中国宇华教育集团有限公司

China YuHua Education Corporation Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 6169

Annual Report

2018

CONTENTS

COMPANY PROFILE

With over 17 years of experience operating private schools in Henan province, the Group is one of the leading private school operators in central China in terms of student enrolment.

The Group's K-12 schools provide education from kindergarten to high school, allowing the Group to attract students at an early age and create a stable and sustainable student pipeline. The Group emphasises the well-rounded development of the Group's students and have structured the curriculum to ensure the high quality of the Group's education and inspire and encourage the Group's students to explore their individual interests. The Group's K-12 schools are also committed to maximising their students' opportunities to enter top-tier universities in China and reputable colleges and universities abroad.

The Group's fundamental educational objectives are to foster modern talent with leadership and lifelong learning capabilities and nurture great minds to contribute to the future development of the Chinese nation ("培養具有領導才能和自主學習能力的現代化人才，為中華民族的偉大復興貢獻力量"). As an educational service provider, the Group believes it is entrusted to nurture the future of society, and aims to provide educational services in a manner consistent with the values and attitudes of the Group. The curriculums for the Group's universities and K-12 schools not only accommodate the students' eagerness to achieve academic excellence, but also emphasise well-rounded development.

The business of the Group remained relatively stable for the year ended 31 August 2018. The Group intends to continue to expand its school network and ensure delivery of high-quality education to its students by making continuous improvements to the educational infrastructure available.

As at 15 November 2018, for the school year 2018/2019, the Group had enrollment of an aggregate number of 93,108 students. As at 31 August 2018, the Group employed an aggregate of 6,063 employees.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors
Mr. Li Guangyu *(Chairman)*
Ms. Li Hua *(Vice Chairman)*
Ms. Qiu Hongjun

Independent non-executive Directors
Mr. Chen Lei
Mr. Xia Zuoquan
Mr. Zhang Zhixue

AUDIT COMMITTEE

Mr. Chen Lei *(Chairman)*
Mr. Xia Zuoquan
Mr. Zhang Zhixue

REMUNERATION COMMITTEE

Mr. Zhang Zhixue *(Chairman)*
Ms. Li Hua
Mr. Xia Zuoquan

NOMINATION COMMITTEE

Mr. Li Guangyu *(Chairman)*
Mr. Xia Zuoquan
Mr. Zhang Zhixue

JOINT COMPANY SECRETARIES

Mr. Xu Bin
Ms. Leung Suet Wing (appointed with effect from 31 August 2018)
Ms. Lai Siu Kuen (resigned with effect from 31 August 2018)

AUTHORISED REPRESENTATIVES

Ms. Li Hua
Mr. Xu Bin

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants
22/F, Prince's Building
Central
Hong Kong

LEGAL ADVISERS

As to Hong Kong and U.S. laws:
Skadden, Arps, Slate, Meagher & Flom
42/F, Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

As to PRC law:
Tian Yuan Law Firm
10/F, China Pacific Insurance Plaza
28 Fengsheng Hutong
Xicheng District
Beijing 100032
PRC

As to Cayman Islands law:
Maples and Calder (Hong Kong) LLP
53rd Floor, The Center
99 Queen's Road Central
Hong Kong

COMPLIANCE ADVISER

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

REGISTERED OFFICE

The offices of Maples Corporate Services Limited
PO Box 309, Ugland House
Grand Cayman, KY1-1104
Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

31/F, Tower Two, Times Square
1 Matheson Street, Causeway Bay
Hong Kong

CORPORATE INFORMATION (CONTINUED)

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN CHINA

No. 21, 4/F, Block 10
3 Mazhuang Street
Zhengdong New District
Zhengzhou, PRC

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG SHARE REGISTRAR

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

PRINCIPAL BANKERS

China Construction Bank Corporation
Jinshui Road Branch of Zhengzhou
No. 29, Jinshui Road
Zhengzhou, Henan Province
PRC

COMPANY WEBSITE

www.yuhuachina.com

STOCK CODE

6169

FINANCIAL INFORMATION

The following table sets out a comparison between key financial figures for the years ended 31 August 2018 and 2017:

	Year ended 31 August		
	2018 (RMB'000)	2017 (RMB'000)	Change
Revenue	**1,195,110**	846,222	+41%
Gross Profit	**670,723**	435,758	+54%
Net Profit attributable to owners of the Company	**530,812**	313,801	+69%
Adjusted Gross Profit[1]	**700,349**	461,415	+52%
Adjusted Net Profit attributable to owners of the Company[2]	**609,100**	408,652	+49%

Notes:

1. The Adjusted Gross Profit for the year ended 31 August 2018 is calculated as gross profit for the period, excluding the impact from share-based expense (in cost of revenue) and additional depreciation and amortization due to the fair value adjustments to the acquired identifiable assets of LEI Lie Ying Limited. For the calculation of the Adjusted Gross Profit for the year ended 31 August 2017, please refer to the Company's annual results announcement for the year ended 31 August 2017.

2. The Adjusted Net Profit attributable to owners of the Company for the year ended 31 August 2018 is calculated as the profit for the period, excluding the impact from share-based compensation expense, additional depreciation and amortization due to the fair value adjustments to the acquired identifiable assets of LEI Lie Ying Limited, derecognition of deferred tax assets due to the changes in applied taxation rate of LEI Lie Ying Limited from 1 January 2018, government grants recognised during the period, compensation for the realisation of security interests and waiver of the payable by the selling shareholder. For more information about the calculation of the Adjusted Net Profit for the year ended 31 August 2017, please refer to the Company's annual results announcement for the year ended 31 August 2017.

FINANCIAL INFORMATION (CONTINUED)

Non-IFRS Measures

To supplement the Group's consolidated financial statements which are presented in accordance with the International Financial Reporting Standards ("**IFRS**"), the Company also uses Adjusted Gross Profit, Adjusted Net Profit and other adjusted figures as additional financial measures, which are not required by, or presented in accordance with, IFRS. The Company believes that these non-IFRS measures facilitate comparisons of operating performance from period to period and company to company by eliminating potential impacts of items that the management do not consider to be indicative of the Group's operating performance. The Company believes that these measures provide useful information to shareholders and potential investors in understanding and evaluating the Group's consolidated results of operations in the same manner as they help the Group's management. However, the Company's presentation of such adjusted figures may not be comparable to a similarly titled measure presented by other companies. The use of these non-IFRS measures have limitations as an analytical tool, and you should not consider it in isolation from, or as substitute for analysis of, the Company's results of operations or financial condition as reported under IFRS.

	Year ended 31 August		
	2018 (RMB'000)	2017 (RMB'000)	Change (RMB'000)
Adjusted items			
One-off listing expenses	—	24,503	-24,503
Share-based compensation expenses (in cost of revenue)	**16,823**	25,657	-8,834
Share-based compensation expenses (in administration expenses)	**45,715**	65,921	-20,206
Additional depreciation and amortisation due to the fair value adjustments to the acquired identifiable assets of LEI Lie Ying Limited	**12,803**	—	+12,803
Derecognition of deferred tax assets due to the changes in applied taxation rate of LEI Lie Ying Limited from 1 January 2018	**9,018**	—	+9,018
Government grants	**-13,442**	-21,230	+7,788
Compensation for the realisation of security interests	**-134,797**	—	-134,797
Waiver of the payable by the selling shareholder	**108,275**	—	+108,275

FINANCIAL SUMMARY

Results of operations	For the year ended 31 August				
	2014 (RMB'000)	2015 (RMB'000)	2016 (RMB'000)	2017 (RMB'000)	**2018 (RMB'000)**
Revenue	599,337	697,706	781,331	846,222	**1,195,110**
Cost of revenue	(332,495)	(379,404)	(375,133)	(410,464)	**(524,387)**
Gross profit	266,842	318,302	406,198	435,758	**670,723**
Operating profit	225,314	115,513	337,686	308,730	**579,365**
Profit before tax	207,828	91,200	311,676	313,801	**591,960**
Profit for the year	207,828	91,200	311,676	313,801	**588,234**
Non-IFRS Measure:					
Adjusted Gross Profit[1]	266,842	318,302	406,198	461,415	**700,349**
Adjusted Net Profit attributable to owners of the Company[2]	200,478	236,070	316,281	408,652	**609,100**

Adjusted items	For the year ended 31 August				
	2014 (RMB'000)	2015 (RMB'000)	2016 (RMB'000)	2017 (RMB'000)	**2018 (RMB'000)**
One-off listing expenses	—	—	10,380	24,503	**—**
Share-based compensation expenses (in cost of revenue)	—	—	—	25,657	**16,823**
Share-based compensation expenses (in administration expenses)	—	—	—	65,921	**45,715**
One-off termination fee	—	153,870	—	—	**—**
Additional depreciation and amortisation due to the fair value adjustments to the acquired identifiable assets of LEI Lie Ying Limited	—	—	—	—	**12,803**
Derecognition of deferred tax assets due to the changes in applied taxation rate of LEI Lie Ying Limited from 1 January 2018	—	—	—	—	**9,018**
Government grants	(7,350)	(9,000)	(5,775)	(21,230)	**(13,442)**
Compensation for the realisation of security interests	—	—	—	—	**(134,797)**
Waiver of the payable by the selling shareholder	—	—	—	—	**108,275**

FINANCIAL SUMMARY (CONTINUED)

Financial ratio	For the year ended 31 August				
	2014	2015	2016	2017	**2018**
Gross profit margin	44.5%	45.6%	52.0%	51.5%	**56.1%**
Net profit margin attributable to owners of the Company	34.7%	13.1%	39.9%	37.1%	**44.4%**
Adjusted net profit margin attributable to owners of the Company	33.4%	33.8%	40.5%	48.3%	**51.0%**

Notes:

1. The Adjusted Gross Profit for the year ended 31 August 2018 is calculated as gross profit for the period, excluding the impact from share-based expense (in cost of revenue) and additional depreciation and amortization due to the fair value adjustments to the acquired identifiable assets of LEI Lie Ying Limited. For the calculation of the Adjusted Gross Profit for the year ended 31 August 2017, please refer to the Company's annual results announcement for the year ended 31 August 2017.

2. The Adjusted Net Profit attributable to owners of the Company for the year ended 31 August 2018 is calculated as the profit for the period, excluding the impact from share-based compensation expense, additional depreciation and amortization due to the fair value adjustments to the acquired identifiable assets of LEI Lie Ying Limited, derecognition of deferred tax assets due to the changes in applied taxation rate of LEI Lie Ying Limited from 1 January 2018, government grants recognised during the period, compensation for the realisation of security interests and waiver of the payable by the selling shareholder. For the calculation of the Adjusted Net Profit for the years ended 31 August 2017, 2016, 2015, and 2014, please refer to the Company's annual results announcement for the year ended 31 August 2017.

Assets and liabilities	As at 31 August				
	2014 (RMB'000)	2015 (RMB'000)	2016 (RMB'000)	2017 (RMB'000)	**2018 (RMB'000)**
Non-current assets	1,547,926	1,665,046	1,712,098	1,733,132	**3,826,136**
Current assets	269,146	290,961	316,310	1,641,388	**2,305,924**
Current liabilities	1,247,614	1,163,526	885,862	897,424	**2,034,644**
Net current assets (liabilities)	(978,468)	(872,565)	(569,552)	743,964	**271,280**
Total assets less current liabilities	569,458	792,481	1,142,546	2,477,096	**4,097,416**
Non-current liabilities	62,751	194,574	232,898	—	**338,233**
Total equity	506,707	597,907	909,648	2,477,096	**3,759,183**
Property, plant and equipment	1,299,056	1,408,828	1,465,026	1,477,434	**2,239,853**
Cash and cash equivalents	259,440	154,339	304,986	642,506	**1,593,177**
Deferred revenue	557,512	591,547	609,193	631,711	**956,541**
Bank borrowings	20,000	502,000	315,000	—	**505,000**

Financial ratio	As at/for the year ended 31 August				
	2014	2015	2016	2017	**2018**
Current ratio	0.22	0.25	0.36	1.83	**1.13**
Gearing ratio[3]	3.9%	84.0%	34.6%	—	**13.4%**

Cash flows	For the year ended 31 August				
	2014 (RMB'000)	2015 (RMB'000)	2016 (RMB'000)	2017 (RMB'000)	**2018 (RMB'000)**
Net cash from operating activities	445,395	168,304	420,143	515,806	**749,782**

Notes (cont'd):

3. The Gearing Ratio is calculated as total interest-bearing bank loans divided by total equity as at the end of the relevant financial year.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The business of the Group remained relatively stable for the year ended 31 August 2018. The Group intends to continue to expand its school network and ensure delivery of high-quality education to its students by making continuous improvements to its educational infrastructure.

The Group's Schools and Student Enrolment

As at 31 August 2018, the Group had 26 schools located in Henan province of China and one school located in Hunan province of China, respectively. In the past fiscal year: (i) the Group's new high school on Xuchang Yuhua Elite School campus commenced operation on 1 September 2017; (ii) the Group acquired the HIEU Schools through acquiring LEI Lie Ying Limited in December 2017; and (iii) on 18 April 2018, the Group had entered into an investment agreement to purchase a 70% equity interest in Kaifeng City Yubohui Education Information Consulting Co., Ltd. of which Kaifeng City Xiangfu District Bowang High School is a wholly-owned subsidiary. The acquisition of Kaifeng City Xiangfu District Bowang High School was completed on 1 September 2018.

The private school operating licence (the "**PSO Licence**") for Zhengzhou Technology and Business University expired in May 2016; the PSO Licence has been renewed and is due to expire in 2019. The PSO Licence for Xuchang Weidu District YuHua Elite Bilingual Kindergarten expired in March 2018; it has been renewed and will expire in April 2020. The PSO Licence for Jiyuan YuHua Elite Bilingual Kindergarten expired in July 2018; it was renewed and will expire in June 2022.

The following table sets out a summary of the Group's schools by category as at the end of August 2018 and 2017:

	As at 31 August 2018	As at 31 August 2017
Universities	**2** *(Note 1)*	1
High schools	**4** *(Note 2)*	4 *(Note 3)*
Middle schools	**7**	7
Primary schools	**6**	6
Kindergartens	**8**	8
Total	**27**	26

For the school year 2018/2019, the Group has enrolled a total of 93,108 students at its schools and universities. The following table sets out the Group's student enrollment by category for the school year ended 2017/2018 and 2018/2019:

	2018/2019 (as at 15 November 2018)	2017/2018 (as at 15 November 2017)
Universities	**61,353**	27,770
High schools	**11,973**	6,306
Middle schools	**8,830**	8,573
Primary schools	**8,217**	7,978
Kindergartens	**2,735**	2,681
Total	**93,108**	53,308

The new high school on the Xuchang YuHua Elite School campus commenced operation on 1 September 2017.

Notes:

1. LEI Lie Ying Limited owns 70% of the equity interest in Hunan Lie Ying Industry Co., Ltd. (湖南獵鷹實業有限公司) which in turn owns the entire sponsorship interests of Hunan International Economics University (湖南涉外經濟學院), Hunan Lie Ying Mechanic School (湖南獵鷹技工學校) and Hunan International Economics University Vocational Skills Training Centre (湖南涉外經濟學院職業技能培訓中心), and the entire equity interests of Hunan Lie Ying Property Management Co., Ltd. (湖南獵鷹物業管理有限公司).

2. Does not include Kaifeng City Xiangfu District Bowang High School (開封市祥符區博望高中) which was only consolidated into the Group's accounts on 1 September 2018. On 18 April 2018, Zhengzhou YuHua Education Investments Co., Ltd. (鄭州宇華教育投資有限公司), a member of our Group, entered into an investment agreement to purchase a 70% equity interest in Kaifeng City Yubohui Education Information Consulting Co., Ltd. (開封市宇博慧教育資訊諮詢有限公司). Kaifeng City Xiangfu District Bowang High School is a wholly-owned subsidiary of Kaifeng City Yubohui Education Information Consulting Co., Ltd. The acquisition of Kaifeng City Xiangfu District Bowang High School was completed on 1 September 2018.

BUSINESS OUTLOOK

1. Events during the Reporting Period

On 2 November 2017, the Company, GuangYu Investment, CLSA Limited, and Mr. Li entered into an agreement for the Top-up Placing and Subscription, pursuant to which GuangYu Investment agreed to appoint CLSA Limited and CLSA Limited agreed to use its best effort to procure placees who and whose ultimate beneficial owners shall be independent third parties to subscribe for up to 253,150,000 shares at the aggregate price of HK$3.70 per share. GuangYu Investment also agreed to subscribe for, and the Company conditionally agreed to allot and issue to CLSA Limited, up to 253,150,000 new shares at an aggregate price of HK$3.70 per share. The subscription took place on 7 November 2017. For further details, please refer to the Company's announcement dated 2 November 2017.

On 10 November 2017, the Board announced the completion of the Top-up Placing and Subscription. The 253,150,000 shares were successfully placed to 53 placees whose ultimate beneficial owners are independent third parties at a price of HK$3.70 per share. For further details, please refer to the Company's announcement dated 10 November 2017.

On 27 December 2017, China YuHua Education Investment (the "**purchaser**"), and LEI China entered into an acquisition agreement, pursuant to which the purchaser conditionally agreed to purchase the entire issued share capital of LEI Lie Ying Limited with the consideration amounting to RMB1,165 million. Upon completion of the acquisition, GuangYu Investment became the ultimate holding company of LEI Lie Ying Limited. On 27 December 2017, the acquisition was completed and Mr. Li became the ultimate controlling party of LEI Lie Ying and its subsidiaries. For further details, please refer to the Company's announcements dated 28 December 2017, 18 January 2018 and 29 March 2018, and the Company's circular dated 29 June 2018.

On 2 February 2018, the Henan Opinions were promulgated. The Board will closely monitor the implementation of the Henan Opinions and will seek the PRC Legal Adviser's further opinion concerning compliance with the Henan Opinions as and when appropriate. The Board will choose to register its kindergartens as for-profit or non-profit schools in accordance with the applicable laws and regulations and in the best interests of the Company and its Shareholders.

On 18 April 2018, Zhengzhou YuHua Education Investments (as purchaser) and Huibo Education (as seller) entered into an investment agreement pursuant to which Zhengzhou YuHua Education Investments conditionally agreed to purchase and Huibo Education conditionally agreed to sell a 70% equity interest in Kaifeng City Yubohui Education Information Consulting Co., Ltd. (開封市宇博慧教育資訊諮詢有限公司) for a cash consideration of RMB107.1 million. Kaifeng City Xiangfu District Bowang High School is a wholly-owned subsidiary of Kaifeng City Yubohui Education Information Consulting Co., Ltd. For further details, please refer to the Company's announcement dated 18 April 2018.

On 31 May 2018, the Company, China YuHua Education Investments and HongKong YuHua entered into a loan agreement with International Finance Corporation, pursuant to which International Finance Corporation agreed to lend, and the Company agreed to borrow, up to the principal amount of US$75 million, comprised of an initial US$50 million tranche and a US$25 million tranche which shall, at the option of International Finance Corporation, be convertible into ordinary shares of the Company at a conversion price of HK$5.75 per share. For further details, please refer to the Company's announcement dated 31 May 2018.

On 10 August 2018, the Private Education Draft Law was issued. The Board notes that the Private Education Draft Law remains in draft form and is yet to be promulgated. The Board will continue to monitor developments with respect to the Private Education Draft Law together with the Company's legal advisers.

2. Events after the Reporting Period

On 19 October 2018, the Company and China CITIC Bank Co., Ltd. (Zhengzhou Branch) (中信銀行股份有限公司鄭州分行) entered into a Cooperation Agreement, pursuant to which the parties agreed to form a comprehensive alliance in respect of financial services. The agreement includes a credit facility of not less than RMB14,000,000,000 or equivalent US dollars over the next two years. For further details, please refer to the Company's announcement dated 19 October 2018.

On 15 November 2018, the Pre-School Opinions were issued. The Board will closely monitor the implementation of the Pre-school Opinions and will seek PRC legal advisers' further opinion on compliance with the Pre-school Opinions and the related implementation regulations as and when appropriate.

3. Future Development

The Group has a strong pipeline for opening new schools in Henan province. The Group will also continue to explore other potential acquisition targets or cooperation opportunities to supplement our school network, both within the PRC and internationally.

FINANCIAL REVIEW

Overview

For the year ended 31 August 2018, we recorded a revenue of RMB1,195.1 million, an Adjusted Gross Profit of RMB700.3 million and a gross profit of RMB670.7 million. The Adjusted Gross Profit Margin[1] of the Group was 58.6% for the year ended 31 August 2018 as compared with 54.5% for the corresponding period in 2017. The gross profit margin was 56.1% for the year ended 31 August 2018 as compared with 51.5% for the corresponding period in 2017.

The Adjusted Net Profit attributable to owners of the Company for the year ended 31 August 2018 was RMB609.1 million, representing an increase of RMB200.4 million or a 49% increase from the corresponding period in 2017. The Adjusted Net Profit Margin[2] of the Group was 51.0% and 48.3% for the years ended 31 August 2018 and 31 August 2017, respectively. The increase in the Adjusted Net Profit was mainly due to the increase in student enrolment and tuition fees for several schools and the acquisition of LEI Lie Ying Limited and its subsidiaries (including HIEU Schools), the financial results of which have been consolidated into the Group's upon completion of the acquisition.

The net profit attributable to owners of the Company amounted to RMB530.8 million and RMB313.8 million for the years ended 31 August 2018 and 31 August 2017, respectively. The net profit margin attributable to owners of the Company amounted to 44.4% and 37.1% for the years ended 31 August 2018 and 31 August 2017, respectively.

Revenue

For the year ended 31 August 2018, revenue of the Group amounted to RMB1,195.1 million, representing an increase of RMB348.9 million or 41.2% as compared with RMB846.2 million for the corresponding period of 2017. The increase was primarily the result of an increase in student enrolment and tuition fees for several schools and the acquisition of LEI Lie Ying Limited and its subsidiaries (including HIEU Schools), the financial results of which have been consolidated into the Group's upon completion of the acquisition.

Cost of Revenue

For the year ended 31 August 2018, the Adjusted Cost of Revenue[3] of the Group amounted to RMB494.8 million, representing an increase of RMB110.0 million or 28.6% as compared with RMB384.8 million for the corresponding period of 2017. The increase was primarily the result of the increase in the number of teachers and some teachers' salaries, and the acquisition of LEI Lie Ying Limited and its subsidiaries (including HIEU Schools), the financial results of which have been consolidated into the Group's upon completion of the acquisition.

1 The Adjusted Gross Profit Margin is calculated as the gross profit margin for the period, excluding the impact from certain non-cash or non-recurring expenses including share-based compensation and additional depreciation and amortization due to the provisional fair value adjustments to the acquired identifiable assets of LEI Lie Ying Limited.

2 The Adjusted Net Profit Margin is calculated based on the Adjusted Net Profit attributable to owners of the Company.

3 The Adjusted Cost of Revenue is calculated as cost of revenue for the period, excluding the impact from the non-cash expenses of share-based compensation and additional depreciation and amortisation due to the fair value adjustments to the acquired identifiable assets of LEI Lie Ying Limited.

The cost of revenue of the Group amounted to RMB524.4 million and RMB410.5 million for the years ended 31 August 2018 and 31 August 2017, respectively. The increase was primarily the result of the increase in the number of teachers and some teachers' salaries, and the acquisition of LEI Lie Ying Limited and its subsidiaries (including HIEU Schools), the financial results of which have been consolidated into the Group's upon completion of the acquisition.

Gross Profit and Gross Profit Margin

For the year ended 31 August 2018, the Adjusted Gross Profit of the Group amounted to RMB700.3 million, representing an increase of RMB238.9 million or 51.8% as compared with RMB461.4 million for the corresponding period in 2017, primarily due to the increase in student enrolment and tuition fees for several schools and the acquisition of LEI Lie Ying Limited and its subsidiaries (including HIEU Schools), the financial results of which have been consolidated into the Group's upon completion of the acquisition. The Adjusted Gross Profit Margin of the Group for the year ended 31 August 2018 was 58.6%, compared with and 54.5% for the corresponding period in 2017.

The Group's gross profit amounted to RMB670.7 million and RMB435.8 million for the years ended 31 August 2018 and 31 August 2017, respectively. The Group's gross profit margin amounted to 56.1% and 51.5% for the years ended 31 August 2018 and 31 August 2017, respectively.

Selling Expenses

For the year ended 31 August 2018, selling expenses of the Group amounted to RMB6.52 million, representing an increase of RMB2.76 million or 73.4% from RMB3.76 million during the corresponding period in 2017. There were no material changes to selling and marketing activities for the year ended 31 August 2018, and the increase was primarily due to the acquisition of LEI Lie Ying Limited and its subsidiaries (including HIEU Schools), the financial results of which have been consolidated into the Group's upon completion of the acquisition.

Administrative Expenses

For the year ended 31 August 2018, the Adjusted Administrative Expenses[4] of the Group amounted to RMB86.9 million, representing an increase of RMB30.1 million or 53.0% as compared with RMB56.8 million for the corresponding period in 2017. The increase in the Adjusted Administrative Expenses for the year ended 31 August 2018 was primarily due to the acquisition of LEI Lie Ying Limited and its subsidiaries (including HIEU Schools), the financial results of which have been consolidated into the Group's upon completion of the acquisition.

The administrative expenses of the Group amounted to RMB132.6 million and RMB147.2 million for the years ended 31 August 2018 and 31 August 2017, respectively. The decrease was primarily due to the decrease in the administrative expenses related to share-based compensation.

[4] Adjusted Administrative Expenses are calculated as administrative expense for the period, excluding the impact from certain non-cash or non-recurring expenses including: (i) share-based compensation and (ii) one-off listing expenses incurred in connection with the initial public offering and the Listing in February 2017.

Other Income

For the year ended 31 August 2018, the other income of the Group amounted to RMB16.1 million, representing a decrease of RMB6.8 million or 29.7% as compared with RMB22.9 million for the corresponding period in 2017. This decrease was primarily due to a decrease in government grants and subsidies obtained.

Other Gains and Losses

For the year ended 31 August 2018, the other gains and losses of the Group amounted to a gain of RMB31.7 million as compared with a gain of RMB1.1 million for the corresponding period in 2017. This increase was primarily due to the compensation for the realisation of security interests amounting to RMB134.8 million and waiver of payable by the selling shareholder amounting to RMB108.3 million.

Operating Profit

The operating profit of the Group amounted to RMB579.4 million and RMB308.7 million for the years ended 31 August 2018 and 31 August 2017, respectively. The increase was primarily due to an increase in student enrolment and tuition fees for several schools and the acquisition of LEI Lie Ying Limited and its subsidiaries (including HIEU Schools), the financial results of which have been consolidated into the Group's upon completion of the acquisition.

Finance Income

Finance income increased by 53.5% from RMB15.5 million for the year ended 31 August 2017 to RMB23.8 million for the corresponding period in 2018 due to an increase in cash deposits from the net proceeds of the initial public offering.

Finance Expenses

Finance expenses increased by 6.7% from RMB10.5 million for the year ended 31 August 2017 to RMB11.2 million for the corresponding period in 2018 due to an increase in bank borrowings.

Profit for the Reporting Period

As a result of the above factors, the Adjusted Net Profit attributable to owners of the Company was RMB609.1 million for the year ended 31 August 2018, representing an increase of RMB200.4 million or 49.0% as compared with RMB408.7 million for prior year. In addition, the Adjusted Net Profit Margin attributable to owners of the Company amounted to 51.0% and 48.3% for the years ended 31 August 2018 and 31 August 2017, respectively. The increase in the Adjusted Net Profit was mainly due to an increase in student enrolment and tuition fees for several schools and the acquisition of LEI Lie Ying Limited and its subsidiaries (including HIEU Schools), the financial results of which have been consolidated into the Group's upon completion of the acquisition.

The Group recorded a net profit attributable to owners of the Company of RMB530.8 million for the year ended 31 August 2018, representing an increase of RMB217.0 million or 69.2% as compared with RMB313.8 million for the corresponding period in 2017. The net profit margin attributable to owners of the Company for the year ended 31 August 2018 was 44.4%, compared to 37.1% for the corresponding period in 2017.

Liquidity and Source of Funding and Borrowing

The Group's cash and cash equivalents increased by 148.0% from RMB642.5 million as at 31 August 2017 to RMB1,593.2 million as at 31 August 2018. The significant increase of cash and cash equivalents for the year ended 31 August 2018 primarily resulted from an increase in tuition revenue and bank borrowings.

As at 31 August 2018, the current assets of the Group amounted to RMB2,305.9 million, including RMB1,593.2 million in bank balances and cash and other current assets of RMB712.7 million. The current liabilities of the Group amounted to RMB2,034.6 million, of which RMB956.5 million was deferred revenue, RMB633.0 million was accruals and other payables, RMB438.5 million was borrowings, and RMB6.6 million was provisions. As at 31 August 2018, the current ratio of the Group, which is equivalent to the current assets divided by the current liabilities, was 1.13 as compared with 1.83 as at 31 August 2017.

Gearing Ratio

As at 31 August 2018, the gearing ratio of the Group, which was calculated as total interest-bearing bank loans divided by total equity, was approximately 13.4%, representing an increase of 13.4 percentage points compared with nil as at 31 August 2017. The increase was due to the interest-bearing borrowings amounting to RMB505.0 million as at 31 August 2018.

Material Investments

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

Material Acquisitions and Disposals

On 27 December 2017, China YuHua Education Investment and LEI China entered into an acquisition agreement pursuant to which China YuHua Education Investment conditionally agreed to purchase and LEI China conditionally agreed to sell the entire issued share capital of LEI Lie Ying Limited for a consideration of RMB1,165 million. The acquisition was completed on 27 December 2017. The financial results of LEI Lie Ying Limited and its subsidiaries (including the HIEU Schools) have been consolidated into the Group's upon completion of the acquisition. For further details, please refer to the Company's announcements dated 28 December 2017, 18 January 2018 and 29 March 2018, and the Company's circular dated 29 June 2018.

On 18 April 2018, Zhengzhou YuHua Education Investments (as purchaser) and Huibo Education (as seller) entered into an investment agreement pursuant to which Zhengzhou YuHua Education Investments conditionally agreed to purchase and Huibo Education conditionally agreed to sell a 70% equity interest in Kaifeng City Yubohui Education Information Consulting Co., Ltd. (開封市宇博慧教育資訊諮詢有限公司) for a cash consideration of RMB107.1 million. Kaifeng City Xiangfu District Bowang High School is a wholly-owned subsidiary of Kaifeng City Yubohui Education Information Consulting Co., Ltd. For further details, please refer to the Company's announcement dated 18 April 2018. The acquisition of Kaifeng City Xiangfu District Bowang High School was completed on 1 September 2018.

Save as disclosed above, the Group did not have any material acquisitions or disposals of subsidiaries, consolidated affiliated entities or associated companies during the year ended 31 August 2018.

Pledge of Assets

As at 31 August 2018, the bank borrowings of the Group amounting to RMB105.0 million were secured by certain prepaid land lease payments of the Group and guaranteed by the Company's consolidated affiliated entities.

Contingent Liabilities

Details of contingent liabilities as at 31 August 2018 are set out in Note 33 of the consolidated financial statements.

Foreign Exchange Exposure

During the year ended 31 August 2018, the Group mainly operated in China and a majority of its transactions were settled in RMB, the Company's primary consolidated affiliated entities' functional currency. As at 31 August 2018, except for the bank deposits denominated in foreign currencies, the Group did not have significant foreign currency exposure from its operations.

Employee and Remuneration Policy

As of 31 August 2018 and 2017, we had 6,063 and 4,086 employees, respectively. The number of employees employed by the Group varies from time to time depending on need. Employees' remuneration is determined in accordance with prevailing industry practice and employees' educational backgrounds, experience and performance. The remuneration policy and package of the Group's employees are periodically reviewed. As required by the PRC laws and regulations, the Company participates in various employee social security plans for its employees that are administered by local governments, including, among others, housing provident funds, pensions, medical insurance, social insurance and unemployment insurance.

Compensation of key executives of the Group is determined by the Company's remuneration committee which reviews and recommends to the Board the executives' compensation based on the Group's performance and the executives' respective contributions to the Group.

The Company also has a Pre-IPO Share Option Scheme and a Share Award Scheme. Please refer to the section headed "Statutory and General Information — D. Pre-IPO Share Option Scheme and Share Award Scheme" in Appendix V to the Prospectus for further details.

The total remuneration cost incurred by the Group for the year ended 31 August 2018 was RMB325.8 million (for the year ended 31 August 2017: RMB232.5 million).

Future Plans for Material Investments or Capital Assets

Save as otherwise disclosed in this Annual Report, the Company has no other plans for material investments or purchase of capital assets.

REPORT OF DIRECTORS

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

DIRECTORS

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

Executive Directors:
Mr. Li Guangyu *(Chairman)*
Ms. Li Hua *(Vice Chairman)*
Ms. Qiu Hongjun

Independent Non-executive Directors:
Mr. Chen Lei
Mr. Xia Zuoquan
Mr. Zhang Zhixue

Biographical details of the Directors and senior management of the Group are set out in the section headed "Directors and Senior Management" on pages 45 to 49 of this annual report.

GLOBAL OFFERING

The Company was incorporated in the Cayman Islands on 25 April 2016 as an exempted limited liability company under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company's Shares were listed on the Main Board of the Stock Exchange on 28 February 2017.

PRINCIPAL ACTIVITIES

The Group is one of the largest providers of private education from kindergarten to university in China under the "YuHua" brand. The Group's university education and K-12 education are designed to serve different target groups and achieve distinct learning outcomes. The Group's universities offer comprehensive tertiary level education aimed at equipping students with practical knowledge and skills to prosper in their careers. The Group's K-12 schools provide education from kindergarten to high school, allowing us to attract students at an early age and create a stable and sustainable student pipeline. The Group emphasises the well-rounded development of its students and has structured its curricula to ensure the high quality of its education and inspire and encourage its students to explore their individual interests.

Analysis of the principal activities of the Group during the year ended 31 August 2018 is set out in note 5 to the consolidated financial statements.

BUSINESS REVIEW

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

PRINCIPAL RISKS AND UNCERTAINTIES

Save as disclosed in the section headed "Risks relating to the Contractual Arrangements" under "Continuing Connected Transactions" in this annual report, the following list is a summary of certain principal risks and uncertainties facing the Group, some of which are beyond its control.

- its operations and business prospects;
- its business and operating strategies and its ability to implement such strategies;
- its ability to develop and manage its operation and business;
- its ability to maintain or increase student enrolment in its schools;
- its ability to maintain or increase tuition fees;
- its ability to control its operating costs;
- its ability to maintain or increase utilization of the Group's facilities;
- its capital expenditure programs and future capital requirements;
- its future general and administrative expenses;
- competition for, among other things, capital, technology and skilled personnel (including teaching staff);
- competition in the education industry where the Group serves; and
- changes to regulatory and operating conditions in the education industry and geographical markets in which the Group serves.

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

ENVIRONMENTAL POLICIES AND PERFORMANCE

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

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

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

EMPLOYEES

As at 31 August 2018, the Group had 6,063 (2017: 4,086) employees. The Group believes in the importance of attracting, recruiting and retaining quality employees (in particular teachers) in achieving the Group's success. The Group provides training for teachers to equip them with teaching skills and techniques to stay abreast of the changes in student demands and teaching methodologies, changing testing and admission standards and other trends. The Group also participates in various employee social security plans for its employees, including housing provident fund, pension, medical insurance, social insurance and unemployment insurance. The Company has also adopted a pre-IPO share option scheme and a share award scheme to provide incentives for the Group's employees. During each school year, the Group monitors the teaching quality of its teachers and evaluates the performance of its teachers from time to time. During the year ended 31 August 2018, the Group did not experience any significant labour disputes or any difficulty in recruiting employees.

MAJOR CUSTOMERS AND SUPPLIERS

The Group's customers primarily consist of its students and their parents. The Group did not have any single customer who accounted for more than 5% of the Group's revenue for the two years ended 31 August 2017 and 2018.

The Group's suppliers primarily comprise decoration services, meal catering companies, suppliers for text books, uniforms and teaching equipment vendors. For the year ended 31 August 2018, purchases from the Group's five largest suppliers amounted to RMB32.2 million (2017: RMB42.0 million) which represented 26.8% (2017: 45.9%) of the Group's total purchases. During the year, purchases from the Group's largest supplier amounted to RMB9.3 million (2017: RMB23.0 million), which represented 7.7% (2017: 25.1%) of the Group's total purchases in the same year. The Group's largest supplier during the year ended 31 August 2018 is an independent third party decoration service provider who provides decoration services to certain of its schools.

None of the Directors, their respective close associates, or any Shareholder who, to the knowledge of the Directors, owns more than 5% of the Company's issued capital, has any interest in any of the Group's five largest suppliers.

During the year ended 31 August 2018, the Group did not experience any significant disputes with its customers or suppliers.

FINANCIAL SUMMARY

A summary of the audited consolidated results and the assets and liabilities of the Group for the last five financial years, as extracted from the audited consolidated financial statements, is set out on pages 7 to 9 of this annual report. This summary does not form part of the audited consolidated financial statements.

PRE-EMPTIVE RIGHTS

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

SUBSIDIARIES

Particulars of the Company's subsidiaries are set out in note 37 to the consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

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

The book value of the properties held by the Group for owner occupation at 31 August 2018 as included in the financial statements in this annual report was RMB2,239.9 million.

SHARE CAPITAL AND SHARES ISSUED

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

DONATION

During the year ended 31 August 2018, the Group made charitable donations of approximately RMB0.4 million (2017: approximately RMB0.1 million).

DEBENTURE ISSUED

The Group did not issue any debenture during the year ended 31 August 2018.

EQUITY-LINKED AGREEMENTS

Save for the Pre-IPO Share Option Scheme, the Share Award Scheme and the Loan Agreement, no equity-linked agreements were entered into by the Group, or existed during the year ended 31 August 2018.

DIVIDENDS

The Board has recommended that a final dividend of HK$0.064 (equivalent to approximately RMB0.055) per Share in respect of the year ended 31 August 2018, which is subject to Shareholder's approval at the forthcoming general meeting of the Company. The final dividend is expected to be paid on or before 17 April 2019 to the Shareholders whose names appear on the register of members of the Company on 13 February 2019.

No Shareholder has waived or agreed to waive any dividends.

PERMITTED INDEMNITY

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

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

DISTRIBUTABLE RESERVES

Details of the movements in the reserves of the Company during the year ended 31 August 2018 are set out in note 36 to the consolidated financial statements. The distributable reserves of the Company as at 31 August 2018 were RMB1,791.7 million.

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.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Group as at 31 August 2018 are set out in the section headed "Management Discussion and Analysis" in this annual report and Note 28 to the consolidated financial statements.

DIRECTORS' SERVICE CONTRACTS

Mr. Li has entered into a service contract with the Company for an initial term of three years with effect from the Listing Date or until the third annual general meeting of the Company since the Listing Date (whichever is sooner).

Each of the other executive Directors (i.e. Ms. Li and Ms. Qiu Hongjun) has entered into a service contract with the Company for an initial term of three years with effect from the date of their respective appointment or until the third annual general meeting of the Company since the date of the Prospectus (whichever is sooner).

Each of the independent non-executive Directors has signed a letter of appointment with the Company for an initial term of three years with effect from the date of the Prospectus or until the third annual general meeting of the Company since the Listing Date (whichever is sooner).

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

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

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

CONTRACTS WITH CONTROLLING SHAREHOLDERS

No contract of significance, including contracts of significance for the provision of services, has been entered into among the Company or any of its subsidiaries and the Controlling Shareholders or any of their subsidiaries during the year ended 31 August 2018.

MANAGEMENT CONTRACTS

No contract, concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year ended 31 August 2018.

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

As at 31 August 2018, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to Model Code are as follows:

Interest in the Company

Name of Director	Capacity/Nature of Interest	Number of Shares	Approximate Percentage of Shareholding in the Company (%)[1]	Long Position/ Short Position/ Lending pool
Mr. Li	Beneficial owner/ Founder of a discretionary trust	2,157,249,000[(2)&(3)]	66.07	Long position
Ms. Li	Beneficiary of a discretionary trust/ Beneficial owner	2,162,152,000[(2)&(4)&(5)]	66.22	Long position
Qiu Hongjun	Beneficial owner	3,261,000[(6)]	0.10	Long position

Notes:

1. The calculation is based on the total number of 3,264,938,460 Shares in issue as at 31 August 2018.

2. The entire share capital of GuangYu Investment Holdings Limited is wholly-owned by Baikal Lake Investment, as the nominee of TMF (Cayman) Ltd., the trustee of Nan Hai Trust, which was established by Mr. Li Guangyu (as the settlor) on 6 September 2016 as a discretionary trust for the benefit of among others, Mr. Li and Ms. Li. Each of Mr. Li (as the founder of Nan Hai Trust) and Ms. Li (as a beneficiary of Nan Hai Trust) is taken to be interested in 2,137,500,000 Shares held by GuangYu Investment.

3. Includes Mr. Li's entitlement to receive up to 19,156,530 Shares pursuant to the exercise of options granted to him under the Pre-IPO Share Option Scheme, subject to the conditions (including vesting conditions) of those options.

4. Includes Ms. Li's entitlement to receive up to 23,596,220 Shares pursuant to the exercise of options granted to her under the Pre-IPO Share Option Scheme, subject to the conditions (including vesting conditions) of those options.

5. Ms. Li's spouse, Ge Cong, is interested in 326,000 Shares and therefore, Ms. Li is deemed to be interested in the 326,000 Shares held by Ge Cong.

6. Includes Qiu Hongjun's entitlement to receive up to 3,097,950 Shares pursuant to the exercise of options granted to her under the Pre-IPO Share Option Scheme, subject to the conditions (including vesting conditions) of those options.

Interest in Associated Corporations

Name of Director	Name of associated corporation	Capacity/ Nature of Interest	Amount of registered capital	% of interest in the corporation	Long Position/ Short Position/ Lending pool
Mr. Li	YuHua Investment Management	Beneficial owner	RMB40,000,000	80%	Long position
	Zhengzhou YuHua Education Investments	Beneficial owner	RMB18,000,000	36%	Long position
	Zhengzhou Zhongmei Education Investments	Beneficial owner	RMB30,000,000	60%	Long position
Ms. Li	YuHua Investment Management	Beneficial owner	RMB10,000,000	20%	Long position
	Zhengzhou YuHua Education Investments	Beneficial owner	RMB32,000,000	64%	Long position
	Zhengzhou Zhongmei Education Investments.	Beneficial owner	RMB20,000,000	40%	Long position

Save as disclosed above, as at 31 August 2018, none of the Directors or 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 or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required to be recorded in the register to be kept by the Company pursuant to section 352 of the SFO, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

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

As at 31 August 2018, within the knowledge of the Directors, the following persons (other than the Directors or chief executive of the Company) had an interest or a short position in the Shares or underlying Shares of the Company which would be required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Name of Shareholder	Capacity/Nature of Interest	Number of Shares	Approximate Percentage of Shareholding (%)[1]	Long Position/ Short Position/ Lending pool
Mr. Li[2]	Beneficial owner/ Founder of a discretionary trust	2,157,249,000[4]	66.07	Long position
Ms. Li[2]	Beneficiary of a discretionary trust/ Beneficial owner/Interest of spouse	2,162,152,000[5]&[6]	66.22	Long position
Baikal Lake Investment[2]	Interest in controlled corporation	2,137,500,000	65.47	Long position
GuangYu Investment[2]	Beneficial owner	2,137,500,000	65.47	Long position
TMF (Cayman) Ltd.[3]	Trustee	2,137,500,000	65.47	Long position

Notes:

1. The calculation is based on the total number of 3,264,938,460 Shares in issue as at 31 August 2018.

2. The entire share capital of GuangYu Investment Holdings Limited is held by Baikal Lake Investment, as the nominee of TMF (Cayman) Ltd., the trustee of Nan Hai Trust. Nan Hai Trust was established by Mr. Li (as the settlor) on 6 September 2016 as a discretionary trust for the benefit of, among others, Mr. Li and Ms. Li.

3. TMF (Cayman) Ltd. is the trustee of Nan Hai Trust.

4. Includes Mr. Li's entitlement to receive up to 19,156,530 Shares pursuant to the exercise of options granted to him under the Pre-IPO Share Option Scheme, subject to the conditions (including vesting conditions) of those options.

5. Includes Ms. Li's entitlement to receive up to 23,596,220 Shares pursuant to the exercise of options granted to her under the Pre-IPO Share Option Scheme, subject to the conditions (including vesting conditions) of those options.

6. Ms Li's spouse, Ge Cong, is interested in 326,000 Shares and therefore, Ms. Li is deemed to be interested in the 326,000 Shares held by Ge Cong.

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

EMPLOYEE AND REMUNERATION POLICIES

As at 31 August 2018, the Group had 6,063 employees (31 August 2017: 4,086). The number of employees employed by the Group varies from time to time depending on need. Employees' remuneration is determined in accordance with prevailing industry practice and employees' educational backgrounds, experiences and performance. The remuneration policy and package of the Group's employees are periodically reviewed. As required by the PRC laws and regulations, the Company participates in various employee social security plans for its employees that are administered by local governments, including among others, housing provident funds, pensions, medical insurance, social insurance and unemployment insurance.

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

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

The total remuneration cost incurred by the Group for the year ended 31 August 2018 was RMB325.8 million (for the year ended 31 August 2017: RMB232.5 million).

PRE-IPO SHARE OPTION SCHEME

In order to incentivise the Directors, senior management and other employees for their contribution to the Group and to attract and retain suitable personnel to the Group, the Company adopted the Pre-IPO Share Option Scheme effective from 1 September 2016. The purpose of the Pre-IPO Share Option Scheme is to provide the Selected Participants with the opportunity to acquire proprietary interests in the Company and to encourage the Selected Participants to work towards enhancing the value of the Company and its Shares for the benefit of the Company and its Shareholders as a whole. The Pre-IPO Share Option Scheme will provide the Company with a flexible means of retaining, incentivising, rewarding, remunerating, compensating and/or providing benefits to Selected Participants.

As at 31 August 2018, share options for 49,200,700 Shares were granted to the Directors and senior management and 8,740,790 Shares were granted to nine connected persons of the Company (who are not Directors) under the Pre-IPO Share Option Scheme.

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

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

The overall limit on the number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Pre-IPO Share Option Scheme at any time shall not exceed 180,000,000 Shares, representing approximately 5.51% of the total number of issued Shares of the Company as at the date of this Annual Report.

Exercise Period

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

Payment on Acceptance of Share Option

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

Determination of Exercise Price

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

Life of the Pre-IPO Share Option Scheme

The Pre-IPO Share Option Scheme remained in force until 7 February 2017.

Outstanding Share Options

The table below shows details of the outstanding share options granted to all grantees under the Pre-IPO Share Option Scheme as of 31 August 2018. No options were granted since 28 February 2017 and up to the date of this Annual Report. For further details on the movement of the options during the Reporting Period please see Note 25 to the consolidated financial statements.

Grantee	Position Held	Outstanding balance as at 1 September 2017	Granted during the year	Exercised during the year	Cancelled during the year	Lapsed during the year	Outstanding as at 31 August 2018	Exercise price per Share
Directors and associates								
Mr. Li	Executive Director; chairman of the Board	19,749,000	–	592,470	–	–	19,156,530	HK$0.0001
Ms. Li	Executive Director; vice chairman of the Board; chief executive officer	24,326,000	–	729,780	–	–	23,596,220	HK$0.0001
Qiu Hongjun (邱紅軍)	Executive Director; financial controller; vice president	3,261,000	–	163,050	–	–	3,097,950	HK$0.0001
Ge Cong (葛聰)	Director of the universities and spouse of Ms. Li	326,000	–	16,300	–	–	309,700	HK$0.0001
Subtotal:		47,662,000	–	1,501,600	–	–	46,160,400	
Other Employees								
325 employees		132,338,000	–	10,286,860	–	–	122,051,140	HK$0.0001
Employees Subtotal:		132,338,000	–	10,286,860	–	–	122,051,140	
TOTAL		180,000,000	–	11,788,460	–	–	168,211,540	

Note:

The calculation is based on the total number of 3,264,938,460 Shares in issue as at 31 August 2018.

During the year ended 31 August 2018, none of the options granted referred to above had been forfeited or cancelled or had lapsed.

SHARE AWARD SCHEME

The Company adopted the Share Award Scheme by the resolutions in writing of the then sole shareholder of the Company on 8 February 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 purpose of the Share Award Scheme is to align the interests of Eligible Persons with those of the Group through ownership of Shares, dividend and other distributions paid on Shares and/or the increase in value of the Shares, and to encourage and retain Eligible Persons to make contributions to the long term growth and profits of the Group.

Number of Shares Available under the Share Award Scheme

The aggregate number of Shares underlying all grants made pursuant to the Share Award Scheme (excluding share which have been forfeited in accordance with the Share Award Scheme) will not exceed 9% of the aggregate nominal amount of the issued capital of the Company (excluding any Shares which may be issued pursuant to the exercise of the options granted under the Pre-IPO Share Option Scheme and grants under the Share Award Scheme) without further Shareholders' approval (the "**Share Award Scheme Limit**").

Under the current Share Award Scheme Limit, share awards representing 270,000,000 Shares may be granted by the Company within 30 years of the Listing Date.

Maximum Entitlement of Participant

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

Duration and Termination

The Share Award Scheme shall be valid and effective for a period of 30 years (after which no further Awards will be granted), and thereafter for so long as there are any non-vested Awards Shares granted hereunder prior to the expiration of the Share Award Scheme, in order to give effect to the vesting of such Award Shares or otherwise as may be required in accordance with the provisions of the Share Award Scheme Rules, unless early termination as determined by the Board provided that such termination shall not affect any subsisting rights of any Selected Participant. As at date of this Annual Report, the Share Award Scheme has a remaining life of around 28 years and 2 months.

Restrictions

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

Vesting and Lapse

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

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

In the event a Selected Participant ceases to be an eligible person on or prior to the relevant vesting date and the Award in respect of the relevant vesting date shall lapse or be forfeited pursuant to the Share Award Scheme, such Award shall not vest on the relevant vesting date and the Selected Participant shall have no claims against the Company, unless the Board determines otherwise at its absolute discretion.

Share Award Grants

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

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

EMOLUMENT POLICY AND DIRECTORS' REMUNERATION

In compliance with the Corporate Governance Code as set out in Appendix 14 to the Listing Rules, the Company has established the remuneration committee of the Company to formulate remuneration policies. The remuneration is determined and recommended based on each Director's and senior management personnel's qualification, position and seniority. As for the independent non-executive Directors, their remuneration is determined by the Board upon recommendation from the remuneration committee. The Directors and the senior management personnel are eligible participants of the Pre-IPO Share Option Scheme and the senior management personnel are eligible participants of the Share Award Scheme. Details of the remuneration of the Directors and the five highest paid individuals are set out in note 38 and Note 9 to the consolidated financial statements.

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

CONTINUING CONNECTED TRANSACTIONS

As disclosed in the Prospectus, the following transactions of the Group constituted continuing connected transactions (the "**Continuing Connected Transactions**") for the Group for the year ended 31 August 2018.

Non-exempt continuing connected transactions

Set out below is a summary of the continuing connected transactions for the Group, which are subject to the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Contractual Arrangements

Background to the Contractual Arrangements

The Group currently conducts its private education business through its consolidated affiliated entities in the PRC as PRC laws and regulations, or the implementation of those laws and regulations by the relevant government authorities, generally prohibit or restrict foreign ownership in the private education industry in the PRC. PRC laws and regulations currently prohibit foreign ownership of primary and middle schools in the PRC and restrict the operation of kindergartens, high schools and higher education institutions to Sino-foreign ownership, in addition to imposing a qualification requirement on the foreign owners. Further, government approvals in respect of Sino-foreign ownership in the private education sector have, with very limited exception, been withheld. The Group does not hold any direct equity interest in its consolidated affiliated entities. The Contractual Arrangements, through which the Group is able to exercise control over and derive the economic benefits from its consolidated affiliated entities, have been narrowly tailored to achieve its business purpose and minimise the potential conflict with relevant PRC laws and regulations.

Regulatory Framework

1. *Primary School and Middle School Education*

   Pursuant to the Implementation Opinions, foreign-invested companies that engage in educational activities in the PRC should comply with the Foreign Investment Catalogue.

Under the Foreign Investment Catalogue, the latest amendment to which as promulgated by the NDRC and the MOFCOM in March 2015 and became effective on 10 April 2015, primary schools and middle schools offering compulsory education for students from grade one to nine fall within the "prohibited" category. As a result of the prohibition on foreign ownership, foreign investors (including individuals, companies, partnerships, educational institution and any other entities) are prohibited from owning primary schools or middle schools in the PRC, whether through direct investments or through wholly-owned subsidiaries in the PRC.

For this reason, the primary and middle schools operated by us in the PRC are held by Zhengzhou YuHua Education Investments, which is directly or indirectly wholly-owned by the Registered Shareholders, and controlled by us pursuant to the Contractual Arrangements.

The Company's PRC Legal Adviser has opined that all possible actions or steps necessary for it to confirm that the Contractual Arrangements with respect to the operation of primary and middle school businesses are valid, legal and binding and do not contravene PRC laws and regulations have been taken.

2. *Kindergarten, High School and Higher Education*

Pursuant to the Foreign Investment Catalogue, the provision of kindergarten, high school and higher education in the PRC falls within the "restricted" category. In particular, the Foreign Investment Catalogue explicitly restricts kindergartens, high schools and higher education institutions to Sino-foreign cooperation, which means that foreign investors may only operate kindergarten, high schools and higher education institutions through joint ventures with PRC incorporated entities that are in compliance with the Sino-Foreign Regulation. In addition, the Foreign Investment 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 not less than half of the total members of the board of directors, the executive council or the joint administration committee of the Sino-foreign cooperative educational institution (the "**Foreign Control Restriction**").

In relation to the interpretation of Sino-foreign cooperation, pursuant to the Regulation on Sino-Foreign Cooperation in Operating Schools, promulgated by the State Council in 2003 and amended on 18 July 2013 (the "**Sino-Foreign Regulation**"), the foreign investor in a Sino-foreign joint venture school for PRC students at a kindergarten, high school and higher education institutions (a "**Sino-Foreign Joint Venture Private School**") must be a foreign education 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 Joint venture Private School should be below 50% (the "**Foreign Ownership Restriction**") and the establishment of these schools is subject to approval of education authorities at the provincial or national level.

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

Further details of the regulatory framework are set out in the section headed "Contractual Arrangements" in the Prospectus.

Efforts and Actions Undertaken to Comply with the Qualification Requirement

The Group has adopted a specific plan and begun to take concrete steps which the Company reasonably believe are meaningful endeavours to demonstrate compliance with the Qualification Requirement:

1. On 1 October 2013, the Group signed a letter of intent with Daejeon Girls' Middle School (大田女子中學校) of the Republic of Korea ("**DGMS**") pursuant to which DGMS expressed its intent to, among other things, cooperate with the Group's schools and collaborate in organizing exchange and teaching activities.

2. On 1 October 2013, the Group signed a letter of intent with Daejeon Middle School pursuant to which Daejeon Middle School expressed an intent to cooperate with the Group's schools and collaborate in organising exchange and teaching activities.

3. On 1 October 2013, the Group signed a letter of intent for cooperating in running schools with DGMS pursuant which:

   (a) DGMS agreed to send Korean speaking teachers to teach Sino-Korean international classes and Korean language courses at the Group's high school classes and the Group agreed to bear the related costs;

   (b) the Group agreed to send its teachers to teach Chinese culture classes and Chinese language courses at DGMS's middle school classes and DGMS agreed to bear the related costs;

   (c) the Group's middle school students may undertake DGMS's courses and receive certificates upon completion of the course; and

   (d) the Group will establish an overseas training base for certain graduates of the Zhengzhou Technology and Business University at DGMS.

4. On 21 October 2013, Zhengzhou YuHua Elite School signed a cooperation agreement with International Exchange Department of Jeju National University (國立濟州大學) of Republic of Korea pursuant to which Jeju National University agreed to, among other things, cooperate with Zhengzhou YuHua Elite School in respect of Korea language education and cultural exchange programmes and assist in the admission of graduates of Zhengzhou YuHua Elite School to Jeju National University.

5. On 12 January 2015, Zhengzhou YuHua Elite School signed an agreement with International Exchange Department of Pukyong National University (國立釜慶大學) of the Republic of Korea pursuant to which Pukyong National University agreed to provide students of Zhengzhou YuHua Elite School with language training opportunities and assist in the admission of graduates of Zhengzhou YuHua Elite School to Pukyong National University.

To the best of the Directors' knowledge and belief, other than the letter of intent for cooperation in running schools signed with DGMS on 1 October 2013 mentioned above, the abovementioned letters of intent and agreements are legally binding.

To further demonstrate compliance with the Qualification Requirement, the Group is also in the process of communicating or negotiating with certain experienced and reputational overseas education service providers in various forms of potential cooperation, including but not limited to expanding its school network abroad. The Company will keep the Shareholders informed should it make any substantial progress in reaching cooperation agreements with these overseas education service providers.

On top of the above, and to prepare for the potential expansion of the Group's business to the overseas, the Company has established a Hong Kong subsidiary, HongKong YuHua, which serves as the main control hub of the Group's overseas business and is responsible for:

1. negotiating and executing contracts for international business cooperation, such as contracts for cooperation with foreign education institutions in organizing international classes or courses;

2. investing in or acquiring overseas education businesses as and when appropriate;

3. holding the Group's overseas intellectual property rights and licensing them to the Group's international partners; and

4. recruiting overseas education business professionals and advisers, and acting as the direct employer of any personnel based outside the PRC.

The Company's PRC Legal Adviser has advised that while Sino-foreign cooperative schools are to be jointly established by both foreign and domestic educational institutions, it is currently uncertain as to what specific criteria must be met by a foreign investor (such as length of experience and form and extent of ownership in the foreign jurisdiction) in order to demonstrate that it meets the Qualification Requirement. Based on the interviews conducted with the Education Department of Henan Province and the steps that the Group has undertaken as mentioned above, the Company's PRC Legal Adviser is of the view that the Group has taken all reasonable steps towards fulfilling the Qualification Requirement.

In order to comply with the PRC laws and regulations as set out above while availing ourselves to international capital markets and maintaining effective control over all of the Group's operations, on 7 September 2016, the Company's wholly-owned subsidiary, WFOE, entered into various agreements that together constitute the Contractual Arrangements with, among others, the Group's consolidated affiliated entities, under which substantially all economic benefits arising from the business of the Group's consolidated affiliated entities are transferred to WFOE to the extent permitted under the PRC laws and regulations by means of services fee payable by the Group's consolidated affiliated entities to WFOE.

The Directors (including the independent non-executive Directors) consider that the Contractual Arrangements are fundamental to the Group's legal structure and business operations and have been entered into: (i) in the ordinary and usual course of business of the Company; (ii) on normal commercial terms; and (iii) in accordance with the respective agreement governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole. The Directors also believe that the Group's structure whereby the financial results of the consolidated affiliated entities are consolidated into the Company's financial statements as if they were the Company's subsidiaries, and the flow of economic benefits of their business to the Group places the Group in a special position in relation to relevant rules concerning connected transactions under the Listing Rules.

Risks relating to the Contractual Arrangements

The Company believes the following risks are associated with the Contractual Arrangements. Further details of these risks are set out on pages 40 to 48 of the Prospectus.

- if the PRC government finds that the agreements that establish the structure for operating the Group's business do not comply with applicable PRC laws and regulations, it may subject us to severe penalties and the Group's business may be materially and adversely affected.

- the Draft Foreign Investment Law proposes sweeping changes to the PRC foreign investment legal regime, which will likely to have a significant impact on businesses in China controlled by foreign invested enterprises primarily through contractual arrangements, such as the Group's business, and the Group's compliance with the Draft Foreign Investment Law depends on the compliance by Mr. Li with the undertakings given by him, which the Stock Exchange has limited power to enforce.

- the Contractual Arrangements may not be as effective in providing control over the Group's consolidated affiliated entities as direct ownership.

- the beneficial owners of the Group's consolidated affiliated entities may have conflicts of interest with us, which may materially and adversely affect the Group's business and financial situation.

- the exercise of the option to acquire the equity interest of the Group's consolidated affiliated entities may be subject to certain limitations and the Group may incur substantial costs.

- any failure by the Group's consolidated affiliated entities or their respective shareholders to perform their obligations under the Group's Contractual Arrangements would potentially lead to the incurrence of additional costs and the expending of substantial resources on the Group's part to enforce such arrangements, temporary or permanent loss of control over the Group's primary operations or loss of access to the Group's primary sources of revenue.

- the Contractual Arrangements may be subject to scrutiny of the PRC tax authorities and additional tax may be imposed, which may materially and adversely affect the Group's results of operation and value of the Shareholders' investment.

- certain terms of the Contractual Arrangements may not be enforceable under PRC laws.

- the Company may rely on dividend and other payments from WFOE to pay dividends and other cash distribution to the Shareholders and any limitation on the ability of the WFOE to pay dividends to the Company could materially and adversely limit its ability to pay dividends to the Shareholders.

- the Group's consolidated affiliated entities may be subject to limitations on their ability to operate private education business or make payments to related parties.

- if any of the Group's consolidated affiliated entities becomes subject to winding up or liquidation proceedings, the Group may lose the ability to enjoy certain important assets, which would negatively impact the Group's business and materially and adversely affect its ability to generate revenue.

Contractual Arrangements in Place

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

(a) exclusive management consultancy and business cooperation agreements dated 7 September 2016 and entered into by and between (i) WFOE, YuHua Investment Management and its subsidiary and the Registered Shareholders; (ii) WFOE, Zhengzhou YuHua Education Investments and its subsidiaries and the Registered Shareholders; and (iii) WFOE, Zhengzhou Zhongmei Education Investments and its subsidiaries and the Registered Shareholders (the "**Exclusive Management Consultancy and Business Cooperation Agreements**"), pursuant to which WFOE has the exclusive right to provide, or designate any third party to provide each of the Group's consolidated affiliated entities with corporate management and educational services, intellectual property licensing services as well as technical and business support services;

(b) exclusive call option agreements dated 7 September 2016 and entered into by and between (i) WFOE, YuHua Investment Management and the Registered Shareholders; (ii) WFOE, Zhengzhou YuHua Education Investments and the Registered Shareholders; and (iii) WFOE, Zhengzhou Zhongmei Education Investments and the Registered Shareholders (the "**Exclusive Call Option Agreements**"), pursuant to which the Registered Shareholders unconditional and irrevocably agreed to grant WFOE or its designated third party an exclusive option to purchase all or part of the equity interests in the PRC Holdcos, as the case may be for the minimum amount of consideration permitted by applicable PRC laws and regulations, under circumstances in which WFOE or its designated third party is permitted under PRC laws and regulations to own all or part of the equity interests of the PRC Holdcos. Where the purchase price is required by the relevant PRC laws and regulations to be an amount other than nil consideration, the Registered Shareholders shall return the amount of purchase price they have received to WFOE or its designated third party;

(c) equity pledge agreements dated 7 September 2016 and entered into by and between (i) WFOE, YuHua Investment Management and the Registered Shareholders; (ii) WFOE, Zhengzhou YuHua Education Investments and the Registered Shareholders; and (iii) WFOE, Zhengzhou Zhongmei Education Investments and the Registered Shareholders, pursuant to which the Registered Shareholders unconditionally and unequivocally pledged all of the equity interests in YuHua Investment Management, Zhengzhou YuHua Education Investments and Zhengzhou Zhongmei Education Investments respectively, to WFOE to guarantee (i) the performance of the obligations of YuHua Investment Management, Zhengzhou YuHua Education Investments and Zhengzhou Zhongmei Education Investments and their respective subsidiaries under the Exclusive Management Consultancy and Business Cooperation Agreements, (ii) performance of their and the Registered Shareholders' obligations under the Exclusive Call Option Agreements and the Powers of Attorney (as defined below); and

(d) a power of attorney executed by each of the Registered Shareholders dated 7 September 2016 (the "**Powers of Attorney**") appointing WFOE, or nominee(s) of WFOE (excluding Mr. Li, Ms. Li or other non-independent persons or persons who may give rise to conflicts of interests), as his or her attorney-in-fact to appoint directors and vote on his or her behalf on all matters of YuHua Investment Management, Zhengzhou YuHua Education Investments or Zhengzhou Zhongmei Education Investments requiring shareholders' approve under its respective articles of association and under the relevant PRC laws and regulations.

Apart from the above, there are no other new Contractual Arrangements entered into, renewed or reproduced during the financial year ended 31 August 2018. There was no material change in the Contractual Arrangements and/or the circumstances under which they were adopted for the year ended 31 August 2018.

For the year ended 31 August 2018, none of the Contractual Arrangements has been unwound as none of the restrictions that led to the adoption of structured contracts under the Contractual Arrangements has been removed.

The Company has been advised by its PRC Legal Adviser that the Contractual Arrangements do not violate the relevant PRC regulations.

Mitigation actions taken by the Company

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

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

All of the Contractual Arrangements are subject to the restrictions as set out on pages 137 to 143 of the Prospectus.

Listing Rule Implications

The highest applicable percentage ratios (other than the profits ratio) under the Listing Rules in respect of the transactions associated with the Contractual Arrangements are expected to be more than 5%. As such, the transactions will be subject to the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Waiver from the Stock Exchange and Annual Review

The Stock Exchange has granted the Company a waiver from strict compliance with (i) the announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules in respect of the transactions under the Contractual Arrangements; (ii) setting an annual cap; and (iii) limiting the term of the continuing connected transactions set out in Chapter 14A of the Listing Rules for each of the continuing connected transactions.

Confirmation from Independent Non-executive Directors

The Company's independent non-executive Directors have reviewed the Contractual Arrangements and confirmed that (i) the transactions carried during year ended 31 August 2018 have been entered into in accordance with the relevant provisions of the Contractual Arrangements, (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 during the year ended 31 August 2018, (iii) no new contracts were entered into, renewed or reproduced between the Group and the consolidated affiliated entities during the year ended 31 August 2018, and (iv) the Contractual Arrangements were entered into in the ordinary and usual course of business of the Group on normal commercial terms or better and are fair and reasonable and in the interests of the Shareholders as a whole.

Confirmations from the Company's Independent Auditor

The Auditor of the Company has confirmed in a letter to the Board that, with respect to the aforesaid continuing connected transactions entered into in the year ended 31 August 2018:

(a) nothing has come to their attention that causes the Auditor to believe that the disclosed continuing connected transactions have not been approved by the Company's board of directors.

(b) for transactions involving the provision of goods or services by the Group, nothing has come to their attention that causes the Auditor to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Group.

(c) nothing has come to their attention that causes the Auditor to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions.

(d) with respect to the aggregate amount of the continuing connected transactions set out in the attached list of continuing connected transactions, nothing has come to our attention that causes us to believe that the disclosed continuing connected transactions have exceeded the annual cap as set by the Company.

During the year ended 31 August 2018, no related party transactions disclosed in Note 35 to the consolidated financial statements constituted a connected transaction or continuing connected transaction which should be disclosed pursuant to the Listing Rules. The Company has complied with the disclosure requirements prescribed in Chapter 14A of the Listing Rules with respect to the connected transactions and continuing connected transactions entered into by the Group during the year under review.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

On 10 November 2017, the Company completed the Top-up Placing and Subscription of an aggregate of 253,150,000 new shares at a placing price of HK$3.70 per share. The net proceeds from the Top-up Placing and Subscription of new shares amounted to HK$925.5 million, which has been fully utilised to acquire the HIEU Schools.

Save as disclosed above, neither the Company nor any of its subsidiaries or consolidated affiliated entities purchased, sold or redeemed any listed securities of the Company during the year ended 31 August 2018.

MATERIAL LITIGATION

Save for those described in the Company's circular dated 29 June 2018 in relation to the acquisition of LEI Lie Ying Limited, the Company was not involved in any material litigation or arbitration during the year ended 31 August 2018. Save for those described in the Company's circular dated 29 June 2018 in relation to the acquisition of LEI Lie Ying Limited, the Directors are also not aware of any material litigation or claims that are pending or threatened against the Group during the year ended 31 August 2018. As advised by Henan Ming Tian Law Firm, the Company's PRC legal adviser as to litigation proceedings and disputes relating to the LEI Lie Ying Limited, as of 29 November 2018, Hunan Lie Ying Industry Co., Ltd. (湖南獵鷹實業有限公司) ("**Hunan Lie Ying**") had not received any notice of hearing in relation to the appeal filed by Chen Zhengxian on January 21, 2018. Hunan Lie Ying is still waiting for such notice of hearing. For more information about litigation concerning the Group, please refer to note 33 of the consolidated financial statements.

LAND USE RIGHT CERTIFICATES

As at 31 August 2018, the Group had not obtained the land use right certificates for (i) part of the land used by Zhengzhou Technology and Business University ("**Land I**"), which was due to an adjustment to the administrative territory between Zhongmu County and Zhengdong New District by the PRC government; and (ii) land used by Xuchang YuHua Elite School campus ("**Land II**"), which was due to adjustments to the land use right transfer procedures by the local land administration authority. The Group is in the process of obtaining the land use right certificates for Land I and Land II. Please also refer to the section headed "Business — Properties — Owned Properties— Land" in the Company's prospectus for further details. There have been no updates in this regard since the publication of the Prospectus. For more information about land use right certificates, please refer to note 13 of the consolidated financial statements.

BUILDING CERTIFICATES AND PERMITS

As at 31 August 2018, in relation to owned buildings or groups of buildings other than those associated with the HIEU Schools (the "**Non-HIEU Schools Owned Buildings**"), the Group had not obtained proper building ownership certificates or other requisite certificates or permits for 11 of the 32 Non-HIEU Schools Owned Buildings, due in part to changes to the urban planning rules in the cities in which the Group operates, and administrative oversight by the Group's management and their unfamiliarity with the relevant regulatory requirements. The Group is in the process of applying to relevant government authorities for the relevant outstanding certificates and permits and are closely following up with the government authorities with respect to the applications. Please also refer to the section headed "Business — Properties — Owned Properties — Buildings or Groups of Buildings" in the Prospectus for further details. There have been no updates in this regard since the publication of the Prospectus.

As of 31 August 2018, the Company was in the process of applying for, but had not yet obtained, the proper certificates in relation to 48 buildings currently occupied by the HIEU Schools. The Company understands that the lack of certificates in relation to these buildings will not prejudice the ability of the Company to operate the HIEU Schools and that the buildings are fit and safe for education purposes. For further details, please refer to the Company's circular dated 29 June 2018.

USE OF NET PROCEEDS

(a) Use of Net Proceeds from Global Offering

On 28 February 2017, the shares of the Company were listed on the Main Board of the Stock Exchange. The net proceeds from the global offering were approximately HK$1,488.3 million, which are intended to be applied in the manner set out in the Company's Prospectus. As at 31 August 2018, (i) approximately HK$102.6 million of the proceeds had been applied towards facilities upgrade and capacity expansion of the Company's existing schools; (ii) approximately HK$112.6 million had been applied to repay bank loans; and (iii) approximately HK$450.4 million had been fully utilized for the acquisition of LEI Lie Ying Limited and its subsidiaries (including the HIEU Schools).

Since 28 February 2017, the Company's consolidated affiliated entities have not incurred or paid any service fee to WFOE pursuant to the Contractual Arrangements. WFOE is therefore not liable to pay any tax in respect of such service fee. As cash is largely fungible, the Board considers that it is more efficient and in both the Company's and its shareholders' best interests to use cash generated from the onshore entities of the Group to carry out certain of the purposes set out in the section headed "Future Plans and Use of Proceeds" in the Prospectus rather than incur the transaction or friction costs of moving money from Hong Kong to mainland China and vice versa. The Company has accordingly used Hong Kong dollar cash balances from a Hong Kong bank account holding the cash obtained through the Global Offering and other amounts subsequently co-mingled therewith (including interest and investment income earned from short-term cash management activities conducted with such cash balances).

The Company's PRC Legal Adviser has advised that the funding arrangement of the dividends declared and distributed by the Company are not subject to the PRC laws and regulations. Accordingly, the PRC Legal Adviser opines that this funding arrangement will unlikely be considered tax evasion or otherwise cause legal impediments to the declaration and distribution of dividends by the Company.

The net proceeds from the Global Offering have been used as intended and the Company has not used these proceeds for any other purpose either temporarily or permanently. Ms. Qiu Hongjun and Mr. Xu Bin, being the designated personnel responsible for overseeing the use of such proceeds, have been ensuring that the same amounts of unutilized proceeds have been set aside the Group's bank accounts (including those of the Company's PRC subsidiaries or consolidated affiliated entities) such that the proceeds would be used as intended and will not be used for any other purpose either temporarily or permanently.

The Company has also adopted the following internal control measures to make sure that the net proceeds from the Global Offering would be used in accordance with the purposes set out in the section headed "Future Plans and Use of Proceeds" in the Prospectus:

- Ms. Qiu Hongjun (executive director and financial controller of the Company) and Mr. Xu Bin (chief financial officer of the Company) are responsible for monitoring the utilization of the company's cash balances to ensure that an amount corresponding to the outstanding proceeds of the Global Offering is available to be utilized according to the plan as disclosed in the Prospectus;

- the Group's finance department is responsible for overseeing all financial matters of the Group including the use of its financial resources for business operations;

- the Group's finance department reports to Ms. Qiu and Mr. Xu directly on the financial matters of the Group and will promptly inform Ms. Qiu and Mr. Xu of any irregularity they have identified;

- the Company also engages auditors who can assist Ms. Qiu and Mr. Xu in any abnormality in its accounts during the audit process;

- should Ms. Qiu and Mr. Xu identify any material irregularity or abnormality in terms of the use of the Company's financial resources, they will report to the Board promptly; and

- the audit committee of the Company will also review and assess the Company's financial controls, risk management and internal control systems on a regular basis.

(b) Use of Net Proceeds from the Top-up Placing and Subscription

On 2 November 2017, the Company, GuangYu Investment Holdings Limited, CLSA Limited, and Mr. Li Guangyu entered into a placing and subscription agreement pursuant to which GuangYu Investment Holdings Limited agreed to appoint CLSA Limited and CLSA Limited agreed to use its best effort to procure placees who and whose ultimate beneficial owners shall be independent third parties to subscribe for up to 253,150,000 shares at the aggregate price of HK$3.70. GuangYu Investment Holdings Limited also agreed to subscribe for, and the Company conditionally agreed to allot and issue to CLSA Limited, up to 253,150,000 new shares at an aggregate price of HK$3.70 per share. On 10 November 2017, the Board announced the completion of the Top-up Placing and Subscription. The 253,150,000 shares were successfully placed to 53 placees whose ultimate beneficial owners are independent third parties at a price of HK$3.70 per share. The net proceeds from the Top-up Placing and Subscription were approximately HK$925.5 million, which would be applied to enhance the capital base of the Company and to prepare for any potential acquisition in the education sector. As at 31 August 2018, the proceeds of the Top-Up Placing and Subscription had been fully utilized in the acquisition of the HIEU Schools.

(c) Use of Proceeds from the International Financial Corporation Loan

On 31 May 2018, the Company, China YuHua Education Investment Limited and China Hong Kong YuHua Education Limited entered into a loan agreement with International Finance Corporation, pursuant to which International Finance Corporation agreed to lend and the Company agreed to borrow up to the principal amount of US$75 million, comprised of an initial US$50 million tranche and a US$25 million tranche which shall, at the option of International Finance Corporation, be convertible into conversion shares at a conversion price of HK$5.75 per share. For further details, please refer to the Company's announcement dated 31 May 2018. As at 31 August 2018, the Company had not drawn down any amount from the loan facility.

PUBLIC FLOAT

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

LOAN AGREEMENT COVENANTS

As a condition to disbursement of the Loan, our chairman and ultimate controlling shareholder, Mr. Li, and our chief executive officer Ms. Li, entered into the Share Retention Agreement pursuant to which they will, among other things, be required to retain control over GuangYu Investment and, through GuangYu Investment, the Company, for so long as any indebtedness under the Loan remains outstanding. An equity pledge agreement was also entered into pursuant to which HongKong YuHua will grant the International Financial Corporation a pledge over an equity interest representing 40% of the registered capital of Xizang Yuanpei Information Technology Management Company Limited (西藏元培信息科技管理有限公司). Please refer to the announcement dated 31 May 2018 for more information about the Loan Agreement.

AUDITOR

The consolidated financial statements of the Group have been audited by PricewaterhouseCoopers, who will retire and, being eligible, offer themselves for re-appointment at the annual general meeting.

By the order of the Board
Mr. Li Guangyu
Chairman

Hong Kong
27 November 2018

DIRECTORS AND SENIOR MANAGEMENT

The Board consists of three executive Directors and three independent non-executive Directors.

EXECUTIVE DIRECTORS

Mr. Li Guangyu (李光宇), aged 55, was first appointed as a Director on 25 April 2016. He was re-designated as an executive Director and appointed as the chairman of the Board and the chairman of the nomination committee on 7 September 2016. Mr. Li also holds the following positions with other members of the Group:

- director of YuHua Investment Management (since 19 February 2000);
- director of Zhengzhou YuHua Education Investments (since 9 April 2004);
- chairman of the board of directors of Zhengzhou Technology and Business University (since 13 March 2009); and
- chairman of the board of directors of Zhengzhou Zhongmei Education Investments (since 21 July 2011).

Mr. Li has more than 16 years of experience in the education industry, and is the chairman of the board of directors of the Zhengzhou Technology and Business University and Hunan International Economics University, and all of the Group's 25 private schools for grades K-12. In 2004, he was selected as one of the ten outstanding figures in the private education industry in China (中國民辦教育十大傑出人物) by Guangming Daily (光明日報). In April 2010, Mr. Li received the National Outstanding Worker Award (全國先進工作者) from the State Council of the PRC. Mr. Li was also a member of the National People's Congress and the vice chairman of the China Association for Non-Government Education (中國民辦教育協會).

Mr. Li graduated from the Changchun Institute of Optics and Fine Mechanics (長春光學精密機械學院, currently known as Changchun University of Science and Technology (長春理工大學)) majoring in laser technology in July 1983, and his master's degree in Business Administration from the Guanghua School of Management, Peking University (北京大學光華管理學院) in June 2007.

Mr. Li is the father of Ms. Li Hua, the chief executive officer and executive Director.

Ms. Li Hua (李花), aged 31, was first appointed as an executive Director and as the vice chairman of the Board on 7 September 2016. Ms. Li is also the Company's chief executive officer and holds the following positions with other members of the Group:

- director of Zhengzhou Zhongmei Education Investments (since 21 July 2011); and
- director of Zhengzhou YuHua Education Investments (since 19 April 2016).

Ms. Li has more than eight years of experience in the education industry, and is a member of the board of directors of the Zhengzhou Technology and Business University and Hunan International Economics University, and all of the Group's 25 private schools of grades K-12. Ms. Li worked as an officer at Zhengzhou YuHua Elite School between March to July 2009, where she was responsible for managing the daily operations and strategic planning of the school. From July 2009 to July 2010, Ms. Li was a teaching assistant and counsellor at Zhengzhou Technology and Business University, where she was responsible for lecturing and managing the counselling programme and student activities.

Ms. Li has been a committee member of the 12th Session of All-China Youth Federation (中華全國青年聯合會第十二屆) since July 2015. She was also a representative of Henan Province for the 17th Communist Youth League National Representative Conference (中國共產主義青年團第十七次全國代表大會) and a representative of Xinzheng (新鄭) for the 14th People's Congress of Zhengzhou (鄭州市第十四屆人民代表大會). In May 2012, Ms. Li received the Henan Province May Fourth Youth Prize (河南省五四青年獎章榮耀) from the Henan Communist Youth League (中國共青團河南省委) and the Henan Youth Federation (河南省青年聯合會). She also received the Henan Province Individual Honour for Innovative Women (河南省婦女創先爭優先進個人榮譽) in July 2012 from the Henan Woman Federation (河南省婦女聯合會) and the Outstanding Committee Member Honour (河南省青年聯合會優秀委員榮譽) from the Henan Youth Federation in January 2013. In November 2014, Ms. Li was awarded the Individual Award for Innovations in Henan Private Education (河南省民辦教育先進個人榮譽) by the Henan Province Education Department (河南省教育廳).

Ms. Li received her bachelor's degree in Philosophy from Peking University in July 2010.

Ms. Li is the daughter of Mr. Li Guangyu, the chairman and executive Director.

Ms. Qiu Hongjun (邱紅軍), aged 52, was first appointed as an executive Director on 7 September 2016. Ms. Qiu is also the Group's financial controller and vice president. She is responsible for overseeing the Group's financial affairs. Ms. Qiu also holds the following positions with other members of the Group:

- director of Zhengzhou Zhongmei Education Investments (since 21 July 2011);
- director of Zhengzhou YuHua Education Investments (since 19 April 2016); and
- director of Hunan International Economics University (since 27 December 2017).

Ms. Qiu has more than 13 years of experience in the education industry, and is a member of the board of directors of all the Group's 25 private schools of grades K-12. From 2002 to 2004, she was the deputy branch president of Nanjing branch of Shenzhen Development Bank (currently known as Pingan Bank). Since joining the Group, Ms. Qiu has been overseeing the Group's financial affairs and has since then accumulated substantial financial experience.

Ms. Qiu received her diploma in Finance from the Central Radio and Television University (中央廣播電視大學, currently known as the Open University of China (國家開放大學)) (distance learning) in October 2003.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chen Lei (陳磊), aged 46, was appointed as an independent non-executive Director and the chairman of the audit committee effective on 16 February 2017. Mr. Chen is primarily responsible for supervising and providing independent judgement to the Board. Mr. Chen is the Director who has the appropriate professional accounting or related financial management expertise for the purpose of Rule 3.10(2) of the Listing Rules through his experience listed below.

Mr. Chen has been serving as an associate professor of accounting and assistant dean at the Guanghua School of Management, Peking University since 2008. Mr. Chen served as an assistant professor of accounting at Robinson College of Business, Georgia State University in the United States from August 2004 to June 2008.

Mr. Chen currently serves as an independent non-executive director of Sugon Information Industry Co., Ltd (曙光信息產業股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 603019) (since May 2015), Huadian Heavy Industries Co., Ltd (華電重工股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 601226) (since July 2014) and Beijing Da Bei Nong Technology Holdings Co., Ltd (北京大北農科技集團股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 002385) (since December 2013).

Mr. Chen received his bachelor's degree in Economics from Tsinghua University, his master's degree in Economics from Indiana University and his doctorate degree in Accounting from the University of Texas in Dallas in July 1996, September 1999 and August 2004, respectively.

Mr. Chen has been and remains responsible for the following areas in his capacity as an associate professor of Accounting and a director listed companies, through which he has gained the financial management expertise required under Rule 3.10(2) of the Listing Rules:

- lecturing on and teaching accounting, auditing and financial management related courses as an associate professor of Accounting at Guanghua School of Management, Peking University;
- acting as the executive director of the master in Professional Accounting programme (會計碩士專業學位) at the Guanghua School of Management, Peking University; and
- acting as a specialist in audit committees of the listed companies in the preparation of their financial statements, valuation analysis, participation in pricing and negotiation of transaction terms, preparation of offer document disclosures and other related financial documents in advance of their public offerings in the Shenzhen Stock Exchange and the Shanghai Stock Exchange.

Mr. Xia Zuoquan (夏佐全), aged 55, was appointed as an independent non-executive Director effective on 16 February 2017. Mr. Xia is primarily responsible for supervising and providing independent judgement to the Board.

Mr. Xia is one of the founders of the BYD Group (比亞迪集團), and currently serves as a non-executive director of BYD Company Limited, a rechargeable battery, handset components and automobile manufacture listed on the Stock Exchange (stock code: 1211) (since March 2008) and the Shenzhen Stock Exchange (stock code: 002594) (since June 2002). He also currently serves as an independent non-executive director of China Baofeng (International) Limited (中國寶豐 (國際) 有限公司) (since February 2016), a company listed on the Stock Exchange (stock code: 3966) and a director of Guangdong Beizhi Cepin Network Technology Co., Ltd. (廣東倍智測聘網絡科技股份有限公司) (since June 2015), a technology company listed on the PRC National Equities Exchange and Quotations (stock code: 833907). Mr. Xia is also the vice chairman (副理事長) of the BYD Charity Foundation (比亞迪慈善基金會).

Mr. Xia received his bachelor's degree in Computer Science (correspondence course) from the Beijing Institute of Iron and Steel Engineering (北京鋼鐵學院, currently known as the University of Science & Technology for Beijing (北京科技大學)) in September 1987 and his master's degree in Business Administration from the Guanghua School of Management, Peking University in 2007.

Mr. Zhang Zhixue (張志學), aged 51, was appointed as an independent non-executive Director and the chairman of the remuneration committee effective on 16 February 2017. Mr. Zhang is primarily responsible for supervising and providing independent judgement to the Board.

Mr. Zhang has been a professor of Organisation and Strategic Management at the Guanghua School of Management, Peking University since August 2008.

Mr. Zhang currently serves as an independent non-executive director of Ever-Glory International Group, Inc. (since March 2008), a company listed on NASDAQ (stock symbol: EVK). Mr. Zhang is also currently an independent director of the Bank of Guizhou (貴州銀行) and Sunshine Insurance Group Inc. (陽光保險集團股份有限公司). He also served as an independent non-executive director of Creative Distribution Automation Co., Ltd. (北京科銳配電自動化股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 002350), from March 2010 to March 2016.

Mr. Zhang received his bachelor's degree in Education from Henan University (河南大學), his master's degree in Psychology from Beijing Normal University (北京師範大學) and his doctorate degree in Philosophy from the University of Hong Kong in July 1988, July 1991 and December 1998, respectively.

SENIOR MANAGEMENT

Mr. Xu Bin (徐斌), aged 35, was appointed as the Company's chief financial officer on 1 January 2016 and joint company secretary on 7 September 2016. He is responsible for overseeing the Company's financial affairs.

Before joining the Group, Mr. Xu was the vice president and co-chief financial officer of China Maple Leaf Education Systems Limited, a company listed on the Stock Exchange (stock code: 1317), from 16 February 2013 to 16 June 2015. He also worked as an accountant at Citco Financial Group, an international financial services provider, from November 2007 to May 2010, and an investment banking associate at Essence Securities Co., Ltd., a financial and securities brokerage services provider based in China, from November 2011 to February 2013.

Mr. Xu received his bachelor's degree in Economics and Finance from the University of Toronto, Canada in November 2007 and a master's degree in Finance from the University of Cambridge, United Kingdom in May 2012.

JOINT COMPANY SECRETARIES

Mr. Xu Bin (徐斌), one of the Company's joint company secretaries, was appointed on 7 September 2016. He is also the Group's senior management.

Ms. Leung Suet Wing (梁雪穎), one of the Group's joint company secretaries, was appointed on 31 August 2018. Ms. Leung is an assistant manager of TMF Hong Kong Limited, which is a corporate secretarial services provider. She has over 7 years of professional experience in the company secretarial field. She is a member of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in the United Kingdom.

CHANGES TO DIRECTORS' INFORMATION

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

CORPORATE GOVERNANCE REPORT

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

CORPORATE GOVERNANCE PRACTICES

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

For the year ended 31 August 2018, the Company has complied with all applicable code provisions set out in the Corporate Governance Code, except as disclosed in this annual report.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as its own securities dealing code to regulate all dealings by Directors and relevant employees of securities in the Company and other matters covered by the Model Code.

Specific enquiry has been made of all the Directors and the relevant employees and they have confirmed that they have complied with the Model Code during the year ended 31 August 2018.

BOARD OF DIRECTORS

The Board currently comprises three executive Directors and three independent non-executive Directors.

The composition of the Board is as followings:

Executive Directors

Mr. Li Guangyu *(Chairman)*
Ms. Li Hua *(Vice Chairman)*
Ms. Qiu Hongjun

Independent non-executive Directors

Mr. Chen Lei
Mr. Xia Zuoquan
Mr. Zhang Zhixue

The biographical details of the Directors are set out in the section headed "Directors and Senior Management" on pages 45 to 49 of this annual report.

Ms. Li Hua is the daughter of Mr. Li Guangyu. Save as disclosed, none of the members of the Board is related to one another.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The positions of Chairman and Chief Executive Officer are held by Mr. Li Guangyu and Ms. Li Hua, respectively. The Chairman provides leadership and is responsible for the effective functioning and leadership of the Board. The Chief Executive Officer focuses on the Company's business development and the daily management and operations generally. The respective responsibilities are clearly defined and set out in writing.

BOARD MEETINGS, COMMITTEE MEETINGS AND GENERAL MEETING

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

During the year ended 31 August 2018, four Board meetings and one general meeting were held. The Company expects to continue to convene at least four regular meetings in each financial year at approximately quarterly intervals in accordance with code provision A.1.1 of the Corporate Governance Code.

A summary of the attendance record of the Directors at Board meetings, committee meetings and general meetings is set out in the following table below:

	Number of meeting(s) attended/number of meeting(s) held for the year ended 31 August 2018				
Name of Director	Board	Audit Committee	Remuneration Committee	Nomination Committee	General Meeting
Executive Directors:					
Mr. Li Guangyu	4/4	2/2	1/1	1/1	1/1
Ms. Li Hua	4/4	2/2	1/1	1/1	1/1
Ms. Qiu Hongjun	4/4	2/2	1/1	1/1	1/1
Independent Non-executive Directors:					
Mr. Chen Lei	4/4	2/2	1/1	1/1	1/1
Mr. Xia Zuoquan	4/4	2/2	1/1	1/1	1/1
Mr. Zhang Zhixue	4/4	2/2	1/1	1/1	1/1

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

APPOINTMENT AND RE-ELECTION OF DIRECTORS

All the Directors are subject to retirement by rotation and re-election at annual general meeting. Pursuant to the Articles of Association, one-third of the Directors for the time being (or, if their number is not three or a multiple of three, then the number nearest to, but not less than, one-third) shall retire from office and be eligible for re-election at each annual general meeting, provided that every Director is subject to retirement by rotation at least once every three years. In addition, any new Director appointed to fill a casual vacancy or as an addition to the Board shall hold office only until the next following annual general meeting and be subject to re-election.

Pursuant to article 16.18 of the Articles of Association, Ms. Qiu Hongjun and Mr. Chen Lei will be subject to re-election at the forthcoming annual general meeting.

RESPONSIBILITIES, ACCOUNTABILITIES AND CONTRIBUTIONS OF THE BOARD AND MANAGEMENT

The Board is the primary decision making body of the Company and is responsible for overseeing the Group's businesses, strategic decisions and performance and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. The Board makes decisions objectively in the interests of the Company.

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

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

BOARD COMMITTEES

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

Audit Committee

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

The audit committee comprises three independent non-executive Directors, namely Mr. Chen Lei, Mr. Xia Zuoquan and Mr. Zhang Zhixue. Mr. Chen Lei is the chairman of the audit committee.

For the year ended 31 August 2018, the audit committee convened two meetings. The attendance record of the Directors at meetings of the audit committee is set out in the table on page 51.

During the meeting(s), the audit committee:

- reviewed interim results of the Group for the six months ended 28 February 2018; and

- reviewed the financial reporting system, compliance procedures, internal control (including the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function and risk management and internal control systems and processes).

Remuneration Committee

The Company established a remuneration committee in compliance with Rule 3.25 of the Listing Rules and the Corporate Governance Code. The primary duties of the remuneration committee are to review and make recommendations to the Board regarding the terms of remuneration packages, bonuses and other compensation payable to the Directors and other senior management.

The remuneration committee comprises one executive Director, namely Ms. Li, and two independent non-executive Directors, namely Mr. Zhang Zhixue and Mr. Xia Zuoquan. Mr. Zhang Zhixue is the chairman of the remuneration committee.

For the year ended 31 August 2018, the remuneration committee convened one meeting. The attendance record of the Directors at meeting of the remuneration committee is set out in the table on page 51.

During the meeting, the remuneration committee reviewed the Company's policy and structure for the remuneration of all the Directors and senior management and the remuneration packages of the executive Directors and senior management of the Group.

Details of the remuneration payable to each Director of the Company for the year ended 31 August 2018 are set out in note 38 to the consolidated financial statements.

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

Remuneration bands (RMB)	Number of persons
17,500,001–18,000,000	1
14,000,001–14,500,000	1
3,000,001–3,500,000	1
0–1,000,000	1
Total	**4**

Nomination Committee

The Company has established a nomination committee in compliance with the Corporate Governance Code. The primary duties of the nomination committee are to make recommendations to the Board on the appointment of Directors and management of Board succession.

The nomination committee comprises one executive Director, namely Mr. Li, and two independent non-executive Directors, namely Mr. Zhang Zhixue and Mr. Xia Zuoquan. Mr. Li is the chairman of the nomination committee.

For the year ended 31 August 2018, the nomination committee convened one meeting. The attendance record of the Directors at meeting of the nomination committee is set out in the table on page 51.

During the meeting, the nomination committee reviewed the structure, size, composition and diversity of the Board and assessed the independence of the independent non-executive Directors.

Board Diversity Policy

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

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

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

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

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

CORPORATE GOVERNANCE FUNCTION

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

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

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

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

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

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

CONTINUOUS PROFESSIONAL DEVELOPMENT OF DIRECTORS

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

The Company acknowledges the importance of directors participating in appropriate continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant internally-facilitated briefings for directors have been arranged and reading material on relevant topics would be issued to directors where appropriate. They are encouraged to attend relevant training course at the Company's expenses.

During the year ended 31 August 2018 and prior to the Listing, all of the Directors, namely, Mr. Li, Ms. Li, Ms. Qiu Hongjun, Mr. Chen Lei, Mr. Xia Zuoquan, and Mr. Zhang Zhixue participated in a training session conducted by Skadden, Arps, Slate, Meagher & Flom, our legal adviser as to Hong Kong law, on directors' duties, responsibilities and obligations under the Listing Rules and the SFO.

The Company arranges regular seminars to provide Directors with updates on latest development and changes in the Listing Rules and other relevant legal and regulatory requirements from time to time. The Directors are also provided with regular updates on the Company's performance, position and prospects to enable the Board as a whole and each Director to discharge their duties.

AUDITORS' RESPONSIBILITY AND REMUNERATION

The Company appointed PricewaterhouseCoopers, Certified Public Accountants, Hong Kong ("**PricewaterhouseCoopers**") as the external auditor for the year ended 31 August 2018. A statement by PricewaterhouseCoopers about their reporting responsibilities for the financial statements is included in the Independent Auditors' Report on pages 80 to 85.

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

Services rendered for the Company	Fees paid and payable RMB'000
Audit services:	
Audit services	3,400
Non-audit services:	—
Total	3,400

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board acknowledges that it is responsible for the Company's risk management and internal control systems and reviewing their effectiveness. The risk management and internal control measures are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. The Board had conducted a review of the effectiveness of the risk management internal control system of the Company in respect of the year ended 31 August 2018 and considered the system effective and adequate.

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

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

In the ordinary course of the Group's business, sensitive data is collected and stored, including, among other things, identity information about our students and our employees, intellectual property, and proprietary business information. The Group manages and maintains our applications and data utilising on-site systems. These applications and data encompass a wide variety of business critical information including commercial information, and business and financial information. The Group has implemented relevant internal procedures and controls to ensure that such sensitive data is protected and that leakage and loss of such data is avoided.

The Company's audit committee and management together monitor the implementation of our risk management policies on an ongoing basis to ensure our policies and implementation are effective and sufficient. Arrangements are in place to identify, evaluate and manage significant risks including facilitating employees of the Company to raise, in confidence, concerns about possible improprieties in financial reporting, internal control or other matters of the Company. Our management, under the supervision of our Board or a committee of our Board takes reasonable steps to (i) monitor compliance with the Code, and (ii) when appropriate, impose and enforce appropriate disciplinary measures for violations of the Code.

The Board acknowledges that it is responsible for the risk management and internal control systems and reviewing their effectiveness. These systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

JOINT COMPANY SECRETARIES

Mr. Xu Bin, the joint company secretary, is responsible for advising the Board on corporate governance matters and ensuring that Board policy and procedures, and applicable laws, rules and regulations are followed.

In order to uphold good corporate governance and ensure compliance with the Listing Rules and applicable Hong Kong laws, the Company also engages Ms. Leung Suet Wing, an assistant manager of TMF Hong Kong Limited, as the joint company secretary to assist Mr. Xu in discharging the duties of a company secretary of the Company. Ms. Leung's primary contact person at the Company is Mr. Xu Bin, the chief financial officer of the Company. For the year ended 31 August 2018, Mr. Xu and Ms. Leung have undertaken not less than 15 hours of relevant professional training respectively in compliance with Rule 3.29 of the Listing Rules.

SHAREHOLDERS' RIGHTS

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

Pursuant to article 12.3 of the Articles of Association, the Board may, whenever it thinks fit, convene an EGM. General meetings shall also be convened on the written requisition of any two or more Shareholders deposited at the principal office of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office specifying the objects of the meeting and signed by the requisitionists, provided that such requisitionists held as at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company.

General meetings may also be convened on the written requisition of a Shareholder which is a recognized clearing house (or its nominee(s)) deposited at the principal office of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office specifying the objects of the meeting and signed by the requisitionist, provided that such requisitionist held as at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company.

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

Putting Forward Enquiries to the Board and Contact Details

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

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

Address:	31/F, Tower Two, Times Square 1 Matheson Street, Causeway Bay Hong Kong (For the attention of the Board of Directors)
Telephone:	+86 371 6067 3935
Fax:	+86 371 6595 0708
Email:	wangrui@yuhuachina.com

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS RELATIONS

The Company considers that effective communication with Shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company endeavours to maintain an on-going dialogue with Shareholders and in particular, through annual general meetings and other general meetings. At the forthcoming annual general meeting, Directors (or their delegates as appropriate) will be available to meet Shareholders and answer their enquiries.

CHANGES IN CONSTITUTIONAL DOCUMENTS

During the year ended 31 August 2018, the Company has not made any significant changes to its constitutional documents.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

SUMMARY

This report is the second environmental, social and governance report (the "**ESG Report**" or the "**Report**") issued by the Group (as defined below). Unless otherwise stated, this Report should be read in conjunction with the Corporate Governance Report of the 2018 Annual Report of the Company. This Report will be published on the website of the Stock Exchange and on the Group's website. The environmental, social and governance report will be published annually.

BASIS OF PREPARATION

This ESG Report has been prepared in accordance with the "Environmental, Social and Governance Reporting Guide" (the "**ESG Guide**") as set out in Appendix 27 to the Listing Rules.

SCOPE AND EXTENT OF THE REPORT

The data and information as referred to in this Report are derived from various files, questionnaires, records, statistics and research of the Group. This Report covers the period from 1 September 2017 to 31 August 2018 (the "**Reporting Period**"), which is the financial year of the 2018 annual report.

The policy document, declaration and data set out in this Report cover the Company and its subsidiaries (collectively, the "**Group**").

CONTACT INFORMATION

If you have any queries or feedback about this Report and its contents, please contact us at:

- Address: 4/F, Yuhua Education Business Building, Jinhui West Street, Zhengdong New District, Zhengzhou City, Henan Province, China

- Tel.: +86 371-60673938

- Fax: +86 371-6595070

- E-mail: contact@yuhuachina.com

- Official website: http://www.yuhuachina.com

COMPANY PROFILE

The Group is one of the largest private education groups in China. The Group currently operates 27 schools covering pre-school education, primary education and higher education in central China. In providing K12 and university education services, the Group not only focuses on helping students achieve excellent academic performance, but also emphasises the overall coordinated development of "body quotient, moral intelligence quotient, emotional quotient and intelligence quotient" of students, dutifully shouldering the responsibility of nurturing social pillars.

CORE VALUE OF THE GROUP

Adhering to the core value that "the essence of education is love, the essence of love is giving, and giving is getting", the Group adheres to the educational concept aiming at "fostering modern talents with leadership and nurture great minds to contribute to the future development of the Chinese nation" and provides students with education services that are in line with the values of the Group. At the same time, our teachers abide by the principle of "working hard, educating people with love, cultivating love with love, seeking truth with truth" to cultivate talented youth with well-rounded and coordinated development.

IDENTIFICATION AND COMMUNICATION WITH STAKEHOLDERS

The Group pays attention to the major issues of interest to shareholders, investors, staff, students, parents, governments, regulatory authorities, and communities ("**Stakeholders**") and opens up multiple channels of communication in order to fully understanding the needs of Stakeholders. The Group provides solutions through continuous communication and exchange while managing schools and creating value. At the same time, the Group believes that the opinions of Stakeholders will help the Group to improve its environmental, social and governance performance comprehensively and objectively so as to further improve communication with and feedback from different Stakeholders.

Key Concerns of Stakeholders and the Corresponding Responses

Stakeholder	Main focus	Communication channels	Corporate/Group actions
Shareholders/ Investors	Operating strategy; Sustainable and stable return on investment; Timely information disclosure; Excellent enterprise image; and Operation of enterprise in compliance with relevant laws and regulations.	General meeting of shareholders; Information disclosure of the listed companies; Roadshows/conference calls/meetings; Media communication mechanism; Enquiries via telephone/email; Investors' on-site visit; and Website information disclosure.	Issue of notice of annual general meeting and the resolutions as required by the Listing Rules; Timely disclosure of information about the Group; Issue of announcements and regular reports as required by the Listing Rules; and Provision of smooth communication channels.
Staff	Training and career development space; Salary and welfare; Working environment; and Health and safety protection.	Direct communication; Physical examination; Staff activities; Opinions from staff; and Staff training.	Providing healthy and safe working conditions; Setting up a fair promotion system; Providing staff with interactive platform; and Organising staff activities.
Students and Parents	Educational service quality; Student information protection; Student life care; Health and safety protection; Teaching quality; and Student performance.	Collection of complaints and feedback; Maintaining good communication with students; Caring for student life; Helping families suffering from difficulties; and Parents meetings.	Establishing a parent committee; Conducting student surveys; Organising student activities; Regular physical examination; Regular parents meetings; and Maintaining good communications.

Stakeholder	Main focus	Communication channels	Corporate/Group actions
Government and regulatory authorities	Compliance operation; Tax payment by law; Transparent regulation; and Information disclosure and reporting materials.	Compliance with laws and regulations; Daily work report; and Information disclosure.	Strict compliance with laws and regulations; Accurate disclosure of information; Tax payment by law; and Accepting government supervision.
Community	Employment opportunities; Ecological environment; Community development; and Social commonwealth.	Community engagement.	Preferred employment of local staff; Maintaining the environment; and Organising community activities.
Media	Open information; and Good media relations.	Information disclosure.	Maintaining good communication; and Timely disclosure of information.

I. EMPLOYMENT AND LABOUR PRACTICES

Adhering to the teaching principle of "working hard, educating people with love, cultivating love with love, seeking truth with truth", the Group earnestly takes the responsibility of educating people and cultivating pillars for national and social development. The Group strictly obeys relevant laws and regulations to recruit and hire teachers and staff, and has established a scientific, fair and mature talent employment mechanism and human resource management system. The Group has attached great importance to the health and safety issues of staff, teachers and students, and comprehensively guarantees a safe, stable and comfortable working and learning environment. The Group has also provided a fair and scientific career development platform for employees to enhance their professionalism and teaching ability.

Employment

During the recruiting, hiring and lay-off process, the Group strictly obeys the *Labor Law*, the *Labor Contract Law*, the *Employment Promotion Law*, the *Education Law*, the *Teacher Law*, the *Labor Dispute Mediation* and the *Arbitration Law* and local labour laws and regulations in the provinces of Henan and Hunan. During the Reporting Period, the Group has followed all applicable laws and regulations, and has not been subject to warnings, fines, and penalties for violations of laws or regulations.

The Group employs staff and carries out recruitment strictly based on the *Personnel Business Process* in the *Staff Handbook* of the Group. Regardless of gender, nationality and age, the Group treats every candidate fairly, and provides teachers with fair employment opportunities and a harmonious working environment. By cooperating with “58.com”, “Zhaopin.com” and other well-known recruitment agencies, the Group recruits graduates every November and arranges two-month quality development and business skills training to assist new staff to integrate into the team faster and more effectively.

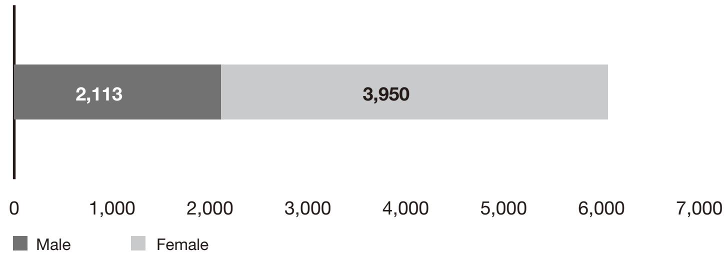
The Group guarantees the legal benefits of staff in accordance with *Tentative Provisions on Payment of Wages*, *Regulations on the Administration of Housing Fund*, *Regulation on the Annual Leave with Pay* and other laws and regulations. The Group also aims to meet the overall local requirements of social security policies, including endowment insurance, medical insurance, maternity insurance, unemployment insurance, critical illness insurance and other social insurance. In compliance with the *Labor Law*, the Group ensures that staff can enjoy all kinds of holidays including public holidays, paid annual leave, sick leave, marriage leave, maternity leave, etc. The Group also provides relevant benefits to staff during major festivals in China. The Group also provides free accommodation for teachers and staff of all units in the Group, and regularly conducts activities to enrich daily life.

Upholding the promotion assessment mechanism of “valuing abilities regardless of educational background, valuing attitudes regardless of qualification and valuing performance regardless of certificates”, the Group has enacted a mature, fair and scientific promotion assessment mechanism. For a long time, the Group has been providing a fair career development platform for all staff and aims to ensure fair treatment in terms of employment, assessment, promotion, training, etc. Any discrimination related to religion, gender, age, and ethnicity is strictly forbidden in the Group. During the Reporting Period, the Group did not have any discrimination incidents.

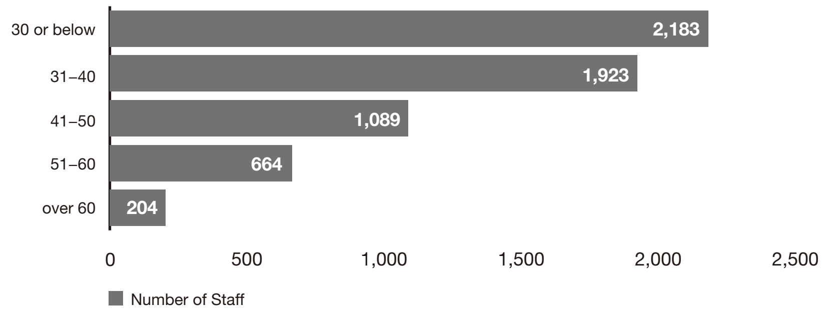
By the end of the Reporting Period, the aggregate number of staff members in the Group was 6,063, with a proportion between men and women, which accounted for 34.9% and 65.1% respectively, and the staff turnover rate was approximately 10.0%. Due to the characteristics of the education industry, the Group has a high proportion of female staff. In compliance with the law, the Group provides statutory benefits, including maternity leave, marriage leave and breast-feeding leave for female staff, to ensure that they are not discriminated against or otherwise disadvantaged.

Employment Indicators

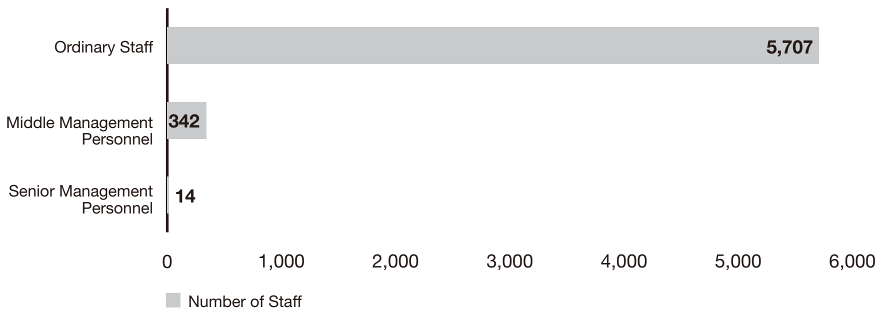
Staff by Gender in 2018



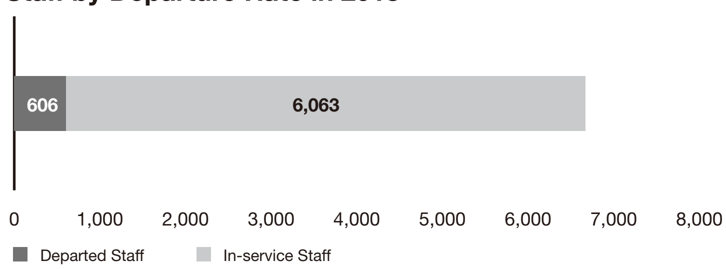
Staff by Age in 2018



Staff by Employment Type in 2018



Staff by Departure Rate in 2018



Health and Safety

The Group has paid great attention to the health and safety issues of staff and students. Following the basic principle of "paying attention to prevention, self-rescue and mutual aid, ensuring safety and reducing losses", the Group has formulated the *Staff Health and Safety Management System of Yuhua Education Group* to ensure the health and safety of staff and students of the Group. The Group has set up strict safety management rules and guidelines in terms of fire safety, campus health, facilities and equipment management, anti-smoking management and other aspects to practically provide a healthy and safe working and learning environment for teachers and students.

The Group has strictly complied with the applicable laws in health and safety, including but not limited to the *Food Safety Law*, *the Management Regulation on Student Canteen and Student Group Meal Hygiene*, the Regulations *on the Administration of Public Places*, the *Law on Prevention and Control of Infectious Diseases*, the *Law on Fire Control* and other related laws and regulations. The Group has not been punished by warnings, fines, and penalties for violations of laws or regulations during the Reporting Period. As of the end of the Reporting Period, the safety and health inspection projects which have been set up by the Group include: safety and health publicity and education; investigation and rectification of hidden safety hazards; management of dangerous chemicals; canteen food and boiler safety management; police and security work; medical health management; dormitory safety management; school bus safety management; and rectification of the campus and surrounding environment, among others. In response to various health and safety work arrangements, the General Affairs Department of the Group requires all units to keep relevant records and conduct regular inspections to ensure that staff and students can work in a safe environment.

The Group has incorporated fire safety into daily management, and has formulated a fire safety system in accordance with the requirements of the *Law on Fire Control*. The Group has set up small fire stations in each of the campuses which are specifically responsible for fire safety awareness on the campuses. In addition, the Group holds fire drills and emergency escape drills every semester, which helps teachers and students to cope with sudden fire incidents while promoting fire safety awareness. The Group's schools organise regular fire drills every year and invite local firefighters to go to schools to educate teachers, staff and students on fire safety knowledge and to provide guidance during fire drills. During the Reporting Period, a total of 40 fire drills were conducted at schools of the Group with the participation of a total of 52,926 people.

During the Reporting Period, there were no work-related injuries or deaths in the Group.

Development and Training

The teaching and management abilities of teachers and management staff are directly related to the teaching quality, management level and brand image of the Group's schools. Therefore, the Group has formulated detailed training programs to enhance the knowledge and professional competence of teachers and managers. With the aim of building and passing down experience, training activities mainly use a case analysis training model and can be divided into three categories: internal training; external training; and self-training by staff. During the Reporting Period, 100% of the Group's staff received such training. Senior and mid-level management personnel completed an average of 48 training hours while other staff members completed an average of 128 training hours.

During the Reporting Period, the major training activities organised by the Group included:

- From 20 March to 20 April 2018, a one-month graduate training event held at the Group's headquarters. Approximately 500 people were trained and had completed an average of 160 learning hours.
- On 22 March 2018, the Group organised middle management personnel to study and implement the spirit of the First Session of the 13th National People's Congress. Approximately 120 middle management personnel were trained and completed an average of two learning hours.
- On 10 April 2018, the teaching department of the Group organised the head teacher training and all middle management personnel and head teachers participated in this training. Approximately 600 people were trained and had completed an average of eight learning hours.
- From 15 August to 20 August 2018, all subordinate schools of the Group organised the summer teacher training for all teachers. Approximately 1,954 people were trained and completed an average of 24 learning hours.
- During the Reporting Period, the Group had organised six training activities in association with personnel management system, education, moral education and other business activities. Approximately 120 middle management personnel were trained and completed an average of 48 learning hours.
- The "Blue Project" implemented by the Group carries out one-hour training activities for all young teachers every week, so that senior teachers can teach, help and guide young teachers. Approximately 800 young teachers were trained and had completed an average of 128 learning hours.

Photos of Staff Training Activities

Labor standards

The Group prohibits any employment which would constitute child labour and forced labour, including compulsory labor and improper punitive measures. The Group clearly stipulates in the recruitment policy and process that employment of child labour and forced labour are forbidden. During the Reporting Period, the Group did not have any form of compulsory labour or child labour incidents and related complaints. If any violations were to be detected, the Group would immediately cease any labour activities. Any false documents would be considered fraudulent and the Group would have the right to terminate the labour contract immediately. The Group has strictly obeyed the *Labor Law*, the *Protection of Minors*, the *Prohibition of Using Child Labor*, the *Teacher Law*, the *Code of Ethics of Teachers in Primary and Secondary Schools* and other laws and regulations to recruit and hire staffs that protect the legitimate rights and interests of teachers and students.

II. OPERATING PRACTICES

Supply Chain Management

Regarding supply chain management, the Group orders, purchases and distributes necessary materials for daily operations of schools according to the *Supplier Management Operation Manual*. In order to standardise material supply procedures, improve work efficiency, efficiently complete the supply of high quality materials, and strengthen monitoring and management of suppliers, the Group has formulated the *Measures on Management of Customers of Yuhua Education Group*. This is used for conducting scientific management of the Group's suppliers, including classification and screening of suppliers, management of information databases, assessment of suppliers and other aspects. The Group conducts assessment and rating of suppliers during the annual summer and winter vacations. If suppliers are found unsuitable, cooperation is terminated in a timely manner.

The Group is dedicated to creating a safe, hygienic, comfortable and stable teaching and living environment for teachers and students. In addition to considering the quality, brand names and qualifications of suppliers and their products, the Group also fully considers environmental and social risk factors of suppliers when screening suppliers. For example, we require suppliers to provide environmental impact assessment and quality inspection reports from Henan province when purchasing uniforms and other materials. We check the qualification certificate on raw material for products provided by suppliers when purchasing furniture, electrical appliances, teaching equipment, etc. We require suppliers to provide production and management qualifications and the list of raw materials used in production when purchasing materials for construction projects.

The Group also takes measures favourable to creating environmental and social benefits. Firstly, the Group includes the purchase of materials and approval process in the enterprise resource planning (ERP) system. The Group also advocates for a paperless office. In addition, the Group adopts the semi-electronic operation in the process of bidding, and all kinds of documents are presented in electronic version to reduce the use of paper.

Major materials that the Group purchases are teaching and tutoring materials, electronic equipment, furniture, school uniforms, office supplies and other goods. During the Reporting Period, the Group had 84 suppliers in total, of which 4 were from Beijing, 2 from Shandong province, 1 from Liaoning province and the remaining 77 from Henan province.

Service Responsibility

The Group and its subordinate schools carry out education work in strict accordance with the *Education Law*, the *Compulsory Education Law*, the *Non-governmental Education Promotion Law*, the *Provisions for Non-government University Management*, as well as applicable laws suitable for different school levels, and regulations of other relevant national laws of the PRC. Each campus of the Group has introduced a series of policies and activities to ensure teaching quality:

- **University education:** Zhengzhou Technology and Business University and Hunan International Economics University, two major subordinate universities, have formulated scientific and systematic teaching management systems to ensure the service quality of university education. Related systems involve class audits, teaching supervision, teaching quality monitoring, course evaluation, information feedback, etc. In addition, schools also established teaching patrol system. The academic affairs office compiles and publishes the Teaching Quality and Monitoring Report every week and summarises the content of the report in the academic affairs meeting.

- **Primary and secondary school education:** The daily operation mainly follows the daily teaching management system formulated by the school. All primary and secondary schools adopt the collective lesson preparation model, create standardised teaching plans, ensure the quality of teaching and organise teaching and research activities regularly at the same time. Classrooms are not locked when the teacher gives lessons in order to facilitate the supervision of teaching by the academic affairs office, supervision office and other teachers as well as the observation and learning of other teachers at the same time. This also helps assist the implementation of the "Blue Project" which aims to help young teachers improve their teaching level quickly.

- **Kindergarten education:** The Group regularly conducts teaching and research activities including class appraisal, the teaching assistant's class evaluation, observation classes and other activities in order to enrich the teaching quality. In addition, the content learned by young children is assessed and evaluated every month and the results are included in the performance appraisal standards of teachers.

All subordinate schools of the Group have enacted the policy titled "*Identification and Treatment of Teaching Accident*". For any teacher with deficiencies in teaching quality, schools will talk to and guide him/her to improve, while including in the relevant performance appraisal to avoid the recurrence of teaching accidents.

Each campus of the Group has also introduced policies to ensure the health and safety of teaching. In respect of university education, the *Interim Provisions on the Secrecy of Examination Papers,* the *Administration Methods for Examination Papers*, and the *Testing Venue Rules* were enacted to ensure fairness of examinations. In the meantime, we have established safety management methods and related emergency plans to ensure the health and safety of students. For kindergarten, primary and secondary education, the Group maintains the health and safety of teaching mainly through supervision, visits by parents, student feedback, health and safety education, etc.

The Group has adopted effective marketing strategies to attract students and parents. Major marketing channels include Weibo, WeChat and other social media channels. During the Reporting Period, the marketing and promotion activities all abided by the *Advertising Law* and other laws and regulations.

In terms of knowledge copyright protection, the teaching materials used by the subordinate schools of the Group are all ordered from authorized publishers, and the Group purchases the teaching resources website accounts for teachers to ensure that schools at all levels use the educational resources with copyright. The Group has also formulated the *Measures for Morality and Foster Talents Enhancement Teaching Material Management*, the *Measures for Intellectual Property Management of Zhengzhou Technology* and *the Business University and Measures for Patent Management of Zhengzhou Technology and Business University* to ensure that the relevant intellectual property rights are protected properly.

The Group has formulated the *Student File Management Work*, the *Measures for Archive Management*, the *Measures for Student File Management of Zhengzhou Technology and Business University* and other policies to protect the security of personal information. The Group has also signed non-disclosure agreements with staff that may be involved in the student information administration and private information generally. The Group also carries out relevant training to instruct teachers and staff to strictly abide by the obligation to maintain confidentiality and respect the privacy of students.

To deal with complaints about education services, the Group sets up a special investigation team and makes arrangements for the school leader to communicate with students and parents and listen carefully to the opinions of parents in order to find the shortcomings and improve supervision and inspection efforts. During the Reporting Period, the subordinate schools of the Group did not receive any complaints.

Anti-corruption

Following the principle of teaching with clean hands and being a role model for others, the Group strictly obeys the *Criminal Law*, the *Company Law*, the *Interim Provisions on the Prohibition of Commercial Bribery*, the *Anti-Money Laundering Law*, the *General Rule of Civil Law*, the *Law Against Unfair Competition*, the *Group Law*, the *Contract Law*, and other laws and regulations of China to prevent bribery, extortion, fraud and money laundering.

In order to regulate the professional behaviour of staff, the Group strictly obeys the relevant laws, industry norms and standards of professional ethics, and rules and regulations of the Group. The Group has also formulated the *Measures for Anti-embezzlement and Reporting Management Mechanism* to prevent bribery, extortion, fraud, money laundering and other types of embezzlement. In addition, the Group requires any staff involved in economic activities to sign and abide by the *Letter of Commitment of Honesty and Self-discipline*. Staff members are held accountable if any violations are detected. Further, all suppliers, service providers and contractors which have business relations with the Group must also sign the *Anti-Commercial Bribery Agreement* before establishing the cooperative relations. The human resources department, legal department and internal control department of the Group also conduct training to strengthen the knowledge of staff members in relation to bribery, extortion, fraud, money laundering and other illegal activities in order to establish the correct values and strengthen the ability of staff to identify and distinguish legal and illegal, honest and dishonest, and moral act and immoral acts.

The Group is constantly perfecting the measures to prevent bribery, extortion, fraud and money laundering activity, including through the following:

- setting up the reporting telephone and mailbox as the channel to report actual or suspected embezzlement cases for which the internal control department is responsible for accepting, retaining and handling reports;

- the internal control department may also carry out random checks on work procedures and results of departments engaged in economic activities;

- the finance department regularly examines economic activities and delivers suspected cases of embezzlement to the internal control department for investigation;

- the asset department checks the work of departments with the ability to purchase through market research and delivers suspected cases of embezzlement to the internal control department for investigation; and

- for all the staff who engage in embezzlement, regardless of whether or not constituting a criminal offence, the internal control department recommends company management to impose corresponding internal economic and administrative disciplinary punishments according to the regulations, and, should the staff member possibly be in violation of the law, the internal control department transfers the case to the relevant authorities.

During the Reporting Period, the Group did not have any bribery, extortion, fraud, money laundering or other embezzlement cases.

III. COMMUNITY INVESTMENT

The Group actively fulfills its corporate social responsibility by participating in the cause of public welfare and community development. The Group gives full play to the advantages of Yuhua itself including by actively participating in all kinds of community activities and organising teachers and students to learn through community education, humanistic care, culture and art, urban construction and other activities. Further, the Group fully reflects staff care in providing jobs and a good working environment, including providing diversified training and promotion opportunities. In addition, the Group's schools attach great importance to the ideological and moral education of students and strive to cultivate good moral character and a strong sense of social responsibility. Schools regularly communicate with parents on education methods to create a harmonious family environment. Examples of community engagement activities include but not limit to:

- **Community construction activities:** the members of the Communist Youth League Committee of the secondary school in each campus enter the community to help the elderly, assist the traffic police to direct traffic, clean illegal advertisements for the community, etc.

- **"Henan Festival" activities:** the primary schools in each campus carry out investigative studies to actively propagate Henan's local characteristics, traditional culture, cultural heritage, development achievements and other information to the local community in order to spread the positive energy of Henan.

- **"Thanksgiving Day" activities:** the primary schools and kindergartens in each campus organise students to participate in social engagement to understand the contributions made by different professions to society and guide students to be grateful to their parents and teachers, love their hometown and motherland, abide by social ethics, respect working people and become part of civil society.

- **Volunteer activities:** all campuses set up volunteer associations and regularly carry out volunteer service activities in the community.

Public Welfare Volunteer Activities

In the past fiscal year, the Group's schools have made full use of their advantages and have carried out many public welfare activities. During the Reporting Period, the major social public welfare activities held by each school of the Group are:

Schools	Major social public welfare activities
Zhengzhou Technology and Business University	• On 7 July 2018, volunteers from the Youth Association of the School of Economics and Management conducted educational activities at Baiying Village Primary School, Wadian Town, Wancheng District, Nanyang City.
Hunan International Economics University	• From 27 December 2017 to 31 August 2018, organised more than 300 volunteers to visit the elderly in the community, hold birthday banquets and Thanksgiving Day activities, and other diverse activities, as well as care for children suffering from congenital diseases over 20 times in collaboration with the ICC (International Concerns China Charity Association). • On December 2017, over 50 volunteers participated in "Love for Peers" and conducted line guidance and sign-in work. • On December 2017, over 50 volunteers conducted lectures and consulting services in Hunan Party History Exhibition Hall. • Every Friday between 30 March 2018 and 4 May 2018, over 80 volunteers participated in "Disabled Sunshine Campus" to help the disabled in Yizhi Home, Changsha. • Every Saturday between 31 March 2018 and 5 May 2018, over 120 volunteers conducted a trip to a nursing home in the Lei Feng Town Home for the elderly. • On 5 April 2018, over 70 volunteers participated in the Qingming grave-sweeping activities at Martyrs Park. • On 15 April 2018, over 100 volunteers organised the blind experience hall at Hunan International Economics University of the Group. • From 24 April 2018 to 27 April 2018, over 800 volunteers participated in "the Volunteer Culture Week" activity in Hunan International Economics university. • Every Friday between 28 April 2018 and 13 May 2018, over 60 students conducted volunteer activities at the Home of Love in Wangcheng District. • From 14 May 2018 to 28 May 2018, over 100 people participated in voluntary blood donation activity. The number of blood donations reached 1,301.

Schools	Major social public welfare activities
	• From 15 July 2018 to 5 August 2018, three volunteer teams with over 70 volunteers participated in teaching activities in three county primary schools in Xiangxi and Loudi. Nearly 1,000 primary school students participated in the activities.
Zhengzhou Yuhua Experimental School	• In the 2018 fiscal year, Zhengzhou Yuhua Experimental School regularly organised student associations to conduct condolences services for the elderly.
Jiaozuo Yuhua Experimental School	• On 16 September 2017, over 300 students from the primary school participated in the activities to send water to sanitation workers. • On 5 November 2017, over 200 volunteers from the third-grade of the high school participated in donation activities called "Great Dedication". • On 25 November 2017, the "Woodpecker Action" was held in the community with over 20 volunteers involved. • On 20 April 2018, 30 volunteers visited children welfare institutions. • On 27 May 2018, over 10 volunteers from the first-grade of the high school visited the elderly in the local nursing home.
Kaifeng Yuhua Experimental School	• In March 2018, the primary school conducted Lei Feng service volunteer activities.
Xuchang Yuhua Experimental School	• The school participated in the environmental protection charitable activity called "Weilanxia Protects the Blue Sky and the Green Water" initiated by Yuhua Education Group and raised more than RMB100,000.
Jiyuan Yuhua Experimental School	• On 27 December 2017, Jiyuan Yuhua Experimental School in Jiyuan city participated in the condolences services for the elderly in the Senior Care Service Centre.
Zhengzhou Yuhua Experimental Primary School	• In March 2018, students from third-grade and fourth-grade delivered self-raised donations of rice, noodles, oil and other commodities to Zhengzhou City Blind Deaf School and Senior Apartment. • From 6 July 2018 to 8 July 2018, the primary school hosted students from Fengxiao Primary School in Xinyang City and funded books and daily necessities.

Schools	Major social public welfare activities
Xuchang Yuhua Experimental Bilingual Kindergarten	• In September 2017, the kindergarten organised condolences activities with a nursing home, as well as donating books and daily necessities to the elderly in the nursing home. • On Children's Day of 2018, donation activities were conducted in cooperation with parents. All proceeds were sent to the welfare institutions.
Yingyang Yuhua Experimental Bilingual Kindergarten	• In October 2017, the kindergarten organised students to give scarves, gloves and other necessities to sanitation workers. • In December 2017, the kindergarten organised students to deliver dumplings to traffic police at noon on winter solstice. • In May 2018, teachers organised the outdoor activity of "Environmental Protection Guard". Teachers organized students to pick up garbage in Lishangyin Park.

In addition, each campus also plays an active role in various kinds of community services by making contributions to community development and being dedicated to a harmonious, healthy and prosperous environment.

Public Welfare Volunteer Activities

Staff Care

As teaching staff are a significant asset of education providers, we have always showed great care for our staff. After fully understanding the actual needs of our staff, we offer various support in the form of money, materials, manpower, greetings and so on to help our staff overcome difficulties they are faced with in daily life, in mental life and in their jobs.

In addition to providing welfare to our teachers in accordance with relevant laws, each unit of the Group has also set up special consolation funds to show care and condolences to those who marry, whose relatives die and so on. The Group extend timely and economic concern, donations and other necessary support to those who or whose family members suffer from critical accidents, such as traffic accidents, serious diseases and family difficulties. Hunan International Economics University has expended a total of nearly RMB110,000 on condolences activities.

Social Donation

The Group mainly focuses on social donations and sponsorship projects for local education, cultural construction, poverty alleviation, assisting women and children, and environmental welfare activities. Major projects are as follows:

- Sponsored approximately RMB300,000 for the 50th anniversary of the establishment of Henan Yu Theatre;
- Participated in the Tencent 99 Public Welfare Day and donated RMB99,000 towards the Protection of Water and Bird Habitat Project;
- Participated in the poverty alleviation activities in villages of Anhe and Fangyang; and
- Sponsored the study and exchange activities of teachers and students in Fangyang Village Primary School of Xinyang City.

In addition, primary and secondary schools and kindergartens in various districts have provided assistance to assist staffs encountering difficulties in daily life and mental life with the actual needs of staff, including funds, materials, human assistance and spiritual condolences.

Over the past fiscal year, subordinate schools of the Group have devoted themselves in community building and taken a good lead in their communities. During the Reporting Period, subordinate schools of the Group have won over 20 awards.

IV. ENVIRONMENTAL

Strictly complying with applicable laws and regulations including the *Environmental Protection Law*, the *Pollution Prevention Law*, the *Water Pollution Prevention Law*, the *Solid Waste Pollution Control Law*, and the *Energy Conservation Law* in China, the Group ensures that the daily operations of subordinate schools do not have a significant impact on the environment and natural resources. Furthermore, in order to enhance energy-saving awareness and encourage more economical use of resources within each of our school communities, we created the *Training Program of Energy Conservation and Emission Reduction*, which we use in training all staff and students on a regular basis so as to create a harmonious and civilised campus with emission small carob footprint and ensure protection of the environment.

Emissions

The Group is principally engaged in education services. No substantial emissions are produced by combustion of any fuels in daily operation as the Group is not engaged in any industrial production. During the Reporting Period, the principal type of emission of the Group is exhaust generated by the Group's self-owned vehicles. The main emission data are as follows:

Major emissions	Unit	Emission volume
Nitrogen oxide (NO_x)	Gram	816,302.7
Sulphur dioxide (SO_x)	Gram	737.6
PM	Gram	80,238.5

The Group does not generate any greenhouse gases through any fixed combustion source. The direct emission of greenhouse gases is by the Group's self-owned vehicles. Indirect greenhouse gas emission were mainly generated from the use of electricity, natural gas, etc. During the Reporting Period, the Group's emission data of major greenhouse gases are as below:

Greenhouse gases	Unit	Emission volume
Carbon dioxide	Ton	27,260.6
Methane	Ton	0.3
Nitrous oxide	Ton	17.2

No hazardous waste is produced during daily operation of the Group. The non-hazardous wastes generated by the Group mainly include garbage generated in the daily operation of schools such as office supplies and food residues. After waste by the Group, waste is transferred by the municipal disposal company (which satisfies legal and regulatory requirements) to the garbage transfer station designated by environmental, health and other departments in line with relevant national and regional treatment standards. Further, garbage collection areas of schools of the Group are disinfected at least twice daily to ensure that it waste not substantially affect the school environment.

During the Reporting Period, the Group did not have specific statistical data on non-hazardous wastes. The Group has always been focused on the classification, disposal and reuse of waste. While implementing education and guidance work, the Group advocates the concept of "turning waste into wealth and treasure". Based on the *Regulations on the Management of Waste Disposal*, the Group has established relevant waste recycling systems to further promote the construction of the conservation and environmental-friendly school community.

In order to reduce emissions, the Group has formulated the *Detailed Regulations for Energy Conservation Management* to effectively promote energy conservation and emission reduction in accordance with the spirit of the *Energy Conservation Management Measures of Henan Province* in combination with the actual performance of energy management and energy conservation in various subordinate schools. During the Reporting Period, the emissions of the Group's major emission types has significantly declined compared with the previous fiscal year. Specifically, nitrogen oxide has declined 11.9%, sulphur dioxide has declined 11.4% and PM has declined 12.0%. The Group's subordinate schools have also achieved a reduction of approximately 524 tons in carbon dioxide by planting various types of trees.

Use of Resources

Promoting the good fashion of "saving being a glory, waste being a shame", we make rational use of energy and resources such as water, electricity and natural gas. At the same time, we help students develop good habits for use of energy resources in order to limit waste. During the Reporting Period, the main energy and resource consumption of the Group is as follows:

Type of energy	Unit	Consumption
Total amount of electricity consumed	Megawatt-hour	29,909.7
Intensity	Megawatt-hour/ school	1,031.4
Total amount of water consumed	Ton	1,157,374.6
Intensity	Ton/school	39,909.5
Total natural gas consumption	m^3	1,630,562.7
Intensity	m^3/school	56,226.3
Total gasoline consumption	Liter	50,177.8
Intensity	Liter/school	1,730.3

The Group's energy use efficiency plan is mainly carried out in accordance with the *Detailed Regulations for Energy Conservation Management* formulated by the Group. The Group improves the utilisation of energy and resources by clarifying the responsibilities of various departments within the school, and through measures such as scientific management, technology upgrades, and behavioural training. For instance, we have gradually set up a system of recording energy consumption statistics and publishing energy efficiency information. We have developed the energy system of each school with comprehensive measurement, accurate monitoring and classification management. On the technical side, we promote the use of new energy-saving and environmentally friendly products, and gradually phase out products that do not meet the national energy-saving standards. Further, we encourage the use of new techniques and technologies, and new measures for saving energy and reducing emissions. We also promote the use of new energy-saving and environmentally friendly products and secondary utilisation of renewable energy in an attempt to reduce energy expenditure. Moreover, with the aim of cultivating the energy-saving consciousness of all staff and students and to promote healthy and sustainable development of our campuses, the Group has launched an energy-saving training scheme for all staff and students. During the Reporting Period, the Group has achieved extraordinary performance in energy use efficiency. Among them, the power consumption density has decreased by 9.8%, the total natural gas consumption has decreased by 26.0%, and the total gasoline consumption has decreased by 11.4%.

The Group does not encounter problems in sourcing water that is fit for purpose. All of the Group's schools have stable sources of water. In accordance with the *Detailed Regulations for Energy Conservation Management*, the Group has formulated a strict water utilisation system through management, supervision and charging method to save water. Further, the Group has implemented reconstruction projects in the water supply pipeline to raise the repeated use rate of water. During the Reporting Period, both total water consumption and water consumption density has dropped to some degree compared to the last year. Total water consumption and water consumption dropped approximately 2.6% and 12.7%, respectively, which means a significant increase of use rate of water.

As the Group does not manufacture and products, the Group does not use any kind of packaging materials.

Environment and Natural Resources

The Group's schools do not have a major impact on the environment and natural resources during daily operation. To reduce the potential threat to natural resources caused by possibly abusive use of paper, the Group formulated the *Provisions on the Use of Paper* to reasonably regulate the use of office and teaching materials as well as promoting a paperless office environment to minimise paper consumption at best efforts. The Group also orders textbooks and textbooks strictly in accordance with demand. In addition, the Group strongly promotes afforestation activities in order to protect the environment. During the Reporting Period, the Group has planted nearly 220,000 trees and greened nearly 84 thousand square meters of lawn.

INDEPENDENT AUDITOR'S REPORT

pwc 羅兵咸永道

To the Shareholders of China YuHua Education Corporation Limited
(incorporated in the Cayman Islands with limited liability)

OPINION

What we have audited

The consolidated financial statements of China YuHua Education Corporation Limited (the "Company") and its subsidiaries (the "Group") set out on pages 86 to 177, which comprise:

- the consolidated balance sheet as at 31 August 2018;
- the consolidated statement of profit or loss for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

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

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

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Tel: +852 2289 8888, Fax: +852 2810 9888, www.pwchk.com

KEY AUDIT MATTERS

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

Key audit matters identified in our audit are summarised as follows:

- Income taxes
- Impairment assessment of goodwill and trademark

Key Audit Matter	How our audit addressed the Key Audit Matter
Income taxes Refer to note 4(b) Critical accounting estimates and judgements — Current and deferred income taxes and note 11 Income tax expense to the consolidated financial statements. No corporate income tax has been provided on the tuition and boarding income during the year for all schools within the Group as those schools are eligible to the preferential tax treatment based on the assessment made by the management. Significant judgement is required in determining the provision for income taxes as there are uncertainties in interpreting the relevant tax laws and regulations in respect to the preferential tax treatment enjoyed by the schools. Each of the schools within the Group have elected to be the private schools which do not require reasonable returns. Pursuant to the Implementation Rules for the Law for Promoting Private Education, private schools whose sponsors do not require reasonable returns shall be entitled to the same preferential tax treatment as public schools, which are exempt from corporate income tax based on historical experiences. However, there have been no rules specifying the preferential tax treatment enjoyed by public schools in Corporate Income Tax Law of the People's Republic of China (2017 Amendment) or other relevant tax rules and regulations. Therefore, we focus on this area due to the high level of management judgements involved on whether the Group is subject to the applicable preferential tax treatment on the corporate income tax.	We assessed the reasonableness of the management's judgements by performing the following audit procedures: — Confirmed their status as private schools which do not require reasonable returns by: • Checking the legal documents such as the registration documents and articles of all schools; • Reviewing the board meeting minutes and financial statements to make sure no dividend has been declared or paid by all schools; — Discussed with the Group's People's Republic of China (the "PRC") legal advisors about the tax position taken by the schools within the Group and obtained their legal opinions that confirmed each of the schools is not required to pay corporate income tax by its respective tax authorities and it is in compliance with applicable laws and regulations in China that those schools enjoy such preferential tax treatments; — Interviewed with the local tax bureaus of a sample of selected schools to confirm that each of them could enjoy the preferential income tax treatment and should be exempt from the corporate income tax, also there is no violation of PRC tax laws; — Assessed the eligibility of the preferential tax treatment of a sample of selected schools with the assistance of the internal tax experts by reviewing the applicable tax laws and regulations, any new policies or rules, and historical tax returns filed to assess if the management's understanding and interpretation could be supported. Based on the procedures performed, we found the management's judgements on the preferential tax treatment enjoyed by the schools were supported by the audit evidences we obtained.

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment assessment of goodwill and trademark Refer to note 4(d) Critical accounting estimates and judgements — Estimation of goodwill impairment and trademark impairment and note 15(b) Intangible assets — Impairment of goodwill and trademark to the consolidated financial statements. The Group had RMB529 million of goodwill and RMB219 million of trademark as at 31 August 2018 arising from the acquisition completed on 27 December 2017 of LEI Lie Ying Limited, which owns 70% equity interests of Hunan International Economics University. The impairment reviews of goodwill and trademark, which have indefinite useful lives, are undertaken by the management annually in accordance with the accounting policy stated in note 2.8 to the consolidated financial statements. The recoverable amounts of the group of cash generating units ("CGUs") have been determined by management based on value-in-use calculations. The trademark is used to support the operation of CGUs and it should be tested with the associated operating CGUs. The value-in-use calculations use cash flow projections based on financial budgets approved by the management which involve the use of judgement applied by the management, such as determining revenue growth rates, earnings before interest and tax margin ("EBIT margin"), long-term growth rate and discount rate. No goodwill and trademark impairment was made after management's assessment. Due to the significant balances of goodwill and trademark and management judgements and estimation involved in assessing the potential impairment of goodwill and trademark, we considered it as a key audit matter.	The procedures performed to assess the methodologies and assumptions used by management in the impairment assessment of goodwill and trademark include: — Evaluated management's future cash flow forecasts and the process by which they were drawn up and compared the management's forecasts to the Board approved budget; — Tested the mathematical accuracy of the underlying value in use calculations of the CGUs; — Assessed the appropriateness of the valuation models and the discount rate, with the assistance of our internal valuation specialists, taking into account the cost of capital of the Group and comparable organizations in the industry; — Compared revenue growth rates and EBIT margin from the latest five-year strategic plans with historical financial information, budget and comparable companies; — Compared the long-term growth rate with the economic forecasts in China; — Checked the management's sensitivity analysis on the key drivers of the cash flow forecast, including revenue growth rates, EBIT margin, long-term growth rate and discount rate. Based upon the above procedures, we considered that the management's goodwill and trademark impairment assessment was supported by available evidence.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the corporate information, financial information and management discussion and analysis but does not include the consolidated financial statements and our auditor's report thereon, which we obtained prior to the date of this auditor's report, and the company profile, directors and senior management, report of directors, corporate governance report, environmental, social and governance report and financial summary, which are expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will 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 identified above 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 on the other information that we obtained prior to the date of this auditor's report, 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.

When we read the company profile, directors and senior management, report of directors, corporate governance report, environmental, social and governance report and financial summary, if we conclude that there is a material misstatement therein, we are required to communicate the matter to Audit Committee and take appropriate action considering our legal rights and obligations.

RESPONSIBILITIES OF DIRECTORS AND THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The Audit Committee is 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. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Hon Chong Heng.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 27 November 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Note	Year ended 31 August 2018 RMB'000	2017 RMB'000
Revenue	5	**1,195,110**	846,222
Cost of revenue	8	**(524,387)**	(410,464)
Gross profit		**670,723**	435,758
Selling expenses	8	**(6,522)**	(3,755)
Administrative expenses	8	**(132,631)**	(147,203)
Other income	6	**16,081**	22,870
Other gains – net	7	**31,714**	1,060
Operating profit		**579,365**	308,730
Finance income	10	**23,813**	15,527
Finance expenses	10	**(11,218)**	(10,456)
Finance income — net		**12,595**	5,071
Profit before income tax		**591,960**	313,801
Income tax expense	11	**(3,726)**	—
Profit for the year		**588,234**	313,801
Profit attributable to:			
Owners of the Company		**530,812**	313,801
Non-controlling interests		**57,422**	—
		588,234	313,801
Earnings per share attributable to owners of the Company (RMB Yuan)			
Basic earnings per share	12	**0.17**	0.12
Diluted earnings per share	12	**0.16**	0.12

The notes on pages 91 to 177 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 August	
	2018	2017
	RMB'000	RMB'000
Profit for the year	**588,234**	313,801
Other comprehensive loss		
Items that may not be reclassified to profit or loss		
Currency translation differences	**(7,247)**	(59,213)
Other comprehensive loss for the year, net of tax	**(7,247)**	(59,213)
Total comprehensive income for the year	**580,987**	254,588
Total comprehensive income for the year attributable to:		
Owners of the Company	**523,565**	254,588
Non-controlling interests	**57,422**	—
	580,987	254,588

The notes on pages 91 to 177 are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

	Note	As at 31 August 2018 RMB'000	2017 RMB'000
Assets			
Non-current assets			
Prepaid land lease payments	13	**793,175**	236,322
Property, plant and equipment	14	**2,239,853**	1,477,434
Intangible assets	15	**756,001**	1,689
Other non-current assets	17	**37,107**	17,687
Total non-current assets		**3,826,136**	1,733,132
Current assets			
Trade and other receivables	18	**27,104**	12,944
Financial assets at fair value through profit or loss	19	**—**	153,114
Cash and cash equivalents	20(a)	**1,593,177**	642,506
Restricted cash	20(b)	**270,963**	587
Term deposits with initial term of over three months	21	**414,680**	832,237
Total current assets		**2,305,924**	1,641,388
Total assets		**6,132,060**	3,374,520
Equity and liabilities			
Equity attributable to owners of the Company			
Share capital	23	**28**	26
Share premium	23	**2,130,457**	1,318,313
Reserves	24	**582,779**	516,564
Retained earnings		**762,140**	642,193
Non-controlling interests		**283,779**	—
Total equity		**3,759,183**	2,477,096
Liabilities			
Non-current liabilities			
Borrowings	28	**90,988**	—
Deferred tax liabilities	16	**246,870**	—
Deferred income		**375**	—
Total non-current liabilities		**338,233**	—
Current liabilities			
Accruals and other payables	26	**633,050**	265,713
Deferred revenue	27	**956,541**	631,711
Borrowings	28	**438,464**	—
Provisions	29	**6,589**	—
Total current liabilities		**2,034,644**	897,424
Total liabilities		**2,372,877**	897,424
Total equity and liabilities		**6,132,060**	3,374,520

The notes on pages 91 to 177 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 86 to 177 were approved and authorised for issue by the board of directors on 27 November 2018 and are signed on its behalf by:

Li Hua
Director

Qiu Hongjun
Director

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

		Attributable to owners of the Company									
	Note	Share capital (Note 23) RMB'000	Share premium (Note 23) RMB'000	Capital reserve (Note 24) RMB'000	Statutory surplus reserve (Note 24) RMB'000	Share-based payments reserve (Note 24) RMB'000	Treasury shares (Note 24) RMB'000	Translation reserve (Note 24) RMB'000	Retained earnings RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 September 2016		65	–	150,000	236,557	–	–	–	523,026	–	909,648
Comprehensive income											
Profit for the year		–	–	–	–	–	–	–	313,801	–	313,801
Other comprehensive income											
Currency translation differences		–	–	–	–	–	–	(59,213)	–	–	(59,213)
Transactions with equity holders											
Capital contribution from the Controlling Shareholder		19	–	–	–	–	–	–	–	–	19
Repurchase of shares		(65)	–	46	–	–	–	–	–	–	(19)
Profit appropriation to statutory surplus reserves		–	–	–	97,596	–	–	–	(97,596)	–	–
Issuance of ordinary shares relating to initial public offering, net of underwriting commissions and other issuance costs		7	1,318,313	–	–	–	–	–	–	–	1,318,320
Dividends relating to the year	39	–	–	–	–	–	–	–	(97,038)	–	(97,038)
Share-based compensation	25	–	–	–	–	91,578	–	–	–	–	91,578
Total transactions with equity holders		(39)	1,318,313	46	97,596	91,578	–	–	(194,634)	–	1,312,860
At 31 August 2017		26	1,318,313	150,046	334,153	91,578	–	(59,213)	642,193	–	2,477,096
At 1 September 2017		**26**	**1,318,313**	**150,046**	**334,153**	**91,578**	**–**	**(59,213)**	**642,193**	**–**	**2,477,096**
Comprehensive income											
Profit for the year		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**530,812**	**57,422**	**588,234**
Other comprehensive income											
Currency translation differences		**–**	**–**	**–**	**–**	**–**	**–**	**(7,247)**	**–**	**–**	**(7,247)**
Transactions with equity holders											
Acquisition of subsidiaries	34	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**226,357**	**226,357**
Placing of new shares	23(f)	**2**	**785,948**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**785,950**
Purchase of treasury shares	25(a)	**–**	**–**	**–**	**–**	**–**	**(134,721)**	**–**	**–**	**–**	**(134,721)**
Profit appropriation to statutory surplus reserves		**–**	**–**	**–**	**171,841**	**–**	**–**	**–**	**(171,841)**	**–**	**–**
Exercise of Share-based payment		**–**	**26,196**	**–**	**–**	**(26,196)**	**–**	**–**	**–**	**–**	**–**
Dividends distribution	39	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(239,024)**	**–**	**(239,024)**
Share-based compensation	25	**–**	**–**	**–**	**–**	**62,538**	**–**	**–**	**–**	**–**	**62,538**
Total transactions with equity holders		**2**	**812,144**	**–**	**171,841**	**36,342**	**(134,721)**	**–**	**(410,865)**	**226,357**	**701,100**
At 31 August 2018		**28**	**2,130,457**	**150,046**	**505,994**	**127,920**	**(134,721)**	**(66,460)**	**762,140**	**283,779**	**3,759,183**

The notes on pages 91 to 177 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Year ended 31 August 2018 RMB'000	2017 RMB'000
Cash flows from operating activities			
Cash generated from operations	30	**767,925**	526,460
Interest paid		**(12,259)**	(10,654)
Income tax paid		**(5,884)**	—
Net cash generated from operating activities		**749,782**	515,806
Cash flows from investing activities			
Refund of prepaid land lease payments		**—**	48,472
Purchases of property, plant and equipment		**(58,154)**	(87,941)
Payment of prepaid land lease payments		**(40,048)**	(16,821)
Proceeds from disposal of property, plant and equipment	30	**459**	835
Prepayment of the acquisition of a high school	17(a)	**(21,420)**	—
Compensation for the realisation of security interests	7(b)	**134,797**	—
Purchases of intangible assets		**(1,661)**	(177)
Purchases of financial assets at fair value through profit or loss		**(873,800)**	(328,000)
Disposal of financial assets at fair value through profit or loss		**1,033,491**	176,292
Payments for the assignment of creditor's rights	34(c)	**(214,841)**	—
Acquisition of LEI Lie Ying Limited, net of cash acquired	34	**(685,866)**	—
Purchases of term deposits with initial term of over three months		**(383,236)**	(869,616)
Disposal of term deposits with initial term of over three months		**799,648**	—
Changes in restricted cash		**(272,452)**	(587)
Interest received		**20,819**	1,116
Net cash used in investing activities		**(562,264)**	(1,076,427)
Cash flows from financing activities			
Proceeds from issuance of shares upon the initial public offering		**—**	1,361,918
Payment of front-end fee of loan	28(a)	**(5,158)**	—
Payment of share issuance cost		**(13,841)**	(36,513)
Placing of new shares	23(f)	**794,777**	—
Purchase of treasury stock	25(a)	**(134,721)**	—
Proceeds from borrowings		**400,000**	30,000
Repayments of borrowings		**(35,000)**	(345,000)
Borrowings from related parties	35(a)	**—**	6,864
Repayments of borrowings to related parties	35(a)	**—**	(6,864)
Finance lease payments		**(3,464)**	—
Dividends paid to shareholders of the Company		**(239,024)**	(97,038)
Net cash generated from financing activities		**763,569**	913,367
Net increase in cash and cash equivalents		**951,087**	352,746
Cash and cash equivalents at the beginning of year		**642,506**	304,986
Exchange losses on cash and cash equivalents		**(416)**	(15,226)
Cash and cash equivalents at end of year		**1,593,177**	642,506

The notes on pages 91 to 177 are an integral part of these consolidated financial statements.

1 GENERAL INFORMATION

China YuHua Education Corporation Limited ("the Company") was incorporated in the Cayman Islands on 25 April 2016 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of the Company's registered office is at the offices of Maples Corporate Services Limited at PO Box 309, Ugland House, Grand Cayman, KY1-1104, the Cayman Islands. The Company is an investment holding company and its subsidiaries (collectively referred to as the "Group") provide private formal full-coverage education services in the People's Republic of China (the "PRC").

The ultimate holding company of the Company is GuangYu Investment Holdings Limited ("GuangYu Investment"). The ultimate controlling party of the Group is Mr. Li Guangyu, who is also the executive Director and chairman of the Board of the Company (the "Mr. Li" or the "Controlling Shareholder").

The shares of the Company have been listed on the Main Board of The Stock Exchange of Hong Kong Limited since 28 February 2017 (the "Listing") by way of its initial public offering (the "IPO").

The financial statements are presented in Renminbi ("RMB") and rounded to nearest thousand yuan, unless otherwise stated.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the consolidated financial statements are set out below. These policies have been consistently applied to the years presented, unless otherwise stated.

The consolidated financial statements of the Company have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRS") and requirements of the Hong Kong Companies ordinance (Cap. 622 of the Laws of Hong Kong). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss, which are carried at fair value.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation

2.1.1 Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 September 2017:

- *Amendments to IAS 7 — Disclosure initiative*
- *Amendments to IAS 12 — Recognition of Deferred Tax Assets for Unrealised Losses*

The adoption of these amendments did not have any impact on the amounts recognised in prior periods, and the current or future periods either.

The amendments to IAS 7 require disclosure of changes in liabilities arising from financing activities, see note 30(b).

(b) New standards and interpretations not yet adopted

		Effective for accounting periods beginning on or after
IFRS 9	Financial Instruments	1 January 2018
IFRS 15	Revenue from Contracts with Customers	1 January 2018
IFRS 16	Leases	1 January 2019
IFRS 17	Insurance Contracts	1 January 2021
IFRIC 22	Foreign Currency Transactions and Advance Consideration	1 January 2018
IFRIC 23	Uncertainty over Income Tax Treatments	1 January 2019
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions	1 January 2018
Amendments to IFRS 4	Insurance Contracts	1 January 2018 or when the entity first applies IFRS 9
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined
Amendments to IAS 40	Transfers of Investment Property	1 January 2018

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

2.1.1 Changes in accounting policy and disclosures (Continued)

(b) New standards and interpretations not yet adopted (Continued)

The Group has not early adopted the abovementioned new or amended standards and interpretations in this consolidated financial statements and will apply these new or amended standards and interpretations in accordance with their respective effective dates. The Group has already commenced an assessment of the related impact to the Group of these standards and interpretation, in particular IFRS 9, IFRS 15 and IFRS 16 as follows:

(i) IFRS 9 Financial instruments

Nature of change

IFRS 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

Impact

The Group has reviewed its financial assets and liabilities and is expecting the following impact from the adoption of the new standard on 1 September 2018:

The Group does not expect the new guidance to have a significant impact on the classification and measurement of its financial assets because the investments currently measured at fair value through profit or loss (FVPL) will likely continue to be measured on the same basis under IFRS 9.

There will be no impact on the Group's accounting for financial liabilities. Convertible bonds will likely be measured on the same basis under IFRS 9. The derecognition rules have been transferred from IAS 39 "Financial Instruments: Recognition and Measurement" and have not been changed.

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at fair value through other comprehensive income (FVOCI), contract assets under IFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts. The management does not expect the adoption of the new impairment model will have a material impact on the Group.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

2.1.1 Changes in accounting policy and disclosures (Continued)

(b) New standards and interpretations not yet adopted (Continued)

(i) IFRS 9 Financial instruments (Continued)

Impact (Continued)

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

Date of adoption by the Group

Must be applied for financial years commencing on or after 1 January 2018. The Group will apply the new rules retrospectively from 1 September 2018, with the practical expedients permitted under the standard. Comparatives for the year ended 31 August 2018 will not be restated.

(ii) IFRS 15 Revenue from contracts with customers

Nature of change

The International Accounting Standards Board has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers revenue arising from the sale of goods and the rendering of services and IAS 11 which covers construction contracts and the related literature.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer.

The standard permits either a full retrospective or a modified retrospective approach for the adoption.

Impact

Based on the assessment up to this stage, management does not expect the adoption of the new standard will have a material impact on the Group.

Date of adoption by the Group

Mandatory for financial years commencing on or after 1 January 2018. The Group intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in retained earnings as of 1 September 2018 and that comparatives will not be restated.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

2.1.1 Changes in accounting policy and disclosures (Continued)

(b) New standards and interpretations not yet adopted (Continued)

(iii) IFRS 16 Leases

Nature of change

IFRS 16 was issued in January 2016. It will results in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases which will be recognised on a straight-line basis as an expense in profit or loss.

The accounting for lessors will not significantly change.

Impact

The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of RMB43,136,000 (Note 31). Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under IFRS 16.

However, the Group has not yet assessed what other adjustments, if any, are necessary for example because of the change in the definition of the lease term and the different treatment of variable lease payments and of extension and termination options. It is therefore not yet possible to estimate the amount of right-of-use assets and lease liabilities that will have to be recognised on adoption of the new standard and how this may affect the Group's profit or loss and classification of cash flows going forward.

Mandatory application date

Mandatory for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Subsidiaries

2.2.1 Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

(a) Business combination

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by IFRS.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 in profit or loss. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Subsidiaries (Continued)

2.2.1 Consolidation (Continued)

(a) Business combination (Continued)

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated statement of profit or loss.

Intra-group transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

(b) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions — that is, as transactions with the owner in their capacity as owner. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(c) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities or transferred to another category of equity as specified/permitted by applicable IFRS. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Subsidiaries (Continued)

2.2.2 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the senior executive management team, including the Controlling Shareholder and other Directors that make strategic decisions.

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). Since the majority of the assets and operations of the Group are located in the PRC, the consolidated financial statements is presented in RMB, which is the functional currency of the subsidiaries carrying out the principle activities of the Group in the mainland of the PRC. The functional currency of the Company and subsidiaries outside mainland of the PRC is HK Dollar ("HKD").

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of comprehensive income, except when deferred in other comprehensive income as qualifying cash flow hedges or qualifying net investment hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated statement of profit or loss within 'finance income or expenses'. All other foreign exchange gains and losses are presented in the consolidated statement of profit or loss within 'Other gains — net'.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Foreign currency translation (Continued)

(b) Transactions and balances (Continued)

Changes in the fair value of debt securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available for sale, are included in other comprehensive income.

(c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

(iii) all resulting currency translation differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Currency translation differences arising are recognised in other comprehensive income.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Property, plant and equipment

Property, plant and equipment comprise mainly buildings, leasehold improvements, motor vehicles, electronic equipment, furniture and fixtures are stated at historical cost less accumulated depreciation and accumulated impairment losses (if any). Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the consolidated statement of profit or loss during the financial period in which they are incurred.

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

—	Buildings	25–50 years
—	Leasehold improvements	Shorter of lease terms and estimated useful lives
—	Motor vehicles	5–6 years
—	Electronic equipment	4–6 years
—	Furniture and fixture	5–6 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.8).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Other gains — net' in the consolidated statement of profit or loss.

Construction-in-progress ("CIP") represents buildings, plant and machinery under construction or pending installation and is stated at cost less accumulated impairment losses (if any). Cost includes the costs of construction and acquisition and capitalised borrowing costs. No provision for depreciation is made on CIP until such time as the relevant assets are completed and ready for intended use. When the assets concerned are available for use, the costs are transferred to the respective categories of property, plant and equipment and depreciated in accordance with the policy as stated above.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Prepaid land lease payments

Prepaid land lease payments are up-front payments to acquire long-term interest in the usage of land, which are stated at cost less accumulated amortisation and accumulated impairment losses. Cost represents consideration paid for the rights to use the land and other direct related costs from the date when the respective rights were granted. Amortisation of prepaid land lease payments is calculated on a straight-line basis over the lease terms as stated in the relevant land use right certificates granted for usage by the Group in the PRC or the best estimate based on the normal terms in the PRC and is recognised in the consolidated statement of profit or loss.

2.7 Intangible assets

(a) Goodwill

Goodwill arises on the acquisition of subsidiaries represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identified net assets acquired.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying amount of goodwill is compared to the recoverable amount, which is the higher of value in use ("VIU") and the fair value less costs of disposal ("FVLCD"). Any impairment is recognised immediately as an expense and is not subsequently reversed.

(b) Trademarks

Separately acquired trademarks are shown at historical cost. Trademarks acquired in a business combination are recognised at fair value at the acquisition date. They have indefinite useful life.

Trademarks impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of trademarks is compared to the recoverable amount, which is the higher of VIU and FVLCD.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 Intangible assets (Continued)

(c) Software

Acquired software licences are capitalised on the basis of the costs incurred to acquire and bring the specific software into usage. These costs are amortised using the straight-line method over their estimated useful lives varying from 5 to 10 years. Costs associated with maintaining software programmes are recognised as an expense as incurred.

2.8 Impairment of non-financial assets

Goodwill and intangible assets that have an indefinite useful life or intangible assets not ready to use are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's FVLCD and VIU. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (CGUs). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.9 Financial assets

2.9.1 Classification

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current assets.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 Financial assets (Continued)

2.9.1 Classification (Continued)

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables', 'cash and cash equivalents', 'restricted cash' and 'term deposits with initial term of over three months' in the balance sheet (Notes 2.12 and 2.13).

2.9.2 Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade date — the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the consolidated statement of profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the consolidated statement of profit or loss within 'Other gains — net' in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the consolidated statement of profit or loss as part of other income when the Group's right to receive payments is established.

2.10 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Impairment of financial assets (Continued)

Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated statement of profit or loss. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. For practical experience, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated statement of profit or loss.

2.12 Trade and other receivables

Trade receivables are amounts due from students of university for services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. See Note 2.9.2 for further information about the Group's accounting for trade receivables and Note 2.11 for a description of the Group's impairment policies.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.13 Cash and cash equivalents

In the consolidated statements of cash flows, cash and cash equivalents include cash at bank and on hand and short-term bank deposits with original maturities of three months or less.

2.14 Share capital and shares held for employee share scheme

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where the Company's shares are acquired from the market by the China Yuhua Employees Benefit Trust (Note 25(a)) under the employee share scheme, the total consideration of shares acquired from the market (including any directly attributable incremental costs) is presented as shares held for employee share scheme and deducted from total equity. Upon vesting, the related costs of the vested shares for employee share scheme purchased from the market are credited to shares held for employee share scheme, with a corresponding decrease in employee share-based compensation reserve for employee share scheme.

2.15 Accruals and other payables

Accruals and other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accruals and other payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Accruals and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.16 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated statement of profit or loss over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.16 Borrowings (Continued)

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2.17 Borrowing costs

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

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

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

2.18 Convertible bonds

Convertible bonds issued by the Company can be converted into the share capital of the Company at the option of the investor.

The Group designates convertible bonds denominated in a currency other than the functional currency of the Company as financial liabilities at fair value through profit or loss. They are initially recognised at fair value. Subsequent to initial recognition, the convertible bonds are carried at fair value with changes in fair value recognised in profit or loss.

The convertible bonds are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liabilities for at least 12 months after the balance sheet date.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.19 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated statement of profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the Group is unable to control the reversal of the temporary difference for associates. Only when there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference in the foreseeable future, deferred tax liability in relation to taxable temporary differences arising from the associate's undistributed profits is not recognised.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.19 Current and deferred income tax (Continued)

(b) Deferred income tax (Continued)

Outside basis differences (Continued)

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

Current and deferred tax is recognised in the consolidated statements of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity.

(c) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.20 Employee benefits

(a) Pension obligations

The entities within the Group registered in the PRC make employee benefit contributions based on certain percentage of the salaries of the employees to a defined contribution retirement benefit plan and medical benefit plan organised by relevant government authorities in the PRC on a monthly basis. The government authorities undertake to assume the retirement benefit obligations payable to the existing and future retired employees under these plans and the Group has no further obligation for post-retirement benefits beyond the contributions made. Contributions to these plans are expensed as incurred. Assets of the plans are held and managed by government authorities and are separate from those of the Group.

(b) Housing funds

The PRC employees of the Group are also entitled to participate in various government-sponsored housing funds. The Group contributes on a monthly basis to those funds based on a certain percentage of the employee's salaries. The Group's liabilities in respect of these funds is limited to the contributions payable in each period. The non-PRC employees are not covered by the housing funds.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.21 Share-based payments

(a) *Equity-settled share-based payment transactions*

The Group operates a number of equity-settled, share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (for example, an entity's share price);

- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and

- including the impact of any non-vesting conditions (for example, the requirement for employees to save or holding shares for a specified period of time).

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision to original estimates, if any, in the statement of profit or loss, with a corresponding adjustment to equity.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital.

(b) *Share-settled share-based payment transactions*

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the parent entity accounts.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.22 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.23 Revenue recognition

Revenue is measured at the fair value of the amounts received or receivable for the services provided in the normal course of business, net of cash discounts, financial assistance and refunded tuitions.

Service income includes tuition fees and boarding fees from university, high schools, middle schools, primary schools and kindergartens of the Group and property management service fee.

Tuition and boarding fees received from university, high schools, middle schools, primary schools and kindergartens are generally received in advance prior to the beginning of each school year, 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. Amounts which will be earned within one year is reflected as a current liability, and which will be earned beyond one year is reflected as a non-current liability.

Property management service fee is recognised in the accounting period in which the services are rendered.

2.24 Interest income

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans and receivables is recognised using the original effective interest rate.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.25 Rental income

Rental income on operating leases where the Group is a lessor is recognised on a straight-line basis over the term of the lease.

2.26 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the consolidated statement of profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the consolidated statement of profit or loss on a straight-line basis over the expected lives of the related assets.

2.27 Leases

Leases of property, plant and equipment where the Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated statement of profit or loss on a straight-line basis over the period of the lease.

Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease term. The respective leased assets are included in the balance sheet based on their nature.

2.28 Dividend distribution

Dividend distribution to the Company's Shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's Shareholders or Directors, where appropriate.

3 FINANCIAL RISK MANAGEMENT

This note explains the Group's exposure to financial risks and how these risks could affect the Group's future financial performance. Current year profit and loss information has been included where relevant to add further context.

Risk	Exposure arising from	Measurement
Market risk — foreign exchange	Recognised financial assets and liabilities not denominated in RMB	Sensitivity analysis
Market risk — interest rate	Borrowings carried at floating rates	Sensitivity analysis
Credit risk	Cash and cash equivalents, restricted cash, term deposits with initial term of over three months, and trade and other receivables	Aging analysis
Liquidity risk	Borrowings and other liabilities	Maturity analysis

The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group regularly monitors its exposure and currently has not used any derivative financial instruments to hedge any of these financial risks.

3.1 Financial risk factors

(a) Market risk

(i) Foreign exchange risk

The Group mainly operates in the PRC with most of the transaction settled in RMB. The functional currency of the subsidiaries in mainland of the PRC is RMB, while the functional currency of the Company and subsidiaries outside mainland of the PRC is HK Dollar. Both the entities in and outside mainland of the PRC have assets and liabilities like cash at bank and on hand, short-term bank deposits, term deposits with initial term of over three months, interest receivables and other payables denominated in USD or HKD. Foreign exchange risk arises from the fluctuation in exchange.

The Group has continued to closely track and manage its exposure to fluctuation in foreign exchange rates confronted by the majority of the Group's deposits and term deposits with initial term of over three months denominated in foreign currencies during the year. The Group did not enter into any forward contract to manage its exposure to foreign exchange risk for the year.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(i) Foreign exchange risk (Continued)

As at 31 August 2018, the carrying amounts of the Group's monetary assets and liabilities that are denominated in currency other than functional currency of the respective group entities are as follows:

	As at 31 August 2018			As at 31 August 2017	
	MYR (functional currency — RMB) RMB'000	**USD (functional currency — HKD) RMB'000**	**USD (functional currency — RMB) RMB'000**	USD (functional currency — HKD) RMB'000	USD (functional currency — RMB) RMB'000
Cash at bank and on hand	**—**	**3,266**	**1,171**	3,075	1,723
Short-term bank deposits	**—**	**52,208**	**—**	170,842	—
Cash and cash equivalents	**—**	**55,474**	**1,171**	173,917	1,723
Term deposits with initial term of over three months	**—**	**414,680**	**—**	832,237	—
Interest receivables	**—**	**5,108**	**—**	6,943	—
Accruals and other payables	**267**	**1,426**	**1,068**	4,219	—

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(i) Foreign exchange risk (Continued)

As shown in the table above, the Group is primarily exposed to changes in USD/RMB exchange rates. The sensitivity of profit or loss to changes in the exchange rates arises mainly from USD denominated financial instruments.

	Year ended 31 August	
	2018	2017
	RMB'000	RMB'000
Impact on post tax profit		
USD/RMB exchange rate — weaken 5%	**(112)**	(599)
USD/RMB exchange rate — strengthen 5%	**112**	599

(ii) Interest rate risk

The Group's income and operating cash flows are substantially independent from changes in market interest rate. Borrowings carried at floating rates expose the Group to cash flow interest-rate risk, which is partially offset by cash held at variable rates, whereas borrowings carried at fixed rates expose the Group to fair value interest-rate risk.

The exposure of the Group's borrowings to interest rate changes at the end of the reporting period is as follows:

	As at 31 August 2018		As at 31 August 2017	
	RMB'000	**% of total Borrowings**	RMB'000	% of total borrowings
Variable rate borrowings	**105,000**	**19.83%**	–	–

An analysis by maturities is provided in Note 3.1(c). The percentage of total loans shows the proportion of borrowings that are currently at variable rates in relation to the total amount of borrowings. At 31 August 2018, if the interest rates on bank borrowings and cash and cash equivalents had been 50 basis points higher/lower than the prevailing rate announced by People's Bank of China, with all other variables held constant, the Group's profit for the year would have been RMB525,000 (2017: nil) lower/higher.

The Group's borrowings carried at fixed rates are all repayable within one year and hence the Group is not subject to any significant fair value interest rate risk.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(b) Credit risk

Credit risk is managed on a group basis. The Group's maximum exposure to credit risk is the carrying amounts of cash and cash equivalents, restricted cash, term deposits with initial term of over three months, and trade and other receivables shown on consolidated balance sheets.

As at 31 August 2018, 26% (2017: 19%) of the Group's cash and cash equivalents, restricted cash, term deposits with initial term of over three months were held in state-owned financial institutions, which management believes are of high credit quality. The rest are deposited in local banks with good reputation. Management does not expect any losses from non-performance by these counterparties.

The carrying amounts of trade and other receivables included in the consolidated balance sheets represent the Group's maximum exposure to credit risk in relation to these financial assets. The Group evaluates the collectability and analyses the aging of the accounts. For the year ended 31 August 2018, the management of the Group determined an impairment provision for trade and other receivables of RMB1,160,000 (2017: RMB483,000) (Note 18). If the financial conditions of debtors of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

(c) Liquidity risk

To manage the liquidity risk, the Group monitors and maintains a level 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 expects to fund its future cash flow needs through internally generated cash flows from operations and bank borrowings.

The maturity analysis of borrowings that shows the remaining contractual maturities is disclosed in Note 28. Generally there is no specific credit period granted by the suppliers but the related payables are normally expected to be settled within three months after receipt of goods or services.

As at 31 August 2018, the Group has cash and cash equivalents of approximately RMB1,593,177,000 (2017: RMB642,506,000) (Note 20), term deposits with initial term of over three months of approximately RMB414,680,000 (2017: RMB832,237,000) (Note 21) and trade receivables of approximately RMB3,871,000 (2017: RMB201,000) (Note 18) that are expected to readily generate cash inflows for managing liquidity risk.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(c) Liquidity risk (Continued)

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over five years RMB'000	Total RMB'000
As at 31 August 2018					
Borrowings (principal plus interests, excluding finance leases)	450,021	73,413	–	–	523,434
Finance Leases	3,464	3,464	10,392	10,392	27,712
Accruals and other payables (excluding non-financial liabilities)	568,850	–	–	–	568,850
	1,022,335	76,877	10,392	10,392	1,119,996
As at 31 August 2017					
Accruals and other payables (excluding non-financial liabilities)	214,032	–	–	–	214,032

3.2 Capital management

The Group's objectives when managing capital are to

- safeguard their ability to continue as a going concern, so that they can continue to provide returns for shareholders and benefits for other stakeholders, and
- maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.2 Capital management (Continued)

Consistent with others in the industry, the Group monitors capital on the basis of the following ratio:

Total liability (as shown in the balance sheet)
divided by
Total asset (as shown in the balance sheet)

The liability-to-asset ratios of the Group as at 31 August 2018 and 2017 were as follows:

	As at 31 August	
	2018	2017
	RMB'000	RMB'000
Total liabilities	**2,372,877**	897,424
Total assets	**6,132,060**	3,374,520
The liability-to-asset ratio	**38.7%**	26.6%

3.3 Fair value estimation

(a) Fair value hierarchy

This section explains the judgements and estimates made in determining the fair values of the financial instruments that are recognised and measured at fair value in the financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the Group has classified its financial instruments into the three levels prescribed under the accounting standards. An explanation of each level follows underneath the table.

Recurring fair value measurements	**Level 3 RMB'000**	**Total RMB'000**
At 31 August 2018		
Assets		
Financial instruments at fair value through profit or loss	–	–
At 31 August 2017		
Assets		
Financial instruments at fair value through profit or loss	153,114	153,114

Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Fair value estimation (Continued)

(a) Fair value hierarchy (Continued)

Level 2: The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

(b) Fair value measurements using significant unobservable inputs (level 3)

The following table presents the changes in level 3 items for the years ended 31 August 2018 and 31 August 2017:

	Year ended 31 August	
	2018	2017
	RMB'000	RMB'000
Balance at 1 September	**153,114**	—
Additions	**873,800**	328,000
Settlements	**(1,033,491)**	(176,292)
Gains and losses recognised in profit or loss (Note 7)	**6,577**	1,406
Balance at 31 August	**—**	153,114
Changes in unrealised gains or losses for the year included in profit or loss at the end of the year (Note 7)	**—**	1,114

The fair value of the financial assets at fair value through profit or loss is estimated by discounting the future cash flows at the current market interest rate available for similar financial instruments.

(c) Group's valuation processes

For the financial assets, including level 3 fair values, the Group's finance department performs the valuations. The finance department reports directly to the chief financial officer (CFO). Discussions of valuation processes and results are held between the CFO and finance department semi-annually, in line with the Group's semi-annual reporting dates.

The valuation technique is discounted cash flows. Future cash flows are estimated and discounted using the expected yield rate with reference to the benchmark yield rate of the financial investment products of banks.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and judgements concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Contractual Arrangements

The Group conducts a substantial portion of the business through YuHua Investment Management Co., Ltd, Zhengzhou YuHua Education Investments Co., Ltd, Zhengzhou Zhongmei Education Investments Co., Ltd, (collectively the "PRC Investment Holding Companies") and their wholly owned subsidiaries (collectively the "Consolidated Affiliated Entities") in the PRC due to regulatory restrictions on the foreign ownership in the Group's schools in the PRC. The Group does not have any equity interest in the Consolidated Affiliated Entities. The Directors assessed whether or not the Group has control over the Consolidated Affiliated Entities, has rights to variable returns from its involvement with the Consolidated Affiliated Entities and has the ability to affect those returns through its power over the Consolidated Affiliated Entities. After assessment, the Directors concluded that the Group has control over the Consolidated Affiliated Entities as a result of the contractual agreements and accordingly the financial position and their operating results of the Consolidated Affiliated Entities are included in the Group's consolidated financial statements throughout the year.

Nevertheless, the contractual agreements 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 results, assets and liabilities of the Consolidated Affiliated Entities. The Directors, based on the advice of its other legal counsel, consider that the contractual agreements among the Consolidated Affiliated Entities and their equity shareholders are in compliance with the relevant PRC laws and regulations and are legally enforceable.

(b) Current and Deferred Income taxes

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

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(b) Current and Deferred Income taxes (Continued)

The Group recognises deferred tax assets based on estimates that it is probable to generate sufficient taxable profits in the foreseeable future against which the deductible losses will be utilised. The recognition of deferred tax assets mainly involved management's judgements and estimations about the timing and the amount of taxable profits of the companies who had tax losses.

The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

(c) Useful life and recoverability of prepaid land lease payments

The Group's management determines the estimated useful lives and amortisation method in determining the related amortisation charges for its prepaid land lease payments. This estimate is based on the management's experience of the actual practice of similar nature and functions and normal 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. As at 31 August 2018, the carrying amount of prepaid land lease payments are RMB793,175,000 (2017: RMB236,322,000) (Note 13). Any change in these estimates may have a material impact on the results of the Group.

(d) Estimation of goodwill impairment and trademark impairment

The goodwill and the trademark arose from the acquisition of subsidiaries. Trademark is typically not a CGU and should not normally be tested alone. The Group tests whether goodwill and trademark have suffered any impairment on an annual basis in accordance with the accounting policy stated in Note 2.8. The recoverable amount of a CGU is determined based on the higher of FVLCD and VIU which requires the use of estimates and valuation techniques. When applying valuation technique, the Group relies on a number of factors and judgements, including, among others, historical results, business plans, forecasts and market data.

Details of key assumptions are disclosed in Note 15.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(e) Provisions for legal claim

Provisions for legal claims are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation discounted at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

The management of the Group do not recognise but disclose a contingent liability unless the possibility of an outflow of resources embodying economic benefits is remote, if it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability.

5 SEGMENT INFORMATION

The Group is principally engaged in the provision of private formal education service from kindergarten to university in the PRC.

The Controlling Shareholder and other Directors are identified as the chief operating decision-maker (the "CODM") of the Group. Management has determined the operating segments based on the information reviewed by the CODM for the purposes of allocating resources and assessing performance.

The CODM considers the business from the service perspective. When the Group companies have similar economic characteristics, and the segments are similar in each of the following respects: (i) the nature of the services; (ii) the type or class of students for their services; (iii) the methods used to provide their services; and (iv) if applicable, the nature of the regulatory environment, the Group's operating segments are aggregated. In the view of CODM, the Group is principally engaged in three different segments which are subject to different business risks and different economic characteristics and the Group's operating and reportable segments for segment reporting purpose are kindergartens, grade 1–12 and university respectively.

The accounting policies of the operating segments are described in Note 2.3.

For the purposes of monitoring segment performances and allocating resources between segments, segment results represent the profit before tax earned by each segment. This is the measure reported to the CODM for the purposes of resource allocation and assessment of segment performance.

5 SEGMENT INFORMATION (CONTINUED)

Assets and liabilities dedicated to a particular segment's operations are included in that segment's total assets and liabilities.

The Group's principal market is Henan province and Hunan Province of the PRC, all of the Group's revenue and operating profit are derived within Henan province and Hunan Province of the PRC, and all of the Group's operations and non-current assets are located in Henan province and Hunan Province of the PRC.

The Group has a large number of customers, no single customer accounted for more than 10% of the Group's total revenue for the year ended 31 August 2018.

The segment information provided to the CODM for the reportable segments for the year ended 31 August 2018 are as follows:

	Kindergartens RMB'000	Grade 1–12 RMB'000	University RMB'000	Unallocated RMB'000	Inter-segment elimination RMB'000	Total RMB'000
For the year ended 31 August 2018						
Revenue	62,328	525,650	607,132	2,697	(2,697)	1,195,110
Cost of revenue	(30,170)	(222,830)	(271,387)	–	–	(524,387)
Gross profit	32,158	302,820	335,745	2,697	(2,697)	670,723
Selling expenses	(4)	(1,079)	(5,277)	(162)	–	(6,522)
Administrative expenses	(6,315)	(26,485)	(40,671)	(61,857)	2,697	(132,631)
Other income	–	12,949	3,127	5	–	16,081
Other gains/(losses) – net	351	3,534	135,388	(107,559)	–	31,714
Operating profit	26,190	291,739	428,312	(166,876)	–	579,365
Finance (expenses)/income – net	(439)	(797)	(7,760)	21,591	–	12,595
Profit before income tax	25,751	290,942	420,552	(145,285)	–	591,960
Income tax expense	–	–	(3,726)	–	–	(3,726)
Profit for the year	25,751	290,942	416,826	(145,285)	–	588,234

5 SEGMENT INFORMATION (CONTINUED)

	Kindergartens RMB'000	Grade 1–12 RMB'000	University RMB'000	Unallocated RMB'000	Inter-segment elimination RMB'000	Total RMB'000
As at 31 August 2018						
Total assets	178,724	2,065,802	4,349,497	4,705,264	(5,167,227)	6,132,060
Total liabilities	85,586	1,116,241	1,463,826	2,725,361	(3,018,137)	2,372,877
Other segment information						
Additions to non-current assets due to the acquisition of subsidiaries	–	597	2,053,844	68,090	–	2,122,531
Additions to non-current assets	940	3,880	77,619	21,936	–	104,375
Depreciation and amortisation (Note 8)	(3,804)	(40,227)	(77,073)	(1,345)	–	(122,449)
Losses on disposal of property, plant and equipment (Note 7)	(10)	(488)	(72)	–	–	(570)

The segment information provided to the CODM for the reportable segments for the year ended 31 August 2017 are as follows:

	Kindergartens RMB'000	Grade 1–12 RMB'000	University RMB'000	Unallocated RMB'000	Inter-segment elimination RMB'000	Total RMB'000
For the year ended 31 August 2017						
Revenue	57,371	468,627	320,224	2,416	(2,416)	846,222
Cost of revenue	(30,891)	(254,197)	(125,376)	–	–	(410,464)
Gross profit	26,480	214,430	194,848	2,416	(2,416)	435,758
Selling expenses	–	(368)	(3,387)	–	–	(3,755)
Administrative expenses	(8,446)	(32,783)	(11,628)	(96,762)	2,416	(147,203)
Other income	66	17,948	4,856	–	–	22,870
Other gains/(losses) – net	43	1,538	(414)	(107)	–	1,060
Operating profit	18,143	200,765	184,275	(94,453)	–	308,730
Finance income/(expenses) – net	169	(3,065)	(6,293)	14,260	–	5,071
Profit before income tax	18,312	197,700	177,982	(80,193)	–	313,801
Income tax expense	–	–	–	–	–	–
Profit for the year	18,312	197,700	177,982	(80,193)	–	313,801

5 SEGMENT INFORMATION (CONTINUED)

	Kindergartens RMB'000	Grade 1–12 RMB'000	University RMB'000	Unallocated RMB'000	Inter-segment elimination RMB'000	Total RMB'000
As at 31 August 2017						
Total assets	149,950	1,708,285	1,260,580	2,361,077	(2,105,372)	3,374,520
Total liabilities	85,811	1,078,866	427,517	1,192,245	(1,887,015)	897,424
Other segment information						
Additions to non-current assets	2,779	47,526	46,649	544	–	97,498
Depreciation and amortisation (Note 8)	(4,095)	(42,043)	(27,194)	(2,051)	–	(75,383)
(Losses)/gains on disposal of property, plant and equipment (Note 7)	(6)	181	(414)	(7)	–	(246)

6 OTHER INCOME

	Year ended 31 August 2018 RMB'000	2017 RMB'000
Government grants and subsidies	**13,442**	21,230
Others	**2,639**	1,640
	16,081	22,870

7 OTHER GAINS — NET

	Year ended 31 August 2018 RMB'000	2017 RMB'000
Losses on disposal of property, plant and equipment	**(570)**	(246)
Donation	**(358)**	(100)
Provision for legal claims (a)	**(457)**	—
Gains on disposal of investment in wealth management products	**6,577**	292
Compensation for the realisation of security interests (b)	**134,797**	—
Waiver of payable by the selling shareholder (c)	**(108,275)**	—
Fair value gains on financial instruments:		
— Investments in wealth management products	**—**	1,114
	31,714	1,060

7 OTHER GAINS — NET (CONTINUED)

(a) On 27 December 2017, the Group completed the acquisition of LEI Lie Ying Limited ("LEI Lie Ying") which owns 70% equity interests of Hunan International Economics University ("HIEU") (湖南涉外經濟學院) from Lei China Limited. For the details, please refer to note 34. On 27 July 2016, a legal claim was filed against HIEU by a bank to claim for the joint liability of an overdue loan with a principal amount of RMB12,000,000 owed by a former employee of LEI Lie Ying as the loan was pledged by a land use right owned by HIEU with a carrying amount of RMB16,563,000 (Note 32) as at 31 August 2018. On 27 February 2018, a verdict was given by the People's Court of Hunan Yuelu District that HIEU should bear 40% of the loan and interests which the former employee cannot repay. Therefore, a provision of RMB6,132,000 was recognised by HIEU at the acquisition date and the Group recognised provisions for the legal claim amounting to RMB457,000 in relation to the increment of interest for the year ended 31 August 2018. As at 31 August 2018, the total amount of provisions is RMB6,589,000 (Note 29).

(b) In order to guarantee the transfer of the titles of certain land use rights and buildings to HIEU, 30% equity interest of Lie Ying Industry held by Mr. Zhang Jianbo and his family members had been pledged to Laureate Investment Consulting (Shanghai) Co., Ltd. ("LIC") on behalf of HIEU since 24 December 2013. In September 2017, 22.8% out of the 30% pledged equity interest were transferred to Guangdong Nanbo Education Investment Pte Ltd. ("Nanbo") through a judicial auction at a consideration of RMB508 million. The related pledge over the transferred equity interest was released accordingly.

On 12 June 2018, Changsha Tianxin District People's Court (長沙市天心區人民法院) issued a verdict to grant LIC the priority right to the amounts of RMB134,797,000. In July and August of 2018, HIEU received a total of RMB134,797,000 of compensation from the court, which was included in 'Other gains — net'.

(c) Pursuant to the acquisition agreement of LEI Lie Ying, the Group is contractually obligated to get paid by the selling shareholder when the net asset value of LEI Lie Ying indicated by the selling shareholder is 3% or more larger than that indicated by the Group ("NAV Consideration Adjustment"). The amount of RMB108,275,000 was calculated based on the formula stipulated in the acquisition agreement, which was deducted from the total consideration on the acquisition date. Taken into account of the abovementioned compensation of RMB134,797,000 received by HIEU, the selling shareholder and the Group subsequently agreed to waive the payable by the selling shareholder in relation to the NAV Consideration Adjustment. The waiver of the payable by the selling shareholder was accounted for as other loss for the year ended 31 August 2018.

8 EXPENSES BY NATURE

	Year ended 31 August	
	2018	2017
	RMB'000	RMB'000
Employee benefit expenses (Note 9)	**325,794**	232,472
Depreciation of property, plant and equipment (Note 14)	**102,253**	69,911
Share-based payment expenses (Note 25)	**62,538**	91,578
Amortisation of prepaid land lease payments (Note 13)	**17,843**	5,192
Amortisation of intangible assets (Note 15)	**2,353**	280
Canteen expenditure	**23,099**	26,089
Students training and scholarship expenses	**18,124**	13,620
School consumables	**25,334**	28,283
Utilities expenses	**28,778**	22,970
Marketing expenses	**5,021**	3,365
Operating lease payments	**6,224**	4,458
Expenses in relation to the Listing (Note 23(e))	**—**	24,503
Office expenses	**13,490**	12,086
Travel and entertainment expenses	**2,033**	6,272
Expense in relation to the acquisition of LEI Lie Ying Limited (Note 34)	**7,136**	—
Auditors' remuneration		
— Audit services	**3,400**	2,400
Consultancy and professional fee	**3,797**	2,345
Other expenses	**16,323**	15,598
	663,540	561,422

9 EMPLOYEE BENEFIT EXPENSES

	Year ended 31 August	
	2018	2017
	RMB'000	RMB'000
Wages, salaries and bonuses	**271,569**	201,033
Contributions to pension plan (a)	**26,562**	18,423
Welfare and other expenses	**27,663**	13,016
	325,794	232,472

9 EMPLOYEE BENEFIT EXPENSES (CONTINUED)

Employee benefit expenses were charged in the following categories in the consolidated statement of profit or loss:

	Year ended 31 August	
	2018	2017
	RMB'000	RMB'000
Cost of revenue	272,598	197,429
Administrative expenses	52,760	34,653
Selling expenses	436	390
	325,794	232,472

(a) Contributions to pension plan

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due.

9 EMPLOYEE BENEFIT EXPENSES (CONTINUED)

(b) Five highest paid individuals

The five individuals whose remunerations were the highest in the Group for the year include three Directors (2017: three), whose remuneration are included in the analysis presented in Note 38. Details of the remunerations of the highest paid non-director individuals during the year are set out as below:

	Year ended 31 August	
	2018	2017
	RMB'000	RMB'000
Wages and salaries	**171**	200
Share-based payments	**4,022**	16,384
Contributions to pension plan	**14**	8
Welfare and other expenses	**10**	5
	4,217	16,597

The remunerations fell within the following band:

	Year ended 31 August	
	2018	2017
	No. of employees	No. of employees
Emolument band		
Nil to HK$ 1,000,000	**1**	—
HK$1,000,001 to HK$1,500,000	**—**	1
HK$3,500,001 to HK$4,000,000	**1**	—
HK$17,500,001 to HK$18,000,000	**—**	1

During the year, none of the five highest paid individuals waived or has agreed to waive any emoluments, and none of the five highest paid individuals received emoluments from the Group as inducement to join or upon joining the Group, or as compensation for loss of office.

10 FINANCE EXPENSES — NET

	Year ended 31 August	
	2018	2017
	RMB'000	RMB'000
Finance income:		
Interest income from deposits	**18,532**	8,318
Net foreign exchange gains	**5,281**	7,209
	23,813	15,527
Finance expenses:		
Interest expenses	**(12,993)**	(10,456)
Less: interests capitalised on qualifying assets (Note 14(d))	**1,775**	—
	(11,218)	(10,456)
Finance expenses — net	**12,595**	5,071

11 INCOME TAX EXPENSE

	Year ended 31 August	
	2018	2017
	RMB'000	RMB'000
Current tax		
Current tax on profits before income tax for the year	**(185)**	—
Deferred tax		
Decrease in deferred tax assets (d)	**9,018**	—
Decrease in deferred tax liabilities (Note 16)	**(5,107)**	—
Deferred tax expense for the period	**3,911**	—
Income tax expense	**3,726**	—

11 INCOME TAX EXPENSE (CONTINUED)

The current tax on the Group's profit before income tax differs from the theoretical amount that would arise using the taxation rate of PRC, the principal place of the Group's operations, as follows:

	Year ended 31 August	
	2018	2017
	RMB'000	RMB'000
Profit before income tax	**591,960**	313,801
Tax calculated at a taxation rate of 25% or relevant domestic tax rate applicable to profits in the respective countries	**147,990**	78,450
Tuition profit not subject to tax (d)	**(153,097)**	(78,450)
Derecognition of deferred tax assets (d)	**9,018**	
Prior year adjustment	**(185)**	—
	3,726	—

(a) The Cayman Islands profits tax

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands and accordingly, is exempted from the Cayman Islands income tax.

(b) British Virgin Islands profit tax

The Company's direct subsidiary in the British Virgin Islands was incorporated under the BVI Companies Act, 2004 and accordingly, is exempted from British Virgin Islands income tax.

(c) Hong Kong profit tax

No provision for Hong Kong profit tax was provided as the Company and the Group did not have assessable profits in Hong Kong during the year.

(d) PRC corporate income tax ("CIT")

CIT is provided on assessable profits of entities incorporated in the PRC. Pursuant to the Corporate Income Tax Law of the PRC (the "CIT Law"), which was effective from 1 January 2008, the CIT was 25% during the year.

According to the Implementation Rules for the Law for Promoting Private Education, private schools for which the sponsors do not require reasonable returns are eligible to enjoy the same preferential tax treatment as public schools. As a result, private schools providing academic qualification education are eligible to enjoy income tax exemption treatment if the sponsors of such schools do not require reasonable returns. All schools of the Group are elected to be schools that do not require reasonable returns.

11 INCOME TAX EXPENSE (CONTINUED)

(d) PRC corporate income tax ("CIT") (Continued)

Subsequent to the acquisition of LEI Lie Ying (Note 34), China YuHua Education Investment Limited, a subsidiary of the Company and the sponsor of HIEU decided not to require reasonable returns from HIEU, and the articles of HIEU has been changed from requiring reasonable returns to not requiring reasonable returns accordingly. The directors believed that HIEU is eligible to enjoy the corporate income tax exemption for the tuition and boarding income beginning from 1 January 2018 from local tax authority. Therefore, the deferred tax assets arising from the tax losses carried forward and other timing differences of HIEU as at 31 December 2017 were derecognised in this period.

The corporate income tax rate for Xizang Yuanpei Information Technology Management Company Limited ("Xizang Yuanpei"), a wholly-owned subsidiary of the Company, is 15% based on the relevant tax regulations of Tibet Autonomous Region. The Tibet local government has exempted 40% corporate income tax payable by enterprises in Tibet Autonomous Region for a period of three years commencing from 1 January 2015 to 31 December 2017. Therefore, the effective corporate income tax rate initially applicable for Xizang Yuanpei is 9%, which increased to 15% beginning from 1 January 2018 when the three-year preferential tax exemption expired.

12 EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year excluding ordinary shares purchased by the Company.

	For the year ended 31 August	
	2018	2017
Profit attributable to owners of the Company (RMB'000)	**530,812**	313,801
Weighted average number of ordinary shares in issue (Thousand)	**3,200,258**	2,593,151
Basic earnings per share (RMB Yuan)	**0.17**	0.12

(b) Diluted

Diluted earnings per share is calculated based on the profit attributable to owners of the Company after adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares during the year.

	For the year ended 31 August	
	2018	2017
Earnings		
Profit attributable to owners of the Company (RMB'000)	**530,812**	313,801
Weighted average number of ordinary shares in issue (Thousand)	**3,200,258**	2,593,151
Adjustments for:		
— Share options (Thousand)	**98,869**	52,995
Weighted average number of ordinary shares for diluted earnings per share (Thousand)	**3,299,127**	2,646,146
Diluted earnings per share (RMB Yuan)	**0.16**	0.12

13 PREPAID LAND LEASE PAYMENTS

	As at 31 August	
	2018	2017
	RMB'000	RMB'000
At beginning of the year		
Cost	**270,822**	254,001
Accumulated amortisation	**(34,500)**	(29,308)
Net book amount	**236,322**	224,693
Opening net book amount	**236,322**	224,693
Additions	**—**	16,821
Acquisition of subsidiaries (Note 34)	**583,120**	—
Amortisation charge (Note 8)	**(17,843)**	(5,192)
Disposals	**(8,424)**	—
Closing net book amount	**793,175**	236,322
At end of the year		
Cost	**845,518**	270,822
Accumulated amortisation	**(52,343)**	(34,500)
Net book amount	**793,175**	236,322

(a) The Group's land use rights are either purchased from or allocated by the government.

(b) Amortisation was charged to cost of revenue in the consolidated statement of profit or loss. For the years ended 31 August 2017 and 2018, the amortisation of prepaid land lease payments charged to cost of revenue was RMB5,192,000 and RMB17,843,000.

(c) The carrying value of the land use right allocated by the government of RMB447,121,867 (2017: RMB199,970,803) as at 31 August 2018, has no definite life of use stated in the relevant land use right certificates. The estimated useful lives is 50 years which is the best estimate based on the normal terms in the PRC. However, without the relevant administrative authorities' permission, the Group cannot transfer, lease or mortgage such land use right allocated by the government.

(d) As at 31 August 2018, the carrying amount of prepaid land lease payments without land use right certificates was RMB46,835,000 (2017: RMB73,920,000). The Group is in the process to obtain the certificates.

(e) Prepaid land lease payments pledged as security by the Group is set out in note 32.

14 PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Leasehold Improvements RMB'000	Motor vehicles RMB'000	Electronic equipment RMB'000	Furniture and fixtures RMB'000	Construction in progress RMB'000	Total RMB'000
Year ended 31 August 2017							
Opening net book amount	1,353,350	12,677	5,968	48,338	40,576	4,117	1,465,026
Additions	1,479	118	853	7,040	7,472	66,438	83,400
Transfer upon completion	70,180	–	–	–	–	(70,180)	–
Disposals	(157)	–	(183)	(536)	(205)	–	(1,081)
Depreciation charge (Note 8)	(40,691)	(4,611)	(2,077)	(10,665)	(11,867)	–	(69,911)
Closing net book amount	1,384,161	8,184	4,561	44,177	35,976	375	1,477,434
At 31 August 2017							
Cost	1,602,662	21,869	18,719	105,550	104,044	375	1,853,219
Accumulated depreciation	(218,501)	(13,685)	(14,158)	(61,373)	(68,068)	–	(375,785)
Net book amount	1,384,161	8,184	4,561	44,177	35,976	375	1,477,434
Year ended 31 August 2018							
Opening net book amount	**1,384,161**	**8,184**	**4,561**	**44,177**	**35,976**	**375**	**1,477,434**
Acquisition of subsidiaries (Note 34)	**656,475**	**3,111**	**1,331**	**15,385**	**33,714**	**74,391**	**784,407**
Additions	**1,456**	**1,063**	**865**	**8,475**	**6,407**	**63,028**	**81,294**
Transfer upon completion	**19,027**	**280**	**–**	**1,579**	**194**	**(21,080)**	**–**
Disposals	**(390)**	**–**	**(54)**	**(280)**	**(305)**	**–**	**(1,029)**
Depreciation charge (Note 8)	**(64,779)**	**(5,398)**	**(2,056)**	**(12,566)**	**(17,454)**	**–**	**(102,253)**
Closing net book amount	**1,995,950**	**7,240**	**4,647**	**56,770**	**58,532**	**116,714**	**2,239,853**
At 31 August 2018							
Cost	**2,279,133**	**26,323**	**19,832**	**145,134**	**125,845**	**116,714**	**2,712,981**
Accumulated depreciation	**(283,183)**	**(19,083)**	**(15,185)**	**(88,364)**	**(67,313)**	**–**	**(473,128)**
Net book amount	**1,995,950**	**7,240**	**4,647**	**56,770**	**58,532**	**116,714**	**2,239,853**

14 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

(a) Depreciation charges were charged to the consolidated statement of profit or loss as follows:

	Year ended 31 August	
	2018	2017
	RMB'000	RMB'000
Cost of revenue	**90,733**	65,359
Administrative expenses	**11,520**	4,552
	102,253	69,911

(b) Construction-in-progress as at 31 August 2017 and 2018 mainly comprise buildings being constructed in the PRC.

(c) Leased assets
Buildings include the following amounts where the Group is a lessee under a finance lease (Note 28(b)):

	Year ended 31 August	
	2018	2017
	RMB'000	RMB'000
Leased buildings		
Cost	**66,983**	—
Accumulated depreciation	**(29,400)**	—
Net book amount	**37,583**	—

(d) The Group has capitalised borrowing costs amounting to RMB1,775,000 on qualifying assets (Note 10), and the borrowing costs were capitalised at the weighted average rate of its general borrowings of 4.89% for the year ended 31 August 2018. For the year ended 31 August 2017, the Group did not capitalise any borrowing cost.

(e) As at 31 August 2018, the carrying amount of buildings without building ownership certificates was RMB1,418,246,000 (2017: RMB1,056,915,000). The Group is in the process to obtain the certificates.

(f) Property, plant and equipment pledged as security by the Group is set out in note 32.

15 INTANGIBLE ASSETS

	Trademark RMB'000	Goodwill RMB'000	Software RMB'000	Total RMB'000
Year ended 31 August 2017				
Opening net book amount	—	—	1,792	1,792
Additions	—	—	177	177
Amortisation (Note 8)	—	—	(280)	(280)
Closing net book amount	—	—	1,689	1,689
At 31 August 2017				
Cost	—	—	2,891	2,891
Accumulated depreciation	—	—	(1,202)	(1,202)
Net book amount	—	—	1,689	1,689
Year ended 31 August 2018				
Opening net book amount	**—**	**—**	**1,689**	**1,689**
Acquisition of subsidiaries (Note 34)	**219,000**	**528,703**	**7,301**	**755,004**
Additions	**—**	**—**	**1,661**	**1,661**
Amortisation (Note 8)	**—**	**—**	**(2,353)**	**(2,353)**
Closing net book amount	**219,000**	**528,703**	**8,298**	**756,001**
At 31 August 2018				
Cost	**219,000**	**528,703**	**11,853**	**759,556**
Accumulated depreciation	**—**	**—**	**(3,555)**	**(3,555)**
Net book amount	**219,000**	**528,703**	**8,298**	**756,001**

(a) Amortisation of the Group's intangible assets were charged in the following categories in the consolidated statement of profit or loss as follows:

	As at 31 August	
	2018 RMB'000	2017 RMB'000
Cost of revenue	**2,226**	155
Administrative expenses	**127**	125
	2,353	280

15 INTANGIBLE ASSETS (CONTINUED)

(b) Impairment of goodwill and trademark

The goodwill and trademark arising from the acquisition of HIEU amounted to RMB528,703,000 and RMB219,000,000, respectively. Management considered that HIEU is a separate CGU within Lie Ying Industry, and all the goodwill is allocated to this CGU. The trademark is used to support the operation of the CGU, and the revenue from providing the branded service are not capable of being split between revenue for the brand and revenue derived from the education service. Therefore, trademark is not a CGU, and it should be tested with HIEU, the associated operating CGU.

Goodwill and trademark impairment reviews are undertaken by the management annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying amount of goodwill and trademark is compared to the recoverable amount, which is the higher of VIU and FVLCD. The recoverable amount of the CGU is determined based on VIU. The VIU calculation is based on certain key assumptions, which use cash flow projections based on financial forecast prepared by management covering a five-year period.

The key assumptions, revenue growth rate, earnings before interest and tax margin ("EBIT margin"), long-term growth rate, and discount rate used in the VIU calculations as at 31 August 2018, are as follows:

	Year ended 31 August 2018 RMB'000
Revenue growth rates (Compound)	**5.7%–13.5%**
EBIT margin (% of revenue)	**35.0%–39.6%**
Long-term growth rate	**3.0%**
Discount rate	**12.7%**

Revenue growth rate is for the five-year forecast period. It is based on past performance and management's expectations of market development.

The percentage of EBIT of revenue is the average percentages over the five-year forecast period. It is based on the current margin levels, with adjustments made to reflect the expected future market conditions.

The discount rate used reflects specific risks relating to the CGU.

15 INTANGIBLE ASSETS (CONTINUED)

(b) Impairment of goodwill and trademark (Continued)

The following changes in assumptions would cause the recoverable amount to fall below the carrying value:

- A reduction in the sales growth rate from the 5.7%–13.5% assumption applied to a revised assumption of 1.2%–9.0% or less.
- A reduction in the EBIT margin from the 35.0%–39.6% assumption applied to a revised assumption of 28.2%–32.8% or less.
- An increase in the discount rate from the 12.7% assumption applied to a revised assumption of 14.8% or more.

16 DEFERRED TAX ASSETS AND LIABILITIES

	Year ended 31 August	
	2018	2017
	RMB'000	RMB'000
Deferred tax assets:		
— Deferred income tax assets	**—**	—
Deferred tax liabilities:		
— Deferred income tax liabilities to be recovered within 12 months	**(7,659)**	—
— Deferred income tax liabilities to be recovered after 12 months	**(239,211)**	—
	(246,870)	—

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

(a) Deferred tax assets

	As at 31 August 2018 RMB'000	As at 31 August 2017 RMB'000
Opening amount	**—**	—
Acquisition of subsidiaries	**9,018**	—
Charged to profit or loss (Note 11)	**(9,018)**	—
Closing amount	**—**	—

16 DEFERRED TAX ASSETS AND LIABILITIES (CONTINUED)

(b) Deferred tax liabilities

	Prepaid land lease payment RMB'000	Trademark RMB'000	Software RMB'000	Property, plant and equipment appreciation RMB'000	Total RMB'000
Balance at 1 September 2017	–	–	–	–	–
Acquisition of subsidiaries	(116,193)	(54,750)	(292)	(80,742)	(251,977)
Credited to profit or loss	2,252	–	131	2,724	5,107
Balance at 31 August 2018	**(113,941)**	**(54,750)**	**(161)**	**(78,018)**	**(246,870)**

(i) The deferred tax liabilities arise from fair value adjustment of prepaid land lease payments, recognition of trademark and fair value adjustment of buildings and other fixed assets upon the acquisition of LEI Lie Ying (Note 34).

(ii) Under the CIT Law, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to undistributed earnings of the Group's PRC subsidiaries 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.

At 31 August 2017 and 2018, no deferred tax has been recognised for withholding taxes payable on the unremitted earnings of the Group's subsidiaries established in mainland China that are subject to withholding taxes. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future.

17 OTHER NON-CURRENT ASSETS

	As at 31 August	
	2018	2017
	RMB'000	RMB'000
Prepayments of rental expenses	**8,916**	10,866
Prepayments for prepaid land lease payment	**6,571**	6,571
Prepayments of the acquisition of a high school (a)	**21,420**	—
Rental deposits	**200**	250
	37,107	17,687

(a) On 18 April 2018, the Group and Kaifeng City Huibo Education Information Consulting Co., Ltd ("Huibo Education") entered into an investment agreement, pursuant to which the Group has conditionally agreed to purchase and Huibo Education has conditionally agreed to sell a 70% equity interest in Kaifeng City Yubohui Education Information Consulting Co., Ltd. ("Yubohui Education"), a subsidiary of Huibo Education, for a cash consideration of RMB107,100,000. Kaifeng City Xiangfu District Bowang High School is wholly-owned by Yubohui Education, which has over 4,000 students.

The acquisition was set out in the Company's announcement dated 18 April 2018. The acquisition is subject to fulfilment of certain conditions by Huibo Education or the Group. On 27 April 2018, the Group paid prepayment of the acquisition amounting to RMB21,420,000 according to the payment schedule.

On 1 September 2018, Yubohui Education convened a shareholder meeting and board of directors meeting and passed the resolution of change of members of Directors and key management, the acquisition was thus completed.

18 TRADE AND OTHER RECEIVABLES

	As at 31 August	
	2018	2017
	RMB'000	RMB'000
Trade receivables		
Due from students (a)	**4,066**	201
Provision for impairment (b)	**(195)**	—
	3,871	201
Other receivables		
Amounts due from related parties (Note 35(b))	**104**	—
Deposits	**1,359**	1,359
Staff advance	**1,070**	—
Interest receivables	**5,108**	7,152
Others	**1,474**	325
Provision for impairment (b)	**(135)**	—
	8,980	8,836
Prepayments		
Prepaid expenses	**14,253**	3,798
Prepayments to suppliers	**—**	109
	14,253	3,907
	27,104	12,944

(a) The Group's students are required to pay tuition fees and boarding fees in advance for upcoming school years, which normally commence in September. The outstanding receivables represent amounts related to students who have applied for the delayed payment of tuition fees and boarding fees with no fixed credit item.

The aging analysis of the trade receivables based on the recognition date is set as followings:

	As at 31 August	
	2018	2017
	RMB'000	RMB'000
Less than 1 year	**4,054**	201
Over 1 year	**12**	—
	4,066	201

18 TRADE AND OTHER RECEIVABLES (CONTINUED)

(b) Impaired trade and other receivables

The individually impaired trade receivables relate to students that were in financial difficulties or default in payments. The aging of impaired trade receivables based on the recognition date is as follows:

	As at 31 August	
	2018	2017
	RMB'000	RMB'000
Less than 1 year	**183**	—
Over 1 year	**12**	—
	195	—

Movements in the provision for impairment of trade and other receivables that are assessed for impairment collectively are as follows:

	As at 31 August	
	2018	2017
	RMB'000	RMB'000
At beginning of the year	**—**	—
Provision for impairment recognised during the year	**1,160**	483
Receivables written off during the year as uncollectible	**(830)**	(483)
At end of the year	**330**	—

(c) Past due but not impaired trade receivables

Receivables that were past due but not impaired relate to a number of students who are in temporary financial difficulties. Based on the experience, the directors believe that they are collectable because the aging is not long.

The aging analysis of past due but not impaired trade receivables based on the recognition date is as follows:

	As at 31 August	
	2018	2017
	RMB'000	RMB'000
Less than 1 year	**3,871**	201

18 TRADE AND OTHER RECEIVABLES (CONTINUED)

(d) As at 31 August 2018 and 2017, all trade and other receivables were denominated in RMB except that the interest receivables amounting to approximately RMB5,108,000 and RMB6,943,000 were denominated in USD, further details were set out in note 3.1(a)(i).

The carrying amounts of the Group's trade and other receivables were denominated in the following currencies:

	As at 31 August	
	2018	2017
	RMB'000	RMB'000
USD	**5,108**	6,943
RMB	**21,996**	6,001
	27,104	12,944

(e) As at 31 August 2018 and 2017, the fair values of trade and other receivables, except the prepayments which are not financial assets of the Group, approximated their carrying amounts.

19 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 31 August	
	2018	2017
	RMB'000	RMB'000
Investments in wealth management products (a)	**—**	153,114

(a) For the year ended 31 August 2018, the gains on settlements and fair value gains of financial assets at fair value through profit or loss amounted to approximately RMB6,577,000 and nil, respectively (2017: RMB292,000 and RMB1,114,000, respectively), which have been recognised as 'Other gains — net' (Note 7) in the consolidated statement of profit or loss.

As at 31 August 2018 and 31 August 2017, all investments in wealth management products were dominated in RMB.

The fair value of the financial assets at fair value through profit or loss is determined by using the valuation technique of discounting the future cash flows at the expected yield rate with reference to the benchmark yield rates of the similar financial investment products of banks.

20 CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

(a) Cash and cash equivalents

	As at 31 August	
	2018	2017
	RMB'000	RMB'000
Cash at bank and on hand		
— CNY	**1,464,785**	303,175
— HKD	**3,693**	7,191
— USD	**4,437**	4,798
Short-term bank deposits		
— HKD	**—**	156,500
— USD	**52,208**	170,842
Cash at financial institutions other than bank (Note 25(a))		
— HKD	**68,054**	—
Cash and cash equivalents	**1,593,177**	642,506

(b) Restricted Cash

	As at 31 August	
	2018	2017
	RMB'000	RMB'000
Restricted Cash	**270,963**	587

As at 31 August, 2018, the restricted cash comprises of the deposit in the escrow account opened subject to the joint escrow of China Yuhua Education Investment Limited, one of the Company's wholly owned subsidiaries, and LEI China Limited for the acquisition of LEI Lie Ying (Note 34) in the amount of HKD310,499,000 (RMB269,979,000 equivalent) and the deposit of education reserve required by local authority of RMB984,000. As at 31 August 2017, the restricted cash is the deposit of education reserve required by local authority of RMB587,000.

21 TERM DEPOSITS WITH INITIAL TERM OF OVER THREE MONTHS

	As at 31 August	
	2018	2017
	RMB'000	RMB'000
Term deposits with initial term of over three months	**414,680**	832,237

The carrying amounts of term deposits with initial term of over three months approximated their fair values due to the nature and short maturities of the related assets.

The term deposits with initial term of over three months were denominated in USD.

22 FINANCIAL INSTRUMENTS BY CATEGORY

	Loans and receivables RMB'000	**Total RMB'000**
At 31 August 2018		
Assets as per consolidated balance sheets		
Trade and other receivables excluding prepayments	**12,851**	**12,851**
Cash and cash equivalents	**1,593,177**	**1,593,177**
Restricted Cash	**270,963**	**270,963**
Term deposits with initial term of over three months	**414,680**	**414,680**
	2,291,671	**2,291,671**

	Financial liabilities at amortised cost RMB'000	**Total RMB'000**
At 31 August 2018		
Liabilities as per consolidated balance sheet		
Borrowings	**529,452**	**529,452**
Accruals and other payables excluding non-financial liabilities	**568,850**	**568,850**
	1,098,302	**1,098,302**

22 FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

	Loans and receivables RMB'000	Assets at fair value through profit & loss RMB'000	Total RMB'000
At 31 August 2017			
Assets as per consolidated balance sheets			
Trade and other receivables excluding prepayments	9,037	—	9,037
Financial assets at fair value through profit or loss	—	153,114	153,114
Cash and cash equivalents	642,506	—	642,506
Restricted Cash	587	—	587
Term deposits with initial term of over three months	832,237	—	832,237
	1,484,367	153,114	1,637,481

	Financial liabilities at amortised cost RMB'000	Total RMB'000
At 31 August 2017		
Liabilities as per consolidated balance sheet		
Accruals and other payables excluding non-financial liabilities	214,032	214,032

23 SHARE CAPITAL AND SHARE PREMIUM

	Number of ordinary shares	**Nominal value of ordinary shares**
Authorised:		
As at 1 September 2016	50,000	US$50,000
Increase of shares	50,000,000,000	HK$500,000
Cancellation of shares	(50,000)	(US$50,000)
As at 31 August 2017	50,000,000,000	HK$500,000
As at 1 September 2017 and 31 August 2018	**50,000,000,000**	**HK$500,000**

23 SHARE CAPITAL AND SHARE PREMIUM (CONTINUED)

	Number of ordinary shares	Nominal value of ordinary shares	Equivalent nominal value of ordinary shares RMB'000	Share premium RMB'000	Total share capital and share premium RMB'000
Issued and paid:					
Balance at 1 September 2016	10,000	US$10,000	65	–	65
Capital contribution from the Controlling Shareholder (b)	2,250,000,000	HK$22,500	19	–	19
Repurchase of shares (c)	(10,000)	(US$10,000)	(65)	–	(65)
Issuance of shares relating to IPO (e)	750,000,000	HK$7,500	7	1,318,313	1,318,320
Balance at 31 August 2017	3,000,000,000	HK$30,000	26	1,318,313	1,318,339
Balance at 1 September 2017	**3,000,000,000**	**HK$30,000**	**26**	**1,318,313**	**1,318,339**
Placing of new shares (f)	**253,150,000**	**HK$2,532**	**2**	**785,948**	**785,950**
Share issued upon exercise of share-based compensation (Note 25)	**11,788,460**	**HK$118**	**–**	**26,196**	**26,196**
Balance at 31 August 2018	**3,264,938,460**	**HK$32,650**	**28**	**2,130,457**	**2,130,485**

(a) The Company was incorporated in the Cayman Islands under the Companies Law of the Cayman Islands as an exempted company with limited liability on 25 April 2016 with an authorised share capital of US$50,000 divided into 50,000 shares of a nominal or par value of US$1.00 each, of which 10,000 shares were issued and paid.

(b) On 7 September 2016, the authorised share capital of the Company was increased by HK$500,000 divided into 50,000,000,000 shares. On the same day, the Company allotted and issued 2,250,000,000 shares to GuangYu Investment, a company incorporated in the BVI with limited liability on 21 March 2016 and a Controlling Shareholder of the Company, for a subscription price of HK$22,500.

(c) Immediately following the allotment and issue of the 2,250,000,000 shares, the Company repurchased 10,000 shares of par value US$1.00 each from GuangYu Investment at an aggregate consideration of HK$22,500 which was paid out of the proceeds of the aforesaid subscription.

(d) Immediately following the repurchase, the authorised share capital of the Company was reduced by the cancellation of 50,000 shares of par value of US$1.00 each and became HK$500,000 divided into 50,000,000,000 Shares of par value of HK$0.00001 each.

23 SHARE CAPITAL AND SHARE PREMIUM (CONTINUED)

(e) On 28 February 2017, the Company completed its IPO by issuing 750,000,000 new shares with nominal value of HK$0.00001 each at a price of HK$2.05 per share. The gross proceeds raised was approximately HK$1,537,500,000 (equivalent to RMB1,361,918,000), with which share capital was increased by approximately RMB7,000 and share premium was increased by approximately RMB1,318,313,000. The share issuance costs paid and payable mainly include share underwriting commissions, lawyers' fees, reporting accountant's fee and other related costs, of which, the share issuance costs directly attributable to the issuance of the new shares amounting to RMB43,598,000 were charged to share premium, and the share issuance costs attributable to the listing of the old shares amounting to RMB24,503,000 were charged to the consolidated statement of profit or loss for the year ended 31 August 2017 (2018: nil).

(f) On 2 November 2017, the Company, GuangYu Investment Holding Limited ("GuangYu Investment"), CITIC CLSA Limited (the placing agent) and Mr. Li GuangYu entered into the Placing and Subscription Agreement, pursuant to which (a) the placing agent has agreed to place 253,150,000 shares at a price of HK$3.70 per share on behalf of GuangYu Investment to independent third parties and (b) GuangYu Investment has agreed to subscribe for, and the Company has conditionally agreed to allot and issue to GuangYu Investment, up to 253,150,000 new shares at the same price. The number of the subscription shares represents: (a) approximately 8.44% of the total number of shares of the Company in issue as at 2 November 2017; and (b) approximately 7.78% of the enlarged total number of shares of the Company in issue upon the completion of the subscription.

The net proceeds from the subscription are HK$925,500,000 (RMB equivalent 794,777,000), which will be applied to enhance the capital base of the Company and the aforementioned acquisition. Details of the placing and subscription were set out in the Company's announcement dated 3 November 2017.

24 RESERVES

	Capital reserve (a) RMB'000	Statutory surplus reserves (b) RMB'000	Share-based payments reserve RMB'000	Treasury shares RMB'000	Translation reserve RMB'000	Total RMB'000
At 1 September 2016	150,000	236,557	–	–	–	386,557
Profit appropriation to statutory surplus reserves	–	97,596	–	–	–	97,596
Repurchase of shares	46	–	–	–	–	46
Share-based compensation	–	–	91,578	–	–	91,578
Currency translation differences	–	–	–	–	(59,213)	(59,213)
At 31 August 2017	150,046	334,153	91,578	–	(59,213)	516,564
At 1 September 2017	**150,046**	**334,153**	**91,578**	**–**	**(59,213)**	**516,564**
Profit appropriation to statutory surplus reserves	**–**	**171,841**	**–**	**–**	**–**	**171,841**
Purchase of treasury shares (Note 25(a))	**–**	**–**	**–**	**(134,721)**	**–**	**(134,721)**
Share-based compensation	**–**	**–**	**62,538**	**–**	**–**	**62,538**
Share issued upon exercise of share-based compensation	**–**	**–**	**(26,196)**	**–**	**–**	**(26,196)**
Currency translation differences	**–**	**–**	**–**	**–**	**(7,247)**	**(7,247)**
At 31 August 2018	**150,046**	**505,994**	**127,920**	**(134,721)**	**(66,460)**	**582,779**

(a) Capital reserve

Capital reserve of the Group represented the capital contribution premium of the Consolidated Affiliated Entities from its then shareholders.

(b) Statutory surplus reserves

Pursuant to the relevant laws and regulations in the PRC, the Company's subsidiaries in the PRC shall make appropriations from after-tax profit to non-distributable reserve funds as determined by the boards of directors of the relevant PRC subsidiaries. These reserves include (i) statutory reserve fund of the limited liability companies, (ii) general reserve fund of foreign invested enterprise and (iii) the development fund of schools.

24 RESERVES (CONTINUED)

(b) Statutory surplus reserves (Continued)

(i) In accordance with the relevant laws and regulations in the PRC and Articles of Association of the companies incorporated in the PRC now comprising the Group (the "PRC Subsidiaries"), it is required to appropriate 10% of the annual statutory net profits of the PRC Subsidiaries, after offsetting any prior years' losses as determined under the PRC accounting standards, to the statutory reserves fund before distributing the net profit. When the balance of the statutory reserves fund reaches 50% of the registered capital of the PRC Subsidiaries, any further appropriation is at the discretion of shareholders. The statutory reserves fund can be used to offset prior years' losses, if any, and may be converted into share capital by issuing new shares to shareholders in proportion to their existing shareholding, provided that the remaining balance of the statutory reserves fund after such issue is not less than 25% of registered capital.

Pursuant to the laws applicable to China's Foreign Investment Enterprises, the Company's subsidiary that is a foreign investment enterprise in China has to make appropriations from its after-tax profit (as determined under PRC GAAP) to reserve funds including (i) general reserve fund, (ii) enterprise expansion fund and (iii) staff bonus and welfare fund. The appropriation to the general reserve fund must be at least 10% of the after tax profits calculated in accordance with PRC GAAP. Appropriation is not required if the reserve fund has reached 50% of the registered capital of the respective company. Appropriations to the other two reserve funds are at the respective companies' discretion.

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

25 SHARE-BASED PAYMENTS

Movements in the number of share options outstanding under the Pre-IPO Share Option Scheme and their weighted average exercise prices are as follows:

	31 August 2018	
	Average exercise price in HK$ per share option	Number of share options
Opening balance	0.00001	180,000,000
Share options exercised	0.00001	(11,788,460)
Closing balance	0.00001	168,211,540
Exercisable at period end	0.00001	1,280,040

Options exercised for the year ended 31 August 2018 resulted in 11,788,460 shares being issued at a weighted average price of HK$4.16 each. There were no options exercised for the year ended 31 August 2017.

Share options outstanding as at 31 August 2018 have the following expiry date and exercise prices:

	31 August 2018	
	Exercise price in HK$ per share option	Number of share options
Expiry date		
1 September 2036	0.00001	168,211,540

102,621,000 share options granted under the Pre-IPO Share Option Scheme on 1 September 2016 have a vesting period of 20 years. Commencing from the first, second to sixth, seventh to eleventh, twelfth to sixteenth and seventeenth to twentieth anniversaries, the relevant grantees may exercise up to 5%, 20%, 30%, 50% and 100% of the shares comprised in his or her option.

15,658,000 share options granted under the Pre-IPO Share Option Scheme on 1 September 2016 have a vesting period of 20 years. Upon the Listing and commencing from the second to sixth, seventh to eleventh, twelfth to sixteenth and seventeenth to twentieth anniversaries, the relevant grantees may exercise up to 5%, 20%, 30%, 50% and 100% of the shares comprised in his or her option. As at 31 August 2018, 782,900 share options have been vested but not yet exercised.

25 SHARE-BASED PAYMENTS (CONTINUED)

4,402,000 share options granted under the Pre-IPO Share Option Scheme on 1 September 2016 have a vesting period of 15 years. Commencing from the first, second to sixth, seventh to eleventh and twelfth to fifteenth anniversaries, the relevant grantees may exercise up to 5%, 25%, 45% and 100% of the shares comprised in his or her option.

1,636,000 share options granted under the Pre-IPO Share Option Scheme on 1 September 2016 have a vesting period of 15 years. Upon the Listing and commencing from the second to sixth, seventh to eleventh and twelfth to fifteenth anniversaries, the relevant grantees may exercise up to 5%, 25%, 45% and 100% of the shares comprised in his or her option. As at 31 August 2018, 81,800 share options have been vested but not yet exercised.

2,608,000 share options granted under the Pre-IPO Share Option Scheme on 1 September 2016 have a vesting period of 10 years. Upon the Listing and commencing from the second to sixth and seventh to tenth anniversaries, the relevant grantees may exercise up to 5%, 40% and 100% of the shares comprised in his or her option. As at 31 August 2018, 130,400 share options have been vested but not yet exercised.

44,075,000 share options granted under the Pre-IPO Share Option Scheme on 1 September 2016 have a vesting period of 5 years. Upon the Listing and commencing from the second to fifth anniversaries, the relevant grantees may exercise up to 3% and 100% of the shares comprised in his or her option. As at 31 August 2018, 1,322,250 share options have been vested but not yet exercised.

9,000,000 share options granted under the Pre-IPO Share Option Scheme on 1 September 2016 have a vesting period of 3 years. Upon the Listing and commencing from the first and second to third anniversary, the relevant grantees may exercise up to 40%, 60% and 100% of the shares comprised in his or her option. As at 31 August 2018, 3,600,000 share options have been vested but not yet exercised.

The fair value of the options granted under the Pre-IPO Share Option Scheme as determined using the Binominal model was HK$464,583,000. Significant inputs into the model were as follows:

Spot price (HK$)	2.58
Exercise price (HK$)	0.00001
Expected volatility	62.0%
Time to maturity	Based on the terms of the options
Weighted average annual risk free interest rate	1.1%
Expected dividend yield	0.0%

The fair value of the Pre-IPO Share Option Scheme is charged to the consolidated statement of profit or loss over the vesting period of the options. Total share option expenses charged to the consolidated statement of profit or loss for the year ended 31 August 2018 amounted to HK$72,637,000 (equivalent to RMB62,538,000) (2017: HK$106,366,000, equivalent to RMB91,578,000).

25 SHARE-BASED PAYMENTS (CONTINUED)

(a) Purchase of treasury shares

In order to establish and enhance future share award schemes in the medium and long run, the Company has appointed a trust, China Yuhua Employees Benefit Trust, in Hong Kong for administration of share award schemes. The principal activity of the trust is administrating and holding the Company's shares for the share award scheme for the benefit of the Company's eligible persons. The Company's shares will be purchased by the trust through Haitong International Securities Co., Ltd. ("Haitong Securities") in the market out of cash contributed by the Company and held in the trust for the Company until such shares are awarded and vested in the relevant beneficiary in accordance with the provisions of the share award scheme.

As the Company has the power to govern the financial and operating policies of the trust and can derive benefits from the contributions of the employees who have been awarded the shares of the Company through their continued employment with the Group, the Group controls and thus consolidates the trust.

During January and February 2018, the Group entrusted and paid an aggregate of HK$242,000,000 (equivalent to RMB204,585,000) to Haitong Securities through the trust to purchase shares of the Company from the market as an incentive subject. During this year, Haitong Securities purchased 38,456,000 shares of the Company in total amounting to HK$163,733,000 (equivalent to RMB134,721,000), which was deducted from "treasury shares" under reserves. The remaining amount of HK$78,267,000 (equivalent to RMB68,054,000) is disclosed in cash and cash equivalents (Note20).

26 ACCRUALS AND OTHER PAYABLES

	As at 31 August	
	2018	2017
	RMB'000	RMB'000
Amount due to related parties (Note 35(b))	**4,844**	1,122
Payables in relation to the acquisition of LEI Lie Ying Limited (Note 34)	**320,000**	—
Payable for the prepaid land lease payments	**—**	48,472
Payables for purchases of property, plant and equipment	**126,601**	91,514
Salary and welfare payables	**61,403**	51,681
Deposits received from teachers and students	**14,333**	19,322
Miscellaneous expenses received from students (a)	**33,647**	12,353
Payables for teaching materials and other operating expenditure (c)	**25,214**	14,082
Payables for contracting canteens (b)(c)	**534**	2,408
Government subsidies payable to students and teachers	**25,049**	1,604
Payables in relation to the IPO listing	**—**	14,874
Audit and consulting fees	**3,632**	—
Interest payables	**145**	—
Taxes payable	**2,797**	—
Others	**14,851**	8,281
	633,050	265,713

26 ACCRUALS AND OTHER PAYABLES (CONTINUED)

(a) The amounts represent the miscellaneous expenses received from students which will be paid out on behalf of students.

(b) A few of third party canteens were contracted by the Group to provide catering service to schools.

(c) As of 31 August 2018 and 2017, the aging of payables for teaching materials and other operating expenditure and payables for contracting canteens were less than 1 year.

(d) The carrying amounts of the Group's accruals and other payables were denominated in the following currencies:

	As at 31 August	
	2018	2017
	RMB'000	RMB'000
USD	**2,494**	4,219
HKD	**1,957**	—
MYR	**267**	—
RMB	**628,332**	261,494
	633,050	265,713

27 DEFERRED REVENUE

	As at 31 August	
	2018	2017
	RMB'000	RMB'000
Tuition and boarding fees	**953,837**	631,711
Rental received	**2,704**	—
	956,541	631,711

28 BORROWINGS

	As at 31 August	
	2018	2017
	RMB'000	RMB'000
Non-current		
Secured		
Bank loans	**70,000**	—
Finance lease liabilities	**20,988**	—
	90,988	—
Current		
Secured		
Bank loans	**235,000**	—
Finance lease liabilities	**3,464**	—
Unsecured		
Bank loans	**200,000**	—
	438,464	—
Total borrowings	**529,452**	—

(a) Bank Borrowings

(i) The weighted average effective interest rates at the balance sheet dates are set out as follows:

	As at 31 August	
	2018	2017
Bank borrowings	**4.98%**	—

(ii) Bank borrowings of the Group which were guaranteed and pledged by certain prepaid land lease payments of a subsidiary of the Company and which were pledged by right over the tuition fee and accommodation fee are shown below:

	As at 31 August	
	2018	2017
	RMB'000	RMB'000
Guaranteed and pledged by subsidiaries of the Group	**105,000**	—
Pledged by right over the tuition fee and accommodation fee	**200,000**	—
	305,000	—

The carrying amounts of assets pledged as security for borrowings are disclosed in Note 32.

28 BORROWINGS (CONTINUED)

(a) Bank Borrowings (Continued)

(iii) The maturity date of the borrowing was analysed as follows:

	As at 31 August	
	2018	2017
	RMB'000	RMB'000
Within 1 year	**438,464**	—
Between 1 and 2 years	**72,678**	—
Between 2 and 5 years	**8,651**	—
Over 5 years	**9,659**	—
	529,452	—

(iv) The fair values of the Group's borrowings are not materially different to their carrying amounts, since the interest payable on those borrowings is either close to current market rates or the borrowings are of a short-term nature.

(v) The Group's borrowings were denominated in RMB.

(vi) Financial arrangements

The Group had access to the following undrawn borrowing facilities from International Finance Corporation at the end of the reporting period:

	As at 31 August	
	2018	2017
	RMB'000	RMB'000
Floating rate		
— Expiring within one year	**341,230**	—
— Expiring beyond one year	**170,615**	—
	511,845	—

28 BORROWINGS (CONTINUED)

(a) Bank Borrowings (Continued)

(vi) Financial arrangements (Continued)

On 31 May 2018, the Company, China YuHua Education Investment Limited and China HongKong Yuhua Education Limited ("YuHua HK") entered into a loan agreement with International Finance Corporation ("IFC"), pursuant to which IFC agreed to lend and the Company agreed to borrow up to the principal amount of US$75 million, comprised of an initial US$50 million tranche (the "Initial Tranche") and a US$25 million tranche (the "Convertible Tranche") which shall, at the option of IFC, be convertible into the ordinary share of the Company at a conversion price of HK$5.75 per Share (subject to the adjustments as set out in the loan agreement) within the conversion period. The Initial Tranche is repayable in eleven equal semiannual instalments commencing from 15 June 2020 and the Convertible Tranche is repayable in seven equal semi-annual instalments commencing from the same date (unless converted prior), subject to customary early prepayment conditions.

The proceeds of the loan will primarily be utilised to finance potential acquisitions.

As a condition to disbursement of the Loan, the chairman and ultimate controlling shareholder, Mr. Li Guangyu, and the chief executive officer Ms. Li Hua, have entered into the Share Retention Agreement pursuant to which they will, among other things, be required to retain control over GuangYu Investment and, through GuangYu Investment, the Company, for so long as any indebtedness under the Loan remains outstanding. An equity pledge agreement was also entered into pursuant to which YuHua HK will grant IFC a pledge over an equity interest representing 40% of the registered capital of Xizang Yuanpei Information Technology Management Company Limited (西藏元培信息科技管理有限公司).

The Loan provides for an additional tranche of US$75 million to be drawn down by the Company, subject to the entry into of a supplemental agreement with IFC (the "Additional Tranche").

For the year ended 31 August 2018, the Company paid front-end fee in the amount of US$500,000 (RMB3,420,000 equivalent) for the Initial Tranche and front-end fee in the amount of US$250,000 (RMB1,738,000 equivalent) for the Convertible Tranche.

The Company has not drawn down the loan as at the date of this announcement.

28 BORROWINGS (CONTINUED)

(b) Finance leases

As at 31 August 2018, the Group leases buildings with a carrying amount of RMB37,583,000, under a finance lease expiring within twenty years.

	As at 31 August	
	2018	2017
	RMB'000	RMB'000
Commitments in relation to finance leases are payable as follows:		
Within one year	**3,464**	—
Later than one year but not later than five years	**13,856**	—
Later than five years	**10,392**	—
Minimum lease payments	**27,712**	—
Future finance charges recognised as a liability	**(3,260)**	—
Total lease liabilities	**24,452**	—
The present value of finance lease liabilities is as follows:		
Within one year	**3,464**	—
Later than one year but not later than five years	**11,329**	—
Later than five years	**9,659**	—
Minimum lease payments	**24,452**	—

29 PROVISIONS

	As at 31 August	
	2018	2017
	RMB'000	RMB'000
Legal Claim		
At beginning of the year	**—**	—
Acquisition of subsidiaries (Note 34)	**6,132**	—
Addition in provision (Note 7)	**457**	—
At end of the year	**6,589**	—

30 CASH FLOW INFORMATION

(a) Cash generated from operations

	Year ended 31 August	
	2018	2017
	RMB'000	RMB'000
Profit before income tax	**591,960**	313,801
Adjustments for:		
— Amortisation of prepaid land lease payments (Note 13)	**17,843**	5,192
— Depreciation of property, plant and equipment (Note 14)	**102,253**	69,911
— Amortisation of intangible assets (Note 15)	**2,353**	280
— Provision for impairment of trade and other receivables (Note 18(b))	**1,160**	—
— Losses on disposal of property, plant and equipment (Note 7)	**570**	246
— Front end fee recognised in profit or loss	**1,738**	—
— Fair value gains on financial assets at fair value through profit or loss (Note 7)	**—**	(1,114)
— Gains on disposal of financial assets at fair value through profit or loss (Note 7)	**(6,577)**	(292)
— Share-based payments (Note 8)	**62,538**	91,578
— Compensation for the realisation of security interests (Note 7)	**(134,797)**	—
— Finance expenses — net (Note 10)	**(12,595)**	(5,071)
— Provision for legal claims (Note 7)	**457**	—
— Waiver of payable by the selling shareholder (Note 7)	**108,275**	—
Changes in working capital:		
— Trade and other receivables	**(7,887)**	2,104
— Other non-current assets	**2,000**	2,900
— Deferred revenue	**80,045**	22,518
— Accruals and other payables	**(41,786)**	24,407
— Deferred income	**375**	—
Cash generated from operations	**767,925**	526,460

In the consolidated statement of cash flows, proceeds from sale of property, plant and equipment comprise:

	Year ended 31 August	
	2018	2017
	RMB'000	RMB'000
Net book amount (Note 14)	**1,029**	1,081
Losses on disposal of property, plant and equipment (Note 7)	**(570)**	(246)
Proceeds from disposal of property, plant and equipment	**459**	835

30 CASH FLOW INFORMATION (CONTINUED)

(b) Net debt reconciliation

This section sets out an analysis of net debt and the movements in net debt for each of the periods presented.

Net debt

	As at 31 August 2018 RMB'000	2017 RMB'000
Cash and cash equivalents	**1,593,177**	642,506
Borrowings — repayable within one year (Note 28(a))	**(438,464)**	—
Borrowings — repayable after one year (Note 28(a))	**(90,988)**	—
Net debt	**1,063,725**	642,506
Cash and cash equivalents	**1,593,177**	642,506
Gross debt — fixed interest rates	**(424,452)**	—
Gross debt — variable interest rates	**(105,000)**	—
Net debt	**1,063,725**	642,506

	Assets	Liabilities from financing activities				
	Cash and cash equivalents RMB'000	Finance leases due within 1 year RMB'000	Finance leases due after 1 year RMB'000	Borrowings due within 1 year RMB'000	Borrowings due after 1 year RMB'000	Total RMB'000
Net debt as at 31 August 2016	304,986	–	–	(120,000)	(195,000)	(10,014)
Cash flows	352,746	–	–	120,000	195,000	667,746
Foreign exchange adjustments	(15,226)	–	–	–	–	(15,226)
Net debt as at 31 August 2017	**642,506**	**–**	**–**	**–**	**–**	**642,506**
Cash flows	**791,794**	**3,464**	**–**	**(365,000)**	**–**	**430,258**
Foreign exchange adjustments	**(416)**	**–**	**–**	**–**	**–**	**(416)**
Acquisition of subsidiaries	**159,293**	**(6,077)**	**(21,250)**	**(60,000)**	**(80,000)**	**(8,034)**
Other non-cash movements	**–**	**(851)**	**262**	**(10,000)**	**10,000**	**(589)**
Net debt as at 31 August 2018	**1,593,177**	**(3,464)**	**(20,988)**	**(435,000)**	**(70,000)**	**1,063,725**

31 COMMITMENTS

(a) Capital commitments

The following is the details of capital expenditure contracted but not provided for in the consolidated financial statements.

	As at 31 August	
	2018	2017
	RMB'000	RMB'000
Property, plant and equipment	**4,157**	–

(b) Operating lease commitments

The Group leases certain buildings under non-cancellable operating lease agreements. The Group had future aggregate minimum lease payments in respect of land and buildings under non-cancellable operating leases are as follows:

	As at 31 August	
	2018	2017
	RMB'000	RMB'000
No later than 1 year	**3,723**	3,704
Later than 1 year and no later than 5 years	**13,029**	12,085
Later than 5 years	**26,384**	29,617
	43,136	45,406

32 ASSETS PLEDGED AS SECURITY

The carrying amounts of assets pledged as security for borrowings are:

	As at 31 August	
	2018	2017
	RMB'000	RMB'000
Bank borrowings		
Prepaid land lease payments	**262,250**	–
Bank loan owed by a former employee (Note 7 (a))		
Prepaid land lease payments	**16,563**	–
	278,813	–

33 CONTINGENCIES

Contingent liabilities

As at 31 August 2018, the Group had main contingent liabilities in respect of:

(a) Dispute with Ms. Li Shihong and Hunan Lie Ying Education Investment Management Co., Ltd.

In June 2016, Ms. Li Shihong (李世紅), a third party, and Hunan Lie Ying Education Investment Management Co., Ltd. (湖南獵鷹教育投資管理有限公司), a company formerly controlled by Mr. Zhang Jianbo (張劍波), commenced civil proceedings in the Changsha Intermediary Court in the PRC against Mr. Zhang Jianbo, Mr. Zhang Jiangbo, Ms. Chen Zhengxian, Lie Ying Science and Education (湖南新獵鷹科教有限公司) and HIEU, claiming an amount of RMB170,000,000 pursuant to a debt repayment document executed in 2014 (and any interest and litigation expenses).

The document was signed by Mr. Zhang Jiangbo, Ms. Chen Zhengxian, Lie Ying Science and Education and Mr. Zhang Jianbo, allegedly on behalf of HIEU, in effect as a guarantor and a seal was affixed, allegedly being that of HIEU. HIEU's defence contended that Mr. Zhang Jianbo was not authorised to execute the document on behalf of HIEU, nor to affix any HIEU's seal, and that in any event an education institution is not permitted to guarantee a loan for non-educational purposes. Mr. Zhang Jianbo has admitted to the court that he lacked such authorisation. On 4 November 2017, HIEU was informed by the court that the case against it would be dismissed. On 25 November 2017, Ms. Li Shihong and Hunan Lie Ying Education Investment Management Co., Ltd. filed an appeal against the court's decision. On 19 April 2018, the first hearing of the appeal was convened in the Higher People's Court of Hunan in the PRC and the court made a decision to send the case back to the Changsha Intermediate People's Court due to the procedural issues of the first instance. On 20 September 2018, Lie Ying Science and Education and Ms. Li Shihong applied to the Changsha Intermediate People's Court for the change of the defendants to Mr. Zheng Ziben (鄭子犇) (the heir of Ms. Chen Zhengxian according to her last will) and Ms. Wang Min (王敏), (the legal heir of Mr. Zhang Jiangbo) as Ms. Chen Zhengxian and Mr. Zhang Jiangbo passed away. On 26 September 2018, the Changsha Intermediate People's Court transferred the case to the Higher People's Court of Hunan Province on the grounds that the jurisdiction level should belong to the Higher People's Court of Hunan. The case has not been heard in court. The directors of the Company consider that although there is still uncertainty until the final court decision has made, it is not probable that the court will be in favour to the claims from Ms. Li Shihong and Hunan Lie Ying Education Investment Management Co., Ltd. (湖南獵鷹教育投資管理有限公司).

33 CONTINGENCIES (CONTINUED)

Contingent liabilities (Continued)

(b) Dispute with Nanbo

In December 2017, Nanbo commenced civil proceedings in the Higher People's Court of Hunan against the Company and LIC, with HIEU and Lie Ying Industry joined as third parties and sought an order that: (i) the Company and LIC shall compensate HIEU for a total amount of RMB265,000,000 for impairment of HIEU's interests; (ii) the exclusive technical support and consultation service agreement (獨家技術支持與諮詢服務協議) entered into between HIEU and LIC be declared void and invalid; and (iii) the Company and LIC shall bear all the costs and legal fees for the proceedings. On 12 December 2017, the Higher People's Court of Hunan granted an order that the equity interests in Lie Ying Industry held by the Company and Nanbo shall be frozen to preserve the relevant assets before proceedings. On 15 October 2018, the case was heard in the Higher People's court of Hunan in the PRC. On 30 October 2018, a verdict was issued by the court that rejected the claims from Nanbo. As of the reporting date, Nanbo has not filed an appeal against the court's decision. The directors of the Company consider that although there is still uncertainty that an appeal would be filed by Nanbo, it is not probable that the court will be in favour to the claims from Nanbo.

(c) Dispute with Ms. Chen Zhengxian

On 28 November 2017, Ms. Chen Zhengxian commenced civil proceedings in the Hunan Provincial Higher Court against the Company and Mr. Lin Zhiwen (林至文), a former director of Lie Ying Industry, HIEU and Hunan Lie Ying Property Management Co., Ltd., with HIEU, Lie Ying Industry, LIC, Mr. Zhang Jianbo and Mr. Zhang Jiangbo listed as third parties. Ms. Chen Zhengxian sought an order that: (i) the Company shall return the capital withdrawn of RMB172,019,779 and shall pay a total amount of RMB28,000,000 as compensation for interests; (ii) the aforesaid amounts shall be distributed to Ms. Chen Zhengxian, Mr. Zhang Jianbo and Mr. Zhang Jiangbo in the same proportion as their previous shareholding proportion in Lie Ying Industry; and (iii) Mr. Lin Zhiwen shall be held jointly liable. On 22 December 2017, the court granted an interim order that the Company's bank deposits of RMB200,019,700 or equivalent assets shall be frozen to preserve the relevant assets before proceedings. On 15 May 2018, a verdict was issued by the Higher People's Court of Hunan province to approve the change of plaintiff from Ms. Chen Zhengxian to Mr. Zheng Ziben according to Ms. Chen Zhengxian's last will as she has passed away on 5 May 2018. On 29 May 2018, the hearing of the appeal was convened in the Higher People's Court of Hunan in the PRC. On 29 October 2018, a verdict was issued by the court that rejected the claims from Mr. Zheng Ziben. As of the reporting date, Mr. Zheng Ziben has not filed an appeal against the court's decision. The directors of the Company consider that although there is still uncertainty that an appeal would be filed by Mr. Zheng Ziben, it is not probable that the court will be in favour to the claims from Mr. Zheng Ziben.

34 BUSINESS COMBINATIONS

On 27 December 2017, one of the Company's wholly owned subsidiaries, China YuHua Education Investment Limited, a company incorporated in the British Virgin Islands with limited liability (the "Purchaser"), and LEI China Limited, an indirect subsidiary of Wengen Alberta LP incorporated in Hong Kong with limited liability, entered into an acquisition agreement, pursuant to which the Purchaser has conditionally agreed to purchase the entire issued share capital of LEI Lie Ying (the "Acquisition") with the consideration amounting to RMB1,165,159,000. Upon completion of the Acquisition, GuangYu Investment became the ultimate holding company of LEI Lie Ying. On 27 December 2017, the Acquisition was completed and Mr. Li became the ultimate controlling party of LEI Lie Ying and its subsidiaries (collectively referred to as "LEI Lie Ying Group").

LEI Lie Ying was incorporated in Hong Kong on 26 March 2009 as a limited liability company. LEI Lie Ying Group provides private university and vocational education services in Hunan Province of the PRC.

The goodwill of RMB528,703,000 arises from a number of factors including expected synergies through combining a highly skilled workforce and obtaining greater operations efficiencies through knowledge and industry experiences transfer; obtaining economies of scale by cost reductions from purchasing efficiencies.

34 BUSINESS COMBINATIONS (CONTINUED)

The following table summarises the purchase consideration for LEI Lie Ying Group, and the fair value of the amounts of the assets acquired and liabilities recognised at the acquisition date.

	As at 27 December 2017 (RMB'000)
Acquisition consideration	1,165,159
NAV Consideration Adjustment (Note 7)	(108,275)
Total consideration	1,056,884
Less:	
Cash and cash equivalents	159,293
Prepaid land lease payments	583,120
Property, plant and equipment	784,407
Intangible assets	226,301
Deferred tax assets	9,018
Trade and other receivables	6,057
Accruals and other payables	(337,368)
Current income tax liabilities	(6,069)
Deferred revenue	(244,785)
Borrowings	(167,327)
Deferred tax liabilities	(251,977)
Provisions (Note 7)	(6,132)
Non-controlling interests	(226,357)
Goodwill	528,703
Acquisition-related costs (included in administrative expenses in the consolidated statement of profit and loss) (Note 8)	7,136
Outflow of cash to acquire business, net of cash acquired	
Acquisition consideration	1,165,159
Payables for acquisition consideration (Note 26)	(320,000)
Cash paid	845,159
Cash and cash equivalents in subsidiaries acquired	(159,293)
Cash outflow on acquisition	685,866

(a) Acquired receivables

The fair value of trade and other receivables is RMB6,057,000 and includes that of trade receivables of RMB471,000. The gross contractual amount for trade receivables past due is RMB1,534,000, of which RMB1,063,000 is expected to be uncollectible and thus impaired.

34 BUSINESS COMBINATIONS (CONTINUED)

(b) Revenue and profit contribution

The revenue and net profit included in the consolidated statement of profit or loss contributed by LEI Lie Ying Group since 27 December 2017 was RMB248,773,000 and RMB201,012,000, respectively. If the Acquisition had occurred on 1 September 2017, consolidated revenue and consolidated profit for the year ended 31 August 2018 would have been RMB1,341,181,000 and RMB723,170,000 respectively.

(c) Assignment of creditor's rights

Pursuant to an agreement among HIEU, YuHua Investment Management Co., Ltd. and LIC dated 27 December 2017, LIC assigned its right in the balance due from HIEU amounting to RMB214,841,000 to YuHua Investment Management Co., Ltd. at a consideration of RMB214,841,000.

(d) Non-controlling interest

The Group has chosen to recognise the non-controlling interest at the proportion of net assets acquired shared by the non-controlling interests.

35 SIGNIFICANT RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or joint control.

The Controlling Shareholder, members of key management and their close family members of the Group are also considered as related parties. In the opinion of the Directors, the related party transactions were carried out in the normal course of business and at terms negotiated between the Group and the respective related parties.

Name and relationship with related parties:

Names of the related parties	**Nature of relationship**
Mr. Li Guangyu	The Controlling Shareholder
Ms. Qiu Hongjun	Executive Director
Zhengzhou Corn Culture Communication Co. Ltd.	A company controlled by the Controlling Shareholder
Hunan New Lie Ying Science and Education Co., Ltd.	A company controlled by a shareholder with significant influence of subsidiaries of the Company
Hunan Lie Ying Real Estate Company Limited	A company controlled by a shareholder with significant influence of subsidiaries of the Company

35 SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)

(a) Transactions with related parties

	Year ended 31 August	
	2018	2017
	RMB'000	RMB'000
Purchases of services from the Controlling Shareholder	**—**	739
Borrowings from related parties		
— Qiu Hongjun	**—**	6,864
Repayments of borrowings to related parties		
— Qiu Hongjun	**—**	(6,864)
Purchases of services from related parties	**1,122**	383
Others	**59**	—

(b) Balance with related parties

	As at 31 August	
	2018	2017
	RMB'000	RMB'000
Amounts due to related parties		
— The Controlling Shareholder	**1,077**	739
— Zhengzhou Corn Culture Communication Co., Ltd.	**766**	383
— Hunan Lie Ying Real Estate Company Limited	**2,971**	—
— Others	**30**	—
	4,844	1,122
Amounts due from related parties		
— Hunan New Lie Ying Science and Education Co., Ltd.	**22**	—
— Others	**82**	—
	104	—

As at 31 August 2018, all balances with the Controlling Shareholder and related companies are non-interest bearing. All balances due from and due to the Controlling Shareholder and related parties are unsecured and repayable on demand.

35 SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Key management compensation

Key management includes directors and senior managements. The compensation paid or payable to key management for employee services is shown below:

	Year ended 31 August	
	2018	2017
	RMB'000	RMB'000
Wages, salaries and bonuses	**3,449**	1,384
Share-based payments	**37,408**	53,469
Contributions to pension plans	**188**	124
Welfare and other expenses	**183**	95
	41,228	55,072

36 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

Balance Sheet of the Company

	Note	Year ended 31 August 2018 RMB'000	2017 RMB'000
Non-current assets			
Investments in subsidiaries		**269,667**	40,316
Total non-current assets		**269,667**	40,316
Current assets			
Trade and other receivables		**1,070,325**	7,218
Cash and cash equivalents		**55,951**	334,495
Term deposits with initial term of over three months		**414,680**	832,237
Total current assets		**1,540,956**	1,173,950
Total assets		**1,810,623**	1,214,266
Equity and liabilities			
Equity attributable to equity holders of the Company			
Share capital		**28**	26
Share premium	(a)	**2,130,457**	1,318,313
Reserves	(a)	**98,969**	32,230
Retained earnings	(a)	**(437,766)**	(168,509)
Total equity		**1,791,688**	1,182,060
Liabilities			
Current liabilities			
Accruals and other payables		**18,935**	32,206
Total current liabilities		**18,935**	32,206
Total liabilities		**18,935**	32,206
Total equity and liabilities		**1,810,623**	1,214,266

36 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY (CONTINUED)

(a) Reserve movement of the Company

	Attributable to owners of the Company					
	Share premium RMB'000	Capital reserve RMB'000	Share-based payments reserve RMB'000	Translation reserve RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 September 2016	–	–	–	–	(6,943)	(6,943)
Comprehensive income						
Loss for the year	–	–	–	–	(64,528)	(64,528)
Total comprehensive income	–	–	–	–	(64,528)	(64,528)
Other comprehensive income	–	–	–	–	–	–
Items that may not be reclassified to profit or loss						
Currency translation differences	–	–	–	(59,394)	–	(59,394)
Total other comprehensive income	–	–	–	(59,394)	–	(59,394)
Transactions with equity holders						
Repurchase of shares	–	46	–	–	–	46
Issuance of ordinary shares relating to initial public offering, net of underwriting commissions and other issuance costs	1,318,313	–	–	–	–	1,318,313
Dividends relating to the year	–	–	–	–	(97,038)	(97,038)
Share-based compensation	–	–	91,578	–	–	91,578
Total transactions with equity holders	1,318,313	46	91,578	–	(97,038)	1,312,899
At 31 August 2017	1,318,313	46	91,578	(59,394)	(168,509)	1,182,034

36 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY (CONTINUED)

(a) Reserve movement of the Company (Continued)

	Attributable to owners of the Company					
	Share premium RMB'000	Capital reserve RMB'000	Share-based payments reserve RMB'000	Translation reserve RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 September 2017	1,318,313	46	91,578	(59,394)	(168,509)	1,182,034
Comprehensive income						
Loss for the year					(30,233)	(30,233)
Total comprehensive income	–	–	–	–	(30,233)	(30,233)
Other comprehensive income						
Items that may not be reclassified to profit or loss						
Currency translation differences	–	–	–	30,397	–	30,397
Total other comprehensive income	–	–	–	30,397	–	30,397
Transactions with equity holders						
Placing of new shares	785,948	–	–	–	–	785,948
Dividends distribution	–	–	–	–	(239,024)	(239,024)
Share-based payment expense	–	–	62,538	–	–	62,538
Exercise of Share-based payment	26,196	–	(26,196)	–	–	–
Total transactions with equity holders	812,144	–	36,342	–	(239,024)	609,462
At 31 August 2018	2,130,457	46	127,920	(28,997)	(437,766)	1,791,660

37 SUBSIDIARIES

The following is a list of the principal subsidiaries at 31 August 2018:

Name of subsidiaries	Country/Place and date of incorporation/ establishment	Particulars of issued share capital	Percentage of equity interests held by the Group	Percentage of equity interests directly held by the Company	Principal activities	Places of operation
Directly held:						
China YuHua Education Investment Limited (中國宇華教育投資有限公司)	BVI/ 28 April 2016	US$1.00	100%	100%	Holding company	BVI
LEI Lie Ying Limited	Hong Kong/ 26 March 2009	HK$1	100%	100%	Holding company	Hong Kong
Indirectly held:						
China HongKong Yuhua Education Limited (中國香港宇華教育有限公司)	Hong Kong/ 12 May 2016	HK$1,000.00	100%	–	Holding company	Hong Kong
Xizang Yuanpei Information Technology Management Company Limited (西藏元培信息科技管理有限公司)	PRC/ 22 July 2016	US$500,000.00	100%	–	Holding company	PRC
Zhengzhou YuHua Education Investments Co., Ltd. (鄭州宇華教育投資有限公司)	PRC/ 9 April 2004	RMB50,000,000	100%	–	Holding company	PRC
Zhengzhou YuHua Elite School (鄭州市宇華實驗學校) Formerly known as "the Affiliated High School of Peking University, Henan Branch" (北京大學附屬中學河南分校)	PRC/ 1 September 2001	RMB20,000,000	100%	–	High school and middle school	PRC
Zhengzhou YuHua Elite Primary School (鄭州市宇華實驗小學) Formerly known as "the Foreign Language Primary School of the Affiliated High School of Peking University, Henan Branch" (北京大學附屬中學河南分校外國語小學)	PRC/ 1 September 2005	RMB10,000,000	100%	–	Primary school	PRC
Zhengzhou YuHua Elite Bilingual Kindergarten (鄭州市宇華實驗雙語幼兒園) Formerly known as "the Bilingual Kindergarten of the Affiliated High School of Peking University, Henan Branch" (北京大學附屬中學河南分校雙語幼兒園)	PRC/ 1 September 2005	RMB5,000,000	100%	–	Kindergarten	PRC

37 SUBSIDIARIES (CONTINUED)

Name of subsidiaries	Country/Place and date of incorporation/ establishment	Particulars of issued share capital	Percentage of equity interests held by the Group	Percentage of equity interests directly held by the Company	Principal activities	Places of operation
Indirectly held: (Continued)						
Zhengzhou Technology and Business University (鄭州工商學院) Formerly known as "Wanfang College of Science & Technology Henan Polytechnic University" (河南理工大學萬方科技學院鄭州校區)	PRC/ 9 April 2013	RMB100,000,000	100%	–	University	PRC
Jiaozuo YuHua Elite School (焦作市宇華實驗學校) Formerly known as "the Affiliated High School of Peking University, Henan Branch, Jiaozuo Campus (北京大學附屬中學河南分校焦作校區)	PRC/ 18 July 2011	RMB10,000,000	100%	–	High school Middle school Primary school	PRC
Xingyang YuHua Shengshi Elite School (滎陽宇華盛世實驗學校) Formerly known as "Zhengzhou Yizhong Middle School" (鄭州壹中實驗初中)	PRC/ 15 June 2015	RMB1,000,000	100%	–	Middle school	PRC
Kaifeng YuHua Elite School (開封市宇華實驗學校) Formerly known as "the Affiliated High School of Peking University, Henan Branch, Kaifeng Campus" (北京大學附屬中學河南分校開封校區)	PRC/ 7 September 2012	RMB3,000,000	100%	–	Middle school Primary school	PRC
Luohe YuHua Elite School (漯河市宇華實驗學校) Formerly known as "the Affiliated High School of Peking University, Henan Branch, Luohe Campus (北京大學附屬中學河南分校漯河校區)	PRC/ 23 August 2013	RMB10,000,000	100%	–	High school Middle school Primary school	PRC
Xuchang YuHua Elite School (許昌宇華實驗學校) Formerly known as "the Affiliated High School of Peking University, Henan Branch, Xuchang Campus" (北京大學附屬中學河南分校許昌校區)	PRC/ 1 November 2014	RMB3,000,000	100%	–	Middle school Primary school	PRC

37 SUBSIDIARIES (CONTINUED)

Name of subsidiaries	Country/Place and date of incorporation/ establishment	Particulars of issued share capital	Percentage of equity interests held by the Group	Percentage of equity interests directly held by the Company	Principal activities	Places of operation
Indirectly held: (Continued)						
Jiyuan YuHua Elite School (濟源市宇華實驗學校) Formerly known as "the Affiliated High School of Peking University, Henan Branch, Jiyuan Campus" (北京大學附屬中學河南分校濟源校區)	PRC/ 1 November 2014	RMB1,000,000	100%	–	Middle school Primary school	PRC
Hunan Lie Ying Industry Co., Ltd. (湖南獵鷹實業有限公司)	PRC/ 17 December 1996	RMB113,333,334	70%*	–	Holding company	PRC
Hunan International Economics University ("HIEU") (湖南涉外經濟學院)	PRC/ 13 May 1997	RMB10,000,000	70%	–	University	PRC
Hunan Lie Ying Property Management Co., Ltd. (湖南獵鷹物業管理有限公司)	PRC/ 29 July 2002	RMB2,000,000	70%	–	Property management	PRC
Hunan Lie Ying Mechanic School (湖南獵鷹技工學校)	PRC/ 10 September 2007	RMB500,000	70%	–	Vocational school	PRC

* Due to the civil proceedings with Nanbo, 22.8% of the equity interests of Hunan Lie Ying Industry Co., Ltd held by LEI Lie Ying was frozen by an order of the Higher People's Court of Hunan, the PRC on 12 December 2017. For the details, please refer to Note 33(b).

38 BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' emoluments

The remuneration of each Director for the years ended 31 August 2018 and 2017 are set out below:

For the year ended 31 August 2018	Salary RMB'000	Contribution to pension plan, welfare and other expenses RMB'000	Share-based compensation RMB'000	Total RMB'000
Name of executive director				
Mr. Li Guangyu	120	13	14,263	14,396
Ms. Li Hua	248	33	17,568	17,849
Ms. Qiu Hongjun	68	11	798	877
Name of independent non-executive director				
Mr. Chen Lei	180	—	—	180
Mr. Xia Zuoquan	180	—	—	180
Mr. Zhang Zhixue	180	—	—	180
	976	57	32,629	33,662

For the year ended 31 August 2017	Salary RMB'000	Contribution to pension plan, welfare and other expenses RMB'000	Share-based compensation RMB'000	Total RMB'000
Name of executive director				
Mr. Li Guangyu	121	11	15,579	15,711
Ms. Li Hua	305	37	19,190	19,532
Ms. Qiu Hongjun	68	11	1,160	1,239
Name of independent non-executive director				
Mr. Chen Lei	90	—	—	90
Mr. Xia Zuoquan	90	—	—	90
Mr. Zhang Zhixue	90	—	—	90
	764	59	35,929	36,752

Note:

Mr. Chen Lei, Mr. Xia Zuoquan and Mr. Zhang Zhixue were appointed as the Company's independent non-executive Directors on 16 February 2017. No emoluments have been paid by the Group to the Directors as an inducement to join or upon joining the Group or as compensation for loss of office. No Director waived or has agreed to waive any emoluments.

38 BENEFITS AND INTERESTS OF DIRECTORS (CONTINUED)

(b) Directors' retirement benefits

During the year ended 31 August 2018, no retirement benefits were paid or receivable by any directors in respect of their services in connection with the management of the affairs of the Company or its subsidiary undertaking (2017: nil).

(c) Directors' termination benefits

During the year ended 31 August 2018, no payments was made to directors as compensation for early termination of the appointment (2017: nil).

(d) Consideration provided to third parties for making available directors' service

During the year ended 31 August 2018, no payment was made to the former employer of directors or third parties for making available the services as a director of the Company (2017: nil).

(e) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors

During the year ended 31 August 2018, there are no loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors (2017: nil).

(f) Directors' material interests in transactions, arrangements or contracts

During the year ended 31 August 2018, no significant transaction, arrangement and contract in relation to the Group's business to which the Group companies were parties and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time of the years except for the transactions disclosed in Note 35(a) (2017: nil).

39 DIVIDENDS

The dividends paid in 2018 and 2017 were RMB239,024,000 (HKD0.09 per share) and RMB97,038,000 (HKD0.037 per share) respectively. A dividend in respect of the year ended 31 August 2018 of HKD0.064 per share, amounting to a total dividend of RMB180,436,000, is to be proposed at the annual general meeting to be held on 31 January 2019. These financial statements do not reflect this dividend payable.

	2018 RMB'000	2017 RMB'000
Dividend declared for the prior year of HKD0.043 per ordinary share	**113,730**	—
Interim dividend paid of HKD0.047 (2017: HKD0.037) per ordinary share	**125,294**	97,038
Proposed final dividend of HKD0.064 (2017: HKD0.043) per ordinary share	**180,436**	117,903

40 SUBSEQUENT EVENTS

(a) On 19 October 2018, the Company and China CITIC Bank Co., Ltd. (Zhengzhou Branch) (中信銀行股份有限公司鄭州分行) entered into the Bank-Enterprise Cooperation Agreement (銀企合作協議) ("Cooperation Agreement"), pursuant to which the parties agreed to form a comprehensive alliance in respect of financial services. The Cooperation Agreement includes a credit facility of not less than RMB14,000,000,000 or equivalent US dollars over the next two years. For further details, please refer to the Company's announcement dated 19 October 2018.

DEFINITIONS

"Affiliate"	means a company that directly, indirectly through one or more intermediaries, controls or is controlled by, or is under common control with, the Company and includes any company which is (a) the holding company of the Company; or (b) a subsidiary of holding company of the Company; or (c) a subsidiary of the Company; or (d) a fellow subsidiary of the Company; or (e) the controlling shareholder of the Company; or (f) a company controlled by the controlling shareholder of the Company; or (g) a company controlled by the Company; or (h) an associated company of the holding company of the Company; or (i) an associated company of the Company; or (j) associated company of controlling shareholder of the Company
"Articles of Association"	the articles of association of the Company adopted on 8 February 2017 with effect from the Listing Date, as amended from time to time
"associate(s)"	has the meaning ascribed thereto under the Listing Rules
"Auditor"	PricewaterhouseCoopers
"Award"	an award granted by the Board to a Selected Participant, which may vest in the form of Award Shares or the Actual Selling Price of the Award Shares in cash, as the Board may determine in accordance with the terms of the Share Award Scheme Rules
"Award Shares"	the Shares granted to a Selected Participant in an Award
"Baikal Lake Investment"	Baikal Lake Investment Holdings Limited, a company incorporated in the BVI with limited liability on 29 August 2016 and the sole shareholder of GuangYu Investment and one of the Controlling Shareholders
"Board" or "Board of Directors"	the board of directors of the Company
"BVI"	the British Virgin Islands
"China" or "PRC"	the People's Republic of China and, except where the context requires otherwise and only for the purposes of this annual report, references to China or the PRC exclude Hong Kong, Macau and Taiwan; the term "Chinese" has a similar meaning
"China YuHua Education Investment"	China YuHua Education Investment Limited, a company incorporated in the BVI with limited liability on 28 April 2016 and a wholly-owned subsidiary of our Company
"Companies Ordinance"	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) effective from 3 March 2014, as amended, supplemented or otherwise modified from time to time
"Company", "the Company" or "the "Company"	China YuHua Education Corporation Limited (中国宇华教育集团有限公司), an exempted company with limited liability incorporated in the Cayman Islands on 25 April 2016

"compulsory education"	grade one to grade nine education, which all citizens in China must receive according to the Compulsory Education Law of the PRC (中華人民共和國義務教育法)
"Contractual Arrangements"	the series of contractual arrangements entered into by, among others, the Company, WFOE, Mr. Li, Ms. Li and the Group's consolidated affiliated entities, details of which are described in the section headed "Contractual Arrangements" in the Prospectus
"Controlling Shareholders"	has the meaning ascribed to it under the Listing Rules and unless the context otherwise requires, refers to Mr. Li, Baikal Lake Investment and/or GuangYu Investment
"Cooperation Agreement"	the Bank-Enterprise Cooperation Agreement (銀企合作協議) entered into between the Company and China CITIC Bank Co., Ltd. (Zhengzhou Branch) (中信銀行股份有限公司鄭州分行) on 19 October 2018
"Corporate Governance Code", or "CG Code"	the Corporate Governance Code and Corporate Governance Report set out in Appendix 14 to the Listing Rules
"Director(s)"	the director(s) of the Company from time to time
"Eligible Persons"	any individual, being an employee, director (including executive directors, non-executive directors and independent non-executive directors), 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 (including nominees and/or trustees of any employee benefit trust established for them) who the Board or its delegate(s) considers, in their sole discretion, to have contributed or will contribute to the Group; however, no individual who is resident in a place where the grant, acceptance or vesting of an Award pursuant to the Scheme is not permitted under the laws and regulations of such place or where, in the view of the Board or its delegate(s), compliance with applicable laws and regulations in such place makes it necessary or expedient to exclude such individual, shall be entitled to participate in the Scheme and such individual shall therefore be excluded from the term Eligible Person
"Foreign Investment Catalogue"	the Foreign Investment Industries Guidance Catalogue (Amended in 2015) (《外商投資產業指導目錄》(2015年修訂))
"Group"	the Company, its subsidiaries and the consolidated affiliated entities from time to time or, where the context so requires, in respect of the period prior to the Company becoming the holding company of its present subsidiaries, such subsidiaries as if they were subsidiaries of the Company at the relevant time
"GuangYu Investment"	GuangYu Investment Holdings Limited, a company incorporated in the BVI with limited liability on 21 March 2016 and a Controlling Shareholder of the Company

"Henan Opinions"	the "Implementation Opinions of Henan Government on Encouraging the Operation of Education by Social Forces and Promoting the Healthy Development of Private Education" (《河南省人民政府關於鼓勵社會力量興辦教育進一步促進民辦教育健康發展的實施意見》) promulgated by the Henan Municipal Government on 2 February 2018
"HIEU Schools"	Hunan International Economics University, Hunan Lie Ying Mechanic School and Hunan International Economics University Vocational Skills Training Centre
"high school(s)"	schools that provide education for students in grade 10 through grade 12
"higher education"	an optional final stage of formal learning that occurs after secondary education, which is often delivered at universities, academies, colleges, seminaries and institutes of technologies
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the PRC
"HongKong Yuhua"	China HongKong Yuhua Education Limited (中國香港宇華教育有限公司), a company incorporated in Hong Kong with limited liability on 12 May 2016 and a wholly-owned subsidiary of the Company
"Huibo Education"	Kaifeng City Huibo Education Information Consulting Co., Ltd. (開封市慧博教育資訊諮詢有限公司), an independent third party
"IFRS"	International Financial Reporting Standards, as issued from time to time by the International Accounting Standards Board
"Implementation Opinions"	the Implementation Opinions on Encouraging and Guiding Private Fund's Entry into the Education Sector and Promoting Healthy Development of Private Education (關於鼓勵和引導民間資金進入教育領域促進民辦教育健康發展的實施意見) promulgated by the Ministry of Education on 18 June 2012
"Independent College"	(獨立學院) a type of private higher education institution offering undergraduate courses that are run by non-governmental institutions or individuals through cooperation with public universities
"IPO"	initial public offering of the Shares on 16 February 2017
"Jiyuan YuHua Elite Bilingual Kindergarten"	Jiyuan YuHua Elite Bilingual Kindergarten (濟源市宇華實驗雙語幼兒園), a campus established in September 2014 for private kindergarten and formerly known as "Jiyuan Zhongmei Bilingual Kindergarten" (濟源市中美雙語幼兒園)

"Jiyuan YuHua Elite School"	Jiyuan YuHua Elite School (濟源市宇華實驗學校), a campus established in September 2014 for private primary and middle school and formerly known as "the Affiliated High School of Peking University, Henan Branch, Jiyuan Campus" (北京大學附屬中學河南分校濟源校區)
"K-12"	kindergarten to grade 12
"Kaifeng YuHua Elite School"	Kaifeng YuHua Elite School (開封市宇華實驗學校), a campus established in September 2012 for private primary and middle school and formerly known as "the Affiliated High School of Peking University, Henan Branch, Kaifeng Campus" (北京大學附屬中學河南分校開封校區)
"kindergarten(s)"	educational establishments offering early childhood education to children prior to the commencement of compulsory education
"LEI China"	LEI China Limited, a company incorporated in Hong Kong with limited liability
"Listing"	the listing of the Shares on the Main Board of the Stock Exchange on 28 February 2017
"Listing Date"	28 February 2017, the date the Shares were listed on the Main Board of the Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time
"Loan" or "Loan Agreement"	the loan agreement between China YuHua Education Investment and HongKong YuHua, and the International Finance Corporation on 31 May 2018, pursuant to which the International Financial Corporation agreed to lend and the Company agreed to borrow up to the principal amount of US$75 million, comprised of an initial US$50 million tranche and a US$25 million tranche which shall, at the option of the International Finance Corporation, be convertible into the ordinary share of the Company at a conversion price of HK$5.75 per Share (subject to the adjustments as set out in the loan agreement) within the conversion period
"Luohe YuHua Elite School"	Luohe YuHua Elite School (漯河市宇華實驗學校), a campus established in September 2013 for private primary and middle school and formerly known as "the Affiliated High School of Peking University, Henan Branch, Luohe Campus" (北京大學附屬中學河南分校漯河校區)
"Main Board"	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operates in parallel with the Growth Enterprise Market of the Stock Exchange

"middle school(s)"	schools that provide education for students in grade seven through grade nine
"Mr. Li"	Mr. Li Guangyu (李光宇), a PRC citizen and the founder, executive Director and chairman of the Board of the Company
"Ms. Li"	Ms. Li Hua (李花), a PRC citizen and the daughter of Mr. Li. Ms. Li is also an executive Director, the chief executive officer and the vice chairman of the Board of the Company
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules
"MOFCOM"	the Ministry of Commerce of the PRC (中華人民共和國商務部)
"NDRC"	the National Development and Reform Commission of the PRC (中華人民共和國國家發展及改革委員會)
"PRC Holdcos"	YuHua Investment Management, Zhengzhou YuHua Education Investments and Zhengzhou Zhongmei Education Investments
"PRC Legal Adviser"	Tian Yuan Law Firm
"Pre-IPO Share Option Scheme"	the share option scheme effective from 1 September 2016., the principal terms of which are set out in the section headed "Statutory and General Information — D. Pre-IPO Share Option Scheme and Share Award Scheme — 1. Pre-IPO Share Option Scheme" in Appendix V to the Prospectus
"Pre-School Opinions"	the "Certain Opinions on Deepening the Reform and Regulating Development of Pre-school Education" (《關於學前教育深化改革規範發展的若干意見》) issued by the Central Committee of the Communist Party of China and the State Council of the PRC on 15 November 2018
"primary school(s)"	schools that provide education for students in grade one through grade six
"private education"	the term "private education" used in this annual report refers to private formal education
"Private Education Draft Law"	the "Implementation Regulations of the People's Republic of China on the Law Regarding the Promotion of Private Education (Revised Draft) (Draft Submitted for Approval)" (《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) 》) issued by the Ministry of Justice of the PRC on 10 August 2018
"Private HEI"	(民辦普通高校) a type of private higher education institution offering junior college, undergraduate and/or post-graduate course that are operated by non-governmental institutions or individuals and not affiliated with any public university

"private school(s)"	schools which are not administered by local, provincial or national governments
"Prospectus"	the prospectus of the Company published on 16 February 2017 in connection with the IPO on the Stock Exchange
"RMB"	Renminbi, the lawful currency of PRC
"Registered Shareholder(s)"	Mr. Li and Ms. Li, and each of them a Registered Shareholder
"Reporting Period"	the year ended 31 August 2018
"school year"	exception for the Group's kindergartens, the school year for all of the Group's schools, which generally starts on or around 1 September of each calendar year and ends on 31 August of the next calendar year
"Selected Participant"	any Eligible Person approved for participation in the Share Award Scheme
"SFC"	The Securities and Futures Commission of Hong Kong
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Share(s)"	ordinary share(s) in the Company of par value of HK$0.00001 each
"Share Award Scheme"	the share award scheme approved and adopted by the sole shareholder of the Company on 8 February 2017, the principal terms of which are set out in the section headed "Statutory and General Information — D. Pre-IPO Share Option Scheme and Share Award Scheme — 2. Share Award Scheme" in Appendix V to the Prospectus
"Share Award Scheme Rules"	the rules relating to the Share Award Scheme as amended from time to time
"Shareholder(s)"	holder(s) of Share(s)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"subsidiary(ies)"	has the meaning ascribed thereto in section 15 of the Companies Ordinance
"Top-up Placing and Subscription"	the placing and subscription agreement entered into between the Company, GuangYu Investment Holdings Limited, CLSA Limited, and Mr. Li Guangyu on 2 November 2017
"United States"	the United States of America, its territories, its possessions and all areas subject to its jurisdiction

"university" or "universities"	the term "university" used in this annual report refers tertiary education
"US$"	United States dollars, the lawful currency of the United States
"Wanfang College"	Wanfang College of Science & Technology of Henan Polytechnic University, Zhengzhou campus (河南理工大學萬方科技學院鄭州校區), an Independent College of which the Group established in September 2009
"WFOE"	Xizang Yuanpei Information Technology Management Company Limited (西藏元培信息科技管理有限公司), a company established in the PRC with limited liability on 22 July 2016 and a wholly-owned subsidiary of the Company
"Xuchang YuHua Elite School"	Xuchang YuHua Elite School (許昌宇華實驗學校), a campus established in September 2014 for private primary and middle school and formerly known as "the Affiliated High School of Peking University, Henan Branch, Xuchang Campus" (北京大學附屬中學河南分校許昌校區)
"YuHua Investment Management"	YuHua Investment Management Co., Ltd. (宇華投資管理有限公司), a limited liability company established in the PRC on 23 November 1993 and one of the PRC Holdcos
"Zhengzhou Technology and Business University"	Zhengzhou Technology and Business University (鄭州工商學院), a Private HEI, or where the context requires, Wanfang College
"Zhengzhou YuHua Education Investments"	Zhengzhou YuHua Education Investments Co., Ltd. (鄭州宇華教育投資有限公司), a limited liability company established in the PRC on 9 April 2004 and one of the PRC Holdcos
"Zhengzhou YuHua Elite School"	Zhengzhou YuHua Elite School (鄭州市宇華實驗學校), a campus established in September 2001 for private middle and high school and formerly known as "the Affiliated High School of Peking University, Henan Branch" (北京大學附屬中學河南分校)
"Zhengzhou Zhongmei Education Investments"	Zhengzhou Zhongmei Education Investments Co., Ltd. (鄭州中美教育投資有限公司), a limited liability company established in the PRC on 21 July 2011 and one of the PRC Holdcos
"%"	percent