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

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

Stock Code : 839

TO PIONEER EXCELLENCE AND INNOVATION IN EDUCATION

INTERIM REPORT 2018/2019

OUR MISSION

PREPARING STUDENTS FOR SUCCESS THROUGH
EXCELLENCE AND INNOVATION IN EDUCATION

This report is printed on environmentally friendly paper

Interim Report 2018/2019

CHINA EDUCATION GROUP HOLDINGS LIMITED

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

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

Independent Non-Executive Directors

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

COMPANY SECRETARY

Mr. Mok Kwai Pui Bill

AUTHORISED REPRESENTATIVES

Dr. Yu Kai
Mr. Mok Kwai Pui Bill

AUDITOR

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Corporate Information

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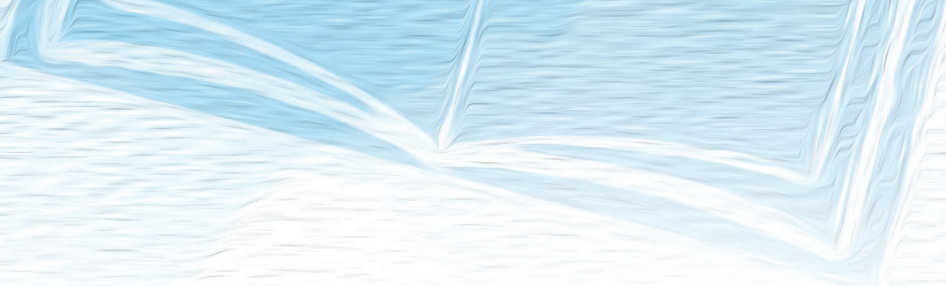
STOCK CODE

839



To Pioneer Excellence and Innovation In Education

Management Discussion and Analysis

Cherry blossom at Xi'an Railway College

BUSINESS OVERVIEW

The Group had approximately 147,000 students as at 28 February 2019; it is the largest listed higher and vocational education provider in China in terms of student enrollment. As at 28 February 2019, the Group operated four higher education institutions and three vocational education institutions located in four provinces, namely Jiangxi, Guangdong, Henan and Shaanxi, and recruited students from all provinces in the mainland China.

The Group offers a broad range of programmes and curricula. As at 28 February 2019, the Group offered 131 bachelor's degree programmes, 57 junior college diploma programmes, 148 vocational education programmes and 112 continuing education programmes. The disciplines provided by us covered 97.8% of undergraduate students' choices and 93.0% of junior college students' choices in China in 2018/2019 academic year.

Growth Strategy

We have formulated our merger and acquisition ("M&A") strategy to achieve our growth target taking into account the high entry barrier of the higher education sector. Thus far, our M&A team, strong and with high execution capability has already reviewed over 200 potential M&A targets and some of them are in due diligence process. We expect more schools to join the Group in the future. Our track record shows that the several targets that we have acquired before were all successfully consolidated into the Group. The increasing student enrollment and the schools acquired coming with potential for quality improvement are proof of our capability to integrate and identify new schools with promising growth prospects. We believe China's private higher education sector is on a strong growth trend with huge potential and opportunities open for tapping. Building on our industry leadership and 30 years' education excellence, we will adhere to our development strategies, to the end of providing excellent quality education to

Management Discussion and Analysis

students, and striving for long-term sustainable growth of the Group and lucrative returns for Shareholders.

Acquisition Completed During The Reporting Period

On 21 September 2018, the Group completed the acquisition of Songtian University and Songtian College (Songtian Schools). Transfer of 100% equity interest and change in the board of directors and legal representatives of Songtian Company (the 100% co-sponsor of Songtian University and 100% sponsor of Songtian College) have been completed and duly registered with the relevant government departments in the PRC. Through welcoming two schools on board, we have expanded our school portfolio from five schools (as at 30 June 2018) to seven schools and have added about 13,000 students to our student enrollment base.

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

Songtian University

Founded in 2000, Songtian University is a private university (independent college) approved by the MOE in April 2004 and operated by Songtian Company in collaboration with Guangzhou University. Located in Guangzhou, Guangdong Province, the PRC, the University conducts unified student recruitment on a national scale. Songtian University has 10 academic departments and six research institutes and offers 35 full-time

Songtian Olympics

Management Discussion and Analysis

undergraduate programmes. As at 28 February 2019, Songtian University had more than 9,200 students. The initial employment rate of Songtian University in 2017/2018 academic year was approximately 93.1% while China's overall initial employment rate for higher education graduates in 2017 was approximately 77.0%. Songtian University earned the Award for Guangdong's Most Competitive Independent College in the 30 Years of Reform and Opening-Up (改革開放30周年廣東最具競爭力獨立學院獎) by Guangzhou Daily. Songtian University also won the Guangzhou's Garden Organisation (廣州市花園式單位) title from Guangzhou government for its beautiful landscape.

Songtian College

Founded in 2000, Songtian College is registered as a full-time higher vocational college with the MOE and is established with the approval from People's Government of Guangdong Province. Located in Guangzhou, Guangdong Province, the PRC, Songtian College has seven academic departments and commenced recruiting students in 2007. As at 28 February 2019, Songtian College had approximately 3,500 full-time students. The initial employment rate of Songtian College's graduates in 2017/2018 academic year was approximately 96.2% while China's overall initial employment rate for higher education graduates in 2017 was approximately 77.0%. According to a report commissioned by Guangdong Department of Education in 2012, Songtian College achieved the highest satisfaction on current employment from graduates among junior colleges in Guangdong Province.

Acquisition In Progress During The Reporting Period

On 14 January 2019, the Group entered into agreements with independent third parties to acquire in aggregate of 50.91% equity interest of Shandong Dazhong Cultural, which primarily owns 100% of the co-sponsor interest in Quancheng University. As at 28 February 2019, the acquisition is still in progress.

Subsequent to the reporting period, the Group entered into an equity transfer agreement, which took effect on 20 March 2019, with other independent third party to acquire the remaining 49.09% state-owned equity interest of Shandong

Management Discussion and Analysis

Dazhong Cultural. Shandong Dazhong Cultural became a wholly-owned consolidated affiliated entity of the Group after the end of reporting period.

The Directors believe that the transaction marks the Group's continuous efforts to expand its school network and increase market penetration. The Directors consider that with the acquisition, the Group will be able to penetrate Shandong Province, the second most populated province in China and another important and strategic location. Furthermore, following the acquisition, the total number of students of the Group will be further increased and our profitability is expected to be further enhanced.

Quancheng University

Quancheng University is located in Penglai city, Shandong Province, the PRC, and is an independent college approved by the MOE in 2005 and operated by Shandong Dazhong Cultural in collaboration with Jinan University. During the current interim period, the Group also entered into agreements with independent third parties to acquire in aggregate of 96.71% equity interest of Yantai Haijun Property Limited (煙台海郡置業有限公司), which primarily owns land and properties adjacent to Quancheng University. The management plans to use the land and properties to expand the campus of Quancheng University. The acquisition was not completed up to the date of this report. The management expects the acquisition to be completed in 2019.

Quancheng University's beachfront campus

Management Discussion and Analysis

Quancheng University offers 38 bachelor's degree programmes and nine junior college diploma programmes in six disciplines, namely economics, management, literature, science, engineering and art, with 8,529 students. Quancheng University's undergraduate admission marks were 21 points higher in science and 17 points higher in the humanities than the local requirement in Shandong Province in 2018.

Our Schools

As at 28 February 2019, we operated four higher education institutions and three vocational education institutions. The following table sets forth certain details of our seven schools.

School	Year Founded	Date of Joining the Group	Description
Higher Education Institutions			
Jiangxi University of Technology	1993	December 2007	Ranked number one private university in China for nine consecutive years[(1)] The largest private university in China in terms of student enrollment and one of the first few private universities in Jiangxi Province approved by the MOE
Guangdong Baiyun University	1989	December 2007	Ranked number one private university in Guangdong Province for twelve consecutive years from 2003 to 2014[(2)] One of the first few private universities in Guangdong Province approved by the MOE
Songtian University	2000	September 2018	Earned "Award for Guangdong's Most Competitive Independent College in the 30 Years of Reform and Opening-Up" by Guangzhou Daily
Songtian College	2000	September 2018	Achieved the highest satisfaction on current employment from graduates among junior colleges in Guangdong Province
Vocational Education Institutions			
Baiyun Technician College	1989	August 2017	Ranked number one in terms of educational competitive strengths among technical schools in Guangdong Province for seven consecutive years from 2008 to 2014[(2)]

Management Discussion and Analysis

School	Year Founded	Date of Joining the Group	Description
			The second largest private technical school in China in terms of student enrollment
Zhengzhou Transit School	2010	March 2018	The largest private secondary vocational school in China in terms of student enrollment
Xi'an Railway College	2006	March 2018	The largest private technical school in China in terms of student enrollment

Notes:

(1) Ranked No. 1 in terms of overall competitive strengths in the Private University and College Ranking of China (中國民辦院校綜合競爭力排行榜) for nine consecutive years since 2009 by Research Centre for China Science Evaluation and Evaluation Centre for China Education Quality of Wuhan University in association with nseac.com. None of the aforesaid organisations that provided the Group's rankings were commissioned by the Group.

(2) Ranked by Guangdong Provincial Academy of Social Sciences and Guangdong General Survey and Research Centre. As far as the Directors are aware, there is no public disclosure of such ranking from 2015 onwards. None of the aforesaid organisations that provided the Group's rankings were commissioned by the Group.

Student Enrollment

As at 28 February 2019, the total number of enrolled students of our Group was 147,414, up 93.5% from enrollment as at 28 February 2018.

School	As at 28 February 2019	2018
Higher Education Institutions		
Jiangxi University of Technology	**40,458**	36,368
Guangdong Baiyun University	**27,072**	26,416
Songtian University	**9,270**	N/A*
Songtian College	**3,465**	N/A*
Vocational Education Institutions		
Baiyun Technician College	**13,498**	13,420
Zhengzhou Transit School	**27,518**	N/A*
Xi'an Railway College	**26,133**	N/A*
Total	**147,414**	76,204

* *These schools were not yet our operating schools as at 28 February 2018.*

Management Discussion and Analysis

Tuition Fees and Boarding Fees

In general, we adjust our tuition fees between 0% and 25% among various programmes on an annual average basis. The tuition fee adjustment is determined by our school management subject to the operating costs and market conditions.

	Listed tuition fees in academic year		Boarding fees in academic year	
	2018/2019 RMB	2017/2018 RMB	2018/2019 RMB	2017/2018 RMB
Jiangxi University of Technology				
Bachelor's degree programmes	16,000-23,000	15,000-20,000	1,600-2,300	1,600-2,000
Junior college diploma programmes	13,500-16,000	12,500-14,000	1,600-2,300	1,600-2,000
Continuing education programmes	2,500-5,000	5,000	N/A	N/A
Guangdong Baiyun University				
Bachelor's degree programmes	19,000-30,000	19,000-28,000	1,500	1,500
Junior college diploma programmes	30,000	30,000	1,500	1,500
Continuing education programmes	3,000-6,000	3,000-6,000	N/A	N/A
Songtian University				
Bachelor's degree programmes	23,000-25,000	19,500-21,500*	1,500	1,500*
Songtian College				
Junior college diploma programmes	13,500-16,500	13,500-16,500*	1,500	1,500*
Baiyun Technician College				
Post-secondary vocational diploma programmes	12,500-15,000	11,500-14,000	1,500	1,500
Secondary vocational diploma programmes	12,000-14,500	11,000-13,500	1,500	1,500
Technician diploma programmes	13,500-15,500	12,500	1,500	1,500
Zhengzhou Transit School				
Secondary vocational diploma programmes	7,900-8,600**	7,300	1,000	1,000
Xi'an Railway College				
Technician diploma programmes	9,800-10,800	9,800-16,000	1,500	1,000

* *These schools were not yet our operating schools in the academic year 2017/2018.*

** *Effective from 2019 Spring Semester.*

Management Discussion and Analysis

OUTLOOK

We believe that China's private higher education sector is on a secular growth trend and there is huge potential with opportunities. In China today, there are over 700 private higher education institutions (including private universities, private junior colleges and independent colleges) and thousands of private vocational schools. Most of these private higher education institutions and private vocational schools are owned and operated independently. Hence, the ownership and operation of these institutions and schools are scattered. This translates into huge potentials for M&A opportunities as well as significant room for enhancing the quality of education at the schools.

On 10 August 2018, the Ministry of Justice of the PRC issued Draft Amendments on the Implementation Rules for the Law for Promoting Private Education (the "Proposed Implementation") (《中華人民共和國民辦教育促進法實施條例(修訂草案)(送審稿)》) to seek views and comments on the proposed changes. The key objectives of the Proposed Implementation are to foster the steady growth and healthy development of the private education in China. We believe the Proposed Implementation is beneficial and favorable to the development of the private higher education sector.

As an industry leader and drawing on the strategic advantages of our scale and history of operations in the education business, brand reputation, education quality, preparation of students for employment and resources for school-enterprise collaboration, we will strive to integrate private education resources and enlarge our market share as we enhance the quality of education in our schools, and ultimately to provide excellent education services to more students in China.

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

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

Development of New Campus

The construction work of Guangdong Baiyun University's new campus in Zhongluotan, Guangzhou, Guangdong Province, the PRC, has been proceeding as planned. With a site area of 498,000 square meters, the development is divided into two phases, with the first phase to be completed in 2019. The first phase will provide a student capacity of 8,000 while the second phase will accommodate 18,000 students when it is completed in 2021.

Management Discussion and Analysis

FINANCIAL REVIEW

The financial results for the six months ended 28 February 2019 and the Pro Forma Period (as defined below) are as follows:

	Six months ended	
	28 February 2019	28 February 2018
	RMB'000	*RMB'000*
	(unaudited)	(Pro Forma)
Revenue	**927,304**	543,479
Cost of revenue	**(390,906)**	(221,686)
Gross profit	**536,398**	321,793
Other income	**48,438**	33,583
Selling expenses	**(24,803)**	(7,733)
Administrative expenses	**(174,532)**	(86,306)
Operating profit	**385,501**	261,337
Investment income	**11,337**	5,154
Other gains and losses	**(19,754)**	20,264
Finance costs	**(33,066)**	(5,641)
Listing expenses	**–**	(23,568)
Profit before taxation	**344,018**	257,546
Taxation	**(146)**	(525)
Net profit	**343,872**	257,021
Gross profit margin	**57.8%**	59.2%
Adjusted net profit	**392,759**	276,635

Note: On 3 August 2018, the Company announced to change its financial year end date from 31 December to 31 August so as to align the financial year of the Group with the academic year of the schools operated by the Group in the PRC. Accordingly, the current accounting period covers a period of six months from 1 September 2018 to 28 February 2019. The corresponding comparative amounts shown in condensed consolidated statement of profit or loss and other comprehensive income covered a period of six months from 1 January 2018 to 30 June 2018, and therefore are not entirely comparable with those of the current period.

To provide meaningful comparative information, the Group prepared pro forma financial information covering the six months ended 28 February 2018 (the "Pro Forma Period"). The pro forma figures have not been audited. The pro forma financial information is comprised of the figures of (1) four months derived on a proportion basis from the financial results of the period from 1 July 2017 to 31 December 2017; and (2) two months derived on a proportion basis from the financial results of the period from 1 January 2018 to 30 June 2018 after subtracting the results of Zhengzhou Transit School and Xi'an Railway College. The results of Zhengzhou Transit School and Xi'an Railway College are subtracted because the acquisitions of these two schools were completed in March 2018.

Management Discussion and Analysis

For the six months ended 28 February 2019, the Group recorded revenue increased by 70.6% to RMB927.3 million compared to RMB543.5 million for the Pro Forma Period. Adjusted net profit increased by 42.0% to RMB392.8 million compared to RMB276.6 million for the Pro Forma Period. Operating profit increased by 47.5% to RMB385.5 million compared to RMB261.3 million for the Pro Forma Period.

Revenue

The Group's revenue reached RMB927.3 million for the six months ended 28 February 2019, up 70.6% as compared to RMB543.5 million for the Pro Forma Period. The significant increase in revenue was mainly driven by the inclusion of Songtian University, Songtian College, Zhengzhou Transit School and Xi'an Railway College as well as existing schools' student number and tuition fee increases. Songtian University and Songtian College acquisition was completed on 21 September 2018 while both Zhengzhou Transit School and Xi'an Railway College acquisitions were completed on 23 March 2018.

Cost of Revenue

The cost of revenue increased from approximately RMB221.7 million for the Pro Forma Period to approximately RMB390.9 million for the six months ended 28 February 2019, representing a 76.3% increase. The increase was due to the expansion of the Group, the growth of student number and the management fee paid to cooperation university.

Gross Profit and Gross Profit Margin

The Group's gross profit was RMB536.4 million for the six months ended 28 February 2019 as compared to RMB321.8 million for the Pro Forma Period. The gross profit margin was 57.8% for the six months ended 28 February 2019 as compared to 59.2% for the Pro Forma Period. The slight drop in gross profit margin was mainly due to the inclusion of newly acquired schools which initially recorded a lower gross profit margin as compared to other schools of the Group. The management expects the gross profit margin of newly acquired schools will be gradually enhanced benefiting from the synergy and operational expertise of the Group in the future.

Other Income

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

Selling Expenses

The Group's selling expenses was RMB24.8 million for the six months ended 28 February 2019 as compared to RMB7.7 million for the Pro Forma Period. The significant increase in selling expenses incurred for the six months ended 28 February 2019 was mainly related to the inclusion of newly acquired schools which had higher selling expenses.

Management Discussion and Analysis

Administrative Expenses

The Group's administrative expenses was RMB174.5 million for the six months ended 28 February 2019 as compared to RMB86.3 million for the Pro Forma Period. It represented about 18.8% of the revenue for the six months ended 28 February 2019 and was increased as compared to that of 15.9% for the Pro Forma Period. The increase in administrative expenses was mainly due to the inclusion of administrative expenses of the newly acquired schools and the increase in headquarters expenses and acquisition expenses.

Operating Profit

Operating profit is provided because it is a key measure used by our management and board of directors to understand and evaluate our core operating performance and trends, to prepare and approve our annual budget and to develop short- and long-term operational plans. The operating profit amounted to RMB385.5 million for the six months ended 28 February 2019, increased by 47.5% as compared to RMB261.3 million for the Pro Forma Period.

Other Gains and Losses

The other gains and losses were recorded at net loss of RMB19.8 million for the six months ended 28 February 2019 which was mainly attributable to the foreign exchange loss of RMB22.6 million.

Finance Costs

The finance costs of RMB33.1 million for the six months ended 28 February 2019 represented the interest expenses on bank and other borrowings and imputed interest on deferred cash considerations.

Adjusted Net Profit, Adjusted Net Profit Margin, Net Profit and Net Profit Margin

		Six months ended	
		28 February 2019 *RMB'000* (unaudited)	28 February 2018 *RMB'000* (Pro Forma)
Net profit		**343,872**	257,021
Adjustments for:	Foreign exchange loss/(gain)	**22,556**	(16,130)
	Share-based payments	**26,331**	12,176
	Listing expenses	**–**	23,568
		48,887	19,614
Adjusted net profit		**392,759**	276,635

Management Discussion and Analysis

Adjusting for the foreign exchange loss/(gain) and share-based payments and listing expenses, adjusted net profit was increased by 42.0% from RMB276.6 million for the Pro Forma Period to RMB392.8 million for the six months ended 28 February 2019. The adjusted net profit margin was decreased from 50.9% for the Pro Forma Period to 42.4% for the six months ended 28 February 2019. The Group's net profit was RMB343.9 million for the six months ended 28 February 2019, representing an increase of 33.8% compared to RMB257.0 million for the Pro Forma Period. The net profit margin was decreased from 47.3% for the Pro Forma Period to 37.1% for the six months ended 28 February 2019. The decrease in adjusted net profit margin and net profit margin was mainly due to the foreign exchange loss of RMB22.6 million for the six months ended 28 February 2019, as compared to the foreign exchange gain of RMB16.1 million for the Pro Forma Period, and the increase in finance costs, headquarters expenses and acquisition expenses.

Property, Plant and Equipment

Property, plant and equipment as at 28 February 2019 increased by 22.3% to approximately RMB3,985.3 million from approximately RMB3,258.7 million as at 31 August 2018. Increase in property, plant and equipment was mainly due to the inclusion of Songtian University and Songtian College and the construction of new campus of Guangdong Baiyun University.

Prepayments for Investments

The prepayments mainly represent the amounts made for the acquisition and expansion of Quancheng University.

Total Bank Balances and Cash

Including structured deposits recognised in financial assets at fair value through profit or loss and restricted bank deposits, the total bank balances and cash was decreased from approximately RMB1,907.1 million as at 31 August 2018 to approximately RMB1,790.4 million as at 28 February 2019. Most of the cash was used for school acquisitions. Subsequent to the reporting period, the Group successfully issued HK$2,355.0 million convertible bonds in March 2019 and drew down a loan of US$133.8 million in April 2019 from International Finance Corporation.

Capital Expenditure

Our capital expenditures for the six months ended 28 February 2019 were approximately RMB376.6 million and were primarily related to maintaining and upgrading the existing school premises, and construction of new buildings and new campus.

Liquidity, Financial Resources and Gearing Ratio

As at 28 February 2019, the Group had total bank balances and cash (including structured deposits recognised in financial assets at fair value through profit or loss and restricted bank deposits) of approximately RMB1,790.4 million (31 August 2018: RMB1,907.1 million) and bank and other borrowings of approximately RMB719.8 million (31 August 2018: RMB 237.0 million).

As at 28 February 2019, the gearing ratio, which is calculated on the basis of total borrowings and total equity of the Group, was 10.7% (31 August 2018: 3.7%).

Foreign Exchange Risk Management

The majority of the Group's revenue and expenditures are denominated in Renminbi, the functional currency of the Company, except that certain expenditures are denominated in Hong Kong dollars. The Group also has certain foreign currency bank balances and other payables denominated in Hong Kong dollars and US dollars, which would expose the Group to foreign

Management Discussion and Analysis

exchange risk. The Group did not use any financial instruments for hedging purposes. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure when the need arises.

Charges on the Group's Assets

As at 28 February 2019, 50% of the equity interest of Huajiao Education owned by the Group was pledged to International Finance Corporation to secure banking facilities granted to the Group.

Save as above, there was no other material charge on the Group's assets as at 28 February 2019 and 31 August 2018.

Contingent Liabilities

As at 28 February 2019 and 31 August 2018, the Group had no significant contingent liability.

SIGNIFICANT EVENTS AFTER REPORTING PERIOD

The Group and an independent third party entered into an equity transfer agreement which took effect on 20 March 2019, pursuant to which the Group agreed to acquire the remaining 49.09% state-owned equity interest of Shandong Dazhong Cultural at a cash consideration of approximately RMB223.1 million. Further details are set out in the announcement of the Company dated 20 March 2019. During the current interim period, the Group has entered into agreements with other independent third parties to acquire in aggregate of 50.91% equity interest of Shandong Dazhong Cultural. Shandong Dazhong Cultural became a wholly-owned consolidated affiliated entity of the Group after the end of reporting period and the Directors are assessing the financial impact.

On 21 March 2019, the Company and Credit Suisse (Hong Kong) Limited (the "Manager") entered into a subscription agreement, pursuant to which the Manager agreed to subscribe and pay for, or to procure subscribers to subscribe and pay for, convertible bonds to be issued by the Company due 2024 bearing interest at the rate of 2.0% per annum in an aggregate principal amount of HK$2,355.0 million. The issuance of the convertible bonds was completed on 28 March 2019 while the listing of the convertible bonds on the Stock Exchange became effective on 29 March 2019. Further details are set out in the announcement of the Company in relation to the convertible bonds dated 28 March 2019.

In April 2019, the Group has drawn down a loan amounted to US$133.8 million from International Finance Corporation.

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

The Group issued 520,202,000 new Shares (after partially exercising the over-allotment option in January 2018) at the issue price of HK$6.45 per Share in connection with the Listing. The net proceeds after deducting underwriting commission and issuing expenses incurred from the Listing is amounted to approximately RMB2,725.7 million. As at 28 February 2019, the Company has utilised the net proceeds of approximately RMB2,335.5 million and the net proceeds have been applied in the manner as set out in the section headed "Future Plans and Use of Proceeds" of the Company's prospectus dated 5 December 2017. The unutilised net proceeds are placed in licensed financial institutions as short-term deposits.

Management Discussion and Analysis

The following sets forth a summary of the utilisation of the net proceeds from Company's initial public offering as at 28 February 2019:

Purpose	Percentage to total amount	Net proceeds amount* (RMB million)	Utilised amount (RMB million)	Unutilised amount (RMB million)
Acquisition of or cooperation with other universities both domestically and abroad	59.50%	1,621.8	1,621.8	–
New campus development	26.90%	733.2	380.5	352.7
Repayment of certain portion of bank loans	8.00%	218.1	218.1	–
Working capital supplement	2.40%	65.4	59.3	6.1
Establishing teacher and staff training centre	1.10%	30.0	9.3	20.7
Research and development	1.10%	30.0	19.3	10.7
Provision of scholarships	0.50%	13.6	13.6	–
Maintenance, renovation and upgrading of existing schools	0.50%	13.6	13.6	–
	100%	2,725.7	2,335.5	390.2

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

EMPLOYEES AND REMUNERATION POLICIES

Recruitment

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

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

Management Discussion and Analysis

department will work with the candidates' respective departments to conduct comprehensive assessments on new employees' performance and personality fit during the probation period, to decide whether we should officially offer the position as scheduled or ahead of the schedule, or terminate the employment.

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

Remuneration

As at 28 February 2019, the Group had 7,230 employees (30 June 2018: 6,275), a 15.2% increase mainly due to acquisition of Songtian University and Songtian College. The remuneration packages of the employees of the Group are determined with reference to individual qualification, experience, performance, contribution to the Group and prevailing market rate.

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

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

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

To Pioneer Excellence and Innovation In Education

Other Information


Construction in progress, Guangdong Baiyun University's new campus

INTERIM DIVIDEND

The Board has declared an interim dividend of HK3.5 cents per ordinary Share for the six months ended 28 February 2019 (six months ended 30 June 2018: nil) to be paid by cash on Thursday, 6 June 2019, to Shareholders whose names appear on the register of members of the Company on Wednesday, 22 May 2019.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 20 May 2019 to Wednesday, 22 May 2019, both days inclusive, during which period no transfer of Shares will be registered. In order to qualify for the interim dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Friday, 17 May 2019.

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

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the six months ended 28 February 2019.

Other Information

CORPORATE GOVERNANCE PRACTICES

The Company has applied the principles of the code provisions set out in the CG Code. During the six months ended 28 February 2019, the Company has complied with all the code provisions set out in the CG Code.

The Board believes that good corporate governance is essential in enhancing the confidence of the Shareholders, potential investors and business partners and is consistent with the Board's pursuit of value creation for the Shareholders. The Company is committed to enhancing its corporate governance practices appropriate to the conduct and the growth of its business and to reviewing such practices from time to time to ensure that the Company complies with statutory and professional standards and align with the latest development.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as the Group's code of conduct to regulate the securities transactions of the Directors and the relevant employees. Having made specific enquiries, all Directors confirmed that they have complied with the required standards set out in the Model Code throughout the six months ended 28 February 2019.

AUDIT COMMITTEE AND REVIEW OF CONSOLIDATED FINANCIAL INFORMATION

The Audit Committee consists of three independent non-executive Directors, namely Dr. Rui Meng (Chairman), Dr. Gerard A. Postiglione and Dr. Wu Kin Bing. The main duties of the Audit Committee are to assist the Board in providing an independent review of the completeness, accuracy and fairness of the financial information of the Group, as well as the efficiency and effectiveness of the Group's operations and internal controls. The Audit Committee has reviewed the unaudited consolidated financial statements of the Group for the six months ended 28 February 2019, including the accounting principles and practices adopted by the Group.

Deloitte Touche Tohmatsu, the Company's auditor, had carried out review of the unaudited interim results of the Group for the six months ended 28 February 2019 in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

Other Information

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

As at 28 February 2019, the interests and short positions of the Directors and the chief executives of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

Long Position In Shares And Underlying Shares

	Number of Shares/underlying Shares held			Approximate
Name of Director	Personal Interests	Other Interests	Total	% of all Shares in Issue (1)
Yu Guo ("Mr. Yu")	10,000,000(2)	1,510,000,000(3)(5)	1,520,000,000	75.24%
Xie Ketao ("Mr. Xie")	10,000,000(2)	1,510,000,000(4)(5)	1,520,000,000	75.24%
Yu Kai ("Dr. Yu")	10,000,000(2)	750,000,000(6)	760,000,000	37.62%
Xie Shaohua ("Ms. Xie")	10,000,000(2)	–	10,000,000	0.50%

Notes:

1. The calculation is based on the total number of 2,020,202,000 Shares in issue as at 28 February 2019.

2. These are interests in underlying Shares. Each of Mr. Yu, Mr. Xie, Dr. Yu and Ms. Xie is entitled to receive up to 10,000,000 Shares pursuant to the exercise of share options granted to him/her under the Pre-IPO Share Option Scheme of the Company. Details of each of their share options are set out in the section headed "SHARE OPTION SCHEMES AND SHARE AWARD SCHEME" in this report.

3. Of these 1,510,000,000 Shares/underlying Shares, Blue Sky Education International Limited ("Blue Sky BVI") is the beneficial owner of 750,000,000 Shares. Blue Sky BVI is a company wholly-owned by Passionate Jade Holding Limited and which in turn is wholly owned by Cantrust (Far East) Limited as the trustee of a discretionary trust, namely Blue Sky Trust. Mr. Yu is the settlor and a beneficiary of the Blue Sky Trust. For the remaining 760,000,000 Shares/underlying Shares, please refer to note 5 below.

4. Of these 1,510,000,000 Shares/underlying Shares, White Clouds Education International Limited ("White Clouds BVI") is the beneficial owner of 750,000,000 Shares. White Clouds BVI is a company wholly-owned by Shimmery Diamond Holding Limited and which in turn is wholly owned by Cantrust (Far East) Limited as the trustee of a discretionary trust, namely White Clouds Trust. Mr. Xie is the settlor and a beneficiary of the White Clouds Trust. For the remaining 760,000,000 Shares/underlying Shares, please refer to note 5 below.

5. Mr. Yu, Mr. Xie, Blue Sky BVI and White Clouds BVI entered into the Concert Party Agreement to align their shareholding interests in the Company. Pursuant to the Concert Party Agreement, Mr. Yu, Mr. Xie, Blue Sky BVI and White Clouds BVI agreed to vote in concert with each other for all operational and other matters at board meetings or shareholders' meetings of the Company (through himself, Blue Sky BVI or White Clouds BVI, as the case may be). Accordingly, the interest of Mr. Yu in 1,520,000,000 Shares/underlying Shares was duplicated with the interest of Mr. Xie as disclosed above.

6. Dr. Yu is a beneficiary of the Blue Sky Trust. Accordingly, the interest of Dr. Yu in 750,000,000 Shares was duplicated with part of the interest of Mr. Yu as disclosed above.

Other Information

Directors' Interest In Associated Corporation

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

Save as disclosed above, as at 28 February 2019, none of the Directors or the chief executives of the Company had or was deemed to have any interests or short positions in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

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

As at 28 February 2019, so far as the Directors are aware, the following persons (other than the Directors and the chief executives of the Company) had interests or short positions in the Shares or underlying Shares as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Name of Substantial Shareholders	Capacity	Total Number of Shares held	Approximate % of all Shares in Issue (1)
Blue Sky BVI	Beneficial Owner(2)	750,000,000	37.125%
	Other interest(4)	770,000,000	38.115%
		1,520,000,000	75.240%
White Clouds BVI	Beneficial Owner(3)	750,000,000	37.125%
	Other interest(4)	770,000,000	38.115%
		1,520,000,000	75.240%
Passionate Jade Holding Limited	Interests in controlled corporation(2)	750,000,000	37.125%
Shimmery Diamond Holding Limited	Interests in controlled corporation(3)	750,000,000	37.125%
Cantrust (Far East) Limited	Trustee(2)(3)	1,500,000,000	74.250%

Other Information

Notes:

1. The calculation is based on the total number of 2,020,202,000 Shares in issue as at 28 February 2019.

2. Blue Sky BVI is the beneficial owner of 750,000,000 Shares. Blue Sky BVI is a company wholly-owned by Passionate Jade Holding Limited and which in turn is wholly owned by Cantrust (Far East) Limited as the trustee of a discretionary trust, namely Blue Sky Trust. Mr. Yu is the settlor and a beneficiary of the Blue Sky Trust.

3. White Clouds BVI is the beneficial owner of 750,000,000 Shares. White Clouds BVI is a company wholly-owned by Shimmery Diamond Holding Limited and which in turn is wholly owned by Cantrust (Far East) Limited as the trustee of a discretionary trust, namely White Clouds Trust. Mr. Xie is the settlor and a beneficiary of the White Clouds Trust.

4. Mr. Yu, Mr. Xie, Blue Sky BVI and White Clouds BVI entered into the Concert Party Agreement to align their shareholding interests in the Company. Pursuant to the Concert Party Agreement, Mr. Yu, Mr. Xie, Blue Sky BVI and White Clouds BVI agreed to vote in concert with each other for all operational and other matters at board meetings or shareholders' meetings of the Company (through himself, Blue Sky BVI or White Clouds BVI, as the case may be). Accordingly, the interest of Blue Sky BVI and White Clouds BVI in 1,520,000,000 Shares/underlying Shares was duplicated with the interest of Mr. Yu and Mr. Xie as disclosed under the section headed "DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES' in this report.

5. All substantial shareholders' interests as disclosed above were long positions.

Save as disclosed above, as at 28 February 2019, the Directors were not aware of any other persons (other than the Directors and the chief executives of the Company) who had an interest or short position in the Shares or underlying Shares as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

OTHER INFORMATION

SHARE OPTION SCHEMES AND SHARE AWARD SCHEME

Pre-IPO Share Option Scheme

The Pre-IPO Share Option Scheme was adopted and effective on 27 November 2017 and valid up to 27 November 2017. A summary of the movements of the share options granted under the Pre-IPO Share Option Scheme during the period under review is as follows:

	Vesting date (dd/mm/yyyy)	Exercise period (dd/mm/yyyy)	At 1 September 2018[1]	Granted during the period	Exercised, lapsed or cancelled during the period	At 28 February 2019[1]
Directors						
Yu Guo	15/12/2018	15/12/2018 – 14/12/2027	2,000,000	–	–	2,000,000
	15/12/2019	15/12/2019 – 14/12/2027	2,000,000	–	–	2,000,000
	15/12/2020	15/12/2020 – 14/12/2027	2,000,000	–	–	2,000,000
	15/12/2021	15/12/2021 – 14/12/2027	2,000,000	–	–	2,000,000
	15/12/2022	15/12/2022 – 14/12/2027	2,000,000	–	–	2,000,000
Xie Ketao	15/12/2018	15/12/2018 – 14/12/2027	2,000,000	–	–	2,000,000
	15/12/2019	15/12/2019 – 14/12/2027	2,000,000	–	–	2,000,000
	15/12/2020	15/12/2020 – 14/12/2027	2,000,000	–	–	2,000,000
	15/12/2021	15/12/2021 – 14/12/2027	2,000,000	–	–	2,000,000
	15/12/2022	15/12/2022 – 14/12/2027	2,000,000	–	–	2,000,000
Yu Kai	15/12/2018	15/12/2018 – 14/12/2027	2,000,000	–	–	2,000,000
	15/12/2019	15/12/2019 – 14/12/2027	2,000,000	–	–	2,000,000
	15/12/2020	15/12/2020 – 14/12/2027	2,000,000	–	–	2,000,000
	15/12/2021	15/12/2021 – 14/12/2027	2,000,000	–	–	2,000,000
	15/12/2022	15/12/2022 – 14/12/2027	2,000,000	–	–	2,000,000

OTHER INFORMATION

	Vesting date (dd/mm/yyyy)	Exercise period (dd/mm/yyyy)	At 1 September 2018(1)	Granted during the period	Exercised, lapsed or cancelled during the period	At 28 February 2019(1)
Xie Shaohua	15/12/2018	15/12/2018 – 14/12/2027	2,000,000	–	–	2,000,000
	15/12/2019	15/12/2019 – 14/12/2027	2,000,000	–	–	2,000,000
	15/12/2020	15/12/2020 – 14/12/2027	2,000,000	–	–	2,000,000
	15/12/2021	15/12/2021 – 14/12/2027	2,000,000	–	–	2,000,000
	15/12/2022	15/12/2022 – 14/12/2027	2,000,000	–	–	2,000,000
Employee (in aggregate)	15/12/2018	15/12/2018 – 14/12/2027	1,100,000	–	–	1,100,000
	15/12/2019	15/12/2019 – 14/12/2027	1,100,000	–	–	1,100,000
	15/12/2020	15/12/2020 – 14/12/2027	1,100,000	–	–	1,100,000
	15/12/2021	15/12/2021 – 14/12/2027	1,100,000	–	–	1,100,000
	15/12/2022	15/12/2022 – 14/12/2027	1,100,000	–	–	1,100,000
Total			45,500,000	–	–	45,500,000

Notes:

1. These figures (except those relating to the vested share options) represent the maximum number of underlying Shares that may be vested in the grantee on vesting of his/her relevant share options. The actual number of underlying Shares that will finally vest for each relevant grantee may range from zero to such maximum number subject to the satisfaction of performance condition.

2. The above share options were granted on 14 December 2017, the date immediately preceding the Listing Date, and the exercise price of the options was determined by the Board at HK$6.45 per underlying Share, which is equal to the final price of each of the Shares first offered by the Company for subscription by the public in December 2017.

Other Information

Post-IPO Share Option Scheme

The Post-IPO Share Option Scheme adopted on 29 November 2017 is valid and effective during the period commencing on 15 December 2017 and ending on 14 December 2027, being the date falling 10 years from the Listing Date. There were no share options outstanding under the Post-IPO Share Option Scheme during the financial period for the six months ended 28 February 2019 nor was any share option granted, exercised, cancelled or lapsed under the Post-IPO Share Option Scheme.

Share Award Scheme

The Share Award Scheme adopted on 29 November 2017 is valid and effective for the period of 10 years commencing from the Listing Date, i.e. from 15 December 2017 to 14 December 2027. No awards have been granted or agreed to be granted under the Share Award Scheme since its adoption.

UPDATES IN RELATION TO QUALIFICATION REQUIREMENT

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

On 28 June 2018, the NDRC and MOFCOM jointly promulgated the Foreign Investment Access Special Management Measures (Negative List) (2018 Version) (《外商投資准入特別管理措施(負面清單)(2018年版)》) (the "Negative List"), which became effective on 28 July 2018 and has replaced the Foreign Investment Industries Guidance Catalogue. Pursuant to the Negative List, the restriction on foreign investments in higher education remain unchanged.

In relation to the interpretation of Sino-foreign cooperation, pursuant to the Sino-Foreign Regulation, the foreign investor in a Sino-foreign school (whether as a kindergarten, high school or higher education institution, a "Sino-Foreign School") must be a foreign educational institution with relevant qualification and high quality of education (the "Qualification Requirement"). Pursuant to the Sino-foreign Vocational Skills Training Measures, the foreign investor in a Sino-foreign technical school (a "Sino-Foreign Technical School") must be a foreign education institution or a foreign vocational skills training institution with relevant qualification and high quality (the "Qualification Requirement"). Furthermore, pursuant to the Implementation Opinions, the foreign portion of the total investment in a Sino-Foreign School should be below 50% (the "Foreign Ownership Restriction") and the establishment of these schools is subject to approval of education authorities at the provincial or national level.

OTHER INFORMATION

The Company's PRC Legal Adviser has advised that the laws and regulations are currently uncertain as to what specific criteria must be met by a foreign investor (such as length of experience and form and extent of ownership in the foreign jurisdiction) in order to demonstrate to the relevant authority that it meets the Qualification Requirement. Notwithstanding the foregoing, the Company is committed to working towards meeting the Qualification Requirement and have implemented a business plan to ensure our compliance with Qualification Requirement and with a view to expanding our education operations overseas. In 2017 the Company established a wholly-owned subsidiary in the State of California, the United States, for the operation and management of our education business in the State of California. The Company also engaged an independent education consultant with extensive experience and background in private post-secondary education to advise on and assist the Company in the establishment of our institution in the State of California. As at the date of this report, we have submitted licensing application to the Bureau for Private Post-secondary Education in California. We will continue to disclose our progress in the implementation of our overseas expansion plans and updates to the Qualification Requirement in our annual and interim reports.

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

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

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

Other Information

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

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

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

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

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

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

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

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

Other Information

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

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

On behalf of the Board
Yu Guo and **Xie Ketao**
Co-Chairmen

Hong Kong, 26 April 2019

Report on Review of Condensed Consolidated Financial Statements

Deloitte. 德勤

TO THE BOARD OF DIRECTORS OF CHINA EDUCATION GROUP HOLDINGS LIMITED
(incorporated in Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the condensed consolidated financial statements of China Education Group Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 33 to 65, which comprises the condensed consolidated statement of financial position as of 28 February 2019 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") issued by the International Accounting Standards Board. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

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

CONCLUSION

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

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
26 April 2019

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 28 February 2019

	Notes	1.9.2018 to 28.2.2019 RMB'000 (unaudited)	1.1.2018 to 30.6.2018 RMB'000 (unaudited)
Revenue	3	927,304	669,412
Cost of revenue		(390,906)	(262,497)
Gross profit		536,398	406,915
Other income	4	48,438	36,829
Investment income		11,337	10,130
Other gains and losses	5	(19,754)	57,589
Selling expenses		(24,803)	(7,857)
Administrative expenses		(174,532)	(117,809)
Finance costs		(33,066)	(15,109)
Profit before taxation		344,018	370,688
Taxation	6	(146)	2,440
Profit and total comprehensive income for the period	7	343,872	373,128
Profit and total comprehensive income for the period attributable to:			
Owners of the Company		299,648	345,559
Non-controlling interests		44,224	27,569
		343,872	373,128
Earnings per share	9		
Basic *(RMB cents)*		14.83	17.11
Diluted *(RMB cents)*		14.76	17.05

Condensed Consolidated Statement of Financial Position

At 28 February 2019

	Notes	At 28 February 2019 RMB'000 (unaudited)	At 31 August 2018 RMB'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment	10	3,985,326	3,258,673
Prepaid lease payments		741,069	63,292
Goodwill	11	1,283,126	916,553
Intangible assets	11	1,384,481	994,162
Contract costs		65,687	42,699
Prepayments for investments	12	230,558	1,246,815
Deposits paid for prepaid lease payments		–	113,486
Deposits paid for acquisition of property, plant and equipment		71,701	27,895
Deferred tax asset	18	8,672	11,010
		7,770,620	6,674,585
CURRENT ASSETS			
Inventories		322	381
Trade receivables, deposits, prepayments and other receivables	13	403,564	130,226
Loan receivable	14	135,000	–
Financial assets at fair value through profit or loss		14,225	61,805
Contract costs		29,102	16,269
Prepaid lease payments		8,098	1,506
Restricted bank deposits		100,000	110,000
Bank balances and cash		1,679,336	1,738,455
		2,369,647	2,058,642
CURRENT LIABILITIES			
Deferred income		23,203	23,651
Trade and bills payables	15	17,435	30,925
Other payables, accrued expenses and provisions	16	1,046,819	535,080
Income tax payable		15,475	12,717
Contract liabilities		977,438	1,037,964
Bank borrowings	17	14,500	–
Other borrowings	17	7,000	107,000
		2,101,870	1,747,337
NET CURRENT ASSETS		267,777	311,305
TOTAL ASSETS LESS CURRENT LIABILITIES		8,038,397	6,985,890

Condensed Consolidated Statement of Financial Position

At 28 February 2019

	Notes	At 28 February 2019 RMB'000 (unaudited)	At 31 August 2018 RMB'000 (audited)
NON-CURRENT LIABILITIES			
Deferred income		38,682	34,237
Other payables	16	121,464	100,265
Bank borrowings	17	698,347	130,000
Deferred tax liability	18	475,405	259,218
		1,333,898	523,720
		6,704,499	6,462,170
CAPITAL AND RESERVES			
Share capital	19	17	17
Reserves		6,341,185	6,143,080
Equity attributable to owners of the Company		6,341,202	6,143,097
Non-controlling interests		363,297	319,073
		6,704,499	6,462,170

Condensed Consolidated Statement of Changes in Equity

For the six months ended 28 February 2019

	Attributable to owners of the Company									
	Share capital *RMB'000*	Share premium *RMB'000*	Merger reserve *RMB'000* *(Note i)*	Other reserve *RMB'000* *(Note ii)*	Share options reserve *RMB'000*	Statutory surplus reserve *RMB'000* *(Note iii)*	Retained profits *RMB'000*	Sub-total *RMB'000*	Non-controlling interests *RMB'000*	Total *RMB'000*
At 1 January 2018 (audited)	17	2,664,032	181,679	(32,309)	3,077	1,149,841	1,672,706	5,639,043	–	5,639,043
Profit and total comprehensive income for the period	–	–	–	–	–	–	345,559	345,559	27,569	373,128
Acquisitions of businesses *(note 23)*	–	–	–	–	–	–	–	–	245,669	245,669
Recognition of equity-settled share-based payments	–	–	–	–	30,375	–	–	30,375	–	30,375
Issuance of new shares *(note 19)*	–	105,787	–	–	–	–	–	105,787	–	105,787
At 30 June 2018 (unaudited)	17	2,769,819	181,679	(32,309)	33,452	1,149,841	2,018,265	6,120,764	273,238	6,394,002
At 1 September 2018 (audited)	17	2,769,819	181,679	(32,309)	43,756	1,187,574	1,992,561	6,143,097	319,073	6,462,170
Profit and total comprehensive income for the period	–	–	–	–	–	–	299,648	299,648	44,224	343,872
Dividend recognised as distribution	–	–	–	–	–	–	(127,874)	(127,874)	–	(127,874)
Transfer	–	–	–	–	–	45,368	(45,368)	–	–	–
Recognition of equity-settled share-based payments	–	–	–	–	26,331	–	–	26,331	–	26,331
At 28 February 2019(unaudited)	17	2,769,819	181,679	(32,309)	70,087	1,232,942	2,118,967	6,341,202	363,297	6,704,499

Notes:

i. Amounts represent the transfer of the combined paid-in capital of certain group entities to the merger reserve upon the Company became the holding company of these group entities which was effective from prior group reorganisation in 2017.

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

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

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

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

Condensed Consolidated Statement of Cash Flows

For the Six Months ended 28 February 2019

	Notes	1.9.2018 to 28.2.2019 RMB'000 (unaudited)	1.1.2018 to 30.6.2018 RMB'000 (unaudited)
OPERATING ACTIVITIES			
Operating cash flows before movements in working capital		509,171	425,378
Increase in trade receivables, deposit, prepayments and other receivables		(31,471)	(14,147)
Increase in contract costs		(35,821)	–
Decrease in other payables and accruals		(92,021)	(269,129)
Decrease in contract liabilities		(288,173)	–
Decrease in deferred income		(3,723)	(514,237)
Movements in other working capital items		(13,431)	7,023
Cash generated from (used in) operations		44,531	(365,112)
Income tax paid		(257)	(1,469)
NET CASH FROM (USED IN) OPERATING ACTIVITIES		44,274	(366,581)
INVESTING ACTIVITIES			
Purchase of structured deposits		(410,020)	(102,847)
Payment/deposits paid for acquisition of property, plant and equipment		(347,190)	(56,990)
Placement of prepayments for investments	12	(230,558)	(1,028,006)
Loan advance to a third party	14	(135,000)	–
Settlement of consideration payables		(42,480)	–
Payment for prepaid lease payments		(29,427)	–
Redemption of structured deposits		462,464	71,000
Net cash inflow (outflow) from acquisitions of businesses	23	154,118	(243,965)
Government grants received		10,700	4,553
Interest income from banks		10,592	10,130
Withdrawal of restricted bank deposits		10,000	–
Proceeds from disposal of property, plant and equipment		1,113	5,455
Release of pledged bank deposits		–	10,000
Advances to related parties		–	(696)
NET CASH USED IN INVESTING ACTIVITIES		(545,688)	(1,331,366)

Condensed Consolidated Statement of Cash Flows

For the Six Months ended 28 February 2019

	1.9.2018 to 28.2.2019 *RMB'000* (unaudited)	1.1.2018 to 30.6.2018 *RMB'000* (unaudited)
FINANCING ACTIVITIES		
Repayment of other borrowings	(100,000)	(205,000)
Repayment to non-controlling interests	(29,447)	–
Repayment of bank borrowings	(20,000)	–
Interest paid	(3,134)	(6,603)
New bank borrowings raised	602,847	–
Proceeds from issuance of new shares	–	105,787
Repayment to related parties	–	(228,964)
NET CASH FROM (USED IN) FINANCING ACTIVITIES	450,266	(334,780)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(51,148)	(2,032,727)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	1,738,455	3,243,144
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	(7,971)	58,981
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD, REPRESENTING BANK BALANCES AND CASH	1,679,336	1,269,398

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 28 February 2019

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" issued by the International Accounting Standards Board as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange")(the "Listing Rules").

As set out in the announcement of the Company issued on 3 August 2018, the financial year end date of the Company and the Group has been changed from 31 December to 31 August to align the financial year end date of the Group with the academic year of the schools operated by the Group in the PRC, which ends in August each year. Accordingly, the current accounting period covers a period of six months from 1 September 2018 to 28 February 2019. The corresponding comparative amounts shown for the condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity, condensed consolidated statement of cash flows and related notes cover a period of six months from 1 January 2018 to 30 June 2018 are therefore not entirely comparable with those of the current period.

2. PRINCIPAL ACCOUNTING POLICIES

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 28 February 2019 are the same as those followed in the preparation of the Group's annual financial statements for the eight months ended 31 August 2018.

3. REVENUE AND SEGMENT INFORMATION

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

Revenue represents services income from tuition, boarding and ancillary services.

Information reported to the Group's chief operating decision maker ("CODM"), being the directors of the Company, for the purpose of resource allocation and assessment of segment performance, was based on the categories of education institutions, namely higher education and vocational education. Each category of institution constitutes an operating segment. The services provided and type of customers are similar in each operating segment, and each operating segment is subject to similar regulatory environment. Accordingly, their segment information is aggregated as a single reportable segment which is the same as the condensed consolidated statement of profit or loss and other comprehensive income as disclosed on page 33. No analysis of segment assets or segment liabilities is presented as they are not regularly provided to the CODM.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 28 February 2019

3. REVENUE AND SEGMENT INFORMATION (Continued)

Revenue from major services

The following is an analysis of the Group's revenue from the major service lines:

	1.9.2018 to 28.2.2019 *RMB'000* (unaudited)	1.1.2018 to 30.6.2018 *RMB'000* (unaudited)
Tuition fees recognised over time	**848,834**	605,229
Boarding fees recognised over time	**68,072**	51,780
Ancillary services fees recognised over time	**10,398**	12,403
	927,304	669,412

Geographical information

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

4. OTHER INCOME

	1.9.2018 to 28.2.2019 *RMB'000* (unaudited)	1.1.2018 to 30.6.2018 *RMB'000* (unaudited)
Academic administration income	**17,325**	10,099
Management fee income	**16,443**	3,947
Government grants *(Note)*	**6,424**	16,061
Staff quarter income	**336**	536
Others	**7,910**	6,186
	48,438	36,829

Note: Government grants mainly represent subsidies from government for procurement of laboratory apparatus and equipment, conducting educational programmes for both periods and one-off congratulatory subsidies on the listing of the shares of the Company on the Stock Exchange during the six months ended 30 June 2018.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 28 February 2019

5. OTHER GAINS AND LOSSES

	1.9.2018 to 28.2.2019 RMB'000 (unaudited)	1.1.2018 to 30.6.2018 RMB'000 (unaudited)
Loss on disposal of property, plant and equipment	(1,311)	(57)
Fair value change on financial assets at fair value through profit or loss	4,864	6,063
Exchange (loss) gain	(22,556)	58,981
Impairment losses, net of reversal		
— trade receivables	1,273	(7,398)
— other receivables	(2,024)	–
	(19,754)	57,589

6. TAXATION

	1.9.2018 to 28.2.2019 RMB'000 (unaudited)	1.1.2018 to 30.6.2018 RMB'000 (unaudited)
Current tax — Enterprise Income Tax ("EIT")	3,015	853
Deferred tax *(note 18)*	(2,869)	(3,293)
	146	(2,440)

No provision for Hong Kong Profits Tax has been made in the condensed consolidated financial statements as the Group had no assessable profit subject to Hong Kong Profits Tax for both periods.

Pursuant to the Enterprise Income Tax law and Implementation Regulations of the Law of the PRC, the statutory tax rate of PRC subsidiaries is 25% for both periods, except for Huajiao Education Technology (Jiangxi) Company Limited (華教教育科技(江西)有限公司) ("Huajiao Education") which has been granted concessionary tax rate of 15% for the period between 1 September 2018 and 28 February 2019 from tax authority of Ganzhou, the PRC, and Lihe Education Consulting (Ganzhou) Company Limited (禮和教育諮詢(贛州)有限公司) which is eligible for a lower tax rate of 20% as a small profit enterprise.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 28 February 2019

6. TAXATION (Continued)

According to the relevant provisions of Old Implementation Rules for the Law for Promoting Private Education (abolished on 31 August 2017)/New Implementation Rules for the Law for Promoting Private Education with effect from 1 September 2017, private schools for which the school sponsors do not require reasonable returns/schools are elected as to be not-for-profit schools are eligible to enjoy the same preferential tax treatment as public schools. As a result, private schools, which are providing academic qualification education, are eligible to enjoy income tax exemption treatment if the school sponsors of such schools do not require reasonable returns/the schools are elected to be not-for-profit schools. Given that the details of the New Implementation Rules for Promoting Private Education has not yet been announced, Jiangxi University of Technology (江西科技學院), Guangdong Baiyun University (廣東白雲學院), Guangzhou Baiyun Senior Technical School of Business and Technology (Guangzhou Baiyun Technician College of Business and Technology)(廣州白雲工商高級技工學校(廣州市白雲工商技師學院)), Zhengzhou City Rail Transit School (鄭州城軌交通中等專業學校) ("Zhengzhou Transit School"), Xi'an Railway Technical College (西安鐵道技師學院) ("Xi'an Railway College"), Guangzhou University Songtian College (廣州大學松田學院) ("Songtian University") and Guangzhou Songtian Polytechnic College (廣州松田職業學校) ("Songtian College") have not yet elected to be for-profit or not-for-profit schools. According to the relevant in-charge tax bureau, since the relevant tax policy for schools that have not yet elected to be for-profit or not-for-profit is not yet announced and if the school nature has not yet been changed, the schools could follow previous EIT exemption treatment for the tuition related income.

7. PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE PERIOD

	1.9.2018 to 28.2.2019 *RMB'000* (unaudited)	1.1.2018 to 30.6.2018 *RMB'000* (unaudited)
Profit and total comprehensive income for the period has been arrived at after charging (crediting) the following items:		
Staff costs, including directors' remuneration		
— salaries and other allowances	**245,310**	171,547
— retirement benefit scheme contributions	**36,157**	24,789
— share-based payments	**26,331**	30,375
Total staff costs	**307,798**	226,711
Depreciation of property, plant and equipment	**86,869**	66,397
Amortisation of prepaid lease payments	**9,306**	753
Amortisation of intangible assets (included in cost of revenue)	**19,366**	13,169
Minimum operating lease rental expense in respect of rented premises	**12,366**	6,656
Interest income from banks	**(10,592)**	(10,130)
Interest income from loan receivable	**(745)**	–

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 28 February 2019

8. DIVIDENDS

During the current interim period, a final dividend of HK7.4 cents per ordinary share in respect of the eight months ended 31 August 2018 (for the six months ended 30 June 2018: nil) was declared to the owners of the Company. The aggregate amount of the final dividend declared in the interim period amounted to HK$149,495,000 (approximately RMB127,874,000) (for the six months ended 30 June 2018: nil), which was not paid as at 28 February 2019.

Subsequent to the end of the current interim period, the directors of the Company have determined that an interim dividend of HK3.5 cents per ordinary share amounting to HK$70,707,000 in aggregate (for the six months ended 30 June 2018: nil) will be paid to the owners of the Company whose names appear in the register of members on 22 May 2019.

9. EARNINGS PER SHARE

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

	1.9.2018 to 28.2.2019 ***RMB'000*** **(unaudited)**	1.1.2018 to 30.6.2018 *RMB'000* (unaudited)
Earnings:		
Profit for the purpose of calculating basic and diluted earnings per share	**299,648**	345,559

	1.9.2018 to 28.2.2019 ***'000***	1.1.2018 to 30.6.2018 *'000*
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**2,020,202**	2,019,756
Effect of dilutive potential ordinary shares:		
Share options	**9,344**	5,263
Over-allotment options	**–**	1,365
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**2,029,546**	2,026,384

Notes to the Condensed Consolidated Financial Statements

For the six months ended 28 February 2019

10. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the current interim period, the Group disposed of certain plant and machinery with an aggregate carrying amount of RMB2,424,000 (six months ended 30 June 2018: RMB5,512,000) for cash proceeds of RMB1,113,000 (six months ended 30 June 2018: RMB5,455,000), resulting in a loss on disposal of RMB1,311,000 (six months ended 30 June 2018: RMB57,000).

During the six months ended 28 February 2019, the Group made additions of approximately RMB245,481,000 (six months ended 30 June 2018: RMB33,081,000) for construction costs for new school premises and RMB45,325,000 (six months ended 30 June 2018: RMB18,793,000) for acquisition of office equipment and furniture and fixtures. In addition, the Group acquired schools which included RMB507,982,000 (six months ended 30 June 2018: RMB644,495,000) in property, plant and equipment set out in note 23 through acquisitions of businesses.

11. GOODWILL AND INTANGIBLE ASSETS

		Intangible assets		
	Goodwill	**Brand name**	**Student roster**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
		(Note i)	*(Note ii)*	
COST				
At 1 September 2018	916,553	938,485	80,825	1,019,310
Acquisitions of businesses *(note 23)*	366,573	409,685	–	409,685
At 28 February 2019	1,283,126	1,348,170	80,825	1,428,995
AMORTISATION				
At 1 September 2018	–	–	25,148	25,148
Charge for the period	–	–	19,366	19,366
At 28 February 2019	–	–	44,514	44,514
CARRYING VALUES				
At 28 February 2019	1,283,126	1,348,170	36,311	1,384,481
At 31 August 2018	916,553	938,485	55,677	994,162

Notes:

i. Brand name is considered by the management of the Group as having an indefinite useful life because it is expected to contribute to net cash inflows indefinitely. The brand name will not be amortised until its useful life is determined to be finite. Instead it will be tested for impairment annually and whenever there is an indication that it may be impaired.

ii. Student roster has finite estimated useful lives and it is amortised based on expected usage of student roster.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 28 February 2019

12. PREPAYMENTS FOR INVESTMENTS

On 14 January 2019, the Group entered into agreements with independent third parties for the acquisitions of aggregate 50.91% equity interest of Shandong Dazhong Cultural Industry Investment Limited (山東大眾文化產業投資有限公司) ("Shandong Dazhong Cultural"), a limited liability company established under the laws of the PRC, for the purpose of acquiring co-sponsor interest of University of Jinan Quancheng College (濟南大學泉城學院) ("Quancheng University"), an independent college in Penglai city, sponsor interest of Shandong Cultural Industry Vocational College (山東文化產業職業學院), a higher education school licensed by the Ministry of Education of the PRC, and equity interest of Shandong Fangyuan Property Management Limited (山東方圓物業管理有限公司) ("Shandong Fangyuan"), a wholly-owned subsidiary of Shandong Dazhong Cultural, which provides property management for Quancheng University (Shandong Dazhong Cultural, Quancheng University, Shandong Cultural Industry Vocational College and Shandong Fangyuan collectively referred to as the "Shandong Group"). The aggregate cash consideration of the aforementioned acquisition is RMB231 million, which is subject to adjustment based on a final offer price in respect of the remaining 49.09% state-owned equity interest in Shandong Dazhong Cultural, and the Group would further contribute additional contribution of RMB21 million to the Shandong Group primarily for settling an amount due from Shandong Group to one of the vendors. At the end of the reporting period, the aggregate prepayments for the aforementioned acquisitions and the contribution amounted to RMB137 million. Further details are set out in the announcement of the Company dated 14 January 2019. On 25 December 2018, the Group entered into agreements with independent third parties for the acquisitions of aggregate 96.7% equity interest in Yantai Haijun Property Limited (煙台海郡置業有限公司) ("Yantai Haijun"), a limited liability company established under the laws of the PRC, at a consideration of RMB246 million. Yantai Haijun primarily owns land and properties adjacent to Quancheng University. The management plans to use the land and properties to expand the campus of Quancheng University. At the end of the reporting period, the aggregate prepayments of the aforementioned acquisitions amounted to RMB94 million. As at 28 February 2019, the Group has not yet obtained control over Shandong Group and Yantai Haijun as certain criteria set out in the respective acquisition agreements have not yet been fulfilled.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 28 February 2019

13. TRADE RECEIVABLES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	At 28 February 2019 *RMB'000* (unaudited)	At 31 August 2018 *RMB'000* (audited)
Trade receivables *(Note i)*	30,225	16,938
Less: allowance for credit losses	(6,619)	(3,965)
	23,606	12,973
Receivables from educational bureaus	24,995	13,583
Management fee income receivables	2,123	7,104
Staff advances	16,348	14,530
Other receivables	16,525	16,007
Deposits	9,567	10,481
Prepayments and prepayments on behalf of students	60,570	30,970
Indemnification assets *(Note ii)*	244,830	19,578
Amounts due from non-controlling interests *(Note iii)*	5,000	5,000
	403,564	130,226

Notes:

i. The students are required to pay tuition fees and boarding fees in advance for the upcoming school years, which normally commences in September except for adult education which normally commences in January, February or March. The outstanding receivables represent amounts related to students who have applied for the delayed payments of tuition fees and boarding fees. There is no fixed term for delayed payments. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of individual students, there is no significant concentration of credit risk. The Group does not hold any collaterals or other credit enhancements over its trade receivable balances.

ii. Indemnification assets are recognised upon business combination as assets of the Group and on the same basis as the indemnified items, representing provisions for non-compliances and litigation as detailed in note 16, which are recognised as liabilities of the acquisition targets as detailed in note 23. The indemnification assets are subject to impairment assessment at the end of the reporting period based on the evaluation of collectability.

iii. The amounts are non-trade in nature, unsecured, interest-free and repayable on demand.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 28 February 2019

13. TRADE RECEIVABLES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES (Continued)

The following is an analysis of trade receivables and receivables from education bureaus, net of allowance for credit losses, by age, presented based on debit note.

	At 28 February 2019 ***RMB'000*** **(unaudited)**	At 31 August 2018 *RMB'000* (audited)
0 – 90 days	**32,280**	271
91 – 120 days	**115**	442
121 – 365 days	**1,309**	25,271
Over 365 days	**14,897**	572
	48,601	26,556

The Group considered the trade receivables and receivables from education bureaus for students that are not dropped out from schools are not default as the tuition fees and boarding fees are generally fully received upon the graduation of the students by reference to past experience and payments from education bureaus may take long administrative process while their risks of default are remote.

14. LOAN RECEIVABLE

Loan to Quancheng University is non-trade in nature, unsecured, bears fixed interest rate of 6% per annum and is repayable in 1 year.

15. TRADE AND BILLS PAYABLES

The credit period granted by suppliers and bills payables on purchase of consumables and provision of services ranged from 30 days to 60 days.

The following is an aged analysis of trade and bills payables presented based on invoice date at the end of the reporting period.

	At 28 February 2019 ***RMB'000*** **(unaudited)**	At 31 August 2018 *RMB'000* (audited)
0 – 30 days	**2,373**	25,347
31 – 90 days	**8,096**	756
91 – 365 days	**3,534**	2,548
Over 365 days	**3,432**	2,274
	17,435	30,925

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 28 February 2019

16. OTHER PAYABLES, ACCRUED EXPENSES AND PROVISIONS

	At 28 February 2019	At 31 August 2018
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Discretionary government subsidies receipt in advance *(Note i)*	**22,525**	45,135
Receipt on behalf of ancillary services providers	**116,235**	176,094
Retention money payables	**15,825**	17,462
Accrued staff benefits and payroll	**44,795**	37,821
Accrued operating expenses	**31,240**	21,270
Other payables and accruals	**35,722**	17,615
Interest payables	**5,314**	3,042
Amounts due to non-controlling interests *(Note ii)*	**–**	29,447
Deferred cash consideration payables *(Note iii)*	**450,330**	253,848
Other taxes payables	**9,849**	14,033
Provisions *(Note iv)*	**309,032**	19,578
Dividend payables	**127,416**	–
	1,168,283	635,345
Current	**1,046,819**	535,080
Non-current	**121,464**	100,265
	1,168,283	635,345

Notes:

i. The amounts represent scholarships received from the government to be distributed to students and teachers of the universities.

ii. The amounts are non-trade in nature, unsecured, interest-free, and are fully repaid during the six months ended 28 February 2019.

iii. The amounts represent consideration payables for Zhengzhou, Xi'an and Songtian University and Songtian College acquisitions set out in note 23. Amount of approximately RMB328,866,000 (31 August 2018: RMB153,583,000) which is repayable within twelve months after the end of the reporting period in accordance with acquisition agreements as set out in note 23 were included in other payables as current liabilities. An amount of RMB121,464,000 (31 August 2018: RMB100,265,000) was included as non-current liabilities as at 28 February 2019 which were repayable beyond twelve months after the end of the reporting period.

iv. The amount of provisions assumed through acquisitions of businesses, mainly representing provision of social insurance benefit, housing provident fund, lack of building ownership certificates for certain school premises and certain legal cases, is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 28 February 2019

17. BANK BORROWINGS/OTHER BORROWINGS

During the current interim period, the Group obtained new bank loans amounting to RMB602,847,000 (six months ended 30 June 2018: nil). The proceeds of new bank borrowings were used to finance acquisitions of schools, construction of new campus and daily operation of the Group. Except for the bank borrowing amounted to RMB453,000,000, which carries interest rate at fixed rate of 6.5% per annum, the remaining bank borrowings are variable-rate borrowings which bear interest rate from 5.46% to 6.18% with reference to the Benchmark Borrowing Rate of The People's Bank of China.

During the current interim period, the Group also repaid other borrowings representing loans from independent third parties amounting to RMB100,000,000 (six months ended 30 June 2018: RMB205,000,000).

18. DEFERRED TAXATION

The following is the deferred tax (asset) liability recognised and movement thereon during the current period:

	Tax losses	**Fair value adjustments of intangible assets on business combinations**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
At 31 August 2018 (audited)	(11,010)	259,218	248,208
Acquisitions of businesses *(note 23)*	–	221,394	221,394
Charge (credit) to profit or loss *(note 6)*	2,338	(5,207)	(2,869)
At 28 February 2019 (unaudited)	(8,672)	475,405	466,733

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 28 February 2019

19. SHARE CAPITAL

	Number of shares	Share capital	Shown in the condensed consolidated financial statements RMB'000
Ordinary shares			
Authorised			
At 1 January 2018, 30 June 2018, 1 September 2018 and 28 February 2019	50,000,000,000	HK$500,000	
Issued and fully paid			
At 1 January 2018	2,000,000,000	HK$20,000	17
Issue of new shares upon exercise of the over-allotment options *(Note)*	20,202,000	HK$202	–
At 30 June 2018, 1 September 2018 and 28 February 2019	2,020,202,000	HK$20,202	17

Note: In January 2018, the Company allotted and issued 20,202,000 ordinary shares of par value HK$0.00001 each at the price of HK$6.45 per share pursuant to the exercise of over-allotment options by BNP Paribas Securities (Asia) Limited.

20. SHARE-BASED PAYMENTS

(a) Share option schemes of the Company

The Company has adopted two share option schemes, which are pre initial public offering share option scheme (the "Pre-IPO Share Option Scheme") and post initial public offering share option scheme (the "Post-IPO Share Option Scheme").

Pre-IPO Share Option Scheme

The Pre-IPO Share Option Scheme was adopted pursuant to a resolution passed on 27 November 2017 for the primary purpose of providing incentives to directors and eligible employees, and vaild up to 27 November 2017. Under the Pre-IPO Share Option Scheme, the directors of the Company may grant options to eligible directors and employees to subscribe for shares in the Company, up to a total of 45,500,000 share on such terms as determined by the directors of the Company. The terms of the offer may include but are not limited to, any minimum period(s) for which an option must be held and/or any minimum performance target(s) that must be achieved, before the option can be exercised in whole or in part, and may include at the discretion of the Board such other terms either on a case by case basis or generally.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 28 February 2019

20. SHARE-BASED PAYMENTS (Continued)

(a) Share option schemes of the Company (Continued)

Pre-IPO Share Option Scheme (Continued)

As at 28 February 2019, the number of shares in respect of which options had been granted and remained outstanding under the Pre-IPO Share Option Scheme was 45,500,000 (30 June 2018: 45,500,000), representing 2.25% of the shares of the Company in issue at that date.

As at 28 February 2019, there are 45,500,000 share options held by the Group's directors and employees. No share option have been granted, exercised, cancelled or lapsed during the current interim period.

The exercise price for share options granted is HK$6.45 per underlying shares.

The Binomial model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the best estimate of the directors of the Company.

Expected volatility was determined by using quoted prices of comparable companies in active markets. The expected life used in the model has been adjusted, based on the management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

At the end of the interim period, the Group revises its estimates of number of options that are expected to vest ultimately. The impact of the revision of the estimates, if any, is recognised in profit or loss, with a corresponding adjustment to share options reserve.

The Group recognised the total expense of RMB26,331,000 for the six months ended 28 February 2019 (six months ended 30 June 2018: RMB30,375,000) in relation to share options granted by the Company.

Post-IPO Share Option Scheme

The Post-IPO Share Option Scheme was adopted pursuant to a resolution passed on 29 November 2017 for the primary purpose of providing incentives to employee, director, officer, consultant, advisor, distributor, contractor, customer, supplier, agent, business partner, joint venture business partner or service provider of any member of the Group or any affiliate who the directors of the Company consider, in its sole discretion, to have contributed or will contribute to the Group is entitled to be offered and granted options, and will expire no later than 10 years from the date of the Listing. Under the Post-IPO Share Option Scheme, the total number of ordinary shares which may be issued upon exercise of all options to be granted under the Post-IPO Option Scheme and any other schemes is 200,000,000, being no more than 10% of the ordinary shares in issue on the date of Listing.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 28 February 2019

20. SHARE-BASED PAYMENTS (Continued)

(a) Share option schemes of the Company (Continued)

Post-IPO Share Option Scheme (Continued)

The overall limit on the number of ordinary shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Post-IPO Option Scheme and any other share option schemes of the Company at any time must not exceed 30% of the ordinary shares in issue from time to time (the "Post-IPO Option Scheme Limit"). Post-IPO Option Scheme Limit may be refreshed at any time by obtaining prior approval of the shareholders of the Company in general meeting. However, Post-IPO Option Scheme Limit cannot exceed 10% of the ordinary shares in issue as at the date of such approval.

No share option has been granted, exercised, cancelled or lapsed during the current interim period nor outstanding as at 28 February 2019. On 8 March 2019, the Group granted 4,350,000 share options to certain key management personnel of the Group, which do not include any director, chief executive or substantial shareholders of the Company, or any of their respective associates (as defined under the Listing Rules), under Post-IPO share option scheme of the Company adopted on 29 November 2017. Further details are set out in the announcement of the Company dated 8 March 2019.

(b) Share award scheme of the Company

The Company's share award scheme (the "Share Award Scheme") was adopted pursuant to a resolution passed on 29 November 2017. The objective of the Share Award Scheme is for the primary purpose of providing incentives to employee, director, officer, consultant, advisor, distributor, contractor, customer, supplier, agent, business partner, joint venture business partner or service provider of any member of the Group or any affiliate who the directors of the Company consider, in its sole discretion, to have contributed or will contribute to the Group. The Share Award Scheme will expire no later than 10 years from the date on listing of the shares of the Company on the Main Board of the Stock Exchange.

No share award has been granted since the adoption of the Share Award Scheme.

21. CAPITAL COMMITMENTS

As at the end of the current interim period, the Group was committed to acquire property, plant and equipment and prepaid lease payments mainly for construction of new campus amounting to RMB805,068,000 (31 August 2018: RMB325,526,000).

In addition, at 29 June 2018, Huajiao Education has entered into a framework agreement with Value Partners Private Equity Investment Management (Shen Zhen) Limited (惠理股權投資管理 (深圳) 有限公司), a subsidiary of Value Partners Group Limited, for the establishment of a fund tentatively named VP-CEG China Education Fund (中教惠理教育產業基金) (the "China Education Fund"). The Group will make an initial contribution of RMB250 million to the China Education Fund. No contribution has been made up to 28 February 2019.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 28 February 2019

22. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

Fair value of the Group's financial assets that are measured at fair value on a recurring basis

Some of the Group's financial assets are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (Levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

- Level 1 fair value measurements are quoted prices (unadjusted) in active market for identical assets or liabilities;
- Level 2 fair value measurements are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Financial assets	Fair value	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship unobservable inputs to fair value
Financial assets at FVTPL (Equity securities listed in the PRC)	At 28 February 2019: RMB3,145,000 (unaudited) (31 August 2018: RMB3,157,000 (audited))	Level 1	Quoted prices in active markets	N/A	N/A
Financial assets at FVTPL (Structured deposits)	At 28 February 2019: RMB11,080,000 (unaudited) (31 August 2018: RMB58,648,000 (audited))	Level 3	Discounted cash flow — Future cash flows are estimated based on estimated return, and discounted at a rate that reflects the credit risk of various counterparties	Estimated return	The higher the estimated return, the higher the fair value, vice versa

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 28 February 2019

22. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (Continued)

Reconciliation of Level 3 Measurements

The following table presents the reconciliation of Level 3 measurements of the structured deposits during both periods:

	RMB'000
At 1 January 2018	50,500
Acquired through acquisitions of businesses	4,093
Purchase of structured deposits	102,847
Redemption of structured deposits	(73,154)
Net gain on structured deposits	2,154
At 30 June 2018	86,440
At 1 September 2018	**58,648**
Purchase of structured deposits	**410,020**
Redemption of structured deposits	**(462,464)**
Net gain on structured deposits	**4,876**
At 28 February 2019	**11,080**

There were no transfers into or out of Level 3 during both periods.

The total gains or losses for the current interim period included an unrealised gain of RMB12,000 (six months ended 30 June 2018: nil) relating to structured deposits that are measured at fair value at the end of each reporting period. Such fair value gains or losses are included in 'other gains and losses'.

The board of directors of the Company has appointed the chief financial officer of the Company to determine the appropriate valuation techniques and inputs for fair value measurements.

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation. The Group works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model. The chief financial officer reports the findings to the board of directors of the Company when needed to explain the cause of fluctuations in the fair value of the assets and liabilities.

Information about the valuation techniques and inputs used in determining the fair value of various assets are disclosed above.

Fair value of financial instruments that are recorded at amortised cost

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 28 February 2019

23. ACQUISITIONS OF BUSINESSES

(a) Acquisition during the six months ended 28 February 2019

Songtian University and Songtian College acquisition

On 14 June 2018, Youxin Education Consulting (Guangzhou) Company Limited (有信教育諮詢(廣州) 有限公司), a consolidated affiliated entity of the Company, entered into a series of agreements (collectively referred to as the "Songtian Acquisition Agreements") with an independent third party (the "Songtian Vendor") for the acquisition of 100% equity interest in Guangzhou Bangrui Education Investment Company Limited (廣州邦瑞教育投資有限公司) ("Guangzhou Bangrui"), a limited liability company established under the laws of the PRC, which indirectly owned the co-sponsor interest of Songtian University and the sponsor interest of Songtian College (Guangzhou Bangrui and its subsidiaries together as "Songtian Target Group") at a total cash consideration of RMB1,704,401,000, of which RMB537,900,000 is paid/payable to Songtian Vendor and RMB1,166,501,000 is for the purpose of settling liabilities, mainly representing debt, of Songtian Target Group. The acquisition was completed on 21 September 2018.

Consideration transferred

	RMB'000
Cash consideration transferred	1,420,999
Deferred consideration	273,609
	1,694,608

All considerations are expected to be settled before 31 December 2019 according to the Songtian Acquisition Agreements.

Assets acquired and liabilities recognised at the date of acquisition were as follows (determined on a provisional basis):

	RMB'000
Property, plant and equipment	507,982
Prepaid lease payment	550,762
Intangible assets	409,685
Trade receivable, deposits, prepayments and other receivables	16,621
Amount due from a subsidiary of the Company	64,202
Bank balances and cash	328,302
Deferred income	(637)
Trade and bills payables	(3,793)
Other payables, accrued expenses and provisions	(321,300)
Contract liabilities	(227,647)
Deferred tax liabilities	(221,394)
	1,102,783

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 28 February 2019

23. ACQUISITIONS OF BUSINESSES (Continued)

(a) Acquisition during the six months ended 28 February 2019 (Continued)

Songtian University and Songtian College acquisition (Continued)

Assets acquired and liabilities recognised at the date of acquisition were as follows (determined in a provisional basis): (Continued)

The fair values of intangible assets were based on estimation used by the management of the Group with reference to valuation carried out by independent valuers, key assumptions and estimation used by the management included discount rates, growth rates and useful lives of the intangible assets. The fair value of trade and other receivables and deposits (including amount due from a subsidiary of the Company) at the date of acquisition amounted to RMB79,623,000, which also approximate the gross contractual amounts of those trade and other receivables and deposits.

The fair value of assets acquired and liabilities assumed and thus the goodwill arising on the acquisition at the date of acquisition have been determined on a provisional basis, awaiting for the completion of professional valuation.

Goodwill arising on acquisition (determined on a provisional basis)

	RMB'000
Consideration transferred	1,694,608
Less: recognised amount of identifiable net assets acquired (100%)	(1,102,783)
Less: indemnification assets acquired	(225,252)
Goodwill arising on acquisition	366,573

Goodwill arose in the acquisition of Songtian Target Group because the consideration paid for the acquisition effectively included amounts in relation to better geographic arrangement and networking effect as benefits of expected synergies, better revenue growth prospect, future market development, and the assembled workforce of Songtian Target Group. These benefits were not recognised separately from goodwill because they did not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

Net cash inflow arising on acquisition

	RMB'000
Consideration paid in cash	1,420,999
Less: cash and cash equivalent balances acquired	(328,302)
Less: prepayment for acquisition of business in prior period	(1,246,815)
	(154,118)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 28 February 2019

23. ACQUISITIONS OF BUSINESSES (Continued)

(a) Acquisition during the six months ended 28 February 2019 (Continued)

Songtian University and Songtian College acquisition (Continued)

Included in the profit for the six months ended 28 February 2019 was RMB36,746,000 attributable to the additional business generated by Songtian Target Group. Revenue for the six months ended 28 February 2019 included RMB107,139,000 generated from Songtian Target Group.

No pro forma information for the acquisition of Songtian Target Group are prepared as Songtian Target Group has no significant contribution to the Group's revenue or financial performance for the period from 1 September 2018 to 21 September 2018 and the pro forma revenue and results of operations of the Group for the acquisition of Songtian Target Group approximate the Group's revenue and results for the six months ended 28 February 2019.

(b) Acquisitions during the six months ended 30 June 2018

(i) Zhengzhou acquisition

On 13 March 2018, Junshi Education Consulting (Ganzhou) Company Limited (君時教育諮詢(贛州)有限公司), a consolidated affiliated entity of the Company, entered into an acquisition agreement and a supplemental agreement (collectively, the "Zhengzhou Acquisition Agreements") with an individual (the "Zhengzhou Vendor") for the acquisition of 80% equity interest in Shu Ren Education Management Limited (樹仁教育管理有限公司) ("Shu Ren Education"), a limited liability company established under the laws of the PRC and owned the sponsor interest of Zhengzhou Transit School (Shu Ren Education and its subsidiary together as "Zhengzhou Target Group"), at the consideration of RMB855,000,000 (the "Zhengzhou Consideration"). Zhengzhou Consideration comprises RMB120,000,000 ("Zhengzhou Equity Consideration") payable to Zhengzhou Vendor for the transfer of the 80% equity interest in Shu Ren Education and RMB735,000,000 for injection into Shu Ren Education as additional capital. The acquisition was completed on 23 March 2018.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 28 February 2019

23. ACQUISITIONS OF BUSINESSES (Continued)

(b) Acquisitions during the six months ended 30 June 2018 (Continued)

(i) Zhengzhou acquisition (Continued)

Pursuant to the Zhengzhou Acquisition Agreements, the Zhengzhou Equity Consideration shall be paid by the Group to Zhengzhou Vendor by four installments and Zhengzhou Vendor had agreed to provide a profit guarantee in relation to the financial performance of Zhengzhou Transit School for each of the three calendar years ending 31 December 2018, 31 December 2019 and 31 December 2020. The payment of the second, the third and the fourth installments of the Zhengzhou Equity Consideration of RMB20,000,000 each shall be reduced by an amount to be determined by the following formula if the audited profit before tax and excluding the non-operating profit of Zhengzhou Transit School ("Zhengzhou Actual PBT") for each of the three calendar years ending 31 December 2018, 31 December 2019 and 31 December 2020 is less than RMB45,000,000, RMB80,000,000 and RMB90,000,000 ("Zhengzhou Guaranteed PBT"), respectively:

RMB20,000,000 x (1 – (Zhengzhou Actual PBT/Zhengzhou Guaranteed PBT))

The directors of the Company are of the opinion that the aforesaid Zhengzhou Equity Consideration is not expected to be reduced.

Consideration transferred

	RMB'000
Cash paid to Zhengzhou Vendor	60,000
Deferred cash consideration to Zhengzhou Vendor	44,593
Cash paid for capital injection into Zhengzhou Target Group	380,000
Deferred capital injection into Zhengzhou Target Group	337,797
	822,390

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 28 February 2019

23. ACQUISITIONS OF BUSINESSES (Continued)

(b) Acquisitions during the six months ended 30 June 2018 (Continued)

(i) ***Zhengzhou acquisition*** (Continued)

Assets acquired and liabilities recognised at the date of acquisition were as follows:

	RMB'000
Property, plant and equipment	384,780
Prepaid lease payment	9,449
Intangible assets	389,384
Deposits paid for prepaid lease payments	73,683
Amount due from a subsidiary of the Company	337,797
Deposits, prepayments and other receivables	15,207
Structured deposits	4,093
Bank balances and cash	385,895
Restricted bank deposits	20,000
Trade, bills, other payable and provisions	(250,919)
Amounts due to related parties	(228,964)
Income tax payable	(294)
Contract liabilities	(117,394)
Bank borrowings	(30,000)
Other borrowings	(305,000)
Deferred tax liability	(100,207)
	587,510

The fair values of intangible assets (representing brand name amounting to RMB381,643,000 and student roster amounting to RMB7,741,000) were based on estimation used by the management of the Group with reference to valuation carried out by independent valuers, key assumptions and estimations used by the management included discount rates, growth rates and useful lives of the intangible assets. The fair value of deposits and other receivables (including amount due from a subsidiary of the Company) at the date of acquisition amounted to RMB349,774,000, while the gross contractual amounts of those deposits and other receivables amounted to RMB366,980,000.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 28 February 2019

23. ACQUISITIONS OF BUSINESSES (Continued)

(b) Acquisitions during the six months ended 30 June 2018 (Continued)

(i) *Zhengzhou acquisition* (Continued)

Non-controlling interest

The non-controlling interest (20%) in Zhengzhou Target Group recognised at the acquisition date was measured by reference to the proportionate share of the amount of fair values of net assets of Zhengzhou Target Group and amounted to RMB117,502,000.

Goodwill arising on acquisition

	RMB'000
Consideration transferred	822,390
Plus: non-controlling interests	117,502
Less: recognised amount of identifiable net assets acquired (100%)	(587,510)
Less: indemnification assets acquired	(16,340)
Goodwill arising on acquisition	336,042

Goodwill arose in the acquisition of Zhengzhou Target Group because the acquisition included the assembled workforce of Zhengzhou Transit School and synergy from alignment with the Group's specialty in vocational education. These assets could not be separately recognised from goodwill because they are not capable of being separated from the Group and sold, transferred, licensed, rented or exchanged, either individually or together with any related contract.

None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

Net cash outflow arising on acquisition

	RMB'000
Consideration paid in cash	440,000
Less: cash and cash equivalent balances acquired	(385,895)
	54,105

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 28 February 2019

23. ACQUISITIONS OF BUSINESSES (Continued)

(b) Acquisitions during the six months ended 30 June 2018 (Continued)

(ii) Xi'an acquisition

On 13 March 2018, Shangzhi Education Consulting (Ganzhou) Company Limited (上智教育諮詢(贛州)有限公司), a consolidated affiliated entity of the Company, entered into an acquisition agreement and a supplemental agreement (collectively, the "Xi'an Acquisition Agreements") with all the shareholders (the "Xi'an Vendors") of Ganzhou Xitie Education Consulting Company Limited (贛州西鐵教育諮詢有限公司) ("Xitie Education") for the acquisition of 62% equity interest in Xitie Education, a limited liability company established under the laws of the PRC and indirectly owns the sponsor interest of Xi'an Railway College (Xitie Education and its subsidiaries together as "Xi'an Target Group"), at the consideration of RMB576,600,000 (the "Xi'an Consideration"). Xi'an Consideration comprises RMB472,170,000 ("Xi'an Equity Consideration") payable to Xi'an Vendors for the transfer of the 62% equity interest in Xitie Education and RMB104,430,000 for injection into Xitie Education as additional capital. The acquisition was completed on 23 March 2018.

Pursuant to the Xi'an Acquisition Agreements, the Xi'an Equity Consideration shall be paid by the Group to Xi'an Vendors by four installments and Xi'an Vendors had agreed to provide guarantee in relation to the future student enrollment or the financial performance of Xi'an Railway College. The payment of the second installment of the Xi'an Equity Consideration of RMB42,480,000 shall be made on the condition that the number of new students of Xi'an Railway College at the end of 30 October 2018 (the spring and fall semesters of the academic year) has attained the agreed target. The payment of the third and the fourth installments of the Xi'an Equity Consideration of RMB100,000,000 each shall be reduced by an amount to be determined by the following formula if the audited profit before tax and excluding the non-operating profit of Xi'an Railway College ("Xi'an Actual PBT") for each of the calendar years ending 31 December 2018 and 31 December 2019 is less than RMB74,000,000 and RMB100,000,000 ("Xi'an Guaranteed PBT"), respectively:

RMB100,000,000 x (1 – (Xi'an Actual PBT/Xi'an Guaranteed PBT))

The directors of the Company are of the opinion that the aforesaid Xi'an Equity Consideration is not expected to be reduced.

Consideration transferred

	RMB'000
Cash paid to Xi'an Vendors	229,690
Deferred cash consideration to Xi'an Vendors	193,308
Cash paid for capital injection into Xi'an Target Group	30,310
Deferred capital injection into Xi'an Target Group	62,727
	516,035

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 28 February 2019

23. ACQUISITIONS OF BUSINESSES (Continued)

(b) Acquisitions during the six months ended 30 June 2018 (Continued)

(ii) *Xi'an acquisition* (Continued)

Assets acquired and liabilities recognised at the date of acquisition were as follows:

	RMB'000
Property, plant and equipment	259,715
Intangible assets	382,931
Amount due from a subsidiary of the Company	62,727
Trade receivables, deposits, prepayments and other receivables	57,561
Bank balances and cash	70,140
Amounts due from related parties	5,000
Trade, other payables and provisions	(146,280)
Amounts due to related parties	(40,000)
Income tax payable	(407)
Contract liabilities	(131,721)
Deferred tax liability	(103,674)
	415,992

The fair values of intangible assets (representing brand name amounting to RMB356,446,000 and student roster amounting to RMB26,485,000) were based on estimation used by the management of the Group with reference to valuation carried out by independent valuers, key assumptions and estimations used by the management including discount rates, growth rates and useful lives of the intangible assets. The fair value of trade receivables, deposits and other receivables (including amount due from a subsidiary of the Company and amount due from related parties) at the date of acquisition amounted to RMB114,294,000, while the gross contractual amounts of those trade receivables, deposits and other receivables amounted to RMB125,687,000.

Non-controlling interest

The non-controlling interests (38%) in Xi'an Target Group recognised at the acquisition date were measured by reference to the proportionate share of the fair values of net assets of Xi'an Target Group and amounted to RMB158,077,000.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 28 February 2019

23. ACQUISITIONS OF BUSINESSES (Continued)

(b) Acquisitions during the six months ended 30 June 2018 (Continued)

(ii) Xi'an acquisition (Continued)

Goodwill arising on acquisition

	RMB'000
Consideration transferred	516,035
Plus: non-controlling interests	158,077
Less: recognised amount of identifiable net assets acquired (100%)	(415,992)
Less: indemnification assets acquired	(3,238)
Goodwill arising on acquisition	254,882

Goodwill arose on the acquisition of Xi'an Target Group because the acquisition included the assembled workforce of Xi'an Railway College and synergy from alignment with the Group's specialty in vocational education. These assets could not be separately recognised from goodwill because they are not capable of being separated from the Group and sold, transferred, licensed, rented or exchanged, either individually or together with any related contract.

None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

Net cash outflow arising on acquisition

	RMB'000
Consideration paid in cash	260,000
Less: cash and cash equivalent balances acquired	(70,140)
	189,860

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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24. RELATED PARTIES BALANCE

(a) Related parties balances

As at 28 February 2019, RMB237,533,000 (31 August 2018: RMB253,848,000) was included in other payables being deferred cash consideration payables, which are unsecured and interest-free. Amounts of RMB121,464,000 (31 August 2018: RMB100,265,000) were repayable beyond one year and remaining balances were repayable within one year.

Balances with related parties are set out in notes 13 and 16.

(b) Compensation of key management personnel

The remuneration of directors of the Company and other members of key management of the Group during the period are as follows:

	1.9.2018 to 28.2.2019 ***RMB'000*** **(unaudited)**	1.1.2018 to 30.6.2018 *RMB'000* (unaudited)
Short-term benefits	**7,906**	5,081
Post-employment benefits	**198**	61
Equity-settled share-based payments	**26,331**	30,375
	34,435	35,517

The remuneration of directors and key executives are determined having regard to the performance of individuals and market trends.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 28 February 2019

25. EVENTS AFTER THE END OF THE REPORTING PERIOD

Save for disclosed elsewhere in the condensed consolidated financial statements, subsequent to the end of the current interim period, the following events took place:

(a) The Group and an independent third party entered into an equity transfer agreement which took effect on 20 March 2019, pursuant to which the Group agreed to acquire the remaining 49.09% state-owned equity interest of Shandong Dazhong Cultural at a cash consideration of approximately RMB223.1 million. Further details are set out in the announcement of the Company dated 20 March 2019. During the current interim period, the Group has entered into agreements with other independent third parties to acquire in aggregate of 50.91% equity interest of Shandong Dazhong Cultural. Shandong Dazhong Cultural became a wholly-owned consolidated affiliated entity of the Group after the end of reporting period and the directors of the Company are assessing the financial impact.

(b) On 21 March 2019, the Company and Credit Suisse (Hong Kong) Limited (the "Manager") entered into a subscription agreement, pursuant to which the Manager agreed to subscribe and pay for, or to procure subscribers to subscribe and pay for, convertible bonds to be issued by the Company due 2024 bearing interest at the rate of 2.0% per annum in an aggregate principal amount of HK$2,355.0 million. The issuance of the convertible bonds was completed on 28 March 2019 while the listing of the convertible bonds on the Stock Exchange became effective on 29 March 2019. Further details are set out in the announcements of the Company in relation to the convertible bonds dated 22 March 2019 and 28 March 2019.

(c) In April 2019, the Group has drawn down a loan amounted to US$133.8 million from International Finance Corporation.

GLOSSARY

"affiliate"	with respect to any specified person, any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person
"Baiyun Technician College"	Guangzhou Baiyun Senior Technical School of Business and Technology (Guangzhou Baiyun Technician College of Business and Technology) (廣州白雲工商高級技工學校(廣州市白雲工商技師學院)), one of our PRC operating schools
"Board"	the board of directors of the Company
"CG Code"	Corporate Governance Code contained in Appendix 14 to the Listing Rules
"China" or "PRC"	the People's Republic of China and for the purposes of this document only, except where the context requires otherwise, references to China or the PRC exclude Hong Kong, Macau and Taiwan
"Company"	China Education Group Holdings Limited (中國教育集團控股有限公司), a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange
"consolidated affiliated entities" or "consolidated affiliated entity"	the entities we control through the Contractual Arrangements, namely Huafang Education, Lihe Education, and our PRC operating schools and their respective subsidiaries
"Contractual Arrangements"	the series of contractual arrangements entered into by, among others, the Company, Huajiao Education, Mr. Yu, Mr. Xie, Huafang Education, Lihe Education, our PRC operating schools and our consolidated affiliated entities
"controlling shareholders"	has the meaning ascribed to it under the Listing Rules
"Director(s)"	the director(s) of the Company
"Group", "we", "us", or "our"	the Company, its subsidiaries and its consolidated affiliated entities from time to time
"Guangdong Baiyun University"	Guangdong Baiyun University (廣東白雲學院), one of our PRC operating schools
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China
"Hong Kong dollars" or "HK$"	Hong Kong dollars, the lawful currency of Hong Kong

GLOSSARY

"Huafang Education"	Ganzhou Huafang Education Consulting Company Limited (贛州市華方教育諮詢有限公司), one of our consolidated affiliated entities
"Huajiao Education"	Huajiao Education Technology (Jiangxi) Company Limited (華教教育科技(江西)有限公司), a company established in the PRC with limited liability and a wholly-owned subsidiary of the Company
"independent third party(ies)"	any entity(ies) or persons who is not a connected person of the Company within the meaning ascribed thereto under the Listing Rules
"Jiangxi University of Technology"	Jiangxi University of Technology (江西科技學院), one of our PRC operating schools
"Lihe Education"	Lihe Education Consulting (Ganzhou) Company Limited (禮和教育諮詢(贛州)有限公司), one of our consolidated affiliated entities
"Listing"	the listing of the Shares on the Main Board of the Stock Exchange on the Listing Date
"Listing Date"	15 December 2017, the date on which the Shares were listed and on which dealings in the Shares were first permitted to take place on the Main Board of the Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"Model Code"	Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules
"MOE"	the Ministry of Education of the PRC (中華人民共和國教育部)
"Mr. Xie"	Mr. Xie Ketao (謝可滔), an executive director, co-chairman of the Company and a controlling shareholder of the Company
"Mr. Yu"	Mr. Yu Guo (于果), an executive director, co-chairman of the Company and a controlling shareholder of the Company
"Quancheng University"	University of Jinan Quancheng College (濟南大學泉城學院), an independent college in Penglai city, Shandong Province, the PRC
"RMB" or "Renminbi"	Renminbi, the lawful currency of China
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)

Glossary

"Shandong Dazhong Cultural"	Shandong Dazhong Cultural Industry Investment Limited (山東大眾文化產業投資有限公司), a limited liability company established under the laws of the PRC
"Shareholder(s)"	holder(s) of our Share(s)
"Shares"	ordinary shares in our Company of par value HK$0.00001 each
"Songtian College"	Guangzhou Songtian Polytechnic College (廣州松田職業學院), one of our PRC operating schools
"Songtian Company"	Zengcheng Songtian Enterprise Company Limited (增城市松田實業有限公司), a limited liability company established under the laws of the PRC
"Songtian University"	Guangzhou University Songtian College (廣州大學松田學院), one of our PRC operating schools
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"subsidiary(ies)"	has the meaning ascribed thereto in section 15 of the Companies Ordinance (Chapter 622 of the laws of Hong Kong)
"US dollars" or "US$"	United States dollars, the lawful currency of the United States
"VP Shenzhen"	Value Partners Private Equity Investment Management (Shen Zhen) Limited (惠理股權投資管理(深圳)有限公司), a company established in the PRC and a wholly-owned subsidiary of Value Partners Group Limited
"Xi'an Railway College"	Xi'an Railway Technician College (西安鐵道技師學院), one of our PRC operating schools
"Zhengzhou Transit School"	Zhengzhou City Rail Transit School (鄭州城軌交通中等專業學校), one of our PRC operating schools
"%"	per cent

The English names of the PRC entities (including schools), PRC laws or regulations, and the PRC governmental authorities referred to in this interim report are merely translations from their Chinese names and are for identification purposes. If there is any inconsistency, the Chinese names shall prevail.