the PRC law and is also based on the industry characteristics as well as various market factors. Staff congress (majority schools of the Group), president's office, and board of directors collectively approve the compensation range. Our member schools determine their respective compensation standards based on the employment by function (teachers, teaching assistants, administrative personnel and workers, etc.) and position (entry-level, team lead, and manager, etc.). Some of our member schools pay fixed annual salary to senior management and top talents such as directors, deans/department heads, administrative leads, and professors. Schools participate in social insurance plans (pension, medical, unemployment, work injury and maternity insurance) under the guidance of relevant national, provincial, and municipalities policies and provide a variety of benefits for employees. For example, Jiangxi University of Technology participates in enterprise annuity for employees plan and Zhengzhou Transit School pays commercial insurance for the retired employees rehired by it, etc.

The Group participates a Mandatory Provident Fund Scheme (the "MPF Scheme") under rules and regulations of MPF Schemes Ordinance for all of its employees in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Schemes Authority under the MPF Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rule of the MPF Scheme, contributions are made based on a percentage of the participating employees' relevant income from the Group and are charged to the profit or loss as they become payable in accordance with the rules of the MPF Scheme. The only obligation of the Group with respect to the MPF Scheme is to make the required contributions under the scheme. When an employee leaves the MPF Scheme, the mandatory contributions are fully vested with the employee.

The employees of the Group in the PRC are members of a state-managed retirement benefits scheme operated by the PRC government. The Group is required to contribute a specified percentage of payroll costs as determined by respective local government authority to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the specified contributions under the scheme.

## REMUNERATION OF DIRECTORS AND THE FIVE HIGHEST PAID INDIVIDUALS

The Remuneration Committee is responsible for making recommendations to the Board on the Company's policy and structure for the remuneration of all Directors and senior management, having regard to their relevant experience, duties and responsibilities, performance and achievement, and market rate. None of the Directors will determine their own remuneration. Details of the Directors' remuneration and the five highest paid individuals in the Group are set out in note 13 to the consolidated financial statements in this annual report.

## PRE-EMPTIVE RIGHTS

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

## PUBLIC FLOAT

As at the date of this report, based on the information publicly available to the Company, the Company continues to meet the prescribed public float under the Listing Rules.

## USE OF NET PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

The Group issued 520,202,000 new Shares (after partially exercising the over-allotment option in January 2018) at the issue price of HK$6.45 per Share in connection with the Listing. The net proceeds after deducting underwriting commission and issuing expenses incurred from the Listing is amounted to approximately RMB2,725.7 million. As at 31 August 2018, the Company has utilised the net proceeds of approximately RMB1,934.9 million and the net proceeds have been applied in the manner as set out in the section headed "Future Plans and Use of Proceeds" of the Company's prospectus dated 5 December 2017. The unutilised net proceeds are placed in licensed financial institutions as short-term deposits.

The following sets forth a summary of the utilisation of the net proceeds from Company's initial public offering as at 31 August 2018:

| Purpose | Percentage to total amount | Net proceeds amount* RMB (million) | Utilised amount RMB (million) | Unutilised amount RMB (million) |
|---|---|---|---|---|
| Acquisition of or cooperation with other universities both domestically and abroad | 59.50% | 1,621.8 | 1,621.8 | — |
| New campus development | 26.90% | 733.2 | 40.7 | 692.5 |
| Repayment of certain portion of bank loans | 8.00% | 218.1 | 218.1 | — |
| Working capital supplement | 2.40% | 65.4 | 36.9 | 28.5 |
| Establishing teacher and staff training centre | 1.10% | 30.0 | 0.4 | 29.6 |
| Research and development | 1.10% | 30.0 | 0.7 | 29.3 |
| Provision of scholarships | 0.50% | 13.6 | 2.7 | 10.9 |
| Maintenance, renovation and upgrading of existing schools | 0.50% | 13.6 | 13.6 | — |
| | 100% | 2,725.7 | 1,934.9 | 790.8 |

* *Net proceeds (including those from partial exercise of over-allotment option) after deducting underwriting commission and issuing expenses incurred from the Listing.*

# REPORT OF THE DIRECTORS

## 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.

## DIRECTORS' PERMITTED INDEMNITY PROVISION

Under the Articles of Association, the Directors or the officers of the Company acting in relation to any of the affairs of the Company shall be indemnified and secured harmless out of the assets of the Company from and 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 respective offices.

## COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

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

## SIGNIFICANT EVENT AFTER REPORTING PERIOD

In September 2018, the acquisition of Songtian University and Songtian College was duly completed. Transfer of equity interest and change in the board of directors and the legal representatives of Songtian Company (the 100% co-sponsor of Songtian University and 100% sponsor of Songtian College) have been completed and duly registered with the relevant government departments in the PRC.

## AUDITOR

The consolidated financial statements of the Group for the eight months ended 31 August 2018 have been audited by Deloitte Touche Tohmatsu. A resolution will be proposed at the forthcoming AGM for the re-appointment of Deloitte Touche Tohmatsu as the independent auditor of the Company.

On behalf of the Board

**Yu Guo** and **Xie Ketao**
*Co-Chairmen*

Hong Kong, 20 November 2018

# INDEPENDENT AUDITOR'S REPORT

Deloitte. 德勤

**TO THE SHAREHOLDERS OF**
**CHINA EDUCATION GROUP HOLDINGS LIMITED**
**中國教育集團控股有限公司**
*(incorporated in the Cayman Islands with limited liability)*

## OPINION

We have audited the consolidated financial statements of China Education Group Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 115 to 225, 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 eight months ended 31 August 2018, 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 eight months ended 31 August 2018 in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") 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 ("HKSAs") 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 (Continued)

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| ***Acquisitions of businesses and impairment assessments of goodwill and intangible assets with indefinite useful life*** | |
| We identified the acquisitions of businesses during the eight months ended 31 August 2018 and impairment assessments of goodwill and intangible assets with indefinite useful life at 31 August 2018 as a key audit matter due to the complexity and significant estimates involved in the assessment process by the management of the Group.<br><br>As disclosed in note 37 to the consolidated financial statements, the Group acquired 樹仁教育管理有限公司 (Shu Ren Education Management Company Limited) ("Shu Ren Education") and 贛州西鐵教育諮詢有限公司 (Ganzhou Xitie Education Consulting Company Limited) ("Xitie Education") during the eight months ended 31 August 2018. The Group has recognised goodwill and intangible assets in an aggregate of RMB590,924,000 and RMB772,315,000 (inclusive of intangible assets with indefinite useful life of RMB738,089,000) respectively as at the date of acquisition. As at 31 August 2018, the Group's goodwill and intangible assets with indefinite useful life have carrying amounts of RMB916,553,000 and RMB938,485,000, respectively.<br><br>With the use of independent valuers, the valuations of intangible assets, representing brand names and student rosters, on the acquisition date, are performed based on key assumptions and estimation used by the management including discount rates, growth rates and useful lives of the intangible assets in respect of the acquisitions made during the reporting period. | Our procedures in relation to the acquisitions of businesses and impairment assessments of goodwill and intangible assets with indefinite useful life at 31 August 2018 included:<br><br>• Checking the arithmetical accuracy of the calculations underlying the purchase price allocations ("PPA");<br><br>• Understanding the nature of the intangible assets being acquired and inquiring of the management of the Group for the factors that goodwill is arisen;<br><br>• Evaluating the competence, capabilities and objectivity of the independent valuers engaged by the management in assessing the PPA and the discount rates applied in calculating the value in use for impairment assessments at 31 August 2018; |

## KEY AUDIT MATTER (Continued)

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| ***Acquisitions of businesses and impairment assessments of goodwill and intangible assets with indefinite useful life*** (Continued) | |
| For the purpose of assessing impairment of goodwill and intangible assets with indefinite useful life at 31 August 2018, respective recoverable amounts have been determined by the management of the Group based on calculation of value in use, using financial budgets with reference to the relevant subsidiaries' past performances and management's expectations for the market development, where the key assumptions and estimates included the growth rates and discount rates used in the value in use calculations.<br><br>Based on the management's assessment, no impairment loss in relation to goodwill and intangible assets has been recognised for the eight months ended 31 August 2018. | • Involving our internal valuation expert to review the valuations performed by the independent valuers in respect of the PPA and the discount rates applied in calculating the value in use for impairment assessments as at 31 August 2018;<br><br>• Assessing the appropriateness of the key assumptions adopted in the discounted cash flows for impairment assessments, by checking historical budgets against historical results and management's expectations for the market development;<br><br>• Testing source data on a sample basis to supporting evidence, such as approved budgets and available market data; and<br><br>• Evaluating the appropriateness of the disclosures in respect of the acquisitions of Shu Ren Education and Xitie Education and impairment assessments of goodwill and intangible assets in the consolidated financial statements. |

# Independent Auditor's Report

## OTHER INFORMATION

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

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

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

## RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB 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 HKSAs 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.

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

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

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in the independent auditor's report is Lee Ka Kei.

**Deloitte Touche Tohmatsu**
*Certified Public Accountants*
Hong Kong

20 November 2018

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the eight months ended 31 August 2018

| | Notes | Eight months ended 31 August 2018 RMB'000 | Year ended 31 December 2017 RMB'000 |
|---|---|---|---|
| **Continuing operations** | | | |
| Revenue | 6 | 932,910 | 949,171 |
| Cost of revenue | | (360,238) | (389,448) |
| Gross profit | | 572,672 | 559,723 |
| Other income | 7 | 54,085 | 54,814 |
| Investment income | 8a | 14,923 | 14,568 |
| Other gains and losses | 8b | (43,616) | 1,105 |
| Selling expenses | | (18,235) | (9,676) |
| Administrative expenses | | (167,520) | (133,369) |
| Listing expenses | | – | (45,498) |
| Finance costs | 9 | (24,381) | (18,472) |
| Profit before taxation | | 387,928 | 423,195 |
| Taxation | 10 | 13,154 | (1,730) |
| Profit and total comprehensive income for the period/year from continuing operations | | 401,082 | 421,465 |
| **Discontinued operations** | | | |
| Profit and total comprehensive income for the period/year from discontinued operations | 12 | – | 7,407 |
| Profit and total comprehensive income for the period/year | 11 | 401,082 | 428,872 |
| Profit and total comprehensive income for the period/year attributable to owners of the Company | | | |
| — from continuing operations | | 357,588 | 421,465 |
| — from discontinued operations | | – | 7,419 |
| | | 357,588 | 428,884 |
| Profit (loss) and total comprehensive income (expense) for the period/year attributable to non-controlling interests | | | |
| — from continuing operations | | 43,494 | – |
| — from discontinued operations | | – | (12) |
| | | 43,494 | (12) |
| | | 401,082 | 428,872 |

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the eight months ended 31 August 2018

| | Note | Eight months ended 31 August 2018 *RMB'000* | Year ended 31 December 2017 *RMB'000* |
|---|---|---|---|
| From continuing and discontinued operations | | | |
| Earnings per share | *15* | | |
| Basic | | RMB17.70 cents | RMB28.16 cents |
| Diluted | | RMB17.62 cents | RMB28.16 cents |
| From continuing operations | | | |
| Earnings per share | *15* | | |
| Basic | | RMB17.70 cents | RMB27.67 cents |
| Diluted | | RMB17.62 cents | RMB27.67 cents |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 August 2018

| | Notes | At 31 August 2018 RMB'000 | At 31 December 2017 RMB'000 |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 16 | 3,258,673 | 2,638,560 |
| Prepaid lease payments | 17 | 63,292 | 54,946 |
| Goodwill | 18 | 916,553 | 325,629 |
| Intangible assets | 18 | 994,162 | 239,547 |
| Contract costs | 22 | 42,699 | – |
| Prepayments for acquisition of business | 21 | 1,246,815 | – |
| Deposits paid for prepaid lease payments | 20 | 113,486 | 40,496 |
| Deposits paid for acquisition of property, plant and equipment | | 27,895 | 2,405 |
| Deferred tax asset | 31 | 11,010 | – |
| | | 6,674,585 | 3,301,583 |
| CURRENT ASSETS | | | |
| Inventories | | 381 | 254 |
| Trade receivables, deposits, prepayments and other receivables | 23 | 130,226 | 71,563 |
| Financial assets at fair value through profit or loss | 24 | 61,805 | 3,402 |
| Structured deposits | 24 | – | 50,500 |
| Contract costs | 22 | 16,269 | – |
| Prepaid lease payments | 17 | 1,506 | 1,506 |
| Restricted bank deposits | 25 | 110,000 | – |
| Bank balances and cash | 25 | 1,738,455 | 3,243,144 |
| | | 2,058,642 | 3,370,369 |
| CURRENT LIABILITIES | | | |
| Deferred income | 26 | 23,651 | 727,280 |
| Trade and bills payables | 27 | 30,925 | 10,715 |
| Other payables, accrued expenses and provisions | 28 | 535,080 | 196,908 |
| Income tax payable | | 12,717 | 12,214 |
| Contract liabilities | 29 | 1,037,964 | – |
| Other borrowings | 30 | 107,000 | – |
| | | 1,747,337 | 947,117 |
| NET CURRENT ASSETS | | 311,305 | 2,423,252 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 6,985,890 | 5,724,835 |

# Consolidated Statement of Financial Position

At 31 August 2018

| | Notes | At 31 August 2018 RMB'000 | At 31 December 2017 RMB'000 |
|---|---|---|---|
| NON-CURRENT LIABILITIES | | | |
| Deferred income | 26 | 34,237 | 25,905 |
| Other payables | 28 | 100,265 | – |
| Bank borrowing | 30 | 130,000 | – |
| Deferred tax liability | 31 | 259,218 | 59,887 |
| | | 523,720 | 85,792 |
| | | 6,462,170 | 5,639,043 |
| CAPITAL AND RESERVES | | | |
| Share capital | 32 | 17 | 17 |
| Reserves | | 6,143,080 | 5,639,026 |
| Equity attributable to owners of the Company | | 6,143,097 | 5,639,043 |
| Non-controlling interests | | 319,073 | – |
| | | 6,462,170 | 5,639,043 |

The consolidated financial statements on pages 115 to 225 were approved and authorised for issue by the Board of Directors on 20 November 2018 and are signed on its behalf by:

Mr. Yu Guo
DIRECTOR

Mr. Xie Ketao
DIRECTOR

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the eight months ended 31 August 2018

| | Attributable to owners of the Company | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital/ paid-up capital *RMB'000* | Share premium *RMB'000* | Merger reserve *RMB'000* *(Note i)* | Other reserve *RMB'000* *(Note ii)* | Share options reserve *RMB'000* | Statutory surplus reserve *RMB'000* *(Note iii)* | Retained profits *RMB'000* | Sub-total *RMB'000* | Non-controlling interests *RMB'000* | Total *RMB'000* |
| At 1 January 2017 | 181,680 | – | – | (33,834) | – | 1,071,788 | 1,303,984 | 2,523,618 | 3,721 | 2,527,339 |
| Profit (loss) and total comprehensive income (expense) for the year | – | – | – | – | – | – | 428,884 | 428,884 | (12) | 428,872 |
| Transfer | – | – | – | – | – | 78,060 | (78,060) | – | – | – |
| Deemed contribution from equity holders from early repayment of non-current interest-free loan | – | – | – | 2,250 | – | – | – | 2,250 | – | 2,250 |
| Capital contribution from one of the equity holders | – | – | – | 17,166 | – | – | – | 17,166 | – | 17,166 |
| Disposal of subsidiaries (note 38) | – | – | – | (17,891) | – | (7) | 17,898 | – | (1,957) | (1,957) |
| Arising from reorganisation | (181,679) | – | 181,679 | – | – | – | – | – | – | – |
| Dividends paid to non-controlling interests | – | – | – | – | – | – | – | – | (1,752) | (1,752) |
| Recognition of equity-settled share-based payments | – | – | – | – | 3,077 | – | – | 3,077 | – | 3,077 |
| Issuance of new shares (note 32) | 17 | 2,746,286 | – | – | – | – | – | 2,746,303 | – | 2,746,303 |
| Repurchase of share | (1) | – | – | – | – | – | – | (1) | – | (1) |
| Transaction cost attributable to issue of new shares | – | (82,254) | – | – | – | – | – | (82,254) | – | (82,254) |
| At 31 December 2017 | 17 | 2,664,032 | 181,679 | (32,309) | 3,077 | 1,149,841 | 1,672,706 | 5,639,043 | – | 5,639,043 |
| Profit and total comprehensive income for the period | – | – | – | – | – | – | 357,588 | 357,588 | 43,494 | 401,082 |
| Transfer | – | – | – | – | – | 37,733 | (37,733) | – | – | – |
| Acquisitions of businesses (note 37) | – | – | – | – | – | – | – | – | 275,579 | 275,579 |
| Recognition of equity-settled share-based payments | – | – | – | – | 40,679 | – | – | 40,679 | – | 40,679 |
| Issuance of new shares (note 32) | – | 105,787 | – | – | – | – | – | 105,787 | – | 105,787 |
| At 31 August 2018 | 17 | 2,769,819 | 181,679 | (32,309) | 43,756 | 1,187,574 | 1,992,561 | 6,143,097 | 319,073 | 6,462,170 |

# Consolidated statement of changes in equity

For the eight months ended 31 August 2018

*Notes:*

i. Amounts represent the transfer of the combined paid-up capital of the subsidiaries comprising the Group to the merger reserve upon the Company became the holding company of the Group upon reorganisation during the year ended 31 December 2017.

ii. The other reserve represents (i) the difference between the principal amounts of consideration paid and the relevant share of carrying value of the subsidiary's net assets acquired from/disposed to the non-controlling interests; (ii) the deemed distribution to equity holders which represents the differences between the fair value of the lower-than-market interest rate advances to Mr. Yu Guo ("Mr. Yu") and Mr. Xie Ketao ("Mr. Xie"), controlling equity holders and an entity controlled by Mr. Xie and the principal amount of the advances at initial recognition; (iii) the deemed contribution from equity holders which represents the differences between the carrying amount of the lower-than-market interest rate advances to Mr. Yu and Mr. Xie and the amount received for the settlement and (iv) capital contribution from Mr. Yu through a company controlled by him.

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

   (i) 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.

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

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the eight months ended 31 August 2018

| | Note | Eight months ended 31 August 2018 RMB'000 | Year ended 31 December 2017 RMB'000 |
|---|---|---|---|
| OPERATING ACTIVITIES | | | |
| Profit for the period/year | | 401,082 | 428,872 |
| Adjustments for: | | | |
| Taxation | | (13,154) | 1,733 |
| Share-based payment expenses | | 40,679 | 3,077 |
| Depreciation for property, plant and equipment | | 100,036 | 127,546 |
| Amortisation of prepaid lease payments | | 1,796 | 1,390 |
| Amortisation of intangible assets | | 17,700 | 7,448 |
| Finance costs | | 24,381 | 18,472 |
| Written-off of trade receivables | | – | 1,285 |
| Impairment loss on trade receivables | | 5,355 | – |
| Fair value change on financial assets at fair value through profit or loss | | (2,314) | 1,021 |
| Asset related government grants | | (4,443) | (7,130) |
| Net gain on structured deposits | | – | (8,982) |
| Imputed interest income from amounts due from directors | | – | (8,045) |
| Imputed interest income from amount due from a related party | | – | (2,012) |
| Interest income from banks | | (14,923) | (4,637) |
| Loss on disposal of property, plant and equipment | | 711 | 276 |
| Gain on disposal of subsidiaries | 38 | – | (15,559) |
| Foreign exchange (gain) loss, net | | (22,430) | 5,295 |
| Operating cash flows before movements in working capital | | 534,476 | 550,050 |
| Increase in inventories | | (127) | (2) |
| Increase in contract costs | | (58,968) | – |
| Decrease (increase) in trade receivables, deposits, prepayments and other receivables | | 33,328 | (23,376) |
| Decrease in financial assets at fair value through profit or loss | | – | 2,933 |
| Decrease in amount due from a related party | | – | 93,526 |
| Increase in deferred income | | 11,411 | 116,649 |
| Decrease in trade and bills payables | | (126,070) | (413) |
| Decrease in amounts due to related parties | | – | (3,735) |
| Decrease in other payables, accrued expenses and provisions | | (61,431) | (29,471) |
| Increase in contract liabilities | | 74,294 | – |
| Cash generated from operations | | 406,913 | 706,161 |
| Income tax paid | | (2,604) | (26) |
| NET CASH FROM OPERATING ACTIVITIES | | 404,309 | 706,135 |

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the eight months ended 31 August 2018

| | Notes | Eight months ended 31 August 2018 RMB'000 | Year ended 31 December 2017 RMB'000 |
|---|---|---|---|
| INVESTING ACTIVITIES | | | |
| Placement of prepayments for acquisition of business | 21 | (1,246,815) | – |
| Net cash outflow from acquisitions of businesses | 37 | (243,965) | (657,282) |
| Purchase of structured deposits | | (107,613) | (370,500) |
| Placement of restricted bank deposits | | (100,000) | – |
| Payments for additions of property, plant and equipment | | (75,292) | (112,376) |
| Deposits paid for acquisition of property, plant and equipment | | (26,760) | (231) |
| Redemption of structured deposits | | 106,117 | 794,183 |
| Interest income from banks | | 14,923 | 4,637 |
| Government grants received | | 12,290 | 9,377 |
| Withdrawal of restricted bank deposits | | 10,000 | – |
| Proceeds from disposal of property, plant and equipment | | 879 | 1,217 |
| Advances to directors | | – | (56,774) |
| Advances to related parties | | – | (23,159) |
| Net cash outflow from disposal of subsidiaries | 38 | – | (5,741) |
| Repayment from directors | | – | 513,101 |
| Repayments from related parties | | – | 15,926 |
| Repayment from third parties | | – | 7,315 |
| NET CASH (USED IN) FROM INVESTING ACTIVITIES | | (1,656,236) | 119,693 |
| FINANCING ACTIVITIES | | | |
| Repayment of other borrowings | | (275,310) | – |
| Repayments to related parties | | (268,964) | (211) |
| Repayment of bank borrowings | | (70,000) | (563,076) |
| Interest paid | | (9,116) | (21,171) |
| Issue costs paid | | (4,899) | (77,355) |
| Repayment to a former related party | | – | (34,532) |
| Repayment to a director | | – | (3,898) |
| Dividend paid to non-controlling interests | | – | (1,752) |
| New bank borrowings raised | | 170,000 | 110,000 |
| Proceeds from issuance of new shares | | 105,787 | 2,746,303 |
| New other borrowings raised | | 77,310 | – |
| Capital contribution from one of the equity holders | | – | 17,166 |
| Advance from a director | | – | 3,898 |
| NET CASH (USED IN) FROM FINANCING ACTIVITIES | | (275,192) | 2,175,372 |
| NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | | (1,527,119) | 3,001,200 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD/YEAR | | 3,243,144 | 247,133 |
| EFFECT OF FOREIGN EXCHANGE RATE CHANGES | | 22,430 | (5,189) |
| CASH AND CASH EQUIVALENTS AT END OF THE PERIOD/YEAR, REPRESENTING BANK BALANCES AND CASH | | 1,738,455 | 3,243,144 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the eight months ended 31 August 2018

## 1. GENERAL

China Education Group Holdings Limited (the "Company") was incorporated in the Cayman Islands and registered as an exempted company with limited liability under the Companies Law Chapter 22 of the Cayman Islands on 19 May 2017. Its ultimate controlling parties are Mr. Yu and Mr. Xie (Mr. Yu and Mr. Xie collectively as the "Controlling Equity Holders"), who are the Co-chairmen of the board and executive directors of the Company. The shares of the Company had been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 15 December 2017 (the "Listing"). The address of the registered office of the Company is the offices of Walkers Corporate Limited, 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 Suite 1504, Two Exchange Square, 8 Connaught Place, Central, Hong Kong.

The Company is an investment holding company. The principal activities of its subsidiaries are engaged in the operation of private higher and vocational education institutions.

The main operating activities of the Company and its subsidiaries (collectively referred to as the "Group") were carried out by 江西科技學院 ("Jiangxi University of Technology"), 廣東白雲學院 ("Guangdong Baiyun University"), 廣州白雲工商高級技工學校(廣州市白雲工商技師學校) ("Baiyun Technician College"), 鄭州城軌交通中等專業學校 ("Zhengzhou Transit School") and 西安鐵道技師學校 ("Xi'an Railway College") which were established in the PRC and engaged in the provision of higher education and vocational education.

The Group conducts a substantial portion of the business through Jiangxi University of Technology, 江西江科科技園管理有限公司 (Jiangxi Jiangke Technology Park Management Company Limited) ("Jiangxi Technology Park"), 江西科技學院附屬中學 (the Affiliated High School of the Jiangxi University of Technology) ("Jiangxi Affiliated High School"), 江西科技學院基金會 (Jiangxi University of Technology Foundation) ("Jiangxi Foundation") and 江西紅綠藍科技有限公司 (Jiangxi Red Green and Blue Technology Co., Ltd.) ("Jiangxi Red Green and Blue") (collectively known as the "Jiangxi Educational Group"), Guangdong Baiyun University, 廣東白雲大學人力資源有限公司 (Guangdong Baiyun University Students Human Resources Company Limited) ("Baiyun Human Resources") and 天星社會工作服務中心 ("Tianxing Social Services Centre") (collectively known as the "Guangdong Educational Group"), 樹仁教育管理有限公司 (Shu Ren Education Management Company Limited) ("Shu Ren Education") and Zhengzhou Transit School (collectively known as the "Zhengzhou Education Group") and 贛州西鐵教育諮詢有限公司 (Ganzhou Xitie Education Consulting Company Limited) ("Xitie Education"), 陝西西鐵教育投資有限公司 (Shaanxi Xitie Education Investing Company Limited) and Xi'an Railway College (collectively known as the "Xi'an Education Group") (Jiangxi Education Group, Guangdong Education Group, Zhengzhou Education Group, Xi'an Education Group together with Baiyun Technician College, are collectively known as the "Consolidated Affiliated Entities") in the PRC.

Acquisitions and disposals of certain Consolidated Affiliated Entities during the eight months ended 31 August 2018 and the year ended 31 December 2017 are detailed in notes 37 and 38.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the eight months ended 31 August 2018

## 1. GENERAL (Continued)

Due to regulatory restrictions on foreign ownership in the schools in the PRC, the Company does not have any equity interest in the Consolidated Affiliated Entities. However, as a result of the contractual arrangements entered by a wholly-owned subsidiary of the Company, 華教教育科技(江西)有限公司 (Huajiao Education Technology (Jiangxi) Company Limited) ("Huajiao Education"), with Jiangxi University of Technology, Guangdong Baiyun University, Baiyun Technician College, 贛州市華方教育諮詢有限公司 (Ganzhou Huafang Education Consulting Company Limited) ("Huafang Education") and 禮和教育諮詢 (贛州)有限公司 (Lihe Education Consulting (Ganzhou) Company Limited ("Lihe Education") and the Controlling Equity Holders (the "Contractual Arrangements"), the Company has power over the Consolidated Affiliated Entities, has rights to variable returns from its involvement with the Consolidated Affiliated Entities and has the ability to affect those returns through its power over the Consolidated Affiliated Entities and is therefore considered to have control over the Consolidated Affiliated Entities. Consequently, the Company regards the Consolidated Affiliated Entities as indirect subsidiaries and their financial positions and results are included in the consolidated financial statements for the eight months ended 31 August 2018 and the year ended 31 December 2017.

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

| | Eight months ended 31 August 2018 RMB'000 | Year ended 31 December 2017 RMB'000 |
|---|---|---|
| Revenue | 932,910 | 970,572 |
| Profit before taxation | 443,313 | 482,724 |

| | At 31 August 2018 RMB'000 | At 31 December 2017 RMB'000 |
|---|---|---|
| Non-current assets | 6,670,573 | 3,265,852 |
| Current assets | 2,368,984 | 1,443,132 |
| Current liabilities | 4,731,340 | 917,689 |
| Non-current liabilities | 523,720 | 93,348 |

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

## 2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

As set out in the announcement of the Company issued on 3 August 2018, the financial year end date of the Company and the Group has been changed from 31 December to 31 August to align the financial year end date of the Group with the academic year of the schools operated by the Group in the PRC, which ends in August each year. Accordingly, the current accounting period covers a period of eight months from 1 January 2018 to 31 August 2018. The corresponding comparative amounts shown for the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and related notes cover a period of twelve months from 1 January 2017 to 31 December 2017 are therefore not entirely comparable with those of the current period.

## 3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

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

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

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

Except as described below, the application of the new and amendments to IFRSs in the current period has had no material impact on the Group's financial performance and positions for the current period and prior year and/or on the disclosures set out in these consolidated financial statements.

### *3.1 IFRS 15 "Revenue from Contracts with Customers" ("IFRS 15")*

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

The Group has applied IFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated. Furthermore, in accordance with the transition provisions in IFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 18 "Revenue" and the related interpretations.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the eight months ended 31 August 2018

## 3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (Continued)

### New and Amendments to IFRSs that are mandatorily effective for the current period (Continued)

#### 3.1 *IFRS 15 "Revenue from Contracts with Customers" ("IFRS 15")* (Continued)

The Group is mainly engaged in the provision of private higher and vocational educational institution services in the PRC.

Revenue represents services income from tuition, boarding fees and ancillary services which arise from contracts with customers.

Information about the Group's performance obligations and the accounting policies resulting from application of IFRS 15 are disclosed in notes 6 and 4 respectively.

*Summary of effects arising from initial application of IFRS 15*

The Group's major revenue-generating operation, representing tuition fees, boarding fees and ancillary services fees (each being single performance obligations) are recognised under input methods. The Group's efforts and inputs paid in order to earn tuition fees and boarding fees are expanded evenly throughout the school terms, therefore the existing method for recognising these two streams of revenue on a straight-line basis continue to be appropriate under IFRS 15, and thus there are no adjustments to retained profits arising from initial application of IFRS 15.

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

| | Carrying amount previously reported at 31 December 2017 | Reclassification | Carrying amounts under IFRS 15 at 1 January 2018* |
|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* |
| **Current liabilities** | | | |
| Deferred income | 727,280 | (714,555) | 12,725 |
| Contract liabilities | – | 714,555 | 714,555 |

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

At the date of initial application, included in the total deferred income amounting to RMB652,114,000, RMB51,935,000 and RMB10,506,000 are related to the tuition fees, boarding fees and fees for ancillary services, respectively received in advance from students. These balances were reclassified to contract liabilities upon application of IFRS 15.

## 3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (Continued)

**New and Amendments to IFRSs that are mandatorily effective for the current period** (Continued)

### 3.1 *IFRS 15 "Revenue from Contracts with Customers" ("IFRS 15")* (Continued)

*Summary of effects arising from initial application of IFRS 15* (Continued)

The following tables summarise the impacts of applying IFRS 15 in the Group's consolidated statement of financial position as at 31 August 2018 and its consolidated statement of profit or loss and other comprehensive income for the current period for each of the line items affected. Line items that were not affected by the changes have not been included.

**Impact on the consolidated statement of financial position**

| | *Notes* | As reported at 31 August 2018 *RMB'000* | Adjustment *RMB'000* | Amounts without application of IFRS 15 at 31 August 2018 *RMB'000* |
|---|---|---|---|---|
| **Non-current asset** | | | | |
| Contract costs | *(i)* | 42,699 | (42,699) | – |
| **Current asset** | | | | |
| Contract costs | *(i)* | 16,269 | (16,269) | – |
| **Current liabilities** | | | | |
| Deferred income | *(ii)* | 23,651 | 1,037,964 | 1,061,615 |
| Contract liabilities | *(ii)* | 1,037,964 | (1,037,964) | – |
| **Capital and reserves** | | | | |
| Reserves | *(i)* | 6,143,080 | (40,343) | 6,102,737 |
| Non-controlling interests | *(i)* | 319,073 | (18,625) | 300,448 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the eight months ended 31 August 2018

## 3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (Continued)

**New and Amendments to IFRSs that are mandatorily effective for the current period** (Continued)

***3.1 IFRS 15 "Revenue from Contracts with Customers" ("IFRS 15")*** (Continued)

*Summary of effects arising from initial application of IFRS 15* (Continued)

**Impact on the consolidated statement of profit or loss and other comprehensive income**

| | *Notes* | As reported for the eight months ended 31 August 2018 *RMB'000* | Adjustment *RMB'000* | Amounts without application of IFRS 15 for the eight months ended 31 August 2018 *RMB'000* |
|---|---|---|---|---|
| Selling expenses | *(i)* | (18,235) | (58,968) | (77,203) |
| Profit before taxation | *(i)* | 387,928 | (58,968) | 328,960 |
| Profit and total comprehensive income for the period | *(i)* | 401,082 | (58,968) | 342,114 |

## 3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (Continued)

### New and Amendments to IFRSs that are mandatorily effective for the current period (Continued)

#### *3.1 IFRS 15 "Revenue from Contracts with Customers" ("IFRS 15")* (Continued)

*Summary of effects arising from initial application of IFRS 15* (Continued)

**Impact on the consolidated statement of cash flows**

| | Notes | As reported for the eight months ended 31 August 2018 RMB'000 | Adjustment RMB'000 | Amounts without application of IFRS 15 for the eight months ended 31 August 2018 RMB'000 |
|---|---|---|---|---|
| Profit for the period | *(i)* | 401,082 | (58,968) | 342,114 |
| Operating cash flows before movements in working capital | *(i)* | 534,476 | (58,968) | 475,508 |
| Increase in contract costs | *(i)* | (58,968) | 58,968 | – |
| Increase in deferred income | *(ii)* | 11,411 | 74,294 | 85,705 |
| Increase in contract liabilities | *(ii)* | 74,294 | (74,294) | – |

*Notes:*

(i) During the eight months ended 31 August 2018, the Group paid incremental commission fees to agents for successful referral of students. Under IFRS 15, such commission fees meet the recognition criteria of contract assets and are capitalised for amortisation in a systemic basis with the transfer of services of education programmes ranging from 3 years to 5 years. As at 31 August 2018, there are contract costs of RMB42,699,000 and RMB16,269,000 included in non-current assets and current assets, respectively which would have been recognised as selling expenses for the eight months ended 31 August 2018 without application of IFRS 15.

(ii) As at 31 August 2018, there are contract liabilities of RMB1,037,964,000 included in current liabilities which would have been classified as deferred income without application of IFRS 15.

## 3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (Continued)

### New and Amendments to IFRSs that are mandatorily effective for the current period (Continued)

#### *3.2 IFRS 9 "Financial Instruments" ("IFRS 9")*

In the current period, the Group has applied IFRS 9 "Financial Instruments". IFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities and 2) expected credit losses ("ECL") for financial assets.

The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018.

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

Accounting policies resulting from application of IFRS 9 are disclosed in note 4.

*Summary of effects arising from initial application of IFRS 9*

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

| | Financial assets designated at FVTPL<br>*RMB'000* | Financial assets at FVTPL required by IAS 39/ IFRS 9<br>*RMB'000* |
|---|---|---|
| At 31 December 2017 under IAS 39 | 50,500 | 3,402 |
| Effect arising from initial application of IFRS 9: | | |
| **Reclassification** | | |
| From designated at fair value through profit of loss ("FVTPL") | (50,500) | 50,500 |
| Opening balance at 1 January 2018 | – | 53,902 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the eight months ended 31 August 2018

## 3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (Continued)

### New and Amendments to IFRSs that are mandatorily effective for the current period (Continued)

#### *3.2 IFRS 9 "Financial Instruments" ("IFRS 9")* (Continued)

*Financial assets at FVTPL and/or designated at FVTPL*

At the date of initial application, the Group no longer applied designation as measured at FVTPL for the structured deposits as these financial assets are required to be measured at FVTPL under IFRS 9. As a result, the fair value of these investments of RMB50,500,000 were reclassified from financial assets designated at FVTPL to financial assets at FVTPL.

Remaining investments of RMB3,402,000 are equity securities held for trading which are required to be classified as FVTPL under IFRS 9. There is no impact on the amounts recognised in relation to these assets from the application of IFRS 9.

*Impairment under ECL model*

The Group applies the IFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade receivables. To measure the ECL for trade receivable from students, trade receivables from students have been grouped based on the ageing of receivables. In determining the ECL for receivables from educational bureaus, they are assessed individually.

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

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

As at 1 January 2018, the directors of the Company reviewed and assessed the Group's existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of IFRS 9. No additional credit loss allowance has been recognised against retained profits.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the eight months ended 31 August 2018

## 3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (Continued)

### New and Amendments to IFRSs that are mandatorily effective for the current period (Continued)

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

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

| | 31 December 2017 | IFRS 15 | IFRS 9 | 1 January 2018 |
|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Current assets** | | | | |
| Structured deposits | 50,500 | – | (50,500) | – |
| Financial assets at FVTPL | 3,402 | – | 50,500 | 53,902 |
| | 53,902 | – | – | 53,902 |
| **Current liabilities** | | | | |
| Deferred income | 727,280 | (714,555) | – | 12,725 |
| Contract liabilities | – | 714,555 | – | 714,555 |
| | 727,280 | – | – | 727,280 |

### New and amendments to IFRSs in issue but not yet effective

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

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

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

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

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

4 Effective for business combination for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.

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

## 3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (Continued)

### New and amendments to IFRSs in issue but not yet effective (Continued)

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

#### *IFRS 16 "Leases" ("IFRS 16")*

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 ("IAS 17") 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.

Furthermore, extensive disclosures are required by IFRS 16.

As at 31 August 2018, the Group has non-cancellable operating lease commitments of approximately RMB114,702,000 as disclosed in note 39. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of IFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the eight months ended 31 August 2018

## 3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (Continued)

### New and amendments to IFRSs in issue but not yet effective (Continued)

***IFRS 16 "Leases" ("IFRS 16")*** (Continued)

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

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Group intends to elect the practical expedient to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC-Int 4 "Determining whether an Arrangement contains a Lease" ("IFRIC-Int 4") and not apply IFRS 16 to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC-Int 4. Therefore, the Group will not reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application. Furthermore, the Group intends to elect the modified retrospective approach for the application of IFRS 16 as lessee and will recognise the cumulative effect of initial application, if any, to opening retained profits without restating comparative information.

***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 10, 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.

## 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 of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of the reporting period, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in the consolidated financial statements are 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".

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

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

The principal accounting policies are set out below.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Basis of consolidation

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

(i) has power over the investee;

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

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

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

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the reporting period 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.

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

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Basis of consolidation (Continued)

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

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

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

When the Group loses control of a subsidiary, the assets and liabilities of that subsidiary and non-controlling interests (if any) are derecognised. A gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets, and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs).

### *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.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Business combination

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

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 "Income Taxes" and IAS 19 "Employee Benefits" respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 at the acquisition date (see the accounting policy below); and

- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the fair value of the identifiable assets acquired and the liabilities assumed as at acquisition date. If, after re-assessment, the fair value of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

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

When the consideration transferred by the Group in a business combination included a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Business combination (Continued)

The subsequent accounting for the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured to fair value at subsequent reporting dates, with the corresponding gain or loss being recognised in profit or loss.

### Indemnification assets

Indemnification assets are recognised at acquisition dates upon business acquisition as assets and on the same basis as the indemnified items which are recognised as liabilities of the acquired subsidiaries, and are subject to impairment assessment at the end of the reporting period based on the evaluation of collectability. Indemnification assets are only derecognised when collected, disposed or when rights to it are lost.

### Goodwill

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

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

A cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit (or group of cash-generating units).

On disposal of the relevant cash-generating unit or any of the cash-generating unit within the group of cash-generating units, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal. When the Group disposes of an operation within the cash-generating unit (or a cash-generating unit within a group of cash-generating units), the amount of goodwill disposed of is measured on the basis of the relative values of the operation (or the cash-generating unit) disposed of and the portion of the cash-generating unit (or the group of cash-generating units) retained.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Revenue from contract with customers (upon application of IFRS 15 in accordance with transitions in note 3)

Under IFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligations, representing tuition, boarding and ancillary services, are transferred to the students.

A performance obligation represents a good and service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct goods or service.

Contract liabilities represent the Group's obligation to transfer goods or services to the students for which the Group has received tuition fees, boarding fees and fees for ancillary services from the students.

#### *Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation*

*Input method*

The progress towards complete satisfaction of a performance obligation is measured based on input method, which is to recognise revenue on the basis of the Group's efforts or inputs (mainly representing teaching staff costs, rental expenses and depreciation of school premises) to the satisfaction of a performance obligation relative to the total expected inputs to the satisfaction of that performance obligation, that best depict the Group's performance in transferring control of goods or services.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Revenue from contract with customers (upon application of IFRS 15 in accordance with transitions in note 3) (Continued)

***Incremental costs of obtaining a contract***

Incremental costs of obtaining a contract are those costs that the Group incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained.

The Group recognises such costs (commissions to agents for successful referral of students) as an asset if it expects to recover these costs. The asset so recognised is subsequently amortised to profit or loss on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the assets relate.

### Revenue recognition (prior to 1 January 2018)

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.

Tuition and boarding fees received from universities, primary schools, secondary schools and vocational schools are generally paid in advance at the beginning of school term, and are initially recorded as deferred revenue. Tuition and boarding fees are recognised proportionately over the relevant period of the applicable programme. The portion of tuition and boarding payments received from students but not earned is recorded as deferred revenue and is reflected as a current liability as such amounts represent revenue that the Group expects to earn within normal operating cycle.

Ancillary service income is recognised when services are provided.

Other service income is recognised when services are provided.

Interest income is accrued on a time apportionment basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

### Lease

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

***The Group as lessee***

Operating lease payments, including the cost of acquiring land held under operating leases, are recognised as an expense on a straight-line basis over the lease term.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the eight months ended 31 August 2018

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Leasehold land and building

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

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

### Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of 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. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Government grants (Continued)

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.

### Retirement benefit costs

Payments to defined contribution retirement benefit plan, state-managed retirement benefit scheme and Mandatory Provident Fund Scheme ("MPF Scheme") are recognised as an expense 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 payment transactions***

*Share options granted to employees*

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

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

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

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 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 period/year. Taxable profit differs from profit before taxation because of income or expense that are taxable or deductible in other years and it further excludes 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.

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 goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. 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 rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax are recognised in profit or loss.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Property, plant and equipment

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

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

Depreciation is recognised so as to write off the cost of items of property, plant and equipment 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 each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

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

### Intangible assets

***Intangible assets acquired in a business combination***

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

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less any subsequent accumulated impairment losses. Intangible assets acquired in a business combination with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Intangible assets (Continued)

***Intangible assets acquired in a business combination* (Continued)**

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

### Impairment on tangible, intangible assets and contract costs other than goodwill (see the accounting policy in respect of goodwill above)

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives and contract costs 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). Intangible assets with indefinite useful lives are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

The recoverable amount of tangible and intangible assets are estimated individually, or when it is not possible to estimate the recoverable amount of an asset individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. 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.

Before the Group recognises an impairment loss for assets capitalised as contract costs under IFRS 15, the Group assesses and recognises any impairment loss on other assets related to the relevant contracts in accordance with applicable standards. Then, impairment loss, if any, for assets capitalised as contract costs is recognised to the extent the carrying amounts exceeds the remaining amount of consideration that the Group expects to receive in exchange for related goods or services less the costs which relate directly to providing those goods or services that have not been recognised as expenses. The assets capitalised as contract costs are then included in the carrying amount of the cash-generating unit to which they belong for the purpose of evaluating impairment of that cash-generating unit.

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.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Impairment on tangible, intangible assets and contract costs other than goodwill (see the accounting policy in respect of goodwill above) (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 to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or 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.

### Inventories

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

### Financial instruments

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

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with IFRS 15 since 1 January 2018. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and 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 asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the eight months ended 31 August 2018

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

***Financial assets***

*Classification and subsequent measurement of financial assets (upon application of IFRS 9 in accordance with transitions in accordance with note 3)*

Trade receivables arising from contracts with customers are initially measured in accordance with IFRS 15.

Other than trade receivables, all financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs except for those financial assets classified as financial asset at FVTPL. Transaction costs directly attributable to the acquisition of financial assets classified as at FVTPL are recognised immediately in profit or loss.

All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value on the basis of the Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at fair value.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or

- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

- it is a derivative that is not designated and effective as a hedging instrument.

Except for financial assets at FVTPL, all other financial assets including trade receivables, deposits and other receivables, restricted bank deposits and bank balances and cash are subsequently measured at amortised costs.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

***Financial assets*** (Continued)

*Classification and subsequent measurement of financial assets (upon application of IFRS 9 in accordance with transitions in accordance with note 3)* (Continued)

Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost and debt instruments. For financial instruments other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the assets is no longer credit-impaired.

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or fair value through other comprehensive income ("FVTOCI") or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of the reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial asset and is included in the "other gains and losses" line item.

*Impairment of financial assets (upon application of IFRS 9 in accordance with transitions in accordance with note 3)*

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under IFRS 9 (including trade receivables, deposits and other receivables, restricted bank deposits and bank balances and cash). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12m ECL represents the portion of lifetime ECL that is expected to result from default events that are possible within twelve months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the end of reporting period as well as the forecast of future conditions.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

***Financial assets*** (Continued)

*Impairment of financial assets (upon application of IFRS 9 in accordance with transitions in accordance with note 3)* (Continued)

The Group recognises lifetime ECL for trade receivables arising from revenue from contracts with customers. The ECL on trade receivables from students are assessed collectively using a provision matrix with appropriate groupings while ECL on receivables from educational bureaus are assessed individually.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the end of the reporting period with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

***Financial assets*** (Continued)

*Impairment of financial assets (upon application of IFRS 9 in accordance with transitions in accordance with note 3)* (Continued)

(i) Significant increase in credit risk (Continued)

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the aforegoing, the Group assumes that the credit risk on the restricted bank deposits and most of the bank balances has not increased significantly since initial recognition as the restricted bank deposits and most of the bank balances are determined to have low credit risk at the reporting date. The restricted bank deposits and most of the bank deposits are considered to have low credit risk as they are deposited with the financial institutions which have an internal or external credit rating of "investment grade" as per globally understood definition.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above, The Group considers that default has occurred when a financial assets is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the eight months ended 31 August 2018

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

***Financial assets*** (Continued)

*Impairment of financial assets (upon application of IFRS 9 in accordance with transitions in accordance with note 3)* (Continued)

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

(e) the disappearance of an active market for that financial asset because of financial difficulties.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, or in the case of trade receivables, when the student drops out from the tuition programme, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

***Financial assets*** (Continued)

*Impairment of financial assets (upon application of IFRS 9 in accordance with transitions in accordance with note 3)* (Continued)

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability weighted amount that is determined with the respective risks of default occuring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the below basis:

- Nature of financial instruments (i.e. the Group's trade receivables are assessed as a separate group. Other financial assets including deposits and other receivables, restricted bank deposits and bank balances are assessed for expected credit losses on an individual basis);
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables where the corresponding adjustment is recognised through a loss allowance account.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

***Financial assets*** (Continued)

*Classification and subsequent measurement of financial assets (before application of IFRS 9 on 1 January 2018)*

The Group's financial assets are classified into the following specified categories: financial assets at FVTPL and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchase 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.

Financial asset at FVTPL
Financial assets are classified as at FVTPL when the financial assets are held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 "Financial Instruments: Recognition and Measurement" permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets and is included in the other gains and losses line item. Fair value is determined in the manner described in note 36(c).

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

***Financial assets*** (Continued)

*Classification and subsequent measurement of financial assets (before application of IFRS 9 on 1 January 2018)* (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 receivables, deposits and other receivables and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy in respect of impairment loss on financial assets below).

Interest income is recognised by applying the effective interest rate.

*Impairment of financial assets (before application of IFRS 9 on 1 January 2018)*

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

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

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

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 and observable changes in national or local economic conditions that correlate with default on receivables.

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the eight months ended 31 August 2018

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

***Financial assets*** (Continued)

*Impairment of financial assets (before application of IFRS 9 on 1 January 2018)* (Continued)

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

*Derecognition of financial assets*

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

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

***Financial liabilities and equity instruments***

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

*Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of 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.

*Financial liabilities subsequently measured at amortised cost*

Financial liabilities including trade and bills payable, other payables and bank and other borrowings, are subsequently measured at amortised cost, using the effective interest method.

***Derecognition of financial liabilities***

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

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

## 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 judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

### Critical accounting judgments

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the eight months ended 31 August 2018

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

### Critical accounting judgments (Continued)

#### *(a) Contractual Arrangements*

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

Nevertheless, the Contractual Arrangements and other measures may not be as effective as direct legal ownership in providing the Group with direct control over the Consolidated Affiliated Entities and uncertainties presented by the PRC legal system could impede the Group's beneficiary rights of the operating results, assets and liabilities of the Consolidated Affiliated Entities. The management of the Group, based on the advice of its legal counsel, consider that the Contractual Arrangements among Huajiao Education, Huafang Education, Lihe Education, the Consolidated Affiliated Entities and the Controlling Equity Holders are in compliance with the relevant PRC laws and regulations and are legally enforceable.

#### *(b) Intangible assets with indefinite useful lives*

The management consider that the brand names, as set out in note 18, for all practical purposes have indefinite useful lives and are therefore not amortised until their useful lives are determined to be finite. The brand names are tested for impairment annually.

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

### 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 each reporting period, that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next twelve months.

#### *(c) Impairment assessment of goodwill and intangible asset with indefinite useful life*

Determine whether goodwill and brand names with indefinite useful life are impaired requires an estimation of the recoverable amount of the cash-generating units ("CGU") to which goodwill has been allocated, which is the higher of the value in use or fair value less costs of disposal. The value in use calculation requires the Group to estimate the present value of the future cash flows expected to arise from the CGUs containing goodwill and brand names using suitable discount rates. Key assumptions and estimation including the growth rates and discount rate were used in the value in use calculation. Where the actual future cash flows are less than expected, or change in facts and circumstances which results in downward revision of future cash, a material impairment may arise. As at 31 August 2018, the carrying amounts of goodwill and brand names were approximately RMB916,553,000 and RMB938,485,000 (31 December 2017: RMB325,629,000 and RMB200,396,000), respectively. Details of the calculation of recoverable amounts are disclosed in note 19.

#### *(d) 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 assesses impairment whenever events or changes in circumstances indicate that the carrying amount of an item of property, plant and equipment may not be recoverable. The management will increase the depreciation charge where useful lives are estimated to be shorter than previously estimated, or will write off or write down obsolete assets that have been abandoned or impaired. At 31 August 2018, the carrying amount of property, plant and equipment was approximately RMB3,258,673,000 (31 December 2017: RMB2,638,560,000). Any changes in these estimates may have a material impact on the results of the Group.

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

### Key sources of estimation uncertainty (Continued)

#### (e) *Useful life and recoverability of prepaid lease payments*

The Group's management determines the estimated lease period and the amortisation method in determining the related amortisation charges for its prepaid land lease payments. The Group's prepaid land 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 lease terms in the PRC. In addition, management assesses impairment whenever events or changes in circumstances indicate that the carrying amount of an item of prepaid land lease payments may not be recoverable. Management will increase the amortisation charge where useful lives are estimated to be shorter than previously estimated, or will write off or write down obsolete assets that have been abandoned or impaired. At 31 August 2018, the carrying amount of prepaid land lease payments was approximately RMB64,798,000 (31 December 2017: RMB56,452,000). Any change in these estimates may have a material impact on the results of the Group.

#### (f) *Income taxes*

Management estimation 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 10. 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. In addition, the Group provides deferred tax liabilities in relation to the earnings expected to be distributed from its subsidiaries in the PRC. Deferred tax liabilities have not been provided on the distributable profits of these entities as the Group plans to retain in the respective entities for their daily operations and future developments. In case where the actual distribution of profits are larger than expected, material tax liabilities will arise, which will be recognised in profit or loss in the period in which such profits are declared or the future development plan of the Group is vanished, whichever is earlier.

## 6. REVENUE AND SEGMENT INFORMATION

The Group is mainly engaged in the provision of private higher and vocational education institution services in the PRC.

Revenue represents services income from tuition, boarding fee and ancillary services.

Information reported to the Group's chief operating decision maker ("CODM"), Mr. Yu and Mr. Xie, for the purpose of resource allocation and assessment of segment performance, was based on the categories of education institutions, namely higher education and vocational education. Each category of institutions constitutes an operating segment. The services provided and type of customers are similar in each operating segment, and each operating segment is subject to similar regulatory environment. Accordingly, their segment information is aggregated as a single reportable segment which is the same as the consolidated statement of profit or loss and other comprehensive income as disclosed on pages 115 and 116. The accounting policies of the reportable segment are the same as the Group's accounting policies described in note 4. No analysis of segment assets or segment liabilities is presented as they are not regularly provided to the CODM.

### Revenue from major services

The following is an analysis of the Group's revenue from continuing operations from the major service lines:

***For the eight months ended 31 August 2018***

| | *RMB'000* |
|---|---|
| Tuition fees recognised over time | 844,702 |
| Boarding fees recognised over time | 76,031 |
| Ancillary services recognised over time | 12,177 |
| | 932,910 |

The Group's contracts with students for higher education and vocational education programmes are normally with duration of 1 year renewed up to total duration of 3 – 5 years depending on the education programmes, while those for boarding fees are normally with duration of 1 year. Tuition and boarding fees are determined and paid by the students before the start of the school year while the ancillary services are charged based on students' usage at fixed rate.

***For the year ended 31 December 2017***

| | *RMB'000* |
|---|---|
| Tuition fees | 857,539 |
| Boarding fees | 65,279 |
| Ancillary services | 26,353 |
| | 949,171 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the eight months ended 31 August 2018

## 6. REVENUE AND SEGMENT INFORMATION (Continued)

### Geographical information

The Group operates in the PRC. All of the Group's revenue from continuing operations and the non-current assets of the Group are located in the PRC.

### Information about major customers

No single customer contributes over 10% or more of total revenue of the Group during the eight months ended 31 August 2018 and the year ended 31 December 2017.

### Transaction price allocated to the remaining performance obligation for contracts with customers

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

## 7. OTHER INCOME

| | Eight months ended 31 August 2018 *RMB'000* | Year ended 31 December 2017 *RMB'000* |
|---|---|---|
| **Continuing operations** | | |
| Government grants *(Note)* | 16,647 | 12,478 |
| Academic administration income | 14,132 | 14,907 |
| Management fee income | 12,090 | 5,817 |
| Staff quarter income | 1,834 | 3,164 |
| Utilities income | 1,795 | 3,004 |
| Internet service income | 840 | 2,753 |
| Consultancy income | – | 6,750 |
| Others | 6,747 | 5,941 |
| | 54,085 | 54,814 |

*Note:* Government grants mainly represent subsidies from government for procurement of laboratory apparatus and equipment, conducting educational programmes and congratulatory subsidies on the listing of the shares of the Company on the Stock Exchange.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the eight months ended 31 August 2018

## 8a. INVESTMENT INCOME

| | Eight months ended 31 August 2018 RMB'000 | Year ended 31 December 2017 RMB'000 |
|---|---|---|
| **Continuing operations** | | |
| Imputed interest income from amounts due from directors | – | 8,045 |
| Imputed interest income from amount due from a related party | – | 2,012 |
| Interest income from banks | 14,923 | 4,511 |
| | 14,923 | 14,568 |

## 8b. OTHER GAINS AND LOSSES

| | Eight months ended 31 August 2018 RMB'000 | Year ended 31 December 2017 RMB'000 |
|---|---|---|
| **Continuing operations** | | |
| Foreign exchange loss, net | (39,864) | (5,295) |
| Written-off of trade receivables | – | (1,285) |
| Impairment loss on trade receivables *(note 23)* | (5,355) | – |
| Loss on disposal of property, plant and equipment, net | (711) | (276) |
| Fair value change on financial assets at FVTPL | 2,314 | (1,021) |
| Net gain on structured deposits | – | 8,982 |
| | (43,616) | 1,105 |

## 9. FINANCE COSTS

| | Eight months ended 31 August 2018 RMB'000 | Year ended 31 December 2017 RMB'000 |
|---|---|---|
| **Continuing operations** | | |
| Imputed interest on deferred cash considerations | 15,947 | – |
| Interest expenses on bank and other borrowings | 9,116 | 21,171 |
| Less: amounts capitalised in the cost of property, plant and equipment | (682) | (2,699) |
| | 24,381 | 18,472 |

Borrowing costs capitalised during the period/year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 5.40% per annum (for the year ended 31 December 2017: 5.08% per annum), to expenditure on property, plant and equipment (construction in progress).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the eight months ended 31 August 2018

## 10. TAXATION

| | Eight months ended 31 August 2018 RMB'000 | Year ended 31 December 2017 RMB'000 |
|---|---|---|
| **Continuing operations** | | |
| Current tax – EIT | (5,065) | (7,610) |
| Overprovision in prior years – EIT | 2,659 | 4,019 |
| Deferred tax *(note 31)* | 15,560 | 1,861 |
| | 13,154 | (1,730) |

The taxation can be reconciled to the profit before taxation per the consolidated statement of profit or loss and other comprehensive income as follows:

| | Eight months ended 31 August 2018 RMB'000 | Year ended 31 December 2017 RMB'000 |
|---|---|---|
| Profit before taxation (from continuing operation) | 387,928 | 423,195 |
| Tax at PRC EIT rate of 25% | 96,982 | 105,799 |
| Tax effect of income not taxable for tax purposes | (239,299) | (248,980) |
| Tax effect of expenses not deductible for tax purposes | 134,691 | 150,069 |
| Overprovision in respect of prior years | (2,659) | (4,019) |
| Effect of difference in tax rates applicable to subsidiaries of the Group | (2,869) | (1,139) |
| Tax (credit) charge for the period/year (relating to continuing operations) | (13,154) | 1,730 |

No provision for Hong Kong Profits Tax has been made in the consolidated financial statements as the Group had no assessable profit subject to Hong Kong Profits Tax for the period/year.

Pursuant to the Enterprise Income Tax law and Implementation Regulations of the Law of the PRC (the "EIT Law of PRC"), the statutory tax rate of PRC subsidiaries is 25% for both of current period and prior year, except for Huajiao Education which has been granted concessionary tax rate of 15% for 2 calendar years ending 31 December 2018 from tax authority of Ganzhou, the PRC, and Lihe Education which is eligible for a lower tax rate of 20% as a small profit enterprise.

## 10. TAXATION (Continued)

According to the relevant provisions of Old Implementation Rules for the Law for Promoting Private Education (abolished on 31 August 2017)/New Implementation Rules for the Law for Promoting Private Education with 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. Given that the detailed implementation rules of New Law for Promoting Private Education has not yet been announced, Jiangxi University of Technology, Guangdong Baiyun University, Baiyun Technician College, Zhengzhou Transit School and Xi'an Railway College have not yet elected to be for-profit or not-for-profit schools. According to the relevant in-charge tax bureau, since the relevant tax policy for schools that have not yet elected to be for-profit or not-for-profit is not yet announced and if the school nature has not yet been changed, the schools could follow previous EIT exemption treatment for the tuition related income. During the eight months ended 31 August 2018, the non-taxable tuition related income amounted to approximately RMB921,969,000 (for the year ended 31 December 2017: RMB927,436,000), and the related non-deductible expense amounted to approximately RMB499,655,000 (for the year ended 31 December 2017: RMB606,858,000).

## 11. PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE PERIOD/YEAR

| | Eight months ended 31 August 2018 *RMB'000* | Year ended 31 December 2017 *RMB'000* |
|---|---|---|
| Profit and total comprehensive income for the period/year from continuing operations has been arrived at after charging: | | |
| Staff costs, including directors' remuneration | | |
| — salaries and other allowances | 244,003 | 222,543 |
| — retirement benefit scheme contributions | 39,482 | 37,328 |
| — share-based payments | 40,679 | 3,077 |
| Total staff costs | 324,164 | 262,948 |
| Depreciation of property, plant and equipment | 100,036 | 124,646 |
| Amortisation of prepaid lease payments | 1,796 | 1,390 |
| Amortisation of intangible assets | 17,700 | 7,448 |
| Auditor's remuneration | 4,260 | 3,700 |
| Minimum operating lease rental expense in respect of rented premises | 11,066 | 10,819 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the eight months ended 31 August 2018

## 12. DISCONTINUED OPERATIONS

During the year ended 31 December 2017, the Group completed disposals of a group of subsidiaries, which were mainly engaged in provision of primary and secondary education and other services (as disclosed in note 38). The disposals were consistent with the Group's long-term policy to focus its activities on operation of private higher and vocational education institutions.

The profit for the year ended 31 December 2017 from the discontinued operation was set out below.

| | *RMB'000* |
|---|---|
| Loss of discontinued operations for the year | (8,152) |
| Gain on disposal of discontinued operations *(note 38)* | 15,559 |
| | 7,407 |

The results of the discontinued operations for the year ended 31 December 2017 were as follows:

| | *RMB'000* |
|---|---|
| Revenue | 21,401 |
| Cost of revenue | (27,141) |
| Other income | 3,566 |
| Other gains and losses | 300 |
| Selling expenses | (18) |
| Administrative expenses | (6,257) |
| Loss before taxation from the discontinued operations | (8,149) |
| Taxation | (3) |
| Loss for the year from the discontinued operations | (8,152) |
| Profit for the year from discontinued operation include the following: | |
| Depreciation of property, plant and equipment | 2,900 |

The net cash flows generated from discontinued operations for the year ended 31 December 2017 were as follows:

| | *RMB'000* |
|---|---|
| Operating activities | 37,814 |
| Investing activities | (10,257) |
| Financing activities | (10,219) |
| Net cash inflow | 17,338 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the eight months ended 31 August 2018

## 13. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

### Directors and chief executive

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 period/year are as follows:

| | Directors' fee<br>*RMB'000* | Salaries and other allowances<br>*RMB'000* | Discretionary bonus<br>*RMB'000* | Retirement benefit scheme contributions<br>*RMB'000* | Total<br>*RMB'000* |
|---|---|---|---|---|---|
| **For the eight months ended 31 August 2018** | | | | | |
| Executive directors: | | | | | |
| Mr. Yu *(Note i)* | 869 | 13 | – | 20 | 902 |
| Mr. Xie *(Note i)* | 860 | – | – | 37 | 897 |
| Yu Kai ("Dr. Yu") *(Note ii)* | 1,452 | 34 | – | 81 | 1,567 |
| Xie Shaohua ("Ms. Xie") *(Note iii)* | 1,267 | – | – | – | 1,267 |
| Independent non-executive directors: | | | | | |
| Gerard A. Postiglione *(Note iv)* | 154 | – | – | – | 154 |
| Rui Meng *(Note iv)* | 154 | – | – | – | 154 |
| Wu, Kin Bing *(Note iv)* | 154 | – | – | – | 154 |
| | 4,910 | 47 | – | 138 | 5,095 |
| **For the year ended 31 December 2017** | | | | | |
| Executive directors: | | | | | |
| Mr. Yu *(Note i)* | 135 | 329 | – | 12 | 476 |
| Mr. Xie *(Note i)* | 135 | 275 | 1,633 | 55 | 2,098 |
| Dr. Yu *(Note ii)* | 102 | 43 | – | 7 | 152 |
| Ms. Xie *(Note iii)* | 102 | 271 | 794 | 55 | 1,222 |
| Independent non-executive directors: | | | | | |
| Gerard A. Postiglione *(Note iv)* | 11 | – | – | – | 11 |
| Rui Meng *(Note iv)* | 11 | – | – | – | 11 |
| Wu, Kin Bing *(Note iv)* | 11 | – | – | – | 11 |
| | 507 | 918 | 2,427 | 129 | 3,981 |

In addition to the directors' emoluments disclosed above, the estimated fair values of the share options granted under the Pre-IPO Share Option Scheme which was adopted and effective on 27 November 2017 to Mr. Yu, Mr. Xie, Dr. Yu and Ms. Xie amounting to RMB9,022,000, RMB9,022,000, RMB9,022,000 and RMB9,022,000 (for the year ended 31 December 2017: RMB682,000, RMB682,000, RMB682,000 and RMB682,000), respectively, are recognised as equity settled share-based payments for the eight months ended 31 August 2018. The estimated fair value of the share options granted was calculated using binomial model.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the eight months ended 31 August 2018

## 13. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS (Continued)

### Directors and chief executive (Continued)

Pursuant to the Pre-IPO Share Option Scheme, on every anniversary of the Listing (from the first anniversary to the fifth anniversary), a maximum of 20% of the underlying Shares in respect of the options may be vested in the grantee, subject to the satisfaction of performance condition as determined by the remuneration committee at its discretion. In determining whether the performance condition is satisfied, the remuneration committee will assess the overall financial position and operating conditions of the Group on each vesting date, with a focus on growth, reputation, closing price of the Company's shares on the Stock Exchange, return to Shareholders, dividend paid and industry ranking. In particular, the remuneration committee will also benchmark the Group's key performance metrics that it considers appropriate against comparable companies in the education industry and listed on a recognised stock exchange.

As at the end of the reporting period, none of the afore-mentioned share options granted have been vested or exercised. However, including the equity settled share-based payments, total remunerations of Mr. Yu, Mr. Xie, Dr. Yu and Ms. Xie for the eight months ended 31 August 2018 amounted to RMB9,924,000, RMB9,919,000, RMB10,589,000 and RMB10,289,000 (for the year ended 31 December 2017: RMB1,158,000, RMB2,780,000, RMB834,000 and RMB1,904,000), respectively.

The executive directors' emoluments shown above were paid for their services in connection with the management of affairs and for their services as directors of the Company and the Group for the period/year. Certain executive directors of the Company are entitled to discretionary bonus which are determined with regard to the performance of individuals and market trends. The independent non-executive directors' emoluments shown above were for their services as directors of the Company.

*Notes:*

i. Mr. Yu and Mr. Xie were appointed as directors of the Company on 19 May 2017.

ii. Being appointed as a director of the Company on 28 August 2017, Dr. Yu, son of Mr. Yu, is also the chief executive of the Company and his emoluments disclosed above included those for services rendered by him as an employee of the Group.

iii. Ms. Xie, sister of Mr. Xie, was appointed as director of the Company on 28 August 2017.

iv. All independent non-executive directors were appointed on 5 December 2017.

## 13. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS (Continued)

### Employees

The five highest paid individuals of the Group included 4 directors for the eight months ended 31 August 2018 (for the year ended 31 December 2017: 3 directors) whose emoluments are included in the disclosures above. The emoluments of the remaining 1 individual for the eight months ended 31 August 2018 (for the year ended 31 December 2017: 2 individuals) are as follows:

| | Eight months ended 31 August 2018 *RMB'000* | Year ended 31 December 2017 *RMB'000* |
|---|---|---|
| Salaries and other benefits | 2,484 | 3,632 |
| Retirement benefit scheme contributions | 10 | 37 |
| Equity-settled share-based payments | 3,342 | 174 |
| | 5,836 | 3,843 |

The number of the highest paid individuals, other than directors of the Company, whose emoluments fell within the following bands is as follows:

| | Eight months ended 31 August 2018 *Number of employees* | Year ended 31 December 2017 *Number of employees* |
|---|---|---|
| Nil to Hong Kong Dollar ("HK$") 1,000,000 | – | – |
| HK$1,000,001 to HK$1,500,000 | – | 1 |
| HK$3,000,001 to HK$3,500,000 | – | 1 |
| HK$7,000,001 to HK$7,500,000 | 1 | – |

During the period/year, no emoluments was paid by the Group to the directors of the Company or the five highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office.

None of the directors of the Company or the chief executive of the Company waived or agreed to waive any emoluments during the period/year.

During the year ended 31 December 2017, 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 34 to the Group's consolidated financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the eight months ended 31 August 2018

## 14. DIVIDENDS

No dividend was paid or proposed for ordinary shareholders of the Company during the eight months ended 31 August 2018 (for the year ended 31 December 2017: nil).

Subsequent to the end of the reporting period, a final dividend in respect of the eight months ended 31 August 2018 of HK7.4 cents (for the year ended 31 December 2017: nil) per ordinary share, in an aggregate amount of HK$149,495,000 (for the year ended 31 December 2017: nil), has been proposed by the directors of the Company and is subject to approval by the shareholders in the forthcoming annual general meeting.

## 15. EARNINGS PER SHARE

### For continuing operations

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

| | **Eight months ended 31 August 2018** *RMB'000* | Year ended 31 December 2017 *RMB'000* |
|---|---|---|
| Profit for the purpose of calculating basic and diluted earnings per share from continuing operations | **357,588** | 421,465 |

| | **Eight months ended 31 August 2018** *'000* | Year ended 31 December 2017 *'000* |
|---|---|---|
| **Number of shares:** | | |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | **2,019,870** | 1,523,288 |
| Effect of dilutive potential ordinary shares: | | |
| Over-allotment options | **814** | 14 |
| Share options | **8,249** | – |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share | **2,028,933** | 1,523,302 |

## 15. EARNINGS PER SHARE (Continued)

### For continuing operations (Continued)

The weighted average number of ordinary shares for the year ended 31 December 2017 for the purpose of basic earnings per share had been adjusted for the reorganisation as set out in the prospectus dated 5 December 2017 and the share allotments of 1,500,000,000 shares as described in note 32 had been in effect on 1 January 2017.

The computation of diluted earnings per share for the year ended 31 December 2017 does not assume the exercise of the Company's share options granted under the Pre-IPO Share Option Scheme as defined in note 34 as the potential ordinary shares are anti-dilutive.

### For continuing and discontinued operations

The calculation of the basic and diluted earnings per share from continuing and discontinued operations attributable to the owners of the Company during the year ended 31 December 2017 was based on the consolidated profit attributable to the owners of the Company and the denominators detailed above for basic and diluted earnings per share.

### For discontinued operations

For the year ended 31 December 2017, basic and diluted earnings per share for the discontinued operations were RMB0.49 cents and RMB0.49 cents respectively, based on the profit for the year from the discontinued operations of RMB7,419,000 and the denominators detailed above for both basic and diluted earnings per share.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the eight months ended 31 August 2018

## 16. PROPERTY, PLANT AND EQUIPMENT

| | Leasehold land and buildings | Leasehold improvements | Motor vehicles | Furniture, fixtures and office equipment | Construction in progress | Total |
|---|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| COST | | | | | | |
| At 1 January 2017 | 2,263,421 | 328,269 | 36,495 | 456,624 | 18,172 | 3,102,981 |
| Additions | – | 3,827 | 1,717 | 36,632 | 98,533 | 140,709 |
| Acquisition of a business (*note 37*) | 192,111 | 34,212 | 1,583 | 18,854 | 1,644 | 248,404 |
| Transfer | 21,944 | 12,372 | – | 20,240 | (54,556) | – |
| Disposals | – | – | (4,215) | (18,650) | – | (22,865) |
| Disposal of subsidiaries (*note 38*) | – | (14,960) | (197) | (29,280) | – | (44,437) |
| At 31 December 2017 | 2,477,476 | 363,720 | 35,383 | 484,420 | 63,793 | 3,424,792 |
| Additions | 3,135 | 4,401 | 363 | 22,012 | 47,333 | 77,244 |
| Acquisitions of businesses (*note 37*) | 602,172 | 149 | 3,858 | 29,797 | 8,519 | 644,495 |
| Transfer | 2,665 | 5,173 | – | – | (7,838) | – |
| Disposals | – | – | (718) | (4,780) | – | (5,498) |
| At 31 August 2018 | 3,085,448 | 373,443 | 38,886 | 531,449 | 111,807 | 4,141,033 |
| DEPRECIATION | | | | | | |
| At 1 January 2017 | 315,987 | 63,029 | 30,646 | 277,622 | – | 687,284 |
| Provided for the year | 44,884 | 33,715 | 1,820 | 47,127 | – | 127,546 |
| Eliminated on disposals | – | – | (3,719) | (17,653) | – | (21,372) |
| Disposal of subsidiaries (*note 38*) | – | (1,237) | (45) | (5,944) | – | (7,226) |
| At 31 December 2017 | 360,871 | 95,507 | 28,702 | 301,152 | – | 786,232 |
| Provided for the period | 35,222 | 23,349 | 2,341 | 39,124 | – | 100,036 |
| Eliminated on disposals | – | – | (516) | (3,392) | – | (3,908) |
| At 31 August 2018 | 396,093 | 118,856 | 30,527 | 336,884 | – | 882,360 |
| CARRYING VALUES | | | | | | |
| At 31 August 2018 | 2,689,355 | 254,587 | 8,359 | 194,565 | 111,807 | 3,258,673 |
| At 31 December 2017 | 2,116,605 | 268,213 | 6,681 | 183,268 | 63,793 | 2,638,560 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the eight months ended 31 August 2018

## 16. PROPERTY, PLANT AND EQUIPMENT (Continued)

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

| | |
|---|---|
| Leasehold land and buildings | Over the shorter of 50 years or the terms of the leases |
| Leasehold improvements | Over the shorter of 10 years or the terms of the leases |
| Motor vehicles | 4 – 5 years |
| Furniture, fixtures and office equipment | 4 – 5 years |

At 31 August 2018, the Group is in the process of obtaining the property certificates for the leasehold land and buildings with carrying value of approximately RMB861,965,000 (31 December 2017: RMB327,463,000) which are located in the PRC. In the opinion of the management of the Group, the absence of formal title does not impair the value of the relevant leasehold land and buildings. In the opinion of the management of the Group, the formal title of these leasehold land and buildings will be granted to the Group in due course.

## 17. PREPAID LEASE PAYMENTS

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

| | At 31 August 2018 *RMB'000* | At 31 December 2017 *RMB'000* |
|---|---|---|
| Non-current assets | 63,292 | 54,946 |
| Current assets | 1,506 | 1,506 |
| | 64,798 | 56,452 |

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.

At 31 August 2018, the carrying value of the prepaid lease payments is RMB25,543,000 (31 December 2017: RMB26,074,000). The relevant land is allocated by the government, which have no definite lease term stated in the relevant land use rights certificates. However, without the relevant administrative authorities' permission, the Group cannot transfer, lease or pledge as security such land use rights allocated by the government.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the eight months ended 31 August 2018

## 18. GOODWILL AND INTANGIBLE ASSETS

| | | Intangible assets | | |
|---|---|---|---|---|
| | Goodwill | Brand names | Student rosters | Total |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | *(Note (i))* | *(Note (ii))* | *(Note (iii))* | |
| COST | | | | |
| At 1 January 2017 | – | – | – | – |
| Acquisition of a business *(note 37)* | 325,629 | 200,396 | 46,599 | 246,995 |
| At 31 December 2017 | 325,629 | 200,396 | 46,599 | 246,995 |
| Acquisitions of businesses *(note 37)* | 590,924 | 738,089 | 34,226 | 772,315 |
| At 31 August 2018 | 916,553 | 938,485 | 80,825 | 1,019,310 |
| AMORTISATION | | | | |
| At 1 January 2017 | – | – | – | – |
| Charge for the year | – | – | 7,448 | 7,448 |
| At 31 December 2017 | – | – | 7,448 | 7,448 |
| Charge for the period | – | – | 17,700 | 17,700 |
| At 31 August 2018 | – | – | 25,148 | 25,148 |
| CARRYING VALUES | | | | |
| At 31 August 2018 | 916,553 | 938,485 | 55,677 | 994,162 |
| At 31 December 2017 | 325,629 | 200,396 | 39,151 | 239,547 |

*Notes:*

i. Particulars regarding impairment testing on goodwill are disclosed in note 19.

ii. Brand name is considered by the management of the Group as having an indefinite useful life because it is expected to contribute to net cash inflows indefinitely. The brand name will not be amortised until its useful life is determined to be finite. Instead it will be tested for impairment annually and whenever there is an indication that it may be impaired. Particulars of the impairment testing are disclosed in note 19.

iii. Student roster has finite estimated useful lives and it is amortised based on expected usage of student roster.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the eight months ended 31 August 2018

## 19. IMPAIRMENT TEST ON GOODWILL AND INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIVES

For the purposes of impairment testing, goodwill and brand names with indefinite useful lives set out in note 18 have been allocated to three individual CGUs, comprising of three vocational education operations. The carrying amounts of goodwill and brand names (net of accumulated impairment losses, if any) as at 31 August 2018 allocated to these units are as follows:

| | Goodwill | | Brand names with indefinite useful life | |
|---|---|---|---|---|
| | **At 31 August 2018** | At 31 December 2017 | **At 31 August 2018** | At 31 December 2017 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| **Vocational Education** | | | | |
| Baiyun Technician College | **325,629** | 325,629 | **200,396** | 200,396 |
| Zhengzhou Transit School | **336,042** | – | **381,643** | – |
| Xi'an Railway College | **254,882** | – | **356,446** | – |
| | **916,553** | 325,629 | **938,485** | 200,396 |

During the eight months ended 31 August 2018 and the year ended 31 December 2017, the management of the Group determines that there is no impairment of any of its CGUs containing goodwill and brand names with indefinite useful lives.

The basis of the recoverable amounts of the above CGUs and their major underlying assumptions are summarised below:

### Baiyun Technician College

The recoverable amount of this unit has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by the management covering a five-year period, and discount rate of 16.24% (31 December 2017: 16.43%). The CGU's cash flows beyond the five-year period are extrapolated using a steady 2% growth rate (31 December 2017: 3%). This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include salary costs of teachers, growth rate of student number and growth rate of tuition fee, such estimation is based on the unit's past performance and the management's expectations for the market development.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the eight months ended 31 August 2018

## 19. IMPAIRMENT TEST ON GOODWILL AND INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIVES (Continued)

### Baiyun Technician College (Continued)

Increases by 10% (31 December 2017: 10%) in the discount rate would result in the aggregate carrying amount of this CGU to exceed its corresponding recoverable amount up to RMB43,583,000 (31 December 2017: RMB5,529,000) ; if the discount rate rose to 16.87% (31 December 2017: 17.82%), the recoverable amount of this CGU would be approximately equal to its carrying amount; save for the above scenario, the management of the Group believes that any reasonably possible change in any of the aforementioned key assumptions other than discount rate would not cause the aggregate carrying amount of this CGU to materially exceed the recoverable amount of this CGU.

### Zhengzhou Transit School

The recoverable amount of this unit has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by the management covering a five-year period, and discount rate of 15.40%. The CGU's cash flows beyond the five-year period are extrapolated using a steady 2% growth rate. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include salary costs of teachers, growth rate of student number and growth rate of tuition fee, such estimation is based on the unit's past performance and the management's expectations for the market development.

Increases by 10% in the discount rate would not result in the aggregate carrying amount of this CGU to exceed its corresponding recoverable amount; if the discount rate rose to 16.97%, the recoverable amount of this CGU would be approximately equal to its carrying amount; save for the above scenario, the management of the Group believes that any reasonably possible change in any of the aforementioned key assumptions other than discount rate would not cause the aggregate carrying amount of this CGU to materially exceed the recoverable amount of this CGU.

### Xi'an Railway College

The recoverable amount of this unit has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by the management covering a five-year period, and discount rate of 16.17%. The CGU's cash flows beyond the five-year period are extrapolated using a steady 2% growth rate. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include salary costs of teachers, growth rate of student number and growth rate of tuition fee, such estimation is based on the unit's past performance and the management's expectations for the market development.

The management of the Group believes that any reasonable possible change in the discount rate would not cause the aggregate carrying amount of this CGU to exceed the aggregate recoverable amount.

## 20. DEPOSITS PAID FOR PREPAID LEASE PAYMENTS

The amount represented the deposits paid to local government authorities for prepaid lease payments mainly located in Guangdong province and Henan province, the PRC.

## 21. PREPAYMENTS FOR ACQUISITION OF BUSINESS

On 14 June 2018, the Group entered into an agreement (the "Songtian Acquisition Agreement") with 廣州信邦惠資產管理有限公司 (Guangzhou Xinbanghui Asset Management Company Limited) for the acquisition of 廣州邦瑞教育投資有限公司 (Guangzhou Bangrui Education Investment Company Limited), a limited liability company established under the laws of the PRC, for the purpose of acquiring indirect sponsor interests of 廣州松田職業學院 (Guangzhou Songtian Polytechnic College), a polytechnic college located in Guangzhou, the PRC and 廣州大學松田學院 (Guangzhou University Songtian College), a university located in Guangzhou, the PRC (collectively referred to as the "Songtian Schools"), which are currently controlled by 增城市松田實業有限公司 (Zengcheng Songtian Enterprise Company Limited) ("Songtian Company") (Songtian Company and Songtian Schools collectively referred to the "Songtian Group"), a limited liability company established under the laws of the PRC.

As at 31 August 2018, the Group has not yet obtained control over Songtian Group as certain criteria as set out in the Songtian Acquisition Agreement have not yet been fulfilled. The acquisition was subsequently completed in September 2018.

The consideration of the aforementioned acquisition is RMB538 million and the Group would further contribute additional capital injection of RMB881 million to the Songtian Group. At the end of the reporting period, the aggregate prepayments for the aforementioned acquisition and capital injection amounted to RMB1,247 million.

## 22. CONTRACT COSTS

| | At 31 August 2018 RMB'000 |
|---|---|
| Non-current assets | 42,699 |
| Current assets | 16,269 |
| | 58,968 |

Contract costs capitalised as at 31 August 2018 relate to the incremental commission fees paid to agents for successful referral of students entering into contracts for the tuition services. Contract costs are recognised as part of selling expenses in the consolidated statement of profit or loss and other comprehensive income in the period in which revenue from the related tuition services recognised. The amount of capitalised costs recognised in profit or loss during the eight months ended 31 August 2018 was RMB2,233,000. There was no impairment in relation to the costs capitalised during the eight months ended 31 August 2018.

The contract costs are amortised over the duration of education programmes ranging from 3 to 5 years.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the eight months ended 31 August 2018

## 23. TRADE RECEIVABLES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

| | At 31 August 2018 RMB'000 | At 31 December 2017 RMB'000 |
|---|---|---|
| Trade receivables *(Note i)* | 16,938 | 24,679 |
| Less: allowance for credit losses | (3,965) | – |
| | 12,973 | 24,679 |
| Receivables from educational bureaus | 13,583 | 21,693 |
| Staff advances | 14,530 | 1,018 |
| Management fee income receivables | 7,104 | 216 |
| Other receivables | 16,007 | 11,593 |
| Deposits | 10,481 | 6,563 |
| Prepayments and prepayments on behalf of students | 30,970 | 5,361 |
| Amounts due from non-controlling interests *(Note ii)* | 5,000 | – |
| Indemnification assets *(Note iii)* | 19,578 | – |
| Loans to third parties *(Note iv)* | – | 440 |
| Total | 130,226 | 71,563 |

*Notes:*

i. The students are required to pay tuition fees and boarding fees in advance for the upcoming school years, which normally commences in September except for adult education which normally commences in January, February or March. The outstanding receivables represent amounts related to students who have applied for the delayed payment of tuition fees and boarding fees. There is no fixed term for delayed payments. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of individual students, there is no significant concentration of credit risk. The Group does not hold any collaterals or other credit enhancements over its trade receivable balances.

ii. The amounts are non-trade in nature, unsecured, interest-free and repayable on demand.

iii. Indemnification assets are recognised upon business combination as assets of the Group and on the same basis as the indemnified items, representing provisions for certain non-compliances, which are recognised as liabilities of the acquisition targets as detailed in note 28, and are subject to impairment assessment at the end of the reporting period based on the evaluation of collectability.

iv. The amounts of loans to the third parties were unsecured, repayable on demand and non-interest bearing as at 31 December 2017.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the eight months ended 31 August 2018

## 23. TRADE RECEIVABLES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES (Continued)

The following is an analysis of trade receivables and receivables from educational bureaus, net of allowance for credit losses, by age, presented based on debit note.

| | At 31 August 2018 *RMB'000* | At 31 December 2017 *RMB'000* |
|---|---|---|
| 0 – 90 days | 271 | 21,723 |
| 91 – 120 days | 442 | 15,829 |
| 121 – 365 days | 25,271 | – |
| Over 365 days | 572 | 8,820 |
| Total | 26,556 | 46,372 |

As at 31 December 2017, the Group's entire trade receivables and receivables from educational bureaus balance with aggregate carrying amount of approximately RMB46,372,000 which are all past due as at 31 December 2017 for which the Group has not provided for impairment loss.

| | At 31 December 2017 *RMB'000* |
|---|---|
| Ageing of trade receivables and receivables from educational bureaus which are past due but not impaired | |
| 0 – 90 days | 21,723 |
| 91 – 120 days | 15,829 |
| 121 – 365 days | – |
| Over 365 days | 8,820 |
| | 46,372 |

### Before the adoption of IFRS 9 on 1 January 2018

Trade receivables that were past due but not impaired are attributable to a number of independent students who are in temporary financial difficulties but are within reasonable period where the management of the Group considers the amounts recoverable. Based on the individual assessment, the management of the Group is of the opinion that no impairment is necessary in respect of amount of tuition fee outstanding is attributable to each individual student and receivables from educational bureaus based on historical settlement pattern from students and educational bureaus.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the eight months ended 31 August 2018

## 23. TRADE RECEIVABLES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES (Continued)

### After the adoption of IFRS 9 on 1 January 2018

The Group considered the trade receivables overdue over 90 days for students that are not dropped out from schools are not default as the tuition fees and boarding fees will be fully received upon the graduation of the students by reference to past experience. The Group also considered the receivables from educational bureaus overdue over 90 days are not default as payments from educational bureaus may take long administrative process based on historical experience.

### Allowance for credit losses

The movement in the allowance for credit losses in respect of trade receivables during the eight months ended 31 August 2018 is as follows:

| | *RMB'000* |
|---|---|
| At 1 January 2018 *(Note)* | – |
| Impairment loss recognised during the period | 5,355 |
| Written off during the period | (1,390) |
| At 31 August 2018 | 3,965 |

*Note:* The Group has initially applied IFRS 9 at 1 January 2018 and comparative information is not restated.

## 24. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS/STRUCTURED DEPOSITS

| | **At 31 August 2018** ***RMB'000*** | At 31 December 2017 *RMB'000* |
|---|---|---|
| **Financial assets at FVTPL** | | |
| Equity securities listed in the PRC held for trading *(Note i)* | **3,157** | 3,402 |
| Structured deposits *(Notes i and ii)* | **58,648** | – |
| | **61,805** | 3,402 |
| **Financial assets designated at FVTPL** | | |
| Structured deposits *(Note ii)* | **–** | 50,500 |

## 24. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS/STRUCTURED DEPOSITS (Continued)

*Notes:*

(i) Details of the fair value measurement for the financial assets at FVTPL are set out in note 36(c).

(ii) As at 31 August 2018 and 31 December 2017, the structured deposits were issued by banks in the PRC.

The structured deposits are with expected rates of return (not guaranteed), depending on the market price of underlying financial instruments, including listed shares, bonds, debentures and other financial assets, as follow:

| | At 31 August 2018 *RMB'000* | At 31 December 2017 *RMB'000* |
|---|---|---|
| Structured deposits | 3.50% to 4.00% | 1.80% to 4.60% |

At 31 August 2018 and 31 December 2017, the structure deposits are redeemable at any time with prior notice.

At 31 December 2017, the structured deposits are designated at FVTPL on initial recognition as they contain non-closely related embedded derivatives. The management of the Group considers the fair values of the structured deposits, which are based on the prices provided by the counterparty banks which represented the prices they would pay to redeem the deposits at the end of each reporting period, approximate to their carrying values at the same day. At the date of initial application of IFRS 9, the Group no longer applied designation as measured at FVTPL for structured deposits as these financial assets are required to be measured at FVTPL under IFRS 9.

## 25. BANK BALANCES AND CASH/RESTRICTED BANK DEPOSITS

Bank balances and cash comprise cash and short-term deposits held by the Group with an original maturity of three months or less. At 31 August 2018, the Group's bank deposits carried weighted average interest rates of 0.62% (31 December 2017: 0.74%) per annum.

Restricted bank deposits represent (i) deposit amounting to RMB100,000,000 as collateral provided to a PRC court in exchange for release of injunctions imposed on equity of Songtian Company in order to complete the acquisition of Songtian Group as detailed in note 21, with restriction on the deposit expected to be released in July 2019, and (ii) deposit amounting to RMB10,000,000 to secure bills payables issued to suppliers of the Group. The restricted bank deposits carried weighted average interest rates of 1.26% (31 December 2017: N/A) per annum.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the eight months ended 31 August 2018

## 26. DEFERRED INCOME

| | At 31 August 2018 RMB'000 | At 31 December 2017 RMB'000 |
|---|---|---|
| **Current** | | |
| Tuition fees | – | 652,114 |
| Boarding fees | – | 51,935 |
| Ancillary services | – | 10,506 |
| Government grants *(Note)* | 23,651 | 12,725 |
| | 23,651 | 727,280 |
| **Non-current** | | |
| Government grants *(Note)* | 34,237 | 25,905 |
| | 57,888 | 753,185 |

*Note:* The amounts represent subsidies receipt in advance from government mainly for procurement of laboratory apparatus and equipments and conducting educational programmes.

## 27. TRADE AND BILLS PAYABLES

The credit period granted by suppliers and bills payables on purchase of consumables and provision of services ranged from 30 days to 60 days.

The following is an aged analysis of trade and bills payables presented based on invoice date at the end of each reporting period.

| | At 31 August 2018 RMB'000 | At 31 December 2017 RMB'000 |
|---|---|---|
| 0 – 30 days | 25,347 | 7,207 |
| 31 – 90 days | 756 | 53 |
| 91 – 365 days | 2,548 | 1,106 |
| Over 365 days | 2,274 | 2,349 |
| | 30,925 | 10,715 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the eight months ended 31 August 2018

## 28. OTHER PAYABLES, ACCRUED EXPENSES AND PROVISIONS

| | At 31 August 2018 RMB'000 | At 31 December 2017 RMB'000 |
|---|---|---|
| Discretionary government subsidies receipt in advance *(Note i)* | 45,135 | 15,108 |
| Receipt on behalf of ancillary services providers | 176,094 | 65,989 |
| Retention money payables | 17,462 | 10,795 |
| Listing expenses payables | – | 21,366 |
| Accrued staff benefits and payroll | 37,821 | 38,280 |
| Other payables and accruals | 41,927 | 29,132 |
| Deferred cash considerations *(Note ii)* | 253,848 | – |
| Amounts due to non-controlling interests *(Note iii)* | 29,447 | – |
| Provisions *(Note iv)* | 19,578 | – |
| Other tax payables | 14,033 | 16,238 |
| | 635,345 | 196,908 |
| Current | 535,080 | 196,908 |
| Non-current | 100,265 | – |
| | 635,345 | 196,908 |

*Notes:*

i. The amounts represent scholarships received from the government to be distributed to students and teachers of the universities.

ii. The amounts represent consideration payables for the acquisitions of businesses set out in note 37. Amount of approximately RMB153,583,000 which is repayable within twelve months after the end of the reporting period in accordance with acquisition agreements as set out in note 37 were included in other payables as current liabilities. An amount of RMB100,265,000 was included as non-current liabilities as at 31 August 2018 which were repayable beyond twelve months after the end of the reporting period. The nominal value of the deferred cash considerations was RMB302,440,000 with weighted average effective interest rate of 16.2% per annum. The imputed interest expenses recognised in profit or loss for the eight months ended 31 August 2018 was RMB15,947,000.

iii. The amounts are non-trade in nature, unsecured, interest free and repayable within September 2018.

iv. The amount of provisions assumed through acquisitions of businesses, mainly representing provision of social insurance benefit, housing provident fund and penalty for lack of building ownership certificates for certain school premises, is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the eight months ended 31 August 2018

## 29. CONTRACT LIABILITIES

The Group has recognised the following revenue-related contract liabilities:

| | At 31 August 2018 RMB'000 | At 1 January 2018* RMB'000 |
|---|---|---|
| Tuition fee | 942,037 | 652,114 |
| Boarding fees | 84,072 | 51,935 |
| Ancillary services | 11,855 | 10,506 |
| | 1,037,964 | 714,555 |

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

Revenue amounting to RMB714,555,000 recognised during the eight months ended 31 August 2018 relates to carried-forward contract liabilities. No revenue recognised during the eight months ended 31 August 2018 relates to performance obligation that were satisfied in prior periods.

Typical payment terms which impact on the amount of contract liabilities recognised related to tuition fee, boarding fees and services fee for ancillary services are as follows:

When the Group receives the prepayments before commencement of school terms, tuition courses or provision of ancillary services, this will give rise to contract liabilities at the start of a contract, until the revenue recognised on the relevant contract exceeds the amount of the prepayments. The Group typically receives the amounts in full before relevant services commence.

The significant increase in contract liabilities in the current period was mainly due to the acquisitions of businesses resulting increases in contract liabilities of RMB249,115,000 as detailed in note 37.

## 30. BANK BORROWING/OTHER BORROWINGS

| | At 31 August 2018 *RMB'000* | At 31 December 2017 *RMB'000* |
|---|---|---|
| RMB unsecured variable-rate bank borrowing | 130,000 | – |
| RMB unsecured fixed-rate other borrowings | 107,000 | – |
| Total borrowings | 237,000 | – |
| The carrying amounts of the above borrowings are repayable: | | |
| Other borrowings repayable within one year | 107,000 | – |
| Bank borrowing within a period of more than one year but not exceeding two years | 130,000 | – |
| | 237,000 | – |
| Less: Amounts due within one year shown under current liabilities | (107,000) | – |
| Amounts shown under non-current liabilities | 130,000 | – |

The bank borrowing carried interest with reference to the Benchmark Borrowing Rate of The People's Bank of China. The effective interest rate on the Group's bank borrowing at 31 August 2018 was 6.18% per annum.

The other borrowings represent loans from independent third parties. The other borrowings carried interest at fixed market rate with effective interest rates ranging from 4.35% to 4.75% per annum and are repayable within one year.

During the eight months ended 31 August 2018, the Group obtained new banking facilities from a financial institution of United States Dollar ("US$") 200 million for which 50% of the equity interest of Huajiao Education owned by the Group are pledged as securities. This facility has not yet been drawn down up to the date of this report.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the eight months ended 31 August 2018

## 31. DEFERRED TAXATION

The following are the deferred tax (asset) liability recognised and movement thereon during the current period/year.

| | Tax losses | Fair value adjustments of intangible assets and property, plant and equipment on business combination | Total |
|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* |
| At 1 January 2017 | – | – | – |
| Acquisition of a business *(note 37)* | – | 61,748 | 61,748 |
| Credit to profit or loss *(note 10)* | – | (1,861) | (1,861) |
| At 31 December 2017 | – | 59,887 | 59,887 |
| Acquisitions of businesses *(note 37)* | – | 203,881 | 203,881 |
| Credit to profit or loss *(note 10)* | (11,010) | (4,550) | (15,560) |
| At 31 August 2018 | (11,010) | 259,218 | 248,208 |

Under the EIT Law of the PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. As at 31 August 2018, no deferred taxation regarding such withholding tax has been provided as the PRC subsidiaries have accumulated losses and have no retained profits available for distribution. As at 31 December 2017, deferred taxation had not been provided for in the consolidated financial statements in respect of temporary differences which are attributable to retained profits of PRC subsidiaries amounting to RMB8,774,000 as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

## 32. SHARE CAPITAL

Details of movements of authorised and issued capital of the Company up to 31 August 2018 are as follow:

| | Number of shares | Share capital | Shown in the consolidated financial statements *RMB'000* |
|---|---|---|---|
| **Ordinary shares** | | | |
| **Authorised** | | | |
| At date of incorporation *(note i)* | 50,000 | US$50,000 | |
| Increase during the period *(note iii)* | 50,000,000,000 | HK$500,000 | |
| Cancelled during the period *(note iv)* | (50,000) | (US$50,000) | |
| At 1 January 2018 and 31 August 2018 | 50,000,000,000 | HK$500,000 | |
| **Issued and fully paid** | | | |
| At date of incorporation *(note ii)* | 100 | US$100 | 1 |
| Allotment of shares *(note iv)* | 1,500,000,000 | HK$15,000 | 13 |
| Repurchase of shares *(note iv)* | (100) | (US$100) | (1) |
| Issue of new shares upon listing *(note v)* | 500,000,000 | HK$5,000 | 4 |
| At 1 January 2018 | 2,000,000,000 | HK$20,000 | 17 |
| Issue of new shares upon exercise of the over-allotment options *(note vi)* | 20,202,000 | HK$202 | – |
| At 31 August 2018 | 2,020,202,000 | HK$20,202 | 17 |

*Notes:*

(i) The Company was incorporated on 19 May 2017 with an authorised share capital of US$50,000 divided into 50,000 ordinary shares of US$1 each.

(ii) On 19 May 2017, Blue Sky Education International Limited ("Blue Sky BVI"), which is incorporated in the British Virgin Islands (the "BVI"), acquired one ordinary share in the Company at par value and 49 ordinary shares were further issued and allotted to Blue Sky BVI as fully-paid at par value; and another 50 ordinary shares were issued and allotted to White Clouds Education International Limited ("White Clouds BVI") as fully-paid at par value.

(iii) On 30 August 2017, the authorised share capital of the Company was increased by HK$500,000 divided into 50,000,000,000 ordinary shares of par value HK$0.00001 each.

## 32. SHARE CAPITAL (Continued)

*Notes:* (Continued)

(iv) On 30 August 2017, the Company allotted and issued 750,000,000 ordinary shares for a subscription price of HK$7,500 to each of Blue Sky BVI and White Clouds BVI. Immediately following the allotment and issue of the 1,500,000,000 ordinary shares, the Company repurchased 50 ordinary shares of par value US$1.00 each from each of Blue Sky BVI and White Clouds BVI at a consideration of HK$7,500 which was paid out of the proceeds of the aforesaid subscription. Immediately following the repurchase, the authorised share capital of the Company was reduced by the cancellation of 50,000 shares of par value US$1.00 each.

(v) During the year ended 31 December 2017, the Company issued 500,000,000 ordinary shares of par value HK$0.00001 each pursuant to the Listing at the price of HK$6.45 per ordinary share.

(vi) On 5 January 2018, the Company allotted and issued 20,202,000 ordinary shares of par value HK$0.00001 each at the price of HK$6.45 per share pursuant to the exercise of over-allotment options by BNP Paribas Securities (Asia) Limited.

## 33. RETIREMENT BENEFIT PLANS

Effective from 14 August 2017, the Group has joined the MPF Scheme for its employees in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Schemes Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rule of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rates specified in the rules. The only obligation of the Group with respect to the MPF Scheme is to make the required contributions under the scheme.

The employees of the Group in the PRC are members of a state-managed retirement benefits scheme operated by the PRC government. The Group is required to contribute a specified percentage of payroll costs as determined by respective local government authority to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the specified contributions under the scheme.

The amounts of contributions made by the Group in respect of the retirement benefit scheme during the period/year are disclosed in note 11.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the eight months ended 31 August 2018

## 34. SHARE-BASED PAYMENTS

### (a) Share option scheme of the Company

The Company has adopted two share option schemes, namely pre initial public offering share option scheme (the "Pre-IPO Share Option Scheme") and post initial public offering share option scheme (the "Post-IPO Share Option Scheme").

***Pre-IPO Share Option Scheme***

The Pre-IPO Share Option Scheme was adopted pursuant to a resolution passed on 27 November 2017 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 directors of the Company may grant options to eligible directors and employees to subscribe for shares in the Company, up to a total of 45,500,000 share on such terms as determined by the directors of the Company. The terms of the offer may include but are not limited to, any minimum period(s) for which an option must be held and/or any minimum performance target(s) that must be achieved, before the option can be exercised in whole or in part, and may include at the discretion of the Board such other terms either on a case by case basis or generally.

An option may be exercised in accordance with the terms of the Pre-IPO Option Scheme at any time during a period to be determined and notified by the directors of the Company to each grantee which period shall not expire later than 10 years from the date of Listing.

The price for the subscription of ordinary shares in relation to each option granted under the Pre-IPO Option Scheme shall be such price as may be determined by the directors of the Company. An option may be exercised in whole or in part by the grantee and the subscription price of the ordinary shares shall be fully paid by the grantee to the Company upon exercise of the option.

On every anniversary of the Listing (from the first anniversary to the fifth anniversary), a maximum of 20% of the underlying Shares in respect of the options may be vested in the grantee, subject to the satisfaction of performance condition as determined by the remuneration committee at its discretion.

At 31 August 2018, the number of shares in respect of which options had been granted and remained outstanding under the Pre-IPO Share Option Scheme was 45,500,000 (31 December 2017: 45,500,000), representing 2.25% (31 December 2017: 2.28%) of the Shares of the Company in issue at that date.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the eight months ended 31 August 2018

## 34. SHARE-BASED PAYMENTS (Continued)

### (a) Share option scheme of the Company (Continued)

***Pre-IPO Share Option Scheme*** (Continued)

Details of specific categories of options are as follows:

| | Date of grant | Vesting period | Exercise period | Exercise price HK$ | Fair value at grant date RMB |
|---|---|---|---|---|---|
| Pre-IPO Share Option | 14 December 2017 | 15 December 2017 – 14 December 2018 | 15 December 2018 – 14 December 2027 | 6.45 | 26,529,000 |
| | 14 December 2017 | 15 December 2017 – 14 December 2019 | 15 December 2019 – 14 December 2027 | 6.45 | 27,151,000 |
| | 14 December 2017 | 15 December 2017 – 14 December 2020 | 15 December 2020 – 14 December 2027 | 6.45 | 27,902,000 |
| | 14 December 2017 | 15 December 2017 – 14 December 2021 | 15 December 2021 – 14 December 2027 | 6.45 | 28,630,000 |
| | 14 December 2017 | 15 December 2017 – 14 December 2022 | 15 December 2022 – 14 December 2027 | 6.45 | 29,287,000 |

The following tables disclose movements of the Company's Pre-IPO Share Options held by the directors of the Company and employees during the period/year:

| Option type | Outstanding at 1 January 2018 | Granted during the period | Lapsed during the period | Exercised during the period | Outstanding at 31 August 2018 |
|---|---|---|---|---|---|
| **Directors** | | | | | |
| Mr. Yu | 10,000,000 | – | – | – | 10,000,000 |
| Mr. Xie | 10,000,000 | – | – | – | 10,000,000 |
| Dr. Yu | 10,000,000 | – | – | – | 10,000,000 |
| Ms. Xie | 10,000,000 | – | – | – | 10,000,000 |
| Directors in aggregate | 40,000,000 | – | – | – | 40,000,000 |
| Employees in aggregate | 5,500,000 | – | – | – | 5,500,000 |
| Total | 45,500,000 | – | – | – | 45,500,000 |
| Weighted average exercise price | HK$6.45 | – | – | – | HK$6.45 |
| Exercisable at the end of the period | | | | | – |

## 34. SHARE-BASED PAYMENTS (Continued)

### (a) Share option scheme of the Company (Continued)

***Pre-IPO Share Option Scheme*** (Continued)

| Option type | Outstanding at 1 January 2017 | Granted during the year | Lapsed during the year | Exercised during the year | Outstanding at 31 December 2017 |
|---|---|---|---|---|---|
| **Directors** | | | | | |
| Mr. Yu | – | 10,000,000 | – | – | 10,000,000 |
| Mr. Xie | – | 10,000,000 | – | – | 10,000,000 |
| Dr. Yu | – | 10,000,000 | – | – | 10,000,000 |
| Ms. Xie | – | 10,000,000 | – | – | 10,000,000 |
| Directors in aggregate | – | 40,000,000 | – | – | 40,000,000 |
| Employees in aggregate | – | 5,500,000 | – | – | 5,500,000 |
| Total | – | 45,500,000 | – | – | 45,500,000 |
| Weighted average exercise price | – | HK$6.45 | – | – | HK$6.45 |
| Exercisable at the end of the year | | | | | – |

During the year ended 31 December 2017, 45,500,000 share options were granted on 14 December 2017. The estimated fair value of the share options granted on that date was RMB139,499,000.

These fair values were calculated using the Binomial model. The inputs into the model were as follows:

| | Granted during the year ended 31 December 2017 |
|---|---|
| Weighted average share price | HK$6.45 |
| Exercise price | HK$6.45 |
| Expected volatility | 52.58% |
| Expected life | 10 years |
| Risk-free rate | 1.79% |
| Expected dividend yield | 0% |

Expected volatility was determined by using quoted prices of comparable companies in active markets. The expected life used in the model has been adjusted, based on the management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the eight months ended 31 August 2018

## 34. SHARE-BASED PAYMENTS (Continued)

### (a) Share option scheme of the Company (Continued)

***Pre-IPO Share Option Scheme*** (Continued)

The Group recognised the total expense of RMB40,679,000 (for the year ended 31 December 2017: RMB3,077,000) in relation to share options granted by the Company during the eight months ended 31 August 2018.

The Binomial model has been used to estimate the fair value of the options. 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.

***Post-IPO Share Option Scheme***

The Post-IPO Share Option Scheme was adopted pursuant to a resolution passed on 29 November 2017 for the primary purpose of providing incentives to employee, director, officer, consultant, advisor, distributor, contractor, customer, supplier, agent, business partner, joint venture business partner or service provider of any member of the Group or any affiliate who the directors of the Company consider, in its sole discretion, to have contributed or will contribute to the Group is entitled to be offered and granted options, and will expire no later than 10 years from the date of the Listing. Under the Post-IPO Share Option Scheme, the total number of ordinary shares which may be issued upon exercise of all options to be granted under the Post-IPO Share Option Scheme and any other schemes is 200,000,000, being no more than 10% of the ordinary shares in issue on the date of Listing. The overall limit on the number of ordinary shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Post-IPO Share Option Scheme and any other share option schemes of the Company at any time must not exceed 30% of the ordinary shares in issue from time to time (the "Post-IPO Option Scheme Limit"). Post-IPO Option Scheme Limit may be refreshed at any time by obtaining prior approval of the shareholders of the Company in general meeting. However, Post-IPO Option Scheme Limit cannot exceed 10% of the ordinary shares in issue as at the date of such approval.

Unless approved by the shareholders of the Company, the total number of ordinary shares issued and to be issued upon exercise of the options granted and to be granted under the Post-IPO Share Option Scheme and any other share option scheme(s) of the Company to each selected participant (including both exercised and outstanding options) in any twelve-month period shall not exceed 1% of the total number of ordinary shares in issue (the "Individual Limit"). Any further grant of options to a selected participant which would result in the aggregate number of Shares issued and to be issued upon exercise of all options granted and to be granted to such selected participant (including exercised, cancelled and outstanding options) in the twelve-month period up to and including the date of such further grant exceeding the Individual Limit shall be subject to separate approval of shareholders of the Company.

## 34. SHARE-BASED PAYMENTS (Continued)

### (a) Share option scheme of the Company (Continued)

***Post-IPO Share Option Scheme*** (Continued)

Where any grant of options to a substantial shareholder or independent non-executive directors of the Company (or any of their respective associates) would result in the number of ordinary shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the twelve-month period up to and including the date of such grant: (i) representing in aggregate over 0.1% (or such other higher percentage as may from time to time be specified by the Stock Exchange) of the ordinary shares in issue; and (ii) having an aggregate value, based on the closing price of the ordinary shares as stated in the daily quotations sheets issued by the Stock Exchange on the date of grant, in excess of HK$5 million (or such other higher amount as may from time to time be specified by the Stock Exchange), such further grant of options must also be first approved by the shareholders of the Company in a general meeting.

The Post-IPO Share Option Scheme does not set out any performance targets that must be achieved before the options may be exercised. However, the directors of the Company may at its sole discretion specify, as part of the terms and conditions of any option, such performance conditions that must be satisfied before the option can be exercised.

The period during which an option may be exercised is determined and notified by the directors of the Company to each grantee at the time of making an offer for the grant of the option and such period shall not expire later than ten years from the date of grant of the option.

The exercise price shall be determined by the directors of the Company, but shall be not less than the greater of (i) the closing price of an ordinary share as stated in the daily quotations sheet issued by the Stock Exchange on the date of grant; (ii) the average closing price of the ordinary shares as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the date of grant; and (iii) the nominal value of a Share on the date of grant.

No share option has been granted since the adoption of the Post-IPO Share Option Scheme.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the eight months ended 31 August 2018

## 34. SHARE-BASED PAYMENTS (Continued)

### (b) Share award scheme of the Company

The Company's share award scheme (the "Share Award Scheme") was adopted pursuant to a resolution passed on 29 November 2017. The objective of the Share Award Scheme is for the primary purpose of providing incentives to employee, director, officer, consultant, advisor, distributor, contractor, customer, supplier, agent, business partner, joint venture business partner or service provider of any member of the Group or any affiliate who the directors of the Company considers, in its sole discretion, to have contributed or will contribute to the Group is entitled to be offered and granted options, and will expire no later than 10 years from the date of the Listing.

A share award includes all cash income from dividends in respect of those ordinary shares from the date the share award is granted to the date the share award is vested. The directors of the Company at its discretion may from time to time determine that any dividends declared and paid by the Company in relation to the ordinary shares be paid to the selected participant even though the ordinary shares have not yet vested.

Save that the directors of the Company at its discretion may from time to time determine that any dividends declared and paid by the Company in relation to the ordinary shares be paid to the selected participants even though the Shares have not yet vested, the selected participant only has a contingent interest in the Shares underlying an Award unless and until such Shares are actually transferred to the selected participant.

The maximum aggregate number of ordinary shares underlying all grants made pursuant to the Share Award Scheme (excluding ordinary shares which have been forfeited in accordance with the Share Award Scheme) is conditionally set at 40,000,000, being 2% of issued shares of the Company as of the date of the Listing (i.e. 2% of 2,000,000,000 Shares) (the "Share Award Scheme Limit"). The Share Award Scheme Limit is subject to further shareholders' approval as disclosed above.

The directors of the Company may from time to time determine such vesting criteria and conditions or periods for the awards to be vested under the Share Award Scheme.

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 ordinary shares that may be granted to a selected participant under the Share Award Scheme.

Each grant of an award to any director of the Company or the chief executive officer shall be subject to the prior approval of the independent non-executive directors (excluding any independent non-executive directors who is a proposed recipient of the grant of share award). The Company will comply with the relevant requirements under Chapter 14A of the Listing Rules for any grant of shares to connected persons of the Company.

No share award has been granted since the adoption of the Share Award Scheme.

## 35. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that it will be able to continues as a going concern while maximising the return to equity holders 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 net cash, which includes cash and cash equivalent, net of bank and other borrowings disclosed in note 30, and equity attributable to the owners of the Group, comprising share capital, reserves and retained profits.

The management of the Group reviews the capital structure on a continuous basis taking into account the cost of capital and the risks associated with each class of capital. Based on recommendations of the management of the Group, the Group will balance its overall capital structure through the payment of dividend, new share issues as well as the issue of new debts as well as the repayment of the existing debts.

## 36. FINANCIAL INSTRUMENTS

### (a) Categories of financial instruments

| | At 31 August 2018 RMB'000 | At 31 December 2017 RMB'000 |
|---|---|---|
| **Financial assets** | | |
| Financial mandatory measured at FVTPL | | |
| — Held-for-trading investments | 3,157 | 3,402 |
| — Others | 58,648 | – |
| Designated at FVTPL — structured deposits | – | 50,500 |
| Financial assets at amortised cost | 1,928,133 | – |
| Loans and receivables (including cash and cash equivalents) | – | 3,309,346 |
| | 1,989,938 | 3,363,248 |
| **Financial liabilities** | | |
| Amortised cost | 805,956 | 139,841 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the eight months ended 31 August 2018

## 36. FINANCIAL INSTRUMENTS

### (b) Financial risk management objectives and policies

The Group's major financial instruments include trade receivables, deposits and other receivables, restricted bank deposits, bank balances and cash, financial assets at FVTPL, structured deposits, trade and bills payables, other payables and bank and other borrowings. Details of these financial instruments are disclosed in the respective notes.

The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The directors of the Company manage and monitor these exposures to ensure appropriate measures are implemented on a timely and effective manner. These risks include market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

***Market risk***

*Currency risk*

The Group has certain foreign currency bank balances and other payables denominated in HK$ and US$, currencies other than the functional currency of the group entities ("foreign currency"), which expose the Group to foreign currency risk.

The carrying amounts of the Group's monetary assets and monetary liabilities at the reporting date that are denominated in foreign currencies are as follows:

| | Assets | | Liabilities | |
|---|---|---|---|---|
| | **At 31 August 2018** | At 31 December 2017 | **At 31 August 2018** | At 31 December 2017 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| HK$ | **180,951** | 1,928,415 | **469** | 858 |
| US$ | **424,615** | – | **–** | 16,614 |

The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure when the need arises.

## 36. FINANCIAL INSTRUMENTS (Continued)

### (b) Financial risk management objectives and policies (Continued)

***Market risk*** (Continued)

*Currency risk* (Continued)

Sensitivity analysis

The Group is mainly exposed to the fluctuation of relevant foreign currency against RMB.

The following table details the Group's sensitivity to a 5% (31 December 2017: 5%) increase and decrease in the relevant foreign currency against the functional currency of the relevant group entities. 5% (31 December 2017: 5%) represents the reasonably possible change in foreign exchange rates if currency risk is to be assessed by key management. The sensitivity analysis includes only outstanding relevant foreign currency denominated monetary items, The sensitivity analysis adjusts their translation at the period/year end for a 5% (31 December 2017: 5%) change in foreign currency rates. A positive (negative) number below indicates an increase (decrease) in post-tax profit where the relevant foreign currency strengthens 5% (31 December 2017: 5%) against RMB. For a 5% (31 December 2017: 5%) weakening of the relevant foreign currency against RMB, there would be an equal and opposite impact on the profit.

| | At 31 August 2018 *RMB'000* | At 31 December 2017 *RMB'000* |
|---|---|---|
| HK$ impact | 6,768 | 72,316 |
| US$ impact | 15,923 | (592) |

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the period/year end exposure at the end of the reporting period does not reflect the exposure during the period/year.

*Interest rate risk*

The Group's fair value interest rate risk relates primarily to its fixed-rate deposits and other borrowings. The Group is exposed to cash flow interest rate risk through the impact of rate changes on variable interest bearing financial assets and liabilities, mainly bank balances and bank borrowing.

## 36. FINANCIAL INSTRUMENTS (Continued)

### (b) Financial risk management objectives and policies (Continued)

***Market risk*** (Continued)

*Interest rate risk* (Continued)

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for variable-rate bank borrowing and bank balances at the end of the reporting period and assumed that the amount outstanding at the end of the reporting period was outstanding for the whole year. A 10 basis point increase or decrease for bank balances and 50 basis point increase or decrease for variable-rate bank borrowing are used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 10 or 50 basis points higher/lower for bank balances and bank borrowing, respectively, and all other variables were held constant, the Group's post-tax profit for the period/year would increase/decrease by approximately RMB229,000 (during the year ended 31 December 2017: increase/decrease by RMB1,121,000). This is mainly attributable to the Group's exposure to interest rates on its bank balances and bank borrowing with variable rate.

In management's opinion, the sensitivity analysis is unrepresentative of the inherent interest rate risk as the period/year end exposure at the end of the reporting period does not reflect the exposure during the period/year.

*Other price risk*

The Group is exposed to equity price risk through its investments in listed equity securities. The management manages this exposure by maintaining a portfolio of investments with different risks. The Group's equity price risk is mainly concentrated on equity instruments operating in different industry sectors quoted in the Shanghai Stock Exchange and the Shenzhen Stock Exchange. The Group will consider hedging the risk exposure should the need arise. The price risk on structured deposits is limited because maturity period of these investments is short.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risk at the end of each reporting period. If the prices of the respective equity investments had been 5% higher/lower, the Group's post-tax profit for the period/year would have increase/decrease by approximately RMB118,000 (during the year ended 31 December 2017: RMB128,000) as a result of the changes in fair value of equity instruments classified as financial assets at FVTPL.

## 36. FINANCIAL INSTRUMENTS (Continued)

### (b) Financial risk management objectives and policies (Continued)

***Credit risk and impairment assessment***

As at 31 August 2018 and 31 December 2017, the Group's maximum exposure to credit risk in the event of the counterparties' failure to perform its obligations is arising from the carrying amounts of the respective recognised financial assets as stated in the consolidated statement of financial position. The Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets.

In order to minimise the credit risk on trade receivables and deposits and other receivables, management makes periodic collective assessments as well as individual assessment on the recoverability of receivables based on historical settlement records, reasons for extended repayment period and past experience. In addition, the Group performs impairment assessment under ECL model upon application of IFRS 9 (31 December 2017: incurred loss model) on the trade receivables from students based on provision matrix, while assesses the ECL of receivables from educational bureaus individually. In this regard, the directors of the Company believe there is no material credit risk inherent in the Group's outstanding balances of trade receivables and deposits and other receivables.

Other than contraction of credit risk on liquid funds which are deposited with several banks with high credit ratings, the Group does not have any other significant concentration of credit risk. Trade receivables consist of a large number of students.

*Impairment assessment on trade receivables and receivables from educational bureaus*

Since the adoption of IFRS 9 on 1 January 2018, the Group applies the simplified approach to provide for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for trade receivables not credit-impaired. Trade receivables from students are considered to be credit-impaired when the students drop out from the tuition programmes and are assessed individually.

Management assessed the expected loss on trade receivables from students grouped based on the ageing of the trade receivables, taking into account the historical default experience and forward-looking information, as appropriate.

The Group assessed the loss allowances individually for receivables from educational bureaus on lifetime ECL basis. In determining the ECL for receivables from educational bureaus, the management of the Group has taken into account the historical default experience and forward-looking information, as appropriate, for example, the Group has considered the consistently low historical default rate in connection with payments, and concluded that credit risk inherent in the Group's outstanding receivables from educational bureaus are insignificant.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the eight months ended 31 August 2018

## 36. FINANCIAL INSTRUMENTS (Continued)

### (b) Financial risk management objectives and policies (Continued)

***Credit risk and impairment assessment*** (Continued)

*Impairment assessment on trade receivables and receivables from educational bureaus* (Continued)

In addition, the directors of the Company are of the opinion that there has no default occurred for (i) trade receivables aged over 90 days for students that are not dropped out from schools as the tuition fees and boarding fees will be fully received upon the graduation of the students by reference to past experience, and (ii) receivables from educational bureaus overdue over 90 days are not default as payment from educational bureaus may take long administrative process based on historical experience.

*Provision matrix — trade receivables (from students)' ageing*

As part of the Group's credit risk management, the Group uses debtors' ageing to assess the impairment for students in relation to its private higher education and vocational education because these customers consist of a large number of students with common risk characteristics that are representative of the students' abilities to pay all amounts due in accordance with the contractual terms. The following table provides information about the exposure to credit risk and ECL for trade receivables which are assessed collectively based on provision matrix as at 31 August 2018 within lifetime ECL (not credit-impaired).

| | Estimated average loss rate | Gross carrying amount | Impairment loss allowance |
|---|---|---|---|
| | *%* | *RMB'000* | *RMB'000* |
| 0 – 90 days past due | – | 271 | – |
| 91 – 120 days past due | – | 442 | – |
| 121 – 365 days past due | 15.1 | 13,763 | 2,075 |
| More than 365 days past due | 76.8 | 2,462 | 1,890 |
| | | 16,938 | 3,965 |

The estimated average loss rates are based on historical observed default rates over the expected life of the trade receivables and are adjusted for forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by the management to ensure relevant information about trade receivables is updated.

*Impairment assessment on deposits and other receivables/restricted bank deposits/ bank balances*

The Group assessed the loss allowances for deposits and other receivables, restricted bank deposits and bank balances on 12m ECL basis. The management of the Group considers the restricted bank deposits and most of the bank balances that are deposited with the financial institutions with high credit rating to be low credit risk financial assets. The management of the Group considers these restricted bank deposits and bank balances are short-term in nature and the probability of default is negligible on the basis of high-credit-rating issuers, and accordingly, loss allowance was considered as insignificant.

## 36. FINANCIAL INSTRUMENTS (Continued)

### (b) Financial risk management objectives and policies (Continued)

***Credit risk and impairment assessment*** (Continued)

*Impairment assessment on deposits and other receivables/restricted bank deposits/bank balances* (Continued)

In determining the ECL for deposits and other receivables and those bank balances deposited at financial institutions other than graded in the top credit rating agencies, the management of the Group has taken into account the historical default experience and forward-looking information, as appropriate. There had been no significant increase in credit risk since initial recognition. The Group has considered the consistently low historical default rate in connection with payments, and concluded that credit risk inherent in the Group's outstanding deposits and other receivables and bank deposits is insignificant.

During the eight months ended 31 August 2018, the Group provided RMB3,965,000 allowance for credit loss on trade receivables based on the provision matrix.

The following table shows the movement in lifetime ECL that has been recognised for trade receivables (from students) under the simplified approach.

| | Lifetime ECL (not credit-impaired) *RMB'000* | Lifetime ECL (credit-impaired) *RMB'000* | Total *RMB'000* |
|---|---|---|---|
| At 31 December 2017 under IAS 39 and at 1 January 2018 under IFRS 9 | – | – | – |
| **Changes due to financial instruments recognised as at 1 January:** | | | |
| — Impairment losses recognised | 3,965 | 1,390 | 5,355 |
| — Write-offs | – | (1,390) | (1,390) |
| At 31 August 2018 | 3,965 | – | 3,965 |

Changes in the loss allowance for trade receivables are mainly due to:

| | **31 August 2018 Increase in Lifetime ECL (not credit-impaired)** *RMB'000* |
|---|---|
| Provided by applying provision matrix | **3,965** |

The Group writes off a trade receivable when there is information indicating that the student is in severe financial difficulty and there is no realistic prospect of recovery, or when the trade student drops out from the tuition programme, whichever occurs earlier. None of trade receivables that have been written off is subject to enforcement activities.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the eight months ended 31 August 2018

## 36. FINANCIAL INSTRUMENTS (Continued)

### (b) Financial risk management objectives and policies (Continued)

***Liquidity risk***

In the management of the liquidity risk, the Group monitors and maintains levels of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The Group relies on bank and other borrowings as a significant source of liquidity.

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

| | Weighted average effective interest rate | On demand or less than 1 month | 1 – 3 months | 3 months to 1 year | 1 – 5 years | Total undiscounted cash flows | Carrying amount |
|---|---|---|---|---|---|---|---|
| | % | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Trade and bills payables | – | 30,925 | – | – | – | 30,925 | 30,925 |
| Other payables | – | 284,183 | – | – | – | 284,183 | 284,183 |
| Deferred cash considerations | – | – | – | 162,440 | 140,000 | 302,440 | 253,848 |
| Other borrowings — fixed-rate | 4.72 | 7,421 | 805 | 100,409 | – | 108,635 | 107,000 |
| Bank borrowing — variable-rate | 6.18 | 669 | 1,360 | 6,088 | 150,713 | 158,830 | 130,000 |
| At 31 August 2018 | | 323,198 | 2,165 | 268,937 | 290,713 | 885,013 | 805,956 |
| Trade payables | – | 10,715 | – | – | – | 10,715 | 10,715 |
| Other payables | – | 129,126 | – | – | – | 129,126 | 129,126 |
| At 31 December 2017 | | 139,841 | – | – | – | 139,841 | 139,841 |

## 36. FINANCIAL INSTRUMENTS (Continued)

### (c) Fair value measurements of financial instruments

***Fair value of the Group's financial assets that are measured at fair value on a recurring basis***

Some of the Group's financial assets are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation technique(s) and inputs used).

| Financial assets | Fair value | Fair value hierarchy | Valuation technique(s) and key input(s) | Significant unobservable input(s) | Relationship unobservable inputs to fair value |
|---|---|---|---|---|---|
| Financial assets at FVTPL (Equity securities listed in the PRC) | At 31 August 2018: RMB3,157,000 (31 December 2017: RMB3,402,000) | Level 1 | Quoted prices in active markets | N/A | N/A |
| Financial assets at FVTPL (Structured deposits) | At 31 August 2018: RMB58,648,000 (31 December 2017: RMB50,500,000) | Level 3 | Discounted cash flow — Future cash flows are estimated based on estimated return, and discounted at a rate that reflects the credit risk of various counterparties. | Estimated return | The higher the estimated return, the higher the fair value, vice versa |

There were no transfers into or out of Level 3 during the period/year.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the eight months ended 31 August 2018

## 36. FINANCIAL INSTRUMENTS (Continued)

### (c) Fair value measurements of financial instruments (Continued)

***Reconciliation of Level 3 Measurements***

The following table presents the reconciliation of Level 3 Measurements of the structured deposits during the period/year:

| | *RMB'000* |
|---|---|
| At 1 January 2017 | 418,201 |
| Acquired through acquisition of a business *(note 37)* | 47,000 |
| Purchase of structured deposits | 370,500 |
| Redemption of structured deposits | (794,183) |
| Net gain on structured deposits | 8,982 |
| At 31 December 2017 | 50,500 |
| Acquired through acquisitions of businesses *(note 37)* | 4,093 |
| Purchase of structured deposits | 107,613 |
| Redemption of structured deposits | (106,117) |
| Net gain on structure deposits | 2,559 |
| At 31 August 2018 | 58,648 |

The total gains or losses for the eight months ended 31 August 2018 included an unrealised gain of RMB405,000 (for the year ended 31 December 2017: RMB8,982,000) relating to financial assets that are measured at fair value at the end of each reporting period. Such fair value gains or losses are included in 'other gains and losses'.

The board of directors of the Company has set up a valuation committee, which is headed up by the chief financial officer of the Company, to determine the appropriate valuation techniques and inputs for fair value measurements.

In estimating the fair value of an asset or a liability, the Group uses market observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation. The valuation committee works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model. The chief financial officer reports the valuation committee's findings to the board of directors of the Company when needed to explain the cause of fluctuations in the fair value of the assets and liabilities.

Information about the valuation techniques and inputs used in determining the fair value of various assets are disclosed above.

***Fair value of financial instruments that are recorded at amortised cost***

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the eight months ended 31 August 2018

## 37. ACQUISITIONS OF BUSINESSES

### (a) Acquisitions during the eight months ended 31 August 2018

#### *(i) Zhengzhou acquisition*

On 13 March 2018, Junshi Education Consulting (Ganzhou) Company Limited (君時教育諮詢(贛州)有限公司), a consolidated affiliated entity of the Company, entered into an acquisition agreement and a supplemental agreement (the "Zhengzhou Acquisition Agreements") with Mr. Yu Cuntao (the "Zhengzhou Vendor") for the acquisition of 80% equity interest in Shu Ren Education, a limited liability company established under the laws of the PRC and owned the sponsor interest of Zhengzhou Transit School (Shu Ren Education and its subsidiary together as "Zhengzhou Target Group"), at the consideration of RMB855,000,000 (the "Zhengzhou Consideration"). Zhengzhou Consideration comprises RMB120,000,000 ("Zhengzhou Equity Consideration") payable to Zhengzhou Vendor for the transfer of the 80% equity interest in Shu Ren Education and RMB735,000,000 for injection into Shu Ren Education as additional capital. The acquisition was completed on 23 March 2018.

Pursuant to the Zhengzhou Acquisition Agreements, the Zhengzhou Equity Consideration shall be paid by the Group to Zhengzhou Vendor by four installments and Zhengzhou Vendor had agreed to provide a profit guarantee in relation to the financial performance of Zhengzhou Transit School for each of the three calendar years ending 31 December 2020. The payment of the second, the third and the fourth installments of the Zhengzhou Equity Consideration of RMB20,000,000 each shall be reduced by an amount to be determined by the following formula if the audited profit before tax and excluding the non-operating profit of Zhengzhou Transit School ("Zhengzhou Actual PBT") for each of the three calendar years ending 31 December 2020 is less than RMB45,000,000, RMB80,000,000 and RMB90,000,000 ("Zhengzhou Guaranteed PBT") for each of the calendar year ending 31 December 2018, 31 December 2019 and 31 December 2020, respectively:

RMB20,000,000 x (1 – (Zhengzhou Actual PBT/Zhengzhou Guaranteed PBT))

*Consideration transferred*

| | *RMB'000* |
|---|---|
| Cash paid to Zhengzhou Vendor | 60,000 |
| Deferred cash consideration to Zhengzhou Vendor | 44,593 |
| Cash paid for capital injection into Zhengzhou Target Group | 380,000 |
| Deferred capital injection into Zhengzhou Target Group | 337,797 |
| | 822,390 |

## 37. ACQUISITIONS OF BUSINESSES (Continued)

### (a) Acquisitions during the eight months ended 31 August 2018 (Continued)

#### *(i)* ***Zhengzhou acquisition*** (Continued)

*Assets acquired and liabilities recognised at the date of acquisition were as follows:*

| | *RMB'000* |
|---|---|
| Property, plant and equipment | 384,780 |
| Prepaid lease payment | 9,449 |
| Intangible assets | 389,384 |
| Deposits paid for prepaid lease payments | 73,683 |
| Amount due from a subsidiary of the Company | 337,797 |
| Deposits, prepayments and other receivables | 15,207 |
| Structured deposits | 4,093 |
| Bank balances and cash | 385,895 |
| Restricted bank deposits | 20,000 |
| Trade, bills, other payable and provisions | (250,919) |
| Amounts due to related parties | (228,964) |
| Income tax payable | (294) |
| Contract liabilities | (117,394) |
| Bank borrowings | (30,000) |
| Other borrowings | (305,000) |
| Deferred tax liability | (100,207) |
| | 587,510 |

The fair values of intangible assets (representing brand name amounting RMB381,643,000 and student roster amounting RMB7,741,000) were based on estimation used by the management of the Group with reference to valuation carried out by independent valuers, key assumptions and estimations used by the management included discount rates, growth rates and useful lives of the intangible assets. The fair value of deposits and other receivables (including amount due from a subsidiary of the Company) at the date of acquisition amounted to RMB349,774,000, while the gross contractual amounts of those deposits and other receivables amounted to RMB366,980,000.

*Non-controlling interest*

The non-controlling interest (20%) in Zhengzhou Target Group recognised at the acquisition date was measured by reference to the proportionate share of the amount of fair values of net assets of Zhengzhou Target Group and amounted to RMB117,502,000.

## 37. ACQUISITIONS OF BUSINESSES (Continued)

### (a) Acquisitions during the eight months ended 31 August 2018 (Continued)

#### (i) *Zhengzhou acquisition* (Continued)

*Goodwill arising on acquisition*

| | *RMB'000* |
|---|---|
| Consideration transferred | 822,390 |
| Plus: non-controlling interest | 117,502 |
| Less: recognised amount of identifiable net assets acquired (100%) | (587,510) |
| Less: indemnification assets acquired | (16,340) |
| Goodwill arising on acquisition | 336,042 |

Goodwill arose in the acquisition of Zhengzhou Target Group because the acquisition included the assembled workforce of Zhengzhou School and synergy from alignment with the Group's specialty in vocational education. These assets could not be separately recognised from goodwill because they are not capable of being separated from the Group and sold, transferred, licensed, rented or exchanged, either individually or together with any related contract.

None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

*Net cash outflow arising on acquisition*

| | *RMB'000* |
|---|---|
| Consideration paid in cash | 440,000 |
| Less: cash and cash equivalent balances acquired | (385,895) |
| | 54,105 |

## 37. ACQUISITIONS OF BUSINESSES (Continued)

### (a) Acquisitions during the eight months ended 31 August 2018 (Continued)

#### *(ii) Xi'an acquisition*

On 13 March 2018, Shangzhi Education Consulting (Ganzhou) Company Limited (上智教育諮詢（贛州）有限公司), a consolidated affiliated entity of the Company, entered into an acquisition agreement and a supplemental agreement (the "Xi'an Acquisition Agreements") with all the shareholders (the "Xi'an Vendors") of Xitie Education for the acquisition of 62% equity interest in Xitie Education, a limited liability company established under the laws of the PRC and indirectly owns the sponsor interest of Xi'an Railway College (Xitie Education and its subsidiaries together as "Xi'an Target Group"), at the consideration of RMB576,600,000 (the "Xi'an Consideration"). Xi'an Consideration comprises RMB472,170,000 ("Xi'an Equity Consideration") payable to Xi'an Vendors for the transfer of the 62% equity interest in Xitie Education and RMB104,430,000 for injection into Xitie Education as additional capital. The acquisition was completed on 23 March 2018.

Pursuant to the Xi'an Acquisition Agreements, the Xi'an Equity Consideration shall be paid by the Group to Xi'an Vendors by four installments and Xi'an Vendors had agreed to provide guarantee in relation to the future student enrollment or the financial performance of Xi'an Railway College. The payment of the second installment of the Xi'an Equity Consideration of RMB42,480,000 shall be made on the condition that the number of new students of Xi'an Railway College at the end of 30 October 2018 (the spring and fall semesters of the academic year) has attained the agreed target. The payment of the third and the fourth installments of the Xi'an Equity Consideration of RMB100,000,000 each shall be reduced by an amount to be determined by the following formula if the audited profit before tax and excluding the non-operating profit of Xi'an Railway College ("Xi'an Actual PBT") for each of the calendar year ending 31 December 2018 and 31 December 2019 is less than RMB74,000,000 and RMB100,000,000 ("Xi'an Guaranteed PBT") for the calendar year ending 31 December 2018 and 31 December 2019 respectively:

RMB100,000,000 x (1 – (Xi'an Actual PBT/Xi'an Guaranteed PBT))

## 37. ACQUISITIONS OF BUSINESSES (Continued)

### (a) Acquisitions during the eight months ended 31 August 2018 (Continued)

#### *(ii) Xi'an acquisition* (Continued)

*Consideration transferred*

| | *RMB'000* |
|---|---|
| Cash paid to Xi'an Vendors | 229,690 |
| Deferred cash consideration to Xi'an Vendors | 193,308 |
| Cash paid for capital injection into Xi'an Target Group | 30,310 |
| Deferred capital injection into Xi'an Target Group | 62,727 |
| | 516,035 |

*Assets acquired and liabilities recognised at the date of acquisition were as follows:*

| | *RMB'000* |
|---|---|
| Property, plant and equipment | 259,715 |
| Intangible assets | 382,931 |
| Amount due from a subsidiary of the Company | 62,727 |
| Trade receivables, deposits, prepayments and other receivables | 57,561 |
| Bank balances and cash | 70,140 |
| Amounts due from related parties | 5,000 |
| Trade, other payables and provisions | (146,280) |
| Amounts due to related parties | (40,000) |
| Income tax payable | (407) |
| Contract liabilities | (131,721) |
| Deferred tax liability | (103,674) |
| | 415,992 |

The fair values of intangible assets (representing brand name amounting RMB356,446,000 and student roster amounting RMB26,485,000) were based on estimation used by the management of the Group with reference to valuation carried out by independent valuers, key assumptions and estimations used by the management including discount rates, growth rates and useful lives of the intangible assets. The fair value of trade receivables, deposits and other receivables (including amount due from a subsidiary of the Company and amount due from related parties) at the date of acquisition amounted to RMB114,294,000, while the gross contractual amounts of those trade receivables, deposits and other receivables amounted to RMB125,687,000.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the eight months ended 31 August 2018

## 37. ACQUISITIONS OF BUSINESSES (Continued)

### (a) Acquisitions during the eight months ended 31 August 2018 (Continued)

#### *(ii) Xi'an acquisition* (Continued)

*Non-controlling interests*

The non-controlling interests (38%) in Xi'an Target Group recognised at the acquisition date were measured by reference to the proportionate share of the fair values of net assets of Xi'an Target Group and amounted to RMB158,077,000.

*Goodwill arising on acquisition*

| | *RMB'000* |
|---|---|
| Consideration transferred | 516,035 |
| Plus: non-controlling interests | 158,077 |
| Less: recognised amount of identifiable net assets acquired (100%) | (415,992) |
| Less: indemnification assets acquired | (3,238) |
| Goodwill arising on acquisition | 254,882 |

Goodwill arose on the acquisition of Xi'an Target Group because the acquisition included the assembled workforce of Xi'an Institute and synergy from alignment with the Group's specialty in vocational education. These assets could not be separately recognised from goodwill because they are not capable of being separated from the Group and sold, transferred, licensed, rented or exchanged, either individually or together with any related contract.

None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

*Net cash outflow arising on acquisition*

| | *RMB'000* |
|---|---|
| Consideration paid in cash | 260,000 |
| Less: cash and cash equivalent balances acquired | (70,140) |
| | 189,860 |

Included in the profit for the period is RMB138,324,000 attributable to the additional business generated by Zhengzhou Target Group and Xi'an Target Group. Revenue for the period includes RMB205,598,000 is attributable to the additional businesses generated by Zhengzhou Target Group and Xi'an Target Group.

## 37. ACQUISITIONS OF BUSINESSES (Continued)

### (a) Acquisitions during the eight months ended 31 August 2018 (Continued)

Had the acquisition of Zhengzhou Target Group and Xi'an Target Group been effected at the 1 January 2018, the total amount of revenue of the Group from continuing operations for the eight months ended 31 August 2018 would have been RMB1,019,817,000, and the amount of the profit for the period from continuing operations would have been RMB427,470,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisitions been completed at 1 January 2018, nor is it intended to be a projection of future results.

In determining the pro forma revenue and profit of the Group had Zhengzhou target Group and Xi'an Target Group been acquired at the beginning of the current period, the directors of the Company have calculated depreciation of property, plant and equipment acquired on the basis of the fair values arising in the initial accounting for the business combination rather than the carrying amounts recognised in the pre-acquisition financial statements

### (b) Acquisitions during the year ended 31 December 2017

***Baiyun acquisition***

On 14 August 2017, Huajiao Education, Mr. Xie, Huafang Education, Lihe Education and Baiyun Technician College entered into an acquisition framework agreement (the "Baiyun Acquisition Agreement") pursuant to which Huajiao Education will acquire Baiyun Technician College (the "Baiyun Acquisition") through entering into contractual arrangements (the "Technician College Contractual Arrangements") for a cash consideration of RMB750 million. The Baiyun Acquisition was accounted for using the acquisition method.

Baiyun Technician College is engaged in the provision of vocational education for technical workers and technicians in the PRC. The directors of the Company are of the view that the completion of the Baiyun Acquisition would significantly expand and diversify the Group's schools portfolio, complement the Group's existing business and give rise to further synergy through economies of scale (including shared management and operational resources of Baiyun Technician College and Guangdong Baiyun University, as well as the expansion and further leverage of the "Baiyun" brand name). The acquisition was completed on the same date and the consideration of RMB750 million was settled in full in August 2017.

## 37. ACQUISITIONS OF BUSINESSES (Continued)

### (b) Acquisitions during the year ended 31 December 2017 (Continued)

***Baiyun acquisition*** (Continued)

*Consideration transferred*

Pursuant to the Baiyun Acquisition Agreement, Mr. Xie guaranteed to Huajiao Education that profit after taxation of Baiyun Technician College (after adding back the fees payable by Baiyun Technician College to Huajiao Education pursuant to the Technician College Contractual Arrangements) (the "Adjusted Net Profit") for the calendar year ended 31 December 2017 shall be no less than RMB60,000,000. If the net profit after taxation of Baiyun Technician College (after adding back the fees payable by Baiyun Technician College to Huajiao Education pursuant to the Technician College Contractual Arrangements) for the calendar year ending 31 December 2018 (the "2018 Actual Adjusted Net Profit") is less than RMB60,000,000, Mr. Xie shall compensate Huajiao Education with a cash sum calculated according to the formula set out as below:

Compensation Sum = (RMB60 million — 2018 Actual Adjusted Net Profit) x 12.5

| | *RMB'000* |
|---|---|
| Cash | 750,000 |

*Assets acquired and liabilities recognised at the date of acquisition were as follows:*

| | *RMB'000* |
|---|---|
| Property, plant and equipment | 248,404 |
| Prepaid lease payment | 5,858 |
| Intangible assets | 246,995 |
| Deposits, prepayments and other receivables | 23,505 |
| Structured deposits | 47,000 |
| Bank balances and cash | 92,718 |
| Trade and other payable | (40,700) |
| Amounts due to related parties | (86,197) |
| Income tax payable | (268) |
| Deferred revenue | (51,196) |
| Deferred tax liability | (61,748) |
| | 424,371 |

The fair values of intangible assets were based on estimation used by the management of the Group with reference to valuation carried out by independent valuers, key assumptions and estimation used by the management included discount rates, growth rates and useful lives of the intangible assets. The fair value of deposits and other receivables at the date of acquisition amounted to RMB22,783,000, which was also the gross contractual amounts of those deposits and other receivables.

## 37. ACQUISITIONS OF BUSINESSES (Continued)

### (b) Acquisitions during the year ended 31 December 2017 (Continued)

***Baiyun acquisition*** (Continued)

*Goodwill arising on acquisition*

| | *RMB'000* |
|---|---|
| Consideration transferred | 750,000 |
| Less: net assets acquired | (424,371) |
| Goodwill arising on acquisition | 325,629 |

Goodwill arose in the acquisition of Baiyun Technician College because the consideration paid for the acquisition effectively included amounts in relation to better geographic arrangement and networking effect as benefits of expected synergies, better revenue growth prospect, future market development, and the assembled workforce of Baiyun Technician College. These benefits were not recognised separately from goodwill because they did not meet the recognition criteria for identifiable intangible assets. None of the goodwill arising on these acquisitions is expected to be deductible for tax purposes.

*Net cash outflow on acquisition of Baiyun Technician College*

| | *RMB'000* |
|---|---|
| Cash consideration paid | 750,000 |
| Less: cash and cash equivalent balances acquired | (92,718) |
| | 657,282 |

Included in the profit for the year ended 31 December 2017 was RMB36,000,000 attributable to the additional business generated by Baiyun Technician College. Revenue for the year ended 31 December 2017 included RMB67,421,000 generated from Baiyun Technician College.

Had the acquisition been completed on 1 January 2017, total group revenue for the year ended 31 December 2017 would have been RMB1,082,775,000, and profit for the year ended 31 December 2017 would have been RMB470,315,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2017, nor is it intended to be a projection of future results.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the eight months ended 31 August 2018

## 38. DISPOSAL OF SUBSIDIARIES

### (a) Disposal of Tianxing Social Services Centre

On 24 May 2017, Guangdong Baiyun University entered into an equity transfer agreement with an independent third party, pursuant to which Guangdong Baiyun University agreed to dispose of its 100% equity interest in Tianxing Social Services Centre at a consideration of RMB30,000. The management of the Group considered that it was commercially beneficial to enter into the disposal since the entity was not related to higher education. The disposal was completed on 24 May 2017.

### (b) Disposal of Baiyun Human Resources

On 19 May 2017, Guangdong Baiyun University entered into an equity transfer agreement with an independent third party, pursuant to which Guangdong Baiyun University agreed to dispose of its 70% equity interest in Baiyun Human Resources at a consideration of RMB3,500,000. The management of the Group considered that it was commercially beneficial to enter into the disposal since the entity was not related to higher education. The disposal was completed on 23 May 2017.

### (c) Disposal of Jiangxi Technology Park

On 3 May 2017, Jiangxi University of Technology entered into an equity transfer agreement with two independent third parties, pursuant to which Jiangxi University of Technology agreed to dispose of its 100% equity interest in Jiangxi Technology Park for RMB5,800,000, which was effective upon approval from shareholders. The management of the Group considered that it was commercially beneficial to enter into the disposal since the entity was not related to higher education. The disposal was completed on 9 May 2017.

### (d) Disposal of Jiangxi Affiliated High School

On 20 April 2017, Jiangxi University of Technology entered into a transfer agreement with an independent third party, pursuant to which Jiangxi University of Technology assigned the sponsorship license of the Jiangxi Affiliated High School to an independent third party. Pursuant to the transfer agreement, Jiangxi University of Technology agreed to transfer the entire sponsor interest for RMB26,000,000. The management of the Group considered that it was commercially beneficial to enter into the disposal since the entity was not related to higher education. All relevant approvals from the competent regulatory authorities in the PRC under the applicable PRC laws and regulations for the transfer have been obtained, and the transfer was completed on 27 May 2017.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the eight months ended 31 August 2018

## 38. DISPOSAL OF SUBSIDIARIES (Continued)

Further details of the consideration, and assets and liabilities disposed of in the above disposals are as follows:

| | Tianxing Social Services Centre | Baiyun Human Resources | Jiangxi Technology Park | Jiangxi Affiliated High School | Total |
|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Consideration** | | | | | |
| Cash received | 30 | 3,500 | 5,800 | 26,000 | 35,330 |
| **Analysis of assets and liabilities over which control was lost:** | | | | | |
| Property, plant and equipment | 286 | 30 | 1,282 | 35,613 | 37,211 |
| Deposits paid for acquisition of property, plant and equipment | – | – | – | 973 | 973 |
| Amount due from a former related party | – | 1,526 | – | – | 1,526 |
| Inventories | – | – | – | 64 | 64 |
| Trade and other receivables | 883 | 3 | – | 3,676 | 4,562 |
| Bank balances and cash | 100 | 11,735 | 5,399 | 23,837 | 41,071 |
| Deferred revenue | – | – | – | (37,837) | (37,837) |
| Amount due to former group company | (2,000) | – | – | (5,218) | (7,218) |
| Other payables | (229) | (5,866) | (610) | (11,014) | (17,719) |
| Income tax payable | – | (905) | – | – | (905) |
| Net (liabilities) assets disposed of | (960) | 6,523 | 6,071 | 10,094 | 21,728 |
| **Gain on disposal** | | | | | |
| Consideration | 30 | 3,500 | 5,800 | 26,000 | 35,330 |
| Net liabilities (assets) disposed of | 960 | (6,523) | (6,071) | (10,094) | (21,728) |
| Non-controlling interests | – | 1,957 | – | – | 1,957 |
| | 990 | (1,066) | (271) | 15,906 | 15,559 |
| **Net cash inflow arising on disposal** | | | | | |
| Cash consideration received | 30 | 3,500 | 5,800 | 26,000 | 35,330 |
| Less: bank balances and cash disposed of | (100) | (11,735) | (5,399) | (23,837) | (41,071) |
| | (70) | (8,235) | 401 | 2,163 | (5,741) |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the eight months ended 31 August 2018

## 39. OPERATING LEASES

### The Group as lessee

At the end of each reporting period, the Group's commitments for future minimum lease payments under non-cancellable operating leases fall due as follows:

| | At 31 August 2018 RMB'000 | At 31 December 2017 RMB'000 |
|---|---|---|
| Within one year | 22,570 | 8,210 |
| In the second to fifth year inclusive | 63,647 | 58,392 |
| Over five years | 28,485 | 14,552 |
| | 114,702 | 81,154 |

Operating lease payments represent rentals payable by the Group for certain of its academic and dormitory premises. Leases are negotiated and rentals are fixed for lease terms of one to ten years.

## 40. CAPITAL COMMITMENTS

| | At 31 August 2018 RMB'000 | At 31 December 2017 RMB'000 |
|---|---|---|
| Capital expenditure contracted for but not provided in the consolidated financial statements in respect of the acquisition of | | |
| — property, plant and equipment | 5,529 | 1,646 |
| — prepaid lease payments | 319,997 | 367,190 |
| | 325,526 | 368,836 |

In addition, on 29 June 2018, Huajiao Education has entered into a framework agreement with Value Partners Private Equity Investment Management (Shen Zhen) Limited, a subsidiary of Value Partners Group Limited, for the establishment of a fund tentatively named VP-CEG China Education Fund (the "China Education Fund"). The Group will make an initial contribution of RMB250 million to the China Education Fund. No contribution has been made up to 31 August 2018.

## 41. 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.

| | Deferred cash considerations | Dividends payable | Accrued issue costs | Bank borrowings | Other borrowings | Amounts due to related parties/ directors | Amounts due to a former related party | Total |
|---|---|---|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| At 1 January 2017 | – | – | – | 453,076 | – | 34,743 | – | 487,819 |
| Financing cash flows *(Note i)* | – | (1,752) | (77,355) | (474,247) | – | (211) | (34,532) | (588,097) |
| Reclassification *(Note ii)* | – | – | – | – | – | (34,532) | 34,532 | – |
| Capitalisation of finance cost | – | – | – | 2,699 | – | – | – | 2,699 |
| Dividends declared to non-controlling interests | – | 1,752 | – | – | – | – | – | 1,752 |
| Issue costs accrued/finance cost recognised | – | – | 82,254 | 18,472 | – | – | – | 100,726 |
| At 31 December 2017 | – | – | 4,899 | – | – | – | – | 4,899 |
| Financing cash flows *(Note i)* | – | – | (4,899) | 95,435 | (202,551) | (268,964) | – | (380,979) |
| Acquisitions of businesses | 237,901 | – | – | 30,000 | 305,000 | 268,964 | – | 841,865 |
| Capitalisation of finance cost | – | – | – | 682 | – | – | – | 682 |
| Finance cost recognised | 15,947 | – | – | 3,883 | 4,551 | – | – | 24,381 |
| At 31 August 2018 | 253,848 | – | – | 130,000 | 107,000 | – | – | 490,848 |

*Notes:*

i The cash flows for bank and other borrowings represent the addition of and repayment of borrowings and interest paid in the consolidated statement of cash flows.

ii During the year ended 31 December 2017, Jiangxi Driving had been disposed of to a third party by the relevant related party and the amount due to Jiangxi Driving was reclassified to other payables and repaid in full thereafter.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the eight months ended 31 August 2018

## 42. RELATED PARTIES DISCLOSURES

During the period/year, the Group entered into the following transactions with related parties:

| Related party | Relationship | Nature of transactions | Eight months ended 31 August 2018 RMB'000 | Year ended 31 December 2017 RMB'000 |
|---|---|---|---|---|
| Baiyun Technician College* | Controlled by Mr. Xie, one of the Controlling Equity Holders of the Company | Consultancy income received | – | 6,750 |
| **Equity Holder** | | | | |
| Guangdong Abote Digital Paper Company Limited | Controlled by a close family member of Mr. Xie, one of the Controlling Equity Holders of the Company | Purchase of paper products | – | 53 |

* *The disclosed amount represented related party transactions for period from 1 January 2017 to 14 August 2017 (date of completion of acquisition of Baiyun Technician College)*

As at 31 August 2018, amounts due to non-controlling interests of certain group entities of RMB253,848,000 (31 December 2017: nil) was included in other payables being deferred cash consideration payables, which are unsecured and interest-free, amount of which RMB100,265,000 (31 December 2017: nil) was repayable beyond one year and remaining balances were repayable within one year.

Balances with related parties are set out in notes 23 and 28.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the eight months ended 31 August 2018

## 42. RELATED PARTIES DISCLOSURES (Continued)

### Compensation of key management personnel

The remuneration of directors of the Company and other members of key management of the Group during the period/year are as follows:

| | Eight months ended 31 August 2018 *RMB'000* | Year ended 31 December 2017 *RMB'000* |
|---|---|---|
| Short-term benefits | **8,082** | 7,209 |
| Post-employment benefits | **211** | 184 |
| Equity-settled share-based payments | **40,679** | 3,077 |
| | **48,972** | 10,470 |

The remuneration of directors and key executives is determined having regard to the performance of individuals and market trends.

## 43. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries:

| Name of subsidiary | Date and place of incorporation/ establishment | Issued and fully paid share capital/ registered capital | Equity interests attributable to the Group At 31 August 2018 | Equity interests attributable to the Group At 31 December 2017 | Principal activities |
|---|---|---|---|---|---|
| ***Directly owned*** | | | | | |
| China Education Group Holdings (BVI) Limited | 17 May 2017 The BVI | US$100 | **100%** | 100% | Investment holding |
| ***Indirectly owned*** | | | | | |
| China Education Group (Hong Kong) Limited | 25 May 2017 Hong Kong | HK$100 | **100%** | 100% | Investment holding |
| Huajiao Education *(Note i)* | 13 June 2017 The PRC | HK$1,000,000,000 (31 December 2017: HK$10,000,000) | **100%** | 100% | Provision of educational consultancy services |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the eight months ended 31 August 2018

## 43. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

| Name of subsidiary | Date and place of incorporation/ establishment | Issued and fully paid share capital/ registered capital | Equity interests attributable to the Group At 31 August 2018 | At 31 December 2017 | Principal activities |
|---|---|---|---|---|---|
| ***Indirectly owned (Continued)*** | | | | | |
| Jiangxi University of Technology *(Note iii)* | 26 July 1999 The PRC | RMB51,680,000 | 100% | 100% | Operation of private higher and vocational education institution |
| Guangdong Baiyun University *(Note iii)* | 12 March 1999 The PRC | RMB130,000,000 | 100% | 100% | Operation of private higher and vocational education institution |
| Baiyun Technician College *(Note iii)* | 9 April 1996 The PRC | RMB60,000,000 | 100% | 100% | Provision of vocational education for technical workers and technicians in the PRC |
| University of Science and Technology | 10 July 2017 The United States | US$100 | 100% | 100% | Provision of higher education in California, the United States |
| Huafang Education *(Note ii)* | 2 August 2017 The PRC | RMB60,000,000 (31 December 2017: RMB4,800,000) | 100% | 100% | Provision of education consulting services |
| Lihe Education *(Note ii)* | 26 July 2017 The PRC | RMB60,000,000 (31 December 2017: RMB4,800,000) | 100% | 100% | Provision of education consulting services |
| Lishang Education Consulting (Ganzhou) Company Limited *(Note ii)* | 22 December 2017 The PRC | RMB4,800,000 | 100% | 100% | Provision of education consulting services |
| Youxin Education Consulting (Guangzhou) Company Limited *(Note ii)* | 4 June 2018 The PRC | RMB50,000,000 | 100% | N/A | Provision of education consulting services |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the eight months ended 31 August 2018

## 43. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

| Name of subsidiary | Date and place of incorporation/ establishment | Issued and fully paid share capital/ registered capital | Equity interests attributable to the Group At 31 August 2018 | Equity interests attributable to the Group At 31 December 2017 | Principal activities |
|---|---|---|---|---|---|
| ***Indirectly owned (Continued)*** | | | | | |
| Junshi Education Consulting (Ganzhou) Company Limited *(Note ii)* | 22 December 2017 The PRC | RMB50,000,000 | 100% | 100% | Provision of education consulting services |
| Shu Ren Education *(Note ii)* | 6 December 2017 The PRC | RMB150,000,000 | 80% | – | Investment Holding |
| Zhengzhou Transit School *(Note iii)* | 25 October 2010 The PRC | RMB100,000,000 | 80% | – | Provision of vocational education for technical workers and technicians in the PRC |
| Shangzhi Education Consulting (Ganzhou) Company Limited *(Note ii)* | 21 December 2017 The PRC | RMB200,000,000 | 100% | 100% | Provision of education consulting services |
| Xitie Education *(Note ii)* | 5 March 2018 The PRC | RMB6,450,000 | 62% | N/A | Provision of education consulting services |
| Shaanxi Xitie Education Investing Company Limited *(Note ii)* | 12 August 2011 The PRC | RMB6,450,000 | 62% | – | Investment Holding |
| Xi'an Railway College *(Note iii)* | 24 July 2007 The PRC | RMB50,000,000 | 62% | – | Provision of vocational education for technical workers and technicians in the PRC |
| Huajiao Education Investing Management (Ganzhou) Company Limited *(Note ii)* | 21 December 2017 The PRC | RMB20,000,000 | 100% | 100% | Investment holding |

*Notes:*

(i) This subsidiary is a wholly foreign owned enterprise established in the PRC.

(ii) These subsidiaries are limited liability companies established in the PRC.

(iii) These subsidiaries are schools established in the PRC.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the eight months ended 31 August 2018

## 43. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had issued any debt securities during the period/year or at the end of the period.

### Details of non-wholly owned subsidiaries that have material non-controlling interests

The table below shows details of non-wholly-owned subsidiaries of the Group that have material non-controlling interests.

| Name of subsidiary | Place of incorporation and principal place of business | Proportion of ownership interests and voting rights held by non-controlling interests | | Accumulated non-controlling interests | |
|---|---|---|---|---|---|
| | | At 31 August 2018 | At 31 December 2017 | At 31 August 2018 RMB'000 | At 31 December 2017 RMB'000 |
| Zhengzhou Education Group | The PRC | 20% | N/A | 127,578 | N/A |
| Xi'an Education Group | The PRC | 38% | N/A | 191,495 | N/A |
| | | | | 319,073 | N/A |

Summarised financial information in respect of each of the Group's subsidiaries that has material non-controlling interest is set out below. The summarised financial information below represents amounts before intragroup eliminations.

| | Zhengzhou Education Group | | Xi'an Education Group | |
|---|---|---|---|---|
| | At 31 August 2018 RMB'000 | At 31 December 2017 RMB'000 | At 31 August 2018 RMB'000 | At 31 December 2017 RMB'000 |
| Current assets | 215,111 | N/A | 185,392 | N/A |
| Non-current assets | 873,083 | N/A | 671,547 | N/A |
| Current liabilities | (337,809) | N/A | (251,023) | N/A |
| Non-current liabilities | (112,495) | N/A | (101,982) | N/A |
| Equity attributable to owners of the Company | 510,312 | N/A | 312,439 | N/A |
| Non-controlling interests | 127,578 | N/A | 191,495 | N/A |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the eight months ended 31 August 2018

## 43. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

### Details of non-wholly owned subsidiaries that have material non-controlling interests (Continued)

| | Zhengzhou Education Group | | Xi'an Education Group | |
|---|---|---|---|---|
| | Eight months ended 31 August 2018 | Year ended 31 December 2017 | Eight months ended 31 August 2018 | Year Ended 31 December 2017 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Revenue | 95,078 | N/A | 110,520 | N/A |
| Dividend paid to non-controlling interests | – | N/A | – | N/A |
| Net cash inflow from operating activities | 38,689 | N/A | 48,312 | N/A |
| Net cash inflow (outflow) from investing activities | 9,787 | N/A | (5,634) | N/A |
| Net cash outflow from financing activities | (335,000) | N/A | – | N/A |
| Net cash (outflow) inflow | (286,524) | N/A | 42,678 | N/A |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the eight months ended 31 August 2018

## 44. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

| | At 31 August 2018 *RMB'000* | At 31 December 2017 *RMB'000* |
|---|---|---|
| NON-CURRENT ASSETS | | |
| Property, plant and equipment | 215 | – |
| Investment in a subsidiary | 2,089,891 | 1 |
| | 2,090,106 | 1 |
| CURRENT ASSETS | | |
| Amount due from a subsidiary | 167,697 | 721,920 |
| Amounts due from shareholders | – | 13 |
| Other receivables | 6,763 | 1,242 |
| Bank balances and cash | 423,970 | 1,924,439 |
| | 598,430 | 2,647,614 |
| CURRENT LIABILITIES | | |
| Other payables | 1,101 | 21,740 |
| Amounts due to subsidiaries | 12,706 | 10,032 |
| | 13,807 | 31,772 |
| NET CURRENT ASSETS | 584,623 | 2,615,842 |
| | 2,674,729 | 2,615,843 |
| CAPITAL AND RESERVES | | |
| Share capital | 17 | 17 |
| Reserves | 2,674,712 | 2,615,826 |
| | 2,674,729 | 2,615,843 |

## 44. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

### Movement in the Company's reserves

| | Share premium<br>*RMB'000* | Share options reserve<br>*RMB'000* | Accumulated losses<br>*RMB'000* | Total<br>*RMB'000* |
|---|---|---|---|---|
| At date of incorporation | – | – | – | – |
| Loss and total comprehensive expense | – | – | (51,283) | (51,283) |
| Recognition of equity-settled share-based payments | – | 3,077 | – | 3,077 |
| Issuance of new shares upon listing | 2,746,286 | – | – | 2,746,286 |
| Expenses incurred in connection with the issuance of ordinary shares | (82,254) | – | – | (82,254) |
| At 31 December 2017 | 2,664,032 | 3,077 | (51,283) | 2,615,826 |
| Loss and total comprehensive expense | – | – | (87,580) | (87,580) |
| Recognition of equity-settled share-based payments | – | 40,679 | – | 40,679 |
| Issuance of new shares | 105,787 | – | – | 105,787 |
| At 31 August 2018 | 2,769,819 | 43,756 | (138,863) | 2,674,712 |

## 45. EVENT AFTER REPORTING PERIOD

Subsequent to 31 August 2018, the Group has completed the acquisition of Songtian Group as detailed in note 21. The financial impact and disclosure for the fair value of each major class of assets acquired and liabilities assumed as of the acquisition date are estimating as the preparation of initial accounting for this business combination, for example, valuation of assets acquired and liabilities assumed, is in progress at the time the consolidated financial statements are authorised for issue.

Details of the acquisition were set out in the announcements of the Company dated 14 June 2018, 3 September 2018 and 26 September 2018.

# FINANCIAL SUMMARY

## RESULTS

| | Year ended 31 December 2014 RMB'000 | 2015 RMB'000 | 2016 RMB'000 | 2017 RMB'000 | Eight months ended 31 August 2018 RMB'000 |
|---|---|---|---|---|---|
| **Continuing operations** | | | | | |
| Revenue | 821,934 | 846,016 | 861,289 | 949,171 | **932,910** |
| Cost of revenue | (408,683) | (415,897) | (404,577) | (389,448) | **(360,238)** |
| Gross profit | 413,251 | 430,119 | 456,712 | 559,723 | **572,672** |
| Profit before taxation | 313,362 | 364,407 | 425,300 | 423,195 | **387,928** |
| Profit for the year/period from continuing operation | 309,426 | 361,901 | 423,351 | 421,465 | **401,082** |
| **Discontinued operations** | | | | | |
| Profit (loss) for the year/period from discontinued operations | 93 | (13,642) | (10,836) | 7,407 | **–** |
| Profit for the year/period | 309,519 | 348,259 | 412,515 | 428,872 | **401,082** |
| Adjusted net profit *(Note i)* | 309,519 | 348,259 | 412,515 | 482,742 | **481,625** |

| **Profitability Margins** | Year ended 31 December 2014 | 2015 | 2016 | 2017 | Eight months ended 31 August 2018 |
|---|---|---|---|---|---|
| Gross profit margin | 50.3% | 50.8% | 53.0% | 59.0% | **61.4%** |
| Adjusted net profit margin | 37.7% | 41.2% | 47.9% | 50.9% | **51.6%** |

*Note i:* Adjusted net profit was derived from the profit for the year/period after adjusting for foreign exchange loss, listing expenses and share-based payments.

## OPERATIONAL DATA

| | At the end of school year 2014/2015 | 2015/2016 | 2016/2017 | Year ended 31 December 2017/2018 | Eight months ended 31 August 2018 |
|---|---|---|---|---|---|
| Total student enrollment | 63,548 | 63,367 | 75,255 | 76,204 | **121,315** |
| Total number of schools | 2 | 2 | 3 | 3 | **5** |
| Estimated total capacity for students | 56,059 | 55,355 | 71,177 | 70,027 | **123,620** |
| Overall utilisation rate | 98.9% | 98.2% | 91.5% | 92.6% | **86.4%** |

# FINANCIAL SUMMARY

## ASSETS AND LIABILITIES

| | At 31 December | | | | At 31 August |
|---|---|---|---|---|---|
| | 2014 | 2015 | 2016 | 2017 | 2018 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Non-current assets | 2,143,281 | 2,525,329 | 2,537,163 | 3,301,583 | 6,674,585 |
| Current assets | 744,188 | 915,078 | 1,328,923 | 3,370,369 | 2,058,642 |
| Current liabilities | 836,965 | 1,033,843 | 1,069,885 | 947,117 | 1,747,337 |
| Net current (liabilities)/ assets | (92,777) | (118,765) | 259,038 | 2,423,252 | 311,305 |
| Total assets less current liabilities | 2,050,504 | 2,406,564 | 2,796,201 | 5,724,835 | 6,985,890 |
| Equity attributable to owners of the Company | 1,800,884 | 2,121,016 | 2,527,339 | 5,639,043 | 6,143,097 |
| Non-controlling interests | – | – | – | – | 319,073 |
| Total equity | 1,800,884 | 2,121,016 | 2,527,339 | 5,639,043 | 6,462,170 |
| Non-current liabilities | 249,620 | 285,548 | 268,862 | 85,792 | 523,720 |
| Total equity and non-current liabilities | 2,050,504 | 2,406,564 | 2,796,201 | 5,724,835 | 6,985,890 |

| | At 31 December | | | | At 31 August |
|---|---|---|---|---|---|
| | 2014 | 2015 | 2016 | 2017 | 2018 |
| **Selected Major Items** | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Property, plant and equipment | 1,969,425 | 2,230,679 | 2,415,697 | 2,638,560 | 3,258,673 |
| Bank balances and cash | 332,081 | 373,854 | 247,133 | 3,243,144 | 1,738,455 |
| Bank borrowings | 288,000 | 460,645 | 453,076 | – | 130,000 |
| Other borrowings | – | – | – | – | 107,000 |
| Contract liabilities | – | – | – | – | 1,037,964 |
| Deferred income | 602,824 | 622,190 | 620,930 | 753,185 | 57,888 |

| | At 31 December | | | | At 31 August |
|---|---|---|---|---|---|
| | 2014 | 2015 | 2016 | 2017 | 2018 |
| **Liquidity** | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Gearing ratio *(Note ii)* | 16.0% | 21.7% | 17.9% | 0.0% | 3.7% |

*Note ii:* The gearing ratio was calculated as total borrowings divided by total equity as at the end of the relevant financial year/period.

# GLOSSARY

| | |
|---|---|
| "affiliate" | with respect to any specified person, any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person |
| "AGM" | the annual general meeting of the Company |
| "associate(s)" | has the meaning ascribed thereto under the Listing Rules |
| "Baiyun Technician College" | Guangzhou Baiyun Senior Technical School of Business and Technology (Guangzhou Baiyun Technician College of Business and Technology) (廣州白雲工商高級技工學校(廣州市白雲工商技師學院)), one of our PRC operating schools |
| "Board" | the board of directors of the Company |
| "CG Code" | Corporate Governance Code contained in Appendix 14 to the Listing Rules |
| "China" or "PRC" | the People's Republic of China and for the purposes of this document only, except where the context requires otherwise, references to China or the PRC exclude Hong Kong, Macau and Taiwan |
| "Companies Ordinance" | the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) |
| "Company" | China Education Group Holdings Limited (中國教育集團控股有限公司), a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange |
| "connected person(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, namely Huafang Education, Lihe Education, and our PRC Operating Schools and their respective subsidiaries |
| "Contractual Arrangements" | the series of contractual arrangements entered into by, among others, the Company, WFOE, Mr. Yu, Mr. Xie, Huafang Education, Lihe Education, our PRC Operating Schools and our consolidated affiliated entities |
| "controlling shareholders" | has the meaning ascribed to it under the Listing Rules and unless the context otherwise requires, refers to Mr. Yu, Mr. Xie and each of them shall be referred to as a controlling shareholder |
| "Director(s)" | the director(s) of the Company |

# GLOSSARY

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| "Group", "we", "us", or "our" | the Company, its subsidiaries and its consolidated affiliated entities from time to time |
| "Guangdong Baiyun University" | Guangdong Baiyun University (廣東白雲學院), one of our PRC operating schools |
| "Hong Kong" or "HK" | the Hong Kong Special Administrative Region of the People's Republic of China |
| "Hong Kong dollars" or "HK dollars" or "HK$" | Hong Kong dollars, the lawful currency of Hong Kong |
| "Huafang Education" | Ganzhou Huafang Education Consulting Company Limited (贛州市華方教育諮詢有限公司), one of our consolidated affiliated entities |
| "Huajiao Education" or "WFOE" | Huajiao Education Technology (Jiangxi) Company Limited (華教教育科技(江西)有限公司), a company established in the PRC with limited liability and a wholly-owned subsidiary of the Company |
| "Independent Third Party(ies)" | any entity(ies) or persons who is not a connected person of the Company within the meaning ascribed thereto under the Listing Rules |
| "INED" | independent non-executive directors |
| "Jiangxi University of Technology" | Jiangxi University of Technology (江西科技學院), one of our PRC operating schools |
| "Lihe Education" | Lihe Education Consulting (Ganzhou) Company Limited (禮和教育諮詢(贛州)有限公司), one of our consolidated affiliated entities |
| "Listing" | the listing of the Shares on the Main Board of the Stock Exchange on the Listing Date |
| "Listing Date" | 15 December 2017, the date on which the Shares were listed and on which dealings in the Shares were first permitted to take place 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 |
| "Model Code" | Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules |
| "Mr. Xie" | Mr. Xie Ketao (謝可滔), an executive director, co-chairman of the Company and a controlling shareholder of the Company |

# Glossary

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| "Mr. Yu" | Mr. Yu Guo (于果), an executive director, co-chairman of the Company and a controlling shareholder of the Company |
| "Registered School Sponsors" | Mr. Yu, Mr. Xie and Lihe Education |
| "RMB" or "Renminbi" | Renminbi, the lawful currency of China |
| "Shareholder(s)" | holder(s) of our Share(s) |
| "Shares" | ordinary shares in our Company of par value HK$0.00001 each |
| "Songtian College" | Guangzhou Songtian Polytechnic College (廣州松田職業學院), a polytechnic college located in Guangzhou, the PRC |
| "Songtian Company" | 增城市松田實業有限公司, a limited liability company established in the PRC |
| "Songtian Group" | Songtian Company, Songtian College and Songtian University |
| "Songtian University" | Guangzhou University Songtian College (廣州大學松田學院), a university located in Guangzhou, the PRC |
| "Stock Exchange" | The Stock Exchange of Hong Kong Limited |
| "subsidiary(ies)" | has the meaning ascribed thereto in section 15 of the Companies Ordinance |
| "VP Shenzhen" | Value Partners Private Equity Investment Management (Shen Zhen) Limited (惠理股權投資管理(深圳)有限公司), a company established in the PRC and a wholly-owned subsidiary of Value Partners Group Limited |
| "US dollars", "U.S. dollars" or "US$" | United States dollars, the lawful currency of the United States |
| "Xi'an Railway College" | Xi'an Railway Technician College (西安鐵道技師學院), one of our PRC operating schools |
| "Zhengzhou Transit School" | Zhengzhou City Rail Transit School (鄭州城軌交通中等專業學校), one of our PRC operating schools |
| "%" | per cent |

The English names of the PRC entities (including schools), PRC laws or regulations, and the PRC governmental authorities referred to in this annual report are merely translations from their Chinese names and are for identification purposes. If there is any inconsistency, the Chinese names shall prevail.