



希望教育集團有限公司

Hope Education Group Co., Ltd.

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1765

2019

Interim Report





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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Xu Changjun (*Chairman*)
Mr. Wang Huiwu (*Chief Executive Officer*)
Mr. Li Tao

Non-executive Directors

Mr. Wang Degen
Mr. Tang Jianyuan
Mr. Lu Zhichao

Independent Non-executive Directors

Mr. Zhang Jin
Mr. Chen Yunhua
Dr. Gao Hao

Audit Committee

Mr. Zhang Jin (*Chairman*)
Mr. Tang Jianyuan
Mr. Lu Zhichao
Mr. Chen Yunhua
Dr. Gao Hao

Nomination and Remuneration Committee

Mr. Chen Yunhua (*Chairman*)
Mr. Wang Huiwu
Dr. Gao Hao

Strategy and Development Committee

Mr. Wang Huiwu (*Chairman*)
Mr. Wang Degen
Mr. Xu Changjun
Mr. Lu Zhichao
Mr. Li Tao

AUTHORIZED REPRESENTATIVES

Ms. Leung Wing Han Sharon
Mr. Li Tao

JOINT COMPANY SECRETARIES

Ms. Leung Wing Han Sharon
Mr. Huang Zhongcai

REGISTERED OFFICE

PO Box 309,
Ugland House Grand Cayman,
KY1-1104 Cayman Islands

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN CHINA

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Chengdu, PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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248 Queen's Road East,
Wanchai, Hong Kong

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with Tian Yuan Law Firm Hong Kong office)
Suite 702, 7th Floor
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26 Des Voeux Road Central
Central
Hong Kong

AUDITOR

Ernst & Young
Certified Public Accountants
22/F, CITIC Tower,
1 Tim Mei Avenue,
Central, Hong Kong

COMPLIANCE ADVISOR

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

PRINCIPAL SHARE REGISTRAR

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

HONG KONG SHARE REGISTRAR

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

PRINCIPAL BANKERS

Agricultural Bank of China
Bank of Dalian
China Minsheng Bank

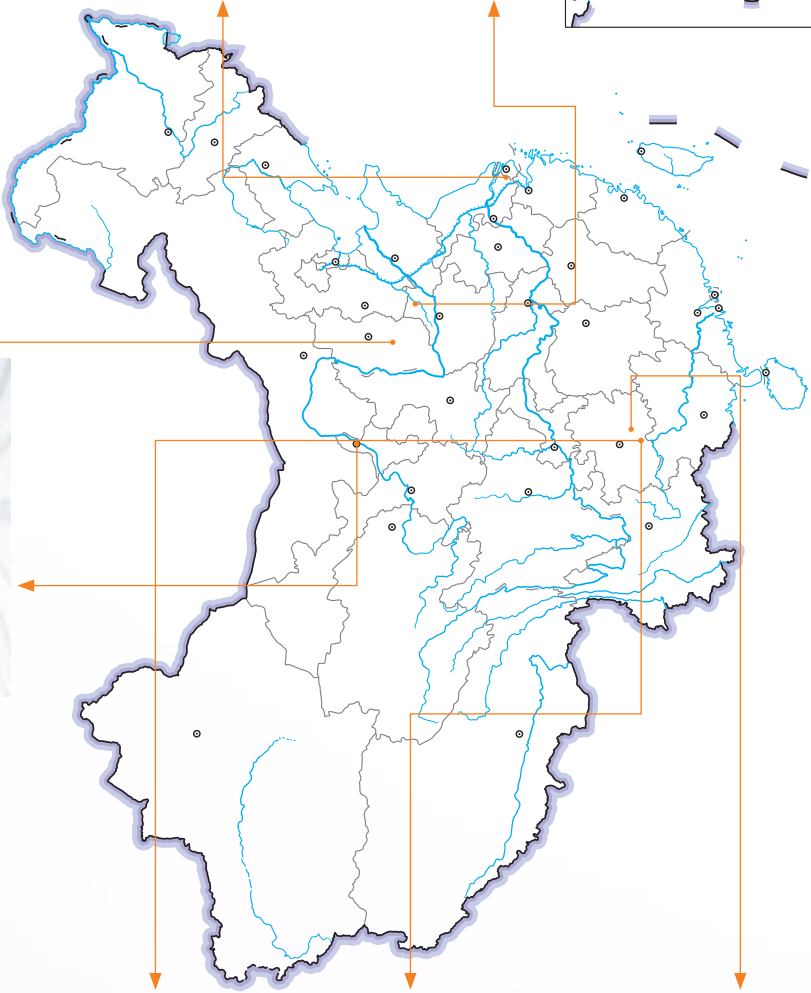
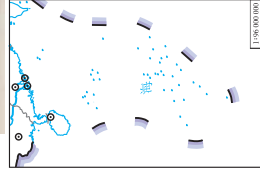
COMPANY'S WEBSITE

www.hopeedu.com

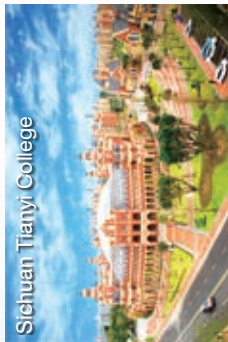
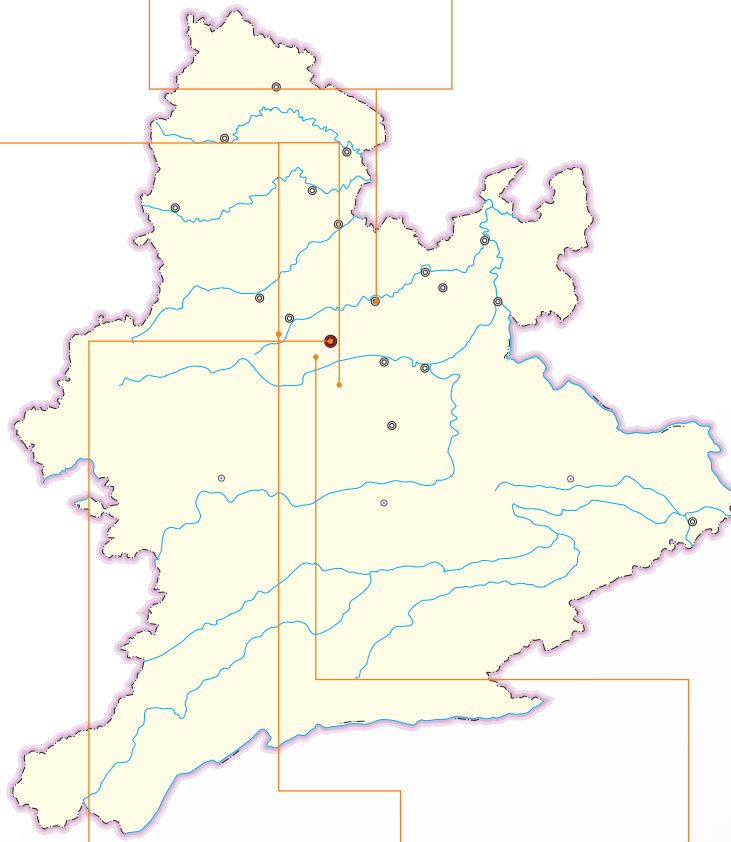
STOCK CODE

1765

OUR SCHOOLS



OUR SCHOOLS



FINANCIAL AND OPERATING HIGHLIGHTS

	For the six months ended 30 June 2019 (in millions of RMB)	For the six months ended 30 June 2018 (in millions of RMB)	Change (in millions of RMB)	Change (percentage)
Revenue	594.73	528.00	66.73	13%
Gross profit	315.59	260.22	55.37	21%
Net profit	243.48	132.91	110.57	83%
Core net profit (i)	256.55	191.63	64.92	34%
	2018/2019 school year (ii)	2017/2018 school year (ii)	Change	Change (percentage)
Total Student enrollment (iii)	85,998	75,633	10,365	14%

- (i) Core net profit is calculated based on profit for the year and adjustment of listing expenses, equity-settled share option expense and gains on foreign exchange difference which do not reflect the operating business of our Group.
- (ii) An academic year generally starts from 1 September of each calendar year to 31 August of the following calendar year.
- (iii) Including number of students receiving technical education.

Dear Shareholders,

On behalf of the Board, I am pleased to present to the Shareholders the interim report of the Group for the six months ended 30 June 2019.

Education is related to social and economic development and the progress of human civilization. We always believe in that the competent man with ingenuity will become a talent, always adhere to the original intention, try our best to devote our life to do a good job in education, and do our best to improve the quality of talent training; We continue to deepen lean management, thus, the operating results and operational quality of the Company has been significantly improved.

UNPRECEDENTED DEVELOPMENT OPPORTUNITIES IN THE INDUSTRY

2019 marks the spring of China's vocational education. The country promulgated the Implementation Plan on Reform of National Vocational Education 《國家職業教育改革實施方案》, made significant decisions on enrollment expansion to millions in higher vocational colleges, and introduced a series of policies to encourage more high school graduates and veterans, laid-off workers, migrant workers to apply for higher vocational colleges, which further motivated individuals in different fields to enroll in higher vocational colleges and further stimulated the social capital resource to be invested in vocational education, showing a bright prospects of accelerated development in China's vocational education.

Hope Education started from vocational education and has been deeply rooted in vocational education for more than 20 years. We focus on vocational education, have a deep understanding of vocational education, further strengthen our sense of social responsibility and seize development opportunities. On one hand, we speed up the expansion of the capacity of existing institutions to provide more higher vocational education degrees to the society. On the other hand, we merge, acquire and build colleges to lay a solid foundation for sustainable development in the future.



CHAIRMAN'S STATEMENT

THE COMPANY'S DEVELOPMENT RESULT IS ENCOURAGING

In the first half of the year, the Company achieved steady growth in business, revenue and profit by strengthening the operation and management of existing schools without adding new schools. The student enrolment increased by 14% compared with the same period of last year, the revenue increased by 13% compared with the same period of last year, the gross profit increased by 21% compared with the same period of last year, and the adjusted net profit increased by 34% compared with the same period of last year.

After the reporting period, the Company completed the merger of two undergraduate colleges (College of Science and Technology of Guizhou University and Yinchuan University of Energy) and two higher vocational colleges (Hebi Automotive Engineering Professional College in Henan and Suzhou Top Institute of Information Technology) successively. At the same time, it launched the construction of the undergraduate campus of Sichuan Vocational College of Culture & Communication, the Chongqing Digital Industry Vocational and Technical College and the Jiangxi Vocational College of Traditional Chinese Medicine (江西中醫藥職業學院), which injected new momentum into the Company's future development.

The Group has currently invested and operated five undergraduate colleges in Sichuan, Guizhou, Shanxi and Ningxia, namely Southwest Jiaotong University Hope College, Business College of Guizhou University of Finance and Economics, College of Science and Technology of Guizhou University, Jinci College of Shanxi Medical University and Yinchuan University of Energy; seven junior colleges in Sichuan, Guizhou, Jiangsu and Henan, namely Sichuan Tianyi College, Sichuan Hope Automotive Vocational College, Sichuan Vocational College of Culture & Communication, Guizhou Vocational Institute of Technology, Sichuan TOP IT Vocational Institute, Suzhou Top Institute of Information Technology and Hebi Automotive Engineering Professional College; and one technical college in Sichuan, being Sichuan Hope Automotive Technical College. At present, the Group's student enrollment has exceeded 100,000 and its revenue has exceeded RMB1 billion.

APPRECIATION

The listing one year ago was Hope Education's coming-of-age ceremony. In the future, under the policy support of the state to vigorously develop higher education, especially higher vocational education, with the guideline of "gratefulness, openness, preciseness and responsibility" of the Company and relying on the pragmatic, innovative and progressive style of all employees, Hope Education will continue to live up to the time and society, forge ahead bravely and turn a new chapter towards a century-old company.

On behalf of the Board, I would like to extend my heartfelt gratitude to all local governments, all sectors of society and our Shareholders for their continued support for the development of Hope Education Group Co., Ltd. I would also like to thank all students and their parents. Also, I would like to express my sincere appreciation to the Board members, senior management as well as the management and teaching staff within our schools for their contribution and dedication.

Hope Education Group Co., Ltd.

Chairman

Xu Changjun

Hong Kong, 29 August 2019



MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

Our revenue increased by approximately RMB66.73 million (or 13%) from RMB528.00 million for the six months ended 30 June 2018 to RMB594.73 million for the Reporting Period. The increase was primarily due to the increase of students admitted to the colleges and universities under our Group. Tuition fees increased by approximately RMB52.15 million from RMB452.15 million for the six months ended 30 June 2018 to RMB504.30 million for the Reporting Period with a year-on-year increase of 12%.

Cost of sales

Cost of sales increased by approximately RMB11.36 million (or 4%) from RMB267.78 million for the six months ended 30 June 2018 to RMB279.14 million for the Reporting Period. The increase was primarily due to an increase in depreciation and amortization expenses and management expenses for cooperative education, which was in line with the expansion of school scale.

Gross profit and gross margin

Our gross profit increased by approximately RMB55.37 million (or 21%) from RMB260.22 million for the six months ended 30 June 2018 to RMB315.59 million for the Reporting Period, which was in line with the growth of our Group's business. Our gross margin increased from 49% for the six months ended 30 June 2018 to 53% for the Reporting Period, primarily due to (i) the number of students increased by 14% over the same period last year leading to the increase in revenue; and (ii) the various costs remained stable during the Reporting Period.

Other income and gains

Other income and gains decreased by approximately RMB5.13 million (or 5%) from RMB106.04 million for the six months ended 30 June 2018 to RMB100.91 million for the Reporting Period, which was mainly due to the decrease in: (i) gain from the fair value of the conversion right of the convertible bonds; (ii) gain from disposal of a subsidiary; and (iii) rental income. The decrease was partially offset by an increase in interest income and foreign exchange gains.

Selling expenses

Our selling expenses increased by approximately RMB2.74 million (or 30%) from RMB9.18 million for the six months ended 30 June 2018 to RMB11.92 million for the Reporting Period. The increase is mainly due to the salary increase of the employees by approximately RMB1.64 million (or 65%) from RMB2.51 million for the six months ended 30 June 2018 to RMB4.15 million for the Reporting Period, which is caused by our Group's additional recruitment of admission staff in response to the significant increase in admission quota of students in the autumn of 2019 as compared with that of last year.

Administrative expenses

Administrative expenses decreased by approximately RMB43.41 million (or 39%) from RMB112.34 million for the six months ended 30 June 2018 to RMB68.93 million for the Reporting Period, which was mainly due to (i) no listing expense incurred; and (ii) the decrease in the equity-settled share option expense.

Finance costs

Our finance costs decreased by approximately RMB33.11 million (or 31%) from RMB107.33 million for the six months ended 30 June 2018 to RMB74.22 million for the Reporting Period, primarily due to: (i) a decrease of RMB12.76 million in the interest expenses as a result of the decreased amount of bank and other borrowings; and (ii) the waiver of put option rights by Shanghai CEL Maiming Investment Centre and Shanghai Guangwei Qinghe Investment Centre in March 2018 and the repayment of the pure loans in convertible bonds of Zhuhai Maiwen Investment Centre in October 2018, which led to a decrease of RMB28.65 million in discounted amount of payables generated as time goes by.

Profit before tax

As a result of the foregoings, our Group recognized profit before tax amounting to RMB134.96 million for the six months ended 30 June 2018, while the profit before tax for the Reporting Period amounted to RMB258.24 million, representing a year on year increase of 91%.

Income tax expense

Our Group's income tax expense increased by approximately RMB12.71 million (or 620%) from RMB2.05 million for the six months ended 30 June 2018 to RMB14.76 million for the Reporting Period, primarily due to the provision in respect of income tax for certain non-academic education revenue.

Profit from continuing operations

As a result of the combined effects of the above-mentioned revenues and costs, our Group recorded net profit from continuing operations of RMB243.48 million for the Reporting Period, representing an increase of approximately RMB110.57 million (or 83%) from RMB132.91 million for the six months ended 30 June 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

Core net profit

Core net profit (excluding listing expenses, equity-settled share option expense and gain on exchange differences) for the Reporting Period increased by approximately RMB64.92 million (or 34%) to RMB256.55 million from RMB191.63 million for the six months ended 30 June 2018.

	Six months ended 30 June	
	2019	2018
	(in millions of RMB)	(in millions of RMB)
Profit from continuing operations for the Period	243.48	132.91
Add:		
Listing expenses	—	11.53
Equity-settled share option expense	16.06	47.19
Less:		
Gain on exchange differences	2.99	—
Core net profit	<u>256.55</u>	<u>191.63</u>

Capital Expenditure

The capital expenditure of our Group consists of purchase or construction costs relating to property and equipment, right-of-use assets and other intangible assets. During the Reporting Period, the capital expenditure of our Group was RMB98.36 million, which was mainly attributable to the new teaching facilities in Business College and Automotive College and students' apartments. Our Group financed such capital expenditure primarily with proceeds from the IPO and bank loans.

Capital commitments

Our Group's capital commitments primarily relate to the acquisition of property and equipment. The following table sets forth a summary of our capital commitments as of the dates indicated:

	30 June 2019	31 December 2018
	(in millions of RMB)	(in millions of RMB)
Contracted but not provided for:		
Property, plant and equipment	119.90	83.50
Acquisition of equity interests	128.00	–
	<u>247.90</u>	<u>83.50</u>

As of 30 June 2019, our Group had no authorized but uncontracted material capital commitments.

Liquidity and financial resources

As at 30 June 2019, our Group had cash and cash equivalents of RMB2,613.28 million (31 December 2018: RMB3,038.91 million) and interest-bearing bank and other loans of approximately RMB2,131.74 million (31 December 2018: RMB2,131.73 million).

INDEBTEDNESS

Bank loans and other borrowings

Our Group's bank loans and other borrowings primarily consist of short-term working capital loans and long-term loans for constructing school buildings and facilities and merger and acquisitions. Our Group supplemented its working capital and financed its expenditure primarily through borrowings obtained from banks. As at 30 June 2019, the aggregate loan balance amounted to RMB2,131.74 million, among which, all were bank loans except for a trust loan of RMB864.55 million. All of our loans were denominated in RMB. As at 30 June 2019, our Group's bank loans and other borrowings bore effective interest rates ranging from 4.75% to 7.5% per annum.

Our Group's objective is to maintain a balance between the continued supply of funds and flexibility through the use of cash flows generated within our Group's operations and borrowings. Our Group regularly reviews major funding positions to ensure adequate financial resources to meet its financial obligations.



MANAGEMENT DISCUSSION AND ANALYSIS

Contingent Liabilities

As at 30 June 2019, our Group did not have any material contingent liabilities, guarantees or any litigations or claims of material importance, pending or threatened against any member of our Group.

Debt to assets ratio

Debt to assets ratio equals to total liability divided by total assets as of 30 June 2019. Our debt to assets ratio decreased from 50% as at 31 December 2018 to 47% as at 30 June 2019.

FUTURE PLAN FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

Save as disclosed herein, our Group had no other plans for material investments and capital assets.

SIGNIFICANT INVESTMENTS, ACQUISITIONS AND DISPOSALS

There were no other significant investments held, no material acquisitions or disposals of subsidiaries, associates and joint ventures, nor was there any plan authorized by the Board for other material investments or acquisitions of capital assets during the Reporting Period.

FOREIGN EXCHANGE RISK MANAGEMENT

The majority of our Group's revenue and expenditures are denominated in Renminbi, the functional currency of the Company. As at 30 June 2019, certain bank balances and cash were denominated in Hong Kong dollar and U.S. dollar. Our Group has not entered into any financial arrangements for hedging purpose as it is expected that there will be no material foreign exchange exposure.

OTHER EVENTS

After the Reporting Period, our Group successively completed four major acquisitions and acquisition of the use right of one parcel of land, including the consolidation of College of Science and Technology of Guizhou University, Hebi Automotive Engineering Professional College, Suzhou Top Institute of Information Technology Kunshan Technical School and Business School and Yinchuan University of Energy into our Group, and our schools expanded from nine to thirteen. Our student enrollment has exceeded 100,000, marking a new stage of development of the Company.

For details of the acquisition of College of Science and Technology of Guizhou University sponsor interest, please refer to the shareholders' pull results dated 10 July 2019 and the announcement dated 22 July 2019 of the Company; for details of the acquisition of Hebi Automotive Engineering Professional College, please refer to the announcement dated 29 July 2019 of the Company; for details of the acquisition of Suzhou Top Institute of Information Technology, please refer to the announcement dated 25 August 2019 of the Company; for details of the acquisition of Yinchuan University of Energy, please refer to the announcement dated 29 August 2019 of the Company.

BUSINESS REVIEW

For the Reporting Period, our Group operated and invested in eight higher education institutions and one technical college in China, including (i) three independent colleges, namely Southwest Jiaotong University Hope College, Business College of Guizhou University of Finance and Economics and Jinci College of Shanxi Medical University; (ii) five tertiary institutions, namely Sichuan Tianyi College, Sichuan Hope Automotive Vocational College, Sichuan Vocational College of Culture & Communication, Guizhou Vocational Institute of Technology and Sichuan TOP IT Vocational Institute; and (iii) one technical college, Sichuan Hope Automotive Technician College. As at 30 June 2019, the student enrollment in our schools was 85,998, representing a significant increase of 14% as compared with that of as at 30 June 2018. Our recruitment network expands into majority of provinces in Mainland China.

SIGNIFICANT EVENTS FOR THE REPORTING PERIOD

- (1) On 11 March 2019, the Company was included in a constituent stock of the index series such as Hang Seng Composite Index, Hang Seng Consumer Goods & Services Index and Hang Seng Stock Connect Hong Kong Index. The Company's inclusion in the market benchmark index represents the capital market's recognition of the Company.
- (2) On 11 March 2019, the Company was included in the Hong Kong Stock Connect list under the Shenzhen-Hong Kong Stock Connect, which expanded shareholder base and trading liquidity of the Company, resulting in the enhancement of the Company's reputation in the capital market.
- (3) On 8 May 2019, our Group and the People's Government of Jianyang City entered into the Project Investment Agreement in relation to investment in the overall relocation and reconstruction of Sichuan Vocational College of Culture & Communication (to prepare the establishment of an undergraduate college). The new campus in Jianyang is expected to be put into operation in 2021 with a total capacity to accommodate no less than 15,000 students. In the future, our Group intends to develop the college into a vocational undergraduate university.

MANAGEMENT DISCUSSION AND ANALYSIS

OUR SCHOOLS (AS AT 30 JUNE 2019)

School	Year Founded	Date of Joining our Group	Description
Southwest Jiaotong University Hope College	2009	2009	The college offered a total of 44 undergraduate and specialist majors. Of which, rail transportation and civil engineering majors take a leading position among the private colleges in the Western region.
Business College of Guizhou University of Finance and Economics	2004	2014	The college offered a total of 13 undergraduate majors, featuring economics and management and finance majors.
Jinci College of Shanxi Medical University	2002	2014	The college offered a total of 13 undergraduate majors and is one of the twelve private undergraduate medical schools in China and is the only independent college in Shanxi that provides clinical medical education.
Sichuan Tianyi College	1994	2011	The college offered 21 majors and is one of the first private schools (including seven schools) in China and the first private school in Southwest China approved to be a formal private higher education institution.
Sichuan Hope Automotive Vocational College	2013	2013	The college offered 19 majors, specialising in automobile related majors.
Sichuan Vocational College of Culture & Communication	2005	2014	The college offered 60 majors, specialising in film, media and pre-school education majors.
Guizhou Vocational Institute of Technology	2016	2016	The college offered 17 majors, specialising in pre-school education and healthcare majors.
Sichuan TOP IT Vocational Institute	2000	2017	The college offered 39 majors, specialising in computer and information and software technology majors and is the MOE approved national demonstration software vocational and technical college and the national high-skilled personnel training base for the electronic information industry.
Sichuan Hope Automotive Technical College	2016	2016	The college offered 15 majors to train professional talents possessing automobile related knowledge and skills.

STUDENT ENROLLMENT

Our Group believes the pragmatic teaching philosophy of its schools, its well-developed curriculum system, good-quality teachers as well as its high graduate employment rate help our Group to attract high-quality students who are seeking for their ideal employment.

Schools	Student Enrollment			
	As at 30 June 2019	As at 30 June 2018	Change	Change in percentages (%)
Independent Colleges				
Southwest Jiaotong University Hope College				
Bachelor's degree program	12,798	10,855	1,943	18
Junior college diploma program	4,470	4,268	202	5
School subtotal	17,268	15,123	2,145	14
Business College of Guizhou University of Finance and Economics	15,548	14,356	1,192	8
Jinci College of Shanxi Medical University	5,953	4,801	1,152	24
	As at 30 June 2019	As at 30 June 2018	Change	Change in percentages (%)
Junior Colleges				
Sichuan Tianyi College	10,971	11,765	-794	-7
Sichuan Hope Automotive Vocational College	4,373	4,559	-186	-4
Sichuan Vocational College of Culture & Communication	8,920	7,371	1,549	21
Guizhou Vocational Institute of Technology	5,903	2,989	2,914	98
Sichuan TOP IT Vocational Institute	12,869	12,548	321	3
Technical Education				
Sichuan Hope Automotive Technical College	4,193	2,121	2,072	98
Total	85,998	75,633	10,365	14

Note: The student enrollment information during the Reporting Period was based on the official records of the relevant PRC education authorities or the internal records of our Group's schools, as the case may be.

MANAGEMENT DISCUSSION AND ANALYSIS

THE AVERAGE TUITION FEES

	For the six months ended 30 June 2019	For the six months ended 30 June 2018
Tuition fees (RMB' 000)	504,297	452,146
Average number of student enrollment ⁽¹⁾	86,015	75,664
Average tuition fee per student (RMB' 000) ⁽²⁾	5.86	5.98

Note:

- (1) Average student enrolment is calculated by taking the average of the total number of students enrolled at the end of six months period and the total number of students enrolled at the end of the previous school year;
- (2) Average tuition fee per student is calculated by dividing tuition fees for the six months over average number of student enrolment.

DORMITORY UTILIZATION RATE

	For the six months ended 30 June 2019	For the six months ended 30 June 2018
Total number of student enrollment	85,998	75,633
Total capacity	104,777	95,776
Overall utilization rate	82.08%	78.97%

HUMAN RESOURCES, EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2019, the Group had approximately 5,328 faculty members. The remuneration of employees is determined on the basis of current industry practices and the educational background, experience and performance of employees. As required by the PRC laws and regulations, the Group participates in various employee social security plans for its employees that are administered by local governments, including housing, pension, medical insurance, maternity insurance and unemployment insurance and share option scheme (for the scheme, please refer to page 28 of this report). The Group believes that it maintains a good working relationship with its employees, and the Group has not experienced any material labour disputes for the six months ended 30 June 2019.

USE OF PROCEEDS

The net proceeds from the Listing (after deducting the underwriting fees and related expenses) amounted to approximately RMB2,704.86 million. As at 30 June 2019, our Group has utilized a total of RMB542.75 million of the net proceeds in accordance with the allocation set out in the Prospectus.

The following sets forth a summary of the utilization of the net proceeds:

Use	% of total	Net proceeds RMB (million)	Amount	Amount
			utilised (as at 30 June 2019) RMB (million)	unutilised (as at 30 June 2019) RMB (million)
Used to acquire higher education schools and establish new campus for the acquired schools	40%	1,081.94	20.00	1,061.94
Used to construct new buildings for education purposes	30%	811.46	42.34	769.12
Used to repay bank loans and other borrowings	20%	540.97	375.80	165.17
Used for working capital and general corporate purposes	10%	270.49	104.61	165.88
Total	100%	2,704.86	542.75	2,162.11

OUTLOOK

Standing at a new starting point of China's economic transformation, upgrading and development, the demand for high-quality professional talents will continue to grow, and the room for development of higher education will become greater. Our Group will continue to adhere to the development strategy of "primary focus on internal construction, secondary focus on external expansion", to provide more higher education degrees to the society and cultivate more high-quality professional talents. To achieve this goal, our Group plans to pursue the following business strategies:

- (1) Strengthening the endogenous growth of the Company, improving the quality of school education, enhancing the student recruitment process and increasing the dormitory utilization rate are the important prerequisites for the steady development of our Group. To this end, our Group will further expand its education management committee comprising of experts in the higher education industry to strengthen the management of our Group's school education and teaching activities; actively introduce academic leaders to strengthen our Group's teaching team; and by leveraging our Group's strengths in student recruitment that has accumulated over a decade, our Group will serve students in three aspects, namely student recruitment, teaching and employment in order to improve students' professional skills and employment capacity, which in turn would improve the education quality of our colleges and our brand influence.



MANAGEMENT DISCUSSION AND ANALYSIS

- (2) Merger and acquisition and establishment of new schools are the two major initiatives of our Group to expand the scale of operation and achieve sustainable growth. Our Group will further strengthen its project expansion capabilities and timely grasp the information about merger and acquisition projects; our Group will conduct screening and analysis on the existing hundreds of potential targets, control its pace, promote in-depth negotiation of high-quality projects that are coming to fruition as appropriate, to ensure the continuous implementation of merger and acquisition projects. Meanwhile, our Group will establish new specialized colleges in regions with relatively scarce higher education resources and strong demand for talents.

CONCLUSION

Looking forward, our Group will abide by its fundamental educational philosophy “happy learning, happy living and happy working”. Our Group will adhere to its core values of gratefulness, openness, preciseness and responsibility and focus on fostering talents with competitive capabilities and practical skills to contribute to social and economic development.

INTERIM DIVIDEND

The Board did not recommend the payment of any interim dividend for the Reporting Period to shareholders (Six month ended 30th June 2018: nil).

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARE

During the Reporting Period, the Company or any of its subsidiaries did not purchase, sell or redeem any Shares of the Company.

QUALIFICATION REQUIREMENT

The foreign investor in a Sino-foreign joint venture private school offering higher education must be a foreign educational institution with relevant qualification and high quality of education (the "Qualification Requirement"). Foreign portion of the total investment in a Sino-foreign joint venture private school should be below 50% and the establishment of these schools is subject to approval of education authorities at the provincial or national level. We are committed to working towards meeting the Qualification Requirement. We have adopted a specific plan and had taken concrete steps (please refer to the Prospectus of the Company for details) which the Company believes are meaningful endeavors to demonstrate compliance with the Qualification Requirement.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company is committed to the establishment of good corporate governance practices and procedures with a view of becoming a transparent and responsible organisation which is open and accountable to the Shareholders. The Board strives for adhering to the principles of corporate governance and has adopted sound corporate governance practices to meet the legal and commercial standards, focusing on areas such as internal control, fair disclosure and accountability to all Shareholders to ensure the transparency and accountability of all operations of the Company. The Company believes that effective corporate governance is essential for creating greater value to its Shareholders. The Board will continue to review and improve the corporate governance practices of our Group from time to time to ensure that our Group is led by an effective Board in order to optimise return for Shareholders. Throughout the Reporting Period, the Company has applied the principles and strictly complied with the Corporate Governance Code.

LIQUIDITY AND CAPITAL RESOURCES

The Group's primary uses of cash are to fund its working capital requirements, its purchase of property and equipment and repayment of loans and related interest expenses. As at the date of this report, the Group has funded its operations principally with cash generated from operations, bank loans, capital contribution by shareholders and net proceeds from Global Offering (as defined in the Prospectus). In the future, the Group believes that its liquidity requirements will be satisfied with a combination of cash flows generated from operating activities, bank loans and other borrowings and other funds raised from the capital markets from time to time. As of 30 June 2019, the Group had cash and cash equivalents of RMB2,613 million.



OTHER INFORMATION

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

During the Reporting Period, the Company has also adopted the Model Code set out in Appendix 10 to the Listing Rules as a code of conduct regarding securities transactions by the Directors.

Having made specific enquiry to all Directors of the Company, all Directors have confirmed that during the Reporting Period, they had complied with the required standards set out in the Model Code regarding directors' securities transactions.

AUDIT COMMITTEE AND REVIEW OF THE INTERIM FINANCIAL INFORMATION

The Company has established an audit committee ("Audit Committee") with written terms of reference in compliance with the Listing Rules. The Audit Committee consists of five Directors, namely Mr. Zhang Jin, Mr. Lu Zhichao, Mr. Tang Jianyuan, Mr. Chen Yunhua and Dr. Gao Hao. Mr. Zhang Jin is the chairman of the Audit Committee. The Audit Committee, together with the management, had reviewed the accounting standards and policies adopted by our Group and the unaudited consolidated financial statements and the interim report of our Group for the six months ended 30 June 2019. The Audit Committee has also discussed with senior management members of the Company, matters with respect to the accounting policies and practices adopted by the Company and internal control.

UPDATING OF DIRECTORS' INFORMATION IN ACCORDANCE WITH SECTION 13.51B(1) OF THE LISTING RULES

The Company confirms that no information is required to be disclosed under section 13.51B(1) of the Listing Rules.

PLEDGED ASSETS

Save as disclosed herein, as at 31 December 2018 and 30 June 2019, the Group had no other pledged assets.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 30 June 2019, the interests or short positions of the Directors and chief executives of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which was required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which any such Directors and chief executive(s) of the Company is taken or deemed to have under such provisions of the SFO) or which was required to be entered in the register required to be kept by the Company pursuant to Section 352 of the SFO or which was otherwise required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code were as follows:

Name of Director	Position	Capacity/Nature of Interest	Number of Shares Held	Long Position/ Short Position	Approximate Percentage of Shareholding in the Company
Wang Huiwu (汪輝武) ⁽¹⁾	Executive Director	Interest in controlled corporation	4,140,948,240	Long Position	62.11%
Wang Degen (王德根) ⁽²⁾	Non-executive Director	Interest of spouse	4,140,948,240	Long Position	62.11%

Notes:

- (1) Wang Huiwu (汪輝武) holds 96.00% interest in Maysunshine Limited, which in turn holds 49.00% interest in Hope Education Investment Limited. Hope Education Investment Limited holds 62.11% interest in the Company. Accordingly, Wang Huiwu (汪輝武) is deemed as holding interest in the Company through Hope Education Investment Limited.
- (2) Wang Degen (王德根) and Zhang Qiang (張強) are spouses. Therefore, for the purpose of the SFO, Wang Degen (王德根) is deemed or taken to be interested in all the shares Zhang Qiang (張強) is interested in.

Save as disclosed above, as at 30 June 2019, none of the Directors and chief executive(s) of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which any such Directors and chief executive(s) of the Company is taken or deemed to have under such provisions of the SFO) or which were required to be entered in the register required to be kept by the Company pursuant to Section 352 of the SFO or which was required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

OTHER INFORMATION

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save for the Pre-IPO Share Options granted to the Directors, at no time during the Reporting Period was the Company, or its holding company, subsidiaries or fellow subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other corporations.

SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

To the knowledge of any of directors or chief executives of the Company, as at 30 June 2019, the following persons (other than the directors or chief executives of the Company) or entities have an interest or short positions in Shares or underlying Shares of the Company which are required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept under Section 336 of the SFO:

Name of Shareholder	Capacity/Nature of Interest	Number of Shares Held	Long Position/ Short Position	Approximate Percentage of Shareholding in the Company
Hope Education Investment Limited ⁽¹⁾	Beneficial interest	4,140,948,240	Long Position	62.11%
Maysunshine Limited ⁽¹⁾	Interest in controlled corporation	4,140,948,240	Long Position	62.11%
Tequ Group A Limited ⁽¹⁾	Interest in controlled corporation	4,140,948,240	Long Position	62.11%
Tequ Group (Hong Kong) Company Limited ⁽¹⁾	Interest in controlled corporation	4,140,948,240	Long Position	62.11%
Shanghai Yi Zeng Management Co., Ltd. (上海乙增管理有限公司) ⁽¹⁾	Interest in controlled corporation	4,140,948,240	Long Position	62.11%
Sichuan Tequ Investment ⁽¹⁾	Interest in controlled corporation	4,140,948,240	Long Position	62.11%
West Hope ⁽¹⁾	Interest in controlled corporation	4,140,948,240	Long Position	62.11%
Sichuan Puhua Agricultural Technology Development Limited (四川普華農業科技發展有限公司) ⁽¹⁾	Interest in controlled corporation	4,140,948,240	Long Position	62.11%
Zhang Qiang (張強) ⁽¹⁾	Interest in controlled corporation	4,140,948,240	Long Position	62.11%
Chen Yuxin (陳育新) ⁽¹⁾	Interest in controlled corporation	4,140,948,240	Long Position	62.11%
Zhao Guiqin (趙桂琴) ⁽¹⁾	Interest in controlled corporation	4,140,948,240	Long Position	62.11%
Pearl Glory Global Limited ⁽²⁾	Beneficial interest	413,809,100	Long Position	6.21%

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Name of Shareholder	Capacity/Nature of Interest	Number of Shares Held	Long Position/ Short Position	Approximate Percentage of Shareholding in the Company
CEL Maiming ⁽²⁾	Interest in controlled corporation	413,809,100	Long Position	6.21%
CEL Huiling Investment (Shanghai) Co., Limited (光控匯領投資(上海)有限公司) (“CEL Huiling”) ⁽²⁾	Interest in controlled corporation	651,909,158	Long Position	9.78%
CEL Venture Capital (Shenzhen) Co., Limited (光大控股創業投資(深圳)有限公司) ⁽²⁾⁽⁴⁾	Interest in controlled corporation	651,909,158	Long Position	9.78%
China Everbright Limited ⁽²⁾⁽³⁾⁽⁴⁾	Interest in controlled corporation	852,861,338	Long Position	12.79%
Honorich Holdings Limited ⁽³⁾	Interest in controlled corporation	852,861,338	Long Position	12.79%
Datten Investments Limited ⁽³⁾	Interest in controlled corporation	852,861,338	Long Position	12.79%
China Everbright Holdings Co., Limited (中國光大集團有限公司) (“CE Hong Kong”) ⁽³⁾	Interest in controlled corporation	852,861,338	Long Position	12.79%
China Everbright Group Ltd. (中國光大集團股份公司) (“China Everbright Group”) ⁽³⁾	Interest in controlled corporation	852,861,338	Long Position	12.79%
Central Huijin Investment Limited (中央匯金投資有限責任公司) (“Central Huijin”) ⁽³⁾	Interest in controlled corporation	852,861,338	Long Position	12.79%
Beijing CEL Anya Investment Centre (Limited Partnership) (北京光控安雅投資中心(有限合夥)) ⁽⁴⁾	Interest in controlled corporation	413,809,100	Long Position	6.21%
Shanghai CEL Jiaxin Equity Investment Management Co., Limited (上海光控嘉鑫股權投資管理有限公司) ⁽⁴⁾	Interest in controlled corporation	413,809,100	Long Position	6.21%
Chongqing CEL Equity Investment Management Limited (重慶光控股權投資管理有限公司) ⁽⁴⁾	Interest in controlled corporation	413,809,100	Long Position	6.21%
Yixing CEL ⁽⁴⁾	Interest in controlled corporation	413,809,100	Long Position	6.21%
CEL Capital Prestige Asset Management Co., Ltd. (首譽光控資產管理有限公司) ⁽⁴⁾	Interest in controlled corporation	413,809,100	Long Position	6.21%



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Notes:

- (1) Hope Education Investment Limited, a BVI company, is owned as to 49.00% by Maysunshine Limited, 34.385% by Tequ Group A Limited and 16.615% by Tequ Group Limited.

Maysunshine Limited is owned as to 96.00% by Wang Huiwu (汪輝武), 2.00% by Fu Wenge (付文革) and 2.00% by Wang Degen (王德根).

Tequ Group A Limited is a wholly-owned subsidiary of Tequ Group (Hong Kong) Company Limited. Tequ Group (Hong Kong) Company Limited is wholly owned by Shanghai Yi Zeng Enterprise Management Co., Ltd. (上海乙增企業管理有限公司). Shanghai Yi Zeng Enterprise Management Co., Ltd. (上海乙增企業管理有限公司) is wholly owned by Sichuan Tequ Investment, which is in turn owned as to 55% by West Hope and 45% by Sichuan Puhua Agricultural Technology Development Limited (四川普華農業科技發展有限公司). West Hope is owned as to 60% by Chen Yuxin (陳育新) and 40% by Zhao Guiqin (趙桂琴). Chen Yuxin (陳育新) and Zhao Guiqin (趙桂琴) are spouses. Sichuan Puhua Agricultural Technology Development Limited (四川普華農業科技發展有限公司) is owned as to 52.20% by Zhang Qiang (張強).

Thus, Maysunshine Limited, Wang Huiwu (汪輝武), Tequ Group A Limited, Tequ Group (Hong Kong) Company Limited, Shanghai Yi Zeng Enterprise Management Co., Ltd. (上海乙增企業管理有限公司), Sichuan Tequ Investment, West Hope, Sichuan Puhua Agricultural Technology Development Limited (四川普華農業科技發展有限公司), Zhang Qiang (張強), Chen Yuxin (陳育新) and Zhao Guiqin (趙桂琴) are deemed to be interested in 4,140,948,240 Shares.

- (2) Star Leap Limited, an investment holding company directly holding approximately 4.02% of the Company, is indirectly wholly-owned by China Everbright Limited.

Pearl Glory Global Limited, an investment holding company holding approximately 8.28% of the Company, is wholly-owned by CEL Maiming. CEL Huiling is the general partner of CEL Maiming. Accordingly, each of CEL Maiming and CEL Huiling is deemed to be interested in the Shares held by Pearl Glory Global Limited under the SFO.

CEL Huiling was wholly-owned by CEL Venture Capital (Shenzhen) Co., Limited (光大控股創業投資(深圳)有限公司), which was in turn wholly-owned by China Everbright Limited.

Glory Aurora Limited, an investment holding company directly holding approximately 4.76% of the Company, is wholly-owned by Zhuhai Maiwen. The general partner of Zhuhai Maiwen is CEL Huiling, a wholly-owned subsidiary of CEL Venture Capital (Shenzhen) Co., Limited (光大控股創業投資(深圳)有限公司), which is in turn indirectly wholly-owned by China Everbright Limited.

Accordingly, each of CEL Huiling and CEL Venture Capital (Shenzhen) Co., Limited (光大控股創業投資(深圳)有限公司) is deemed to be interested in the Shares held by each of Pearl Glory Global Limited and Glory Aurora Limited, whereas China Everbright Limited is deemed to be interested in the Shares held by each of Star Leap Limited, Pearl Glory Global Limited and Glory Aurora Limited under the SFO.

- (3) China Everbright Limited was owned as to approximately 49.386% by Honorich Holdings Limited and 0.358% by Everbright Investment & Management Limited (光大投資管理有限公司), respectively. Honorich Holdings Limited was wholly-owned by Datten Investments Limited, and each of Everbright Investment & Management Limited (光大投資管理有限公司) and Datten Investments Limited was in turn wholly-owned by CE Hong Kong, which was in turn wholly-owned by China Everbright Group. China Everbright Group was owned as to approximately 55.67% by Central Huijin and was indirectly wholly-owned by the State Council of the PRC.

Accordingly, each of China Everbright Limited, Honorich Holdings Limited, Datten Investments Limited, CE Hong Kong, China Everbright Group and Central Huijin is deemed to be interested in the Shares held by each of Star Leap Limited, Pearl Glory Global Limited and Glory Aurora Limited under the SFO.

- (4) Beijing CEL Anya Investment Centre (Limited Partnership) (北京光控安雅投資中心(有限合夥)) is a limited partnership holding approximately 61.20% of the limited partnership interest in CEL Maiming.

The general partner of Beijing CEL Anya Investment Centre (Limited Partnership) (北京光控安雅投資中心(有限合夥)) is Shanghai CEL Jiaxin Equity Investment Management Co., Limited (上海光控嘉鑫股權投資管理有限公司). CEL Capital Prestige Asset Management Co., Limited (首譽光控資產管理有限公司) is a limited partner of Beijing CEL Anya Investment Centre (Limited Partnership) (北京光控安雅投資中心(有限合夥)) holding approximately 99.98% of its limited partnership interest.

Shanghai CEL Jiaxin Equity Investment Management Co., Limited (上海光控嘉鑫股權投資管理有限公司) was wholly-owned by Chongqing CEL Equity Investment Management Co., Limited (重慶光控股權投資管理有限公司), which was in turn wholly-owned by Yixing CEL. Yixing CEL was wholly-owned by CEL Venture Capital (Shenzhen) Co., Limited (光大控股創業投資(深圳)有限公司), which was in turn wholly-owned by China Everbright Limited.

CEL Capital Prestige Asset Management Co., Limited (首譽光控資產管理有限公司) is 49% owned by Chongqing CEL Equity Investment Management Co., Limited (重慶光控股權投資管理有限公司).

Save as disclosed above, as at 30 June 2019, the Directors or chief executives of the Company are not aware of any other person or entity who has an interest or short positions in Shares or underlying Shares of the Company which are required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept under Section 336 of the SFO.

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2018 PRE-IPO SHARE OPTION SCHEME

The Company adopted the 2018 Pre-IPO Share Option Scheme on 18 March 2018. For details, please refer to “Appendix V – Statutory and General Information – D. 2018 Pre-IPO Share Option Scheme” in the Prospectus. As at the Listing Date, the number of relevant Shares subject to outstanding options granted under the 2018 Pre-IPO Share Option Scheme was 442,404,860 Shares, representing approximately 6.63% of the issued share capital of the Company. As of the date of this report, the Company had granted Pre-IPO Share Options to 319 Participants under the 2018 Pre-IPO Share Option Scheme.

The following table discloses movements in the outstanding options granted to all grantees under the Pre-IPO Share Option Scheme:

Grantees	Number of Share Options					Date of grant	Exercise period	Exercise Price per share option RMB per share	Vesting period	The weighted average closing price of the Company's shares Share		
	As at 1 January 2019	Granted during the period	Exercised during the period	Lapsed during the period	As at 30 June 2019					Immediately before the date of grant of share options RMB per share	Immediately before the date of exercise RMB per share	As at the date of exercise of share options HK\$ per share
Directors												
Xu Changjun	1,288,871	0	–	–	1,288,871	18 March 2018	0.9311	From 18 March 2018 to 2 February 2019	–	–	–	–
	859,247				859,247			From 18 March 2018 to 2 February 2020	–	–	–	–
Li Tao	6,659,167	0	–	–	6,659,167	18 March 2018	0.9311	From 18 March 2018 to 2 February 2019	–	–	–	–
	2,685,148				2,685,148			From 18 March 2018 to 2 February 2020	–	–	–	–
Sub-total	11,492,433	0	–	–	11,492,433				–	–	–	–
Employees (including Senior Management)												
78 individuals	142,102,188	0	–	9,546,801	132,555,387	18 March 2018	0.9311/1.131	From 18 March 2018 to 2 February 2019 or From 18 March 2018 to 2 February 2020	–	–	–	–
Other Grantees												
239 individuals	298,357,040	0	–	–	298,357,040	18 March 2018	0.9311/1.131	From 18 March 2018 to 2 February 2019 or From 18 March 2018 to 2 February 2020	–	–	–	–
Total	451,951,661	0	–	9,546,801	442,404,860				–	–	–	–

As of 30 June 2019, save for disclosed above, no share options were exercised, cancelled or lapsed under the Pre-IPO Share Option Scheme.

Note: Details of the 2018 Pre-IPO Share Option Scheme adopted on 18 March 2018 are set out in note 20 to the consolidated financial statements of this annual report.



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To the board of directors of Hope Education Group Co., Ltd.
(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial information of Hope Education Group Co., Ltd. and its subsidiaries, which comprises the condensed consolidated statement of financial position of Hope Education Group Co., Ltd. (the “Company”) and its subsidiaries (the “Group”) as at 30 June 2019 and the related condensed consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six-month period then ended, and other 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 (“IASB”). The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review. Our report is made 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 interim financial information 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 interim financial information is not prepared, in all material respects, in accordance with IAS 34.

Ernst & Young
Certified Public Accountants
Hong Kong
29 August 2019

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2019

	Notes	2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Revenue	3	594,730	527,997
Cost of sales		<u>(279,139)</u>	<u>(267,778)</u>
Gross profit		315,591	260,219
Other income and gains	3	100,913	106,035
Selling expenses		(11,918)	(9,176)
Administrative expenses		(68,934)	(112,335)
Other expenses		(3,194)	(601)
Finance costs	4	(74,216)	(107,325)
Share of losses of a joint venture		—	(1,858)
Profit before tax	5	258,242	134,959
Income tax expense	6	<u>(14,763)</u>	<u>(2,054)</u>
Profit for the period		<u>243,479</u>	<u>132,905</u>
Other comprehensive income for the period		—	—
Total comprehensive for the period		<u>243,479</u>	<u>132,905</u>
Profit and total comprehensive income attributable to:			
Owners of the Company		243,306	133,518
Non-controlling interests		<u>173</u>	<u>(613)</u>
		<u>243,479</u>	<u>132,905</u>
Earnings per share attributable to ordinary equity holders of the Company:	7		
Basic		<u>RMB0.036</u>	<u>RMB0.027</u>
Diluted		<u>RMB0.036</u>	<u>RMB0.025</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 JUNE 2019

	Notes	30 June 2019 RMB' 000 (Unaudited)	31 December 2018 RMB' 000
NON-CURRENT ASSETS			
Property, plant and equipment	8	3,467,479	3,448,267
Prepaid land lease payments		—	590,015
Right-of-use assets	8	712,322	—
Goodwill	9	481,143	481,143
Other intangible assets	8	129,178	133,596
Prepayments, deposits and other receivables	10	57,658	466,225
Total non-current assets		<u>4,847,780</u>	<u>5,119,246</u>
CURRENT ASSETS			
Inventories		1,425	—
Prepayments, deposits and other receivables	10	605,058	128,729
Amounts due from related parties	19	7,927	4,314
Cash and cash equivalents	11	2,613,284	3,038,905
Total current assets		<u>3,227,694</u>	<u>3,171,948</u>
CURRENT LIABILITIES			
Contract liabilities	3	119,723	590,785
Other payables and accruals	12	595,419	637,459
Lease liabilities	14	25,792	—
Deferred income	13	10,292	9,407
Interest-bearing bank and other borrowings	15	576,133	526,680
Amounts due to related parties	19	16,072	52,953
Taxes payable		33,746	34,053
Total current liabilities		<u>1,377,177</u>	<u>1,851,337</u>
NET CURRENT ASSETS		<u>1,850,517</u>	<u>1,320,611</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>6,698,297</u>	<u>6,439,857</u>

continued/...

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 JUNE 2019

	Notes	30 June 2019 RMB' 000 (Unaudited)	31 December 2018 RMB' 000
NON-CURRENT LIABILITIES			
Deferred income	13	684,338	658,083
Interest-bearing bank and other borrowings	15	1,555,610	1,605,052
Deferred tax liabilities		9,971	10,154
Lease liabilities	14	127,771	—
Other payables	12	6,416	6,416
Total non-current liabilities		<u>2,384,106</u>	<u>2,279,705</u>
NET ASSETS		<u>4,314,191</u>	<u>4,160,152</u>
EQUITY			
Equity attributable to owners of the Company			
Issued capital	16	454	454
Reserves		<u>4,310,682</u>	<u>4,156,816</u>
		4,311,136	4,157,270
Non-controlling interests		<u>3,055</u>	<u>2,882</u>
Total equity		<u>4,314,191</u>	<u>4,160,152</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2019

	Attributable to owners of the Company						Non-controlling		
	Issued capital	Share premium*	Capital reserve*	Surplus reserve*	Share option reserve*	Retained profits*	Total	interests	Total
	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
	(note 16)				(note 20)				
As at 1 January 2019	454	2,701,755	598,426	234,221	122,345	500,069	4,157,270	2,882	4,160,152
Profit for the period	—	—	—	—	—	243,306	243,306	173	243,479
Transfer from retained profits	—	—	—	45,874	—	(45,874)	—	—	—
Final 2018 dividend declared (note 17)	—	(105,495)	—	—	—	—	(105,495)	—	(105,495)
Equity-settled share option arrangement	—	—	—	—	16,055	—	16,055	—	16,055
As at 30 June 2019	454	2,596,260	598,426	280,095	138,400	697,501	4,311,136	3,055	4,314,191
As at 1 January 2018	—	—	83,090	174,900	—	391,474	649,464	29,924	679,388
Issue of shares	3	—	—	—	—	—	3	—	3
Profit for the period	—	—	—	—	—	133,518	133,518	(613)	132,905
Transfer from retained profits	—	—	—	52,821	—	(52,821)	—	—	—
Disposal of a subsidiary	—	—	—	—	—	—	—	(26,463)	(26,463)
Equity-settled share option arrangement	—	—	—	—	47,194	—	47,194	—	47,194
Transfer from the liability of a put option granted to a shareholder	—	—	281,908	—	—	—	281,908	—	281,908
Conversion of a convertible bond	—	—	233,428	—	—	—	233,428	—	233,428
As at 30 June 2018	3	—	598,426	227,721	47,194	472,171	1,345,515	2,848	1,348,363

* These reserve accounts comprise the consolidated reserves of RMB4,310,682,000 (31 December 2018: RMB4,156,816,000) in the consolidated statement of financial position.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2019

	Notes	2019 RMB' 000 (Unaudited)	2018 RMB' 000 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		258,242	134,959
Adjustments for:			
Depreciation of items of property, plant and equipment	5	73,717	64,896
Depreciation of right-of-use assets	5	15,996	—
Recognition of prepaid land lease payments	5	—	7,048
Amortisation of other intangible assets	5	4,590	4,418
Government grants released	3	(4,896)	(4,228)
Bank interest income	3	(23,100)	(582)
Interest income from loans to an independent third party	3	(15,929)	(7,498)
Finance costs	4	74,216	107,325
Losses/(gains) on disposal of items of property, plant and equipment, net	3, 5	869	(1,279)
Gain on disposal of a subsidiary	3	—	(8,256)
Fair value gains on the conversion right of the convertible bond		—	(13,271)
Equity-settled share option expense	20	16,055	47,194
Interest income from loans to related parties	3	—	(25,615)
Share of losses of a joint venture		—	1,858
Fair value losses on financial assets at fair value through profit or loss		—	191
Gains on disposal of financial assets at fair value through profit or loss	3	(757)	(962)
Interest income from time deposits	3	(17,313)	—
Unrealised foreign exchange gain, net		(3,181)	—
		378,509	306,198
Increase in inventories		(1,425)	—
Decrease/(increase) in prepayments, deposits and other receivables		(16,144)	76,253
Increase in amounts due from related parties		(3,098)	(13,798)
Decrease in contract liabilities		(471,062)	(452,521)
Increase/(decrease) in amounts due to related parties		(2,067)	22,461
Increase/(decrease) in other payables and accruals		(26,178)	16,345
Cash used in operations		(141,465)	(45,062)
Interest received		23,100	8,080
Income tax and land appreciation tax paid		(15,155)	(20,660)
Net cash flows used in operating activities		(133,520)	(57,642)

continued/...

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2019

	2019 RMB' 000 (Unaudited)	2018 RMB' 000 (Unaudited)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of items of property, plant and equipment	(91,736)	(520,383)
Additions to other intangible assets	(1,736)	(39,426)
Additions to right-of-use assets	(19,807)	—
Prepayment for acquisition of equity interests	(20,000)	—
Payment of other payables relating to disposal of items of property, plant and equipment in the prior year	(19,887)	—
Proceeds from disposal of items of property, plant and equipment	3,282	28,157
Decrease/(increase) in amounts due from related parties	(515)	202,851
Receipt of government grants for property, plant and equipment	32,036	—
Increase in financial assets at fair value through profit or loss	—	(41,951)
Investment income from financial assets at fair value through profit or loss	757	962
Disposal of a subsidiary	—	69,608
Interest received from time deposits	3,702	—
Increase in time deposits with original maturity over three months	(597,971)	—
Loans to an independent third party	—	(451,617)
Net cash flows used in investing activities	<u>(711,875)</u>	<u>(751,799)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from bank and other borrowings	114,950	1,701,723
Repayment of bank and other borrowings	(114,939)	(708,000)
Interest paid	(61,845)	(74,860)
Dividends paid	(105,495)	—
Principal portion of lease payments	(9,032)	—
Interest portion of the lease liabilities	(5,017)	—
Loans from related parties	—	100,000
Repayment of loans from related parties	—	(100,000)
Net cash flows from/(used in) financing activities	<u>(181,378)</u>	<u>918,863</u>

continued/...

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2019

	2019 RMB' 000 (Unaudited)	2018 RMB' 000 (Unaudited)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(1,026,773)	109,422
Cash and cash equivalents at beginning of the period	2,588,905	181,332
Effect of foreign exchange rate changes, net	3,181	—
	<u>1,565,313</u>	<u>290,754</u>
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD		
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS:		
Cash and cash equivalents as stated in the consolidated statement of financial position (note 11)	2,613,284	290,754
Time deposits with original maturity over three months	<u>(1,047,971)</u>	—
Cash and cash equivalents as stated in the consolidated statement of cash flows	<u>1,565,313</u>	<u>290,754</u>

1. CORPORATE INFORMATION

Hope Education Group Co., Ltd. (the “Company”) was incorporated in the Cayman Islands on 13 March 2017 as an exempted company with limited liability under the laws of the Cayman Islands. The registered office address of the Company is P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. The Company’s principal place of business in Hong Kong is located at 40/F, Sunlight Tower, 248 Queen’s Road East, Wanchai, Hong Kong.

The Company is an investment holding company. During the six months ended 30 June 2019 (the “Period”), the Company and its subsidiaries (collectively referred to as the “Group”) are principally engaged in the provision of higher education services in the People’s Republic of China (the “PRC”). There were no significant changes in the nature of the Group’s principal activities during the Period.

2.1 BASIS OF PREPARATION

The interim condensed consolidated financial information for the Period has been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting*. The interim condensed consolidated financial information does not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group’s annual consolidated financial statements for the year ended 31 December 2018.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2018, except for the adoption of the new and revised standards, interpretation and amendments to a number of International Financial Reporting Standards (“IFRSs”) issued by the International Accounting Standards Board effective as of 1 January 2019.

Amendments to IFRS 9	<i>Prepayment Features with Negative Compensation</i>
IFRS 16	<i>Leases</i>
Amendments to IAS 19	<i>Plan Amendment, Curtailment or Settlement</i>
Amendments to IAS 28	<i>Long-term Interests in Associates and Joint Ventures</i>
IFRIC 23	<i>Uncertainty over Income Tax Treatments</i>
<i>Annual Improvements 2015-2017 Cycle</i>	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 JUNE 2019

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(Continued)*

The adoption of these interpretation and amendments to IFRSs has had no significant financial effect on the financial position or performance of the Group except IFRS 16. The nature and impact of IFRS 16 are described below:

IFRS 16 replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC 15 *Operating Leases – Incentives* and SIC 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model. Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have any financial impact on leases where the Group is the lessor.

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initial adoption as an adjustment to the opening balance of retained profits at 1 January 2019, and the comparative information for 2018 was not restated and continues to be reported under IAS 17.

New definition of a lease

Under IFRS 16, a contract is, or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of IFRS 16

The Group has lease contracts for various items of motor vehicles, dormitories and a school campus. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under IFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low-value assets (elected on a lease by lease basis) and short-term leases (elected by class of underlying asset). The Group has elected not to recognise right-of-use assets and lease liabilities for (i) leases of low-value assets; and (ii) leases that, at the commencement date, have a lease term of 12 months or less. Instead, the Group recognises the lease payments associated with those leases as an expense on a straight-line basis over the lease term.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(Continued)*

As a lessee – Leases previously classified as operating leases *(Continued)*

Impacts on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and the Group elected to present the lease liabilities separately in the consolidated statement of financial position.

The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the consolidated statement of financial position immediately before 1 January 2019. All these assets were assessed for any impairment based on IAS 36 on that date. The Group elected to present the right-of-use assets separately in the consolidated statement of financial position.

The Group has used the following elective practical expedients when applying IFRS 16 at 1 January 2019:

- Applied the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application
- Applied a single discount rate to a portfolio of leases with reasonably similar characteristics

The impacts arising from the adoption of IFRS 16 as at 1 January 2019 are as follows:

	Increase/ (decrease) RMB' 000 (Unaudited)
Assets	
Increase in right-of-use assets	723,760
Decrease in prepaid land lease payments	(590,015)
Decrease in prepayments, deposits and other receivables	(13,883)
Increase in total assets	<u>119,862</u>
Liabilities	
Increase in lease liabilities	162,595
Decrease in other payables – accrued lease payments	(42,733)
Increase in total liabilities	<u>119,862</u>

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 JUNE 2019

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(Continued)*

As a lessee – Leases previously classified as operating leases *(Continued)*

Impacts on transition (Continued)

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018 as follows:

	RMB'000 (Unaudited)
Gross operating lease commitments as at 31 December 2018	199,662
Weighted average incremental borrowing rate as at 1 January 2019	6.59%
Discounted operating lease commitments at 1 January 2019	<u>151,228</u>
Add:	
Payments for optional extension periods not recognised as at 31 December 2018	<u>11,367</u>
Lease liabilities as at 1 January 2019	<u><u>162,595</u></u>

Summary of new accounting policies

The accounting policy for leases as disclosed in the annual financial statements for the year ended 31 December 2018 is replaced with the following new accounting policies upon adoption of IFRS 16 from 1 January 2019:

Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(Continued)*

Summary of new accounting policies *(Continued)*

Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in-substance fixed lease payments or a change in assessment to purchase the underlying asset.

Significant judgement in determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has the option, under some of its leases, to lease the campus for additional terms of two years. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. It considers all relevant factors that create an economic incentive for it to exercise the renewal. After the lease commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within the control of the Group and affects its ability to exercise the option to renew.

The Group included the renewal period as part of the lease term for leases of the campus due to the significance of these assets to its operations. These leases have a short non-cancellable period and there will be a significant negative effect on operation if a replacement is not readily available.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 JUNE 2019

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(Continued)*

Amounts recognised in the interim consolidated statement of financial position and profit or loss

The carrying amounts of the Group's right-of-use assets and lease liabilities and the movements during the Period are as follows:

	Right-of-use assets					Lease liabilities RMB' 000
	Land RMB' 000	Dormitories RMB' 000	Campus RMB' 000	Motor vehicles RMB' 000	Sub-total RMB' 000	
As at 1 January 2019	603,898	107,279	12,343	240	723,760	162,595
Additions	4,558	—	—	—	4,558	—
Depreciation expense	(7,726)	(5,850)	(2,389)	(31)	(15,996)	—
Interest expense	—	—	—	—	—	5,017
Payments	—	—	—	—	—	(14,049)
As at 30 June 2019	<u>600,730</u>	<u>101,429</u>	<u>9,954</u>	<u>209</u>	<u>712,322</u>	<u>153,563</u>

The Group recognised rental expense from short-term leases of RMB529,000 (note 5) for the six months ended 30 June 2019.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 JUNE 2019

3. REVENUE, OTHER INCOME AND GAINS

Revenue represents the values of services rendered after deducting scholarships granted by the Group and refunds during the Period, all of which represented the revenue from customers.

An analysis of revenue from contracts with customers is as follows:

(a) Disaggregated revenue information

		For the six months ended 30 June	
Type of revenue	Note	2019 RMB' 000 (Unaudited)	2018 RMB' 000 (Unaudited)
Tuition fees		504,297	452,146
Boarding fees		43,677	42,018
Others	(i)	46,756	33,833
		<u>594,730</u>	<u>527,997</u>

		For the six months ended 30 June	
Timing of revenue recognition		2019 RMB' 000 (Unaudited)	2018 RMB' 000 (Unaudited)
Services transferred over time		<u>594,730</u>	<u>527,997</u>

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 JUNE 2019

3. REVENUE, OTHER INCOME AND GAINS *(Continued)*

(b) Performance obligations

Information about the Group's performance obligations is summarised below:

The performance obligations of the services are satisfied over time as the services are rendered in each academic year or training period and advances are required before rendering the services.

Changes in contract liabilities during the period are as follows:

	For the six months ended 30 June	
	2019 RMB' 000 (Unaudited)	2018 RMB' 000 (Unaudited)
Carrying amount at 1 January	590,785	535,268
Revenue recognised that was included in the contract liabilities at 1 January	(569,571)	(523,585)
Increase due to cash received, excluding amounts recognised as revenue during the period	98,509	71,064
Carrying amount at 30 June	<u>119,723</u>	<u>82,747</u>

3. REVENUE, OTHER INCOME AND GAINS *(Continued)*

(b) Performance obligations *(Continued)*

The Group recognised the following revenue-related contract liabilities, which represented the unsatisfied or partially unsatisfied performance obligation as at the period/year end:

	30 June 2019 RMB' 000 (Unaudited)	31 December 2018 RMB' 000
Within one year	117,814	589,814
More than one year	1,909	971
Total contract liabilities	<u>119,723</u>	<u>590,785</u>

The performance obligations expected to be recognised in more than one year relate to the provision of formal education services that are paid in advance that will be satisfied within two years. All the other remaining performance obligations are expected to be recognised within one year.

The Group receives tuition and boarding fees from students in advance prior to the beginning of each academic year. Tuition and boarding fees are recognised proportionately over the relevant period of the applicable program. The students are entitled to the refund of payments proportionately in relation to the services not yet rendered.

The decrease in contract liabilities at 30 June 2019 was mainly due to the recognition of performance obligations related to the provision of formal education services during the Period.

There were no contract assets recognised at the end of the Period.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 JUNE 2019

3. REVENUE, OTHER INCOME AND GAINS *(Continued)*

An analysis of other income and gains is as follows:

	Notes	For the six months ended 30 June	
		2019 RMB' 000 (Unaudited)	2018 RMB' 000 (Unaudited)
Other income			
Government grants			
– related to assets	13	4,896	4,228
– related to expenses	(ii)	14,382	11,500
Interest income from bank balances		23,100	582
Interest income from time deposits		17,313	—
Interest income from loans to related parties		—	25,615
Interest income from loans to an independent third party		15,929	7,498
Rental income		3,121	12,052
Service income	(iii)	13,988	13,450
Donation income		775	64
Gain on exchange differences, net		2,990	—
Guarantee income		—	1,336
Others		3,454	6,056
		<u>99,948</u>	<u>82,381</u>
Gains			
Gains on disposal of items of property, plant and equipment		208	1,356
Gains on disposal of financial assets at fair value through profit and loss		757	771
Fair value gains on the conversion right of the convertible bond		—	13,271
Gain on disposal of a subsidiary		—	8,256
		<u>965</u>	<u>23,654</u>
Total other income and gains		<u>100,913</u>	<u>106,035</u>

3. REVENUE, OTHER INCOME AND GAINS *(Continued)*

Notes:

- (i) During the Period, revenue from other type of services mainly represented income received from the provision of other education services of self-study examination education services, adult education services and training services to the students, which were amortised within the training periods of the services rendered.
- (ii) The government grants relating to expenses represented the subsidies compensated for the incurred operating expenses arising from teaching activities, which were recognised as other income directly in profit or loss when received. There were no unfulfilled conditions or contingencies relating to these grants.
- (iii) During the Period, the service income mainly represented income derived from granting the rights of canteen and convenient store operations to independent third-party operators; and income from services provided to the students related to purchase of text books, dormitory bedding and examination materials.

4. FINANCE COSTS

An analysis of the Group's finance costs is as follows:

	For the six months ended 30 June	
	2019 RMB' 000 (Unaudited)	2018 RMB' 000 (Unaudited)
Interest on bank and other borrowings	71,409	84,171
Interest expense on lease liabilities (note 2.2)	5,017	—
Increase in the discounted amount of payables arising from the passage of time	—	28,653
	<hr/>	<hr/>
Total interest expense for financial liabilities that are not at fair value through profit or loss	76,426	112,824
Less: interest capitalised (note 8(a))	(2,210)	(5,499)
	<hr/>	<hr/>
	74,216	107,325

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 JUNE 2019

5. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

	Notes	For the six months ended 30 June	
		2019 RMB' 000 (Unaudited)	2018 RMB' 000 (Unaudited)
Employee benefit expense:			
Wages and salaries		130,001	123,928
Equity-settled share option expense	20	7,565	16,786
Pension scheme contributions (defined contribution scheme)		28,403	25,548
		<u>165,969</u>	<u>166,262</u>
Management fees	(i)	64,990	58,321
Depreciation of items of property, plant and equipment	8, (ii)	73,717	64,896
Recognition of prepaid land lease payments		—	7,048
Depreciation of right-of-use assets	8, (ii)	15,996	—
Amortisation of other intangible assets	8	4,590	4,418
Marketing and advertising costs		3,676	3,042
Listing expenses		—	11,531
Rental expense	2.2	529	13,152
Auditors' remuneration		1,500	—
Equity-settled share option expense	20	8,490	30,408
Losses on disposal of items of property, plant and equipment		<u>1,077</u>	<u>77</u>

Notes:

- (i) During the Period, management fees represented the annual fees paid to the regular universities with which the Group entered into cooperation agreements to operate independent colleges at a certain percentage of tuition fees.
- (ii) The depreciation of items of property, plant and equipment and depreciation of right-of-use assets of RMB62,523,000 and RMB11,336,000 respectively (six months ended 30 June 2018: the recognition of items of property, plant and equipment and recognition of prepaid land lease payments of RMB47,360,000 and RMB2,886,000 respectively) are recorded in "Cost of sales" in profit or loss.

6. INCOME TAX

The major components of income tax expense of the Group are as follows:

	For the six months ended 30 June	
	2019 RMB' 000 (Unaudited)	2018 RMB' 000 (Unaudited)
Current – Mainland China		
PRC corporate income tax for the period	2,317	1,835
Underprovision PRC corporate income tax in prior years	12,629	—
PRC land appreciation tax for the period	—	219
Deferred	(183)	—
Total tax charged for the period	<u>14,763</u>	<u>2,054</u>

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands and accordingly is not subject to income tax from business carried out in the Cayman Islands.

No provision for Hong Kong profits tax has been made as the Group had no assessable profits derived from or earned in Hong Kong during the Period.

According to the Implementation Rules for the Law for Promoting Private Education, private schools for which the school sponsors do not require reasonable returns are eligible to enjoy the same preferential tax treatment as public schools. The preferential tax treatment policies applicable to private schools requiring reasonable returns are to be separately formulated by the financing authority, taxation authority and other authorities under the State Council. During the Period and up to the date of approval of the interim condensed consolidated financial information, no regulations have been promulgated by such authorities in this regard. In accordance with the historical tax returns filed to the relevant tax authorities and the tax compliance confirmations obtained therefrom, the Group's schools did not pay corporate income tax for the income from the provision of formal educational services and had enjoyed the preferential tax treatment since their establishment. As a result, no income tax expense was recognised for the income from the provision of formal educational services during the Period.

The non-academic education services provided by the schools are subject to corporate income tax at a rate of 25%.

Except for a subsidiary established in Horgos, Xinjiang, the profit of which is exempted from income tax for the first five years since 2018 in accordance with the preferential tax rules, all of the Group's non-school subsidiaries established in the PRC were subject to the PRC corporate income tax rate of 25% during the Period.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 JUNE 2019

7. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of the basic earnings per share amount is based on the profit attributable to ordinary equity holders of the Company for the Period and 6,666,668,000 ordinary shares in issue during the Period (for the six months ended 30 June 2018: the weighted average number of ordinary shares of 4,975,277,725, comprising the weighted average number of ordinary shares of 27,777,778 issued during the six months ended 30 June 2018 and 4,947,499,947 ordinary shares to be issued pursuant to the capitalisation issue).

The diluted earnings per share for the Period is calculated based on the profit for the Period attributable to owners of the Company as used in the basic earnings per share calculation. The weighted average number of ordinary shares used in the calculation is the weighted average number of ordinary shares in issue during the Period, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

The calculations of the basic and diluted earnings per share are based on:

	For the six months ended 30 June	
	2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Earnings		
Profit attributable to the owners of the Company, used in the basic earnings per share calculation	243,306	133,518
Add: interest on convertible bonds	—	4,470
Less: fair value gains on the conversion right of the convertible bond	—	(13,271)
Profit attributable to the owners of the Company before interest on convertible bonds and fair value gains on the conversion right of the convertible bonds used in the diluted earnings per share calculation	<u>243,306</u>	<u>124,717</u>

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 JUNE 2019

7. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

(Continued)

	For the	
	six months ended 30 June	
	2019 (Unaudited)	2018 (Unaudited)
Shares		
Weighted average number of ordinary shares in issue during the Period used in the basic earnings per share calculation	6,666,668,000	4,975,277,725
Effect of dilution – weighted average number of ordinary shares:		
Share options	13,838,791*	601,209
A composite instrument	—	2,500,053
	<u>6,680,506,791</u>	<u>4,978,378,987</u>
Weighted average number of ordinary shares during the Period used in the diluted earnings per share calculation	<u>6,680,506,791</u>	<u>4,978,378,987</u>

* Excluded the 130,393,478 (Note 20) share options when calculating the diluted earnings per share as the exercise price of these outstanding share options was higher than the average market price of the Company's shares during the Period.

8. PROPERTY, PLANT AND EQUIPMENT, INTANGIBLE ASSETS AND RIGHT-OF-USE ASSETS

Movements in property, plant and equipment, intangible assets and right-of-use assets during the Period are as follows:

	Property, plant and equipment RMB' 000 (Unaudited) (note (a))	Other intangible assets RMB' 000 (Unaudited)	Right-of-use assets RMB' 000 (Unaudited)
Carrying amounts at 1 January 2019	3,448,267	133,596	723,760
Additions	96,813	190	4,807
Disposals	(3,884)	(18)	(249)
Depreciation/amortisation charged for the Period (note 5)	<u>(73,717)</u>	<u>(4,590)</u>	<u>(15,996)</u>
Carrying amounts at 30 June 2019	<u>3,467,479</u>	<u>129,178</u>	<u>712,322</u>



NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 JUNE 2019

8. PROPERTY, PLANT AND EQUIPMENT, INTANGIBLE ASSETS AND RIGHT-OF-USE ASSETS

(Continued)

- (a) As at 30 June 2019, the Group was in the customary process of obtaining the relevant property ownership certificates for certain buildings with an aggregate net carrying amount of approximately RMB1,181,965,000 (31 December 2018: RMB1,086,833,000). The Group's buildings can only be sold, transferred or mortgaged when the relevant certificates have been obtained.

Additions to construction in progress during the Period included interest capitalised in respect of certain bank loans borrowed generally amounting to RMB2,210,000 (six months ended 30 June 2018: RMB5,499,000). The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation was 7.14% (six months ended 30 June 2018: 4.75%).

9. GOODWILL

IAS 36 requires an entity to perform impairment tests on goodwill on an annual basis. Meanwhile, management did not identify any significant adverse changes in the operating results and macro environment in the six months' period ended 30 June 2019, and the Company's management has concluded there was no impairment indicator of goodwill at 30 June 2019. Accordingly, management did not perform impairment testing on goodwill as at 30 June 2019.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 JUNE 2019

10. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Notes	30 June 2019 RMB' 000 (Unaudited)	31 December 2018 RMB' 000
Current portion:			
Prepayments for management fees	5(i)	1,030	18,626
Prepaid expense		12,876	12,301
Deposits		10,317	10,278
Other receivables		5,128	5,660
Staff advance		15,594	4,537
Prepaid land lease payments to be amortised within one year		—	13,883
Refundable deposit related to proposed equity acquisition		50,001	30,000
Rental receivables		5,002	2,500
Interest receivable from time deposits		19,591	5,980
Interest receivable from loans to a third party	(a)	41,849	24,964
Loans to a third party	(a)	443,670	—
		<u>605,058</u>	<u>128,729</u>
Non-current portion:			
Loans to a third party	(a)	4,000	447,670
Prepayments for property, plant and equipment		7,658	8,555
Prepayments for land lease payments		25,000	10,000
Prepayment for acquisition of equity interests		20,000	—
Prepayment for an intangible asset		1,000	—
		<u>57,658</u>	<u>466,225</u>
		<u><u>662,716</u></u>	<u><u>594,954</u></u>

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 JUNE 2019

10. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES *(Continued)*

Note:

- (a) The loans to a third party represented the loans to Chengdu Wuhou Guixi Property Development Limited (“Guixi Property”), a company controlled by the previous ultimate shareholder of Sichuan TOP IT Vocational Institute bearing interest at a rate of 7.5% per annum and will become mature within two years from the respective grant dates. The interest is paid half-yearly in arrears, and the principal of the loans will be repaid in a lump sum when the loans become mature. The loans are secured by the properties belonging to Guixi Property.

As at 30 June 2019, interest receivables with the amount of RMB41,849,000 arising from the loans have been partially past due. The Group does not recognise any expected credit loss as the fair value of the collateral held by the Group over the principal loans and the interest receivables of approximately RMB836,158,000 (31 December 2018: RMB836,158,000) is higher than the aggregate amounts of the loans and the interest receivables. The fair value of the collateral was determined by an independent qualified valuer at 31 December 2018. The fair value was revisited by the directors with reference to the market trend of the real estate market in which there were no significant adverse changes during the Period.

The remaining receivables are interest-free and are not secured with collateral.

None of the financial assets included in the above balances related to receivables is past due except the interest receivables from a third party mentioned in note (a) above.

The above financial assets related to receivables have no recent history of default.

11. CASH AND CASH EQUIVALENTS

	30 June 2019 RMB' 000 (Unaudited)	31 December 2018 RMB' 000
Cash and bank balances	1,558,313	2,588,905
Time deposits	1,047,971	450,000
Wealth management product issued by a licensed bank, measured at amortised cost	7,000	—
Cash and cash equivalents	<u>2,613,284</u>	<u>3,038,905</u>

11. CASH AND CASH EQUIVALENTS *(Continued)*

The cash and cash equivalents were denominated in the following currencies:

	30 June 2019 RMB' 000 (Unaudited)	31 December 2018 RMB' 000
RMB	1,132,934	1,473,525
HK\$	823	1,976
US\$	1,479,527	1,563,404
Cash and cash equivalents	<u>2,613,284</u>	<u>3,038,905</u>

The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The time deposits with original maturity ranging from three months to one year earn interest at the deposit rate ranging from 1.48% to 4% per annum. The bank balances and time deposits are deposited with creditworthy banks with no recent history of default. None of the cash and cash equivalents above were pledged at 30 June 2019 (31 December 2018: Nil).

The wealth management product measured at amortised cost is issued by a licensed bank with a guaranteed return of 2.8% per annum. The wealth management product is held for collection of contractual cash flows and the contractual cash flows qualify for solely payments of principal and interest, and hence it is measured at amortised costs.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 JUNE 2019

12. OTHER PAYABLES AND ACCRUALS

	Notes	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000
Current portion:			
Payables for purchase of property, plant and equipment		183,104	144,797
Miscellaneous advances received from students	(i)	96,417	97,535
Accrued bonuses and other employee benefits		48,167	55,244
Rental payable		1,255	43,628
Government scholarship		38,620	13,976
Payables for purchase of teaching materials and operating expenditure		14,970	22,240
Payables for management fees		4,618	20,419
Construction deposits		32,727	30,538
Other taxes payable		14,401	26,246
Other payables and accrued expenses		85,308	107,004
Construction loan from Mianzhu Education Bureau	(ii)	75,832	75,832
		<u>595,419</u>	<u>637,459</u>
Non-current portion:			
Other payable	(iii)	6,416	6,416
		<u>601,835</u>	<u>643,875</u>

Notes:

- (i) The advances represented expenses relating to textbooks, military training, medical examination, insurance, etc. collected from students which will be paid out on behalf of students.
- (ii) Sichuan Tianyi College obtained an interest-free and non-repayable loan amounting to RMB75,832,000 from the Mianzhu Educational Bureau in 2015.
- (iii) The non-current other payable represented the liabilities to Nanchong No.19 Middle School for the purchase of fixed assets.

Except as disclosed above, other payables and accruals are unsecured and non-interest-bearing.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 JUNE 2019

13. DEFERRED INCOME

	30 June 2019 RMB' 000 (Unaudited)
At beginning of period	667,490
Grants received	32,036
Released to profit or loss (note 3)	(4,896)
At end of period	<u>694,630</u>
Current	10,292
Non-current	<u>684,338</u>
	<u>694,630</u>

Deferred income represents the government grants received for subsidies in connection with the construction of certain buildings. These grants related to assets are released to profit or loss over the expected useful lives of the relevant assets.

14. LEASE LIABILITIES

	30 June 2019 RMB' 000 (Unaudited)	31 December 2018 RMB' 000
Current	25,792	—
Non-current	<u>127,771</u>	—
	<u>153,563</u>	—

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 JUNE 2019

15. INTEREST-BEARING BANK AND OTHER BORROWINGS

	As at 30 June 2019			As at 31 December 2018		
	Effective interest rate	Maturity	RMB' 000	Effective interest rate	Maturity	RMB' 000
	(%) (unaudited)	(unaudited)	(unaudited)	(%)		
Current						
Bank loans – secured	6.00	2019	300,000	6.00	2019	300,000
Current portion of						
– long term bank loans – secured	4.75-7.06	2019	90,083	4.75-7.06	2019	91,509
– other borrowings – secured	7.00-7.50	2019-2020	186,050	7.00-7.50	2019	135,171
			<u>576,133</u>			<u>526,680</u>
Non-current						
Bank loans – secured	4.75-7.06	2020-2023	877,110	4.75-7.06	2020-2023	830,000
Other borrowings – secured	7.00-7.50	2020-2023	678,500	7.00-7.50	2020-2023	775,052
			<u>1,555,610</u>			<u>1,605,052</u>
			<u>2,131,743</u>			<u>2,131,732</u>

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 JUNE 2019

15. INTEREST-BEARING BANK AND OTHER BORROWINGS *(Continued)*

	30 June 2019 RMB' 000 (Unaudited)	31 December 2018 RMB' 000
Analysed into:		
Bank loans repayable:		
Within one year	390,083	391,509
In the second year	360,000	110,000
In the third to fifth years, inclusive	517,110	720,000
	<u>1,267,193</u>	<u>1,221,509</u>
Other borrowings repayable:		
Within one year	186,050	135,171
In the second year	172,790	211,129
In the third to fifth years, inclusive	505,710	563,923
	<u>864,550</u>	<u>910,223</u>
	<u>2,131,743</u>	<u>2,131,732</u>

Notes:

All of the Group's bank and other borrowings are denominated in RMB.

The Group's bank loans and other borrowings are secured by:

(a) Mortgages over the following assets:

Buildings of Guixi Property, a third party:

Guixi Property's building with the fair value of RMB836,158,000 was pledged for the bank loans of the Group amounting to RMB250,000,000 as at 30 June 2019 (31 December 2018: RMB300,000,000).

(b) Pledges of equity interests in the following subsidiaries of the Group:

- (i) 100% of the equity interests in Sichuan Yonghe Education Investment Limited have been pledged for bank loans of RMB300,000,000 as at 30 June 2019 and 31 December 2018;
- (ii) 100% of the equity interests in Sichuan TOP Education Co., Ltd. have been pledged for the other borrowings of RMB524,000,000 as at 30 June 2019 (31 December 2018: RMB574,000,000); and

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 JUNE 2019

15. INTEREST-BEARING BANK AND OTHER BORROWINGS *(Continued)*

Notes: *(Continued)*

(b) *(Continued)*

(iii) 100% of the equity interests in Sichuan Guojian Investment Limited, the guarantee granted by Sichuan Hope Education Industry Group Limited, and the rights over tuition fees of Southwest Jiaotong University Hope College have been provided or pledged to China National Investment and Guaranty Corporation to counter guarantee the corporate guarantee provided by China National Investment and Guaranty Corporation in relation to the Group's asset-backed securities borrowings of RMB340,550,000 as at 30 June 2019 (31 December 2018: RMB336,223,000).

(c) Certain of the Group's bank and other borrowings are guaranteed by the following related parties:

	Loan amount	
	30 June 2019 RMB' 000 (Unaudited)	31 December 2018 RMB' 000
<i>Name of related party (as defined in note 19)</i>		
Tequ Education and Mr. Wang Huiwu	250,000	300,000
Mr. Wang Huiwu	100,000	100,000
	<u>350,000</u>	<u>400,000</u>

(d) Certain of the Group's bank and other borrowings are guaranteed by the rights over tuition or boarding fees of the following schools:

	Loan amount	
	30 June 2019 RMB' 000 (Unaudited)	31 December 2018 RMB' 000
Sichuan Tianyi College	135,083	154,349
Sichuan Tianyi College, Sichuan Hope Automotive Vocational College, Business College of Guizhou University of Finance and Economics, Sichuan Vocational College of Culture & Communication	300,000	300,000
Southwest Jiaotong University Hope College	340,550	336,223
Sichuan TOP IT Vocational Institute	524,000	574,000
Guizhou Vocational Institute of Technology	100,000	100,000
Jinci College of Shanxi Medical University	282,110	167,160
	<u>1,681,743</u>	<u>1,631,732</u>

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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16. SHARE CAPITAL

	30 June 2019 US\$ (Unaudited)	31 December 2018 US\$
Authorised:		
10,000,000,000 shares of US\$0.00001 each	<u>100,000</u>	<u>100,000</u>
Issued and fully paid:		
6,666,668,000 shares of US\$0.00001 each share	<u>66,667</u>	<u>66,667</u>
Equivalent to (in RMB)	<u>RMB454,070</u>	<u>RMB454,070</u>

17. DIVIDEND

	For the six months ended 30 June	
	2019 RMB' 000 (Unaudited)	2018 RMB' 000 (Unaudited)
Final declared and paid – HK1.8 cent (2018: nil) per ordinary share	<u>105,495</u>	<u>—</u>

At the meetings of the Directors held on 29 August 2019, the Directors of the Company did not recommend any payment of interim dividend (six months ended 30 June 2018: nil).

18. COMMITMENTS

The Group had the following capital commitments as at the end of the reporting periods:

	30 June 2019 RMB' 000 (Unaudited)	31 December 2018 RMB' 000
Contracted but not provided for:		
Property, plant and equipment	119,904	83,495
Acquisition of equity interests	<u>128,000</u>	<u>—</u>
	<u>247,904</u>	<u>83,495</u>

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 JUNE 2019

19. RELATED PARTY TRANSACTIONS AND BALANCES

(a) Name and relationship

The Directors are of the view that the following parties/companies are related parties that had transactions or balances with the Group during the Period.

Related parties	Relationships
Mr. Wang Huiwu	One of the ultimate jointly controlling parties
Mr. Chen Yuxin	One of the ultimate jointly controlling parties
Sichuan Tequ Investment Group Ltd. ("Tequ Investment Group")	One of the jointly controlling shareholders
Sichuan Tequ Education Management Co., Ltd. ("Tequ Education")	A company controlled by the jointly controlling shareholders
Mianzhu May Sunshine Property Development Co., Ltd. ("Mianzhu Property")	A company controlled by Tequ Education
College of Science and Technology of Guizhou University	Joint venture of Tequ Education
Sichuan Mayflower Precision Instrument Co., Ltd. ("Mayflower Precision Instrument")	A company controlled by a close relative of Mr. Wang Huiwu
Sichuan Wanqian Trading Co., Ltd. ("Wanqian Trading")	A company ultimately controlled by a close relative of Mr. Wang Huiwu
Ziyang Automobile Science and Technology Vocational College ("Ziyang Automobile College")	A school controlled by Tequ Education
Ziyang May Sunshine Property Development Co., Ltd. ("Ziyang Property")	A company controlled by Tequ Education
Chengdu Hope English Training School ("Hope English School")	A school controlled by Tequ Education
Sichuan Dawu Trading Co., Ltd. ("Dawu Trading")	A company controlled by a close relative of Mr. Wang Huiwu
Sichuan Dawu Technology Co., Ltd. ("Dawu Technology")	A company controlled by Dawu Trading
Sichuan Rongxing Driving School Co., Ltd. ("Rongxing Driving School")	A company controlled by a close relative of Mr. Wang Huiwu
Sichuan Tianyuan Insurance Co., Ltd. ("Tianyuan Insurance")	A company controlled by Dawu Trading
Guizhou Mayflower Property Development Co., Ltd. ("Guizhou Mayflower Property")	A company controlled by Tequ Education
Guizhou Mayflower Driving Training Co., Ltd. ("Guizhou Mayflower Driving")	A company controlled by Rongxing Driving School
Chengdu Mayflower Property Management Co., Ltd. ("Chengdu Mayflower Property Management")	A company controlled by Dawu Trading

19. RELATED PARTY TRANSACTIONS AND BALANCES *(Continued)*

(a) Name and relationship *(Continued)*

Related parties	Relationships
Sichuan Hope Insurance Co., Ltd. (“Hope Insurance”)	A company controlled by Dawu Trading
Sichuan Wuyang Construction Co., Ltd. (“Wuyang Construction”)	A company controlled by a close relative of Mr. Wang Huiwu
Chengdu Mayflower Senior Technical School (“Chengdu Mayflower Technical”)	A company controlled by Tequ Education
Chengdu Muma Car Rental Co., Ltd. (“Chengdu Muma Car”)	A company controlled by a close relative of Mr. Wang Huiwu
Sichuan Mayflower Wine Sales Co., Ltd. (“Mayflower Wine Sales”)	A company controlled by Ziyang Property
Mianzhu Mayflower Driving Training Co., Ltd. (“Mianzhu Mayflower Driving”)	A company controlled by Rongxing Driving School

(b) Transactions with related parties

(i) Loans received from/(repayment of loans to)

	For the six months ended 30 June	
	2019 RMB’000 (Unaudited)	2018 RMB’000 (Unaudited)
Tequ Investment Group		
Loans received from	—	100,000
Repayment of loans to	—	(100,000)
Interest paid	—	(678)
Interest expense charged by	—	678
Effective interest rate, per annum	—	<u>8.02%-12%</u>

The above loans are unsecured and repayable on demand or within one year.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 JUNE 2019

19. RELATED PARTY TRANSACTIONS AND BALANCES *(Continued)*

(b) Transactions with related parties *(Continued)*

(ii) Interest income received

	For the six months ended 30 June	
	2019 RMB' 000 (Unaudited)	2018 RMB' 000 (Unaudited)
Tequ Education	—	24,093
College of Science and Technology of Guizhou University	—	1,522
	<u>—</u>	<u>25,615</u>

The Group granted loans to Tequ Education and College of Science and Technology of Guizhou University and charged interest at 8.5% and 8% per annum, respectively, based on the average monthly loan balances.

19. RELATED PARTY TRANSACTIONS AND BALANCES *(Continued)*

(b) Transactions with related parties *(Continued)*

(iii) Procurement of property, equipment and fixtures

	For the six months ended 30 June	
	2019 RMB' 000 (Unaudited)	2018 RMB' 000 (Unaudited)
Wuyang Construction	16,933	63,590
Dawu Trading	1,096	79,155
Mianzhu Property	631	5,101
Guizhou Mayflower Property	—	360
Chengdu Mayflower Technical	84	—
Ziyang Property	—	3,989
Mayflower Precision Instrument	—	4,484
Wanqian Trading	—	3
Dawu Technology	—	362
	<u>18,744</u>	<u>157,044</u>

The considerations for the construction of property, equipment and fixtures were determined at prices mutually agreed between the Group and its related parties with reference to arm's length pricing obtained from the market.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 JUNE 2019

19. RELATED PARTY TRANSACTIONS AND BALANCES *(Continued)*

(b) Transactions with related parties *(Continued)*

(iv) *Goods purchased and services received from related parties*

	For the six months ended 30 June	
	2019 RMB' 000 (Unaudited)	2018 RMB' 000 (Unaudited)
Hope Insurance	—	268
Chengdu Muma Car	162	—
Mayflower Wine Sales	425	—
Chengdu Mayflower Property Management	20	—
Tianyuan Insurance	239	2
	<u>846</u>	<u>270</u>

The purchases of goods or services from the related parties were determined at prices mutually agreed between the Group and its related parties with reference to arm's length pricing obtained from the market.

(v) *Properties leased to related parties*

	For the six months ended 30 June	
	2019 RMB' 000 (Unaudited)	2018 RMB' 000 (Unaudited)
Chengdu Mayflower Technical	2,857	6,336
Ziyang Automobile College	—	7,154
Rongxing Driving School	481	855
Guizhou Mayflower Driving	310	400
Mianzhu Mayflower Driving	209	—
	<u>3,857</u>	<u>14,745</u>

Rental charges were determined at prices mutually agreed between the Group and its related parties with reference to arm's length pricing obtained from the appraiser.

19. RELATED PARTY TRANSACTIONS AND BALANCES *(Continued)*

(b) Transactions with related parties *(Continued)*

(vi) Disposal of a subsidiary

In March 2018, the Group entered into an equity transfer agreement with Tequ Education to transfer the 70% equity interest in Jiexing Huilv for a consideration of RMB70 million.

(vii) Service provided to a related party

The Group has provided educational consulting service to College of Science and Technology of Guizhou University since September 2018 and charged service fees amounting to RMB3,440,000 during the Period at a price mutually agreed between the Group and the related party with reference to arm's length pricing obtained from the market.

(c) Balances with related parties

Amounts due from related parties

	30 June 2019 RMB' 000 (Unaudited)	31 December 2018 RMB' 000
Chengdu Mayflower Technical	3,085	1,736
Chengdu Mayflower Property Management	2,072	1,446
Ziyang Automobile College	1,052	1,052
Tequ Education	515	—
Rongxing Driving School	505	—
Guizhou Mayflower Driving	416	80
Mianzhu Mayflower Driving	220	—
Tequ Investment Group	62	—
	7,927	4,314

The amounts due from the related parties are unsecured, interest-free and have no fixed terms of repayment.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 JUNE 2019

19. RELATED PARTY TRANSACTIONS AND BALANCES *(Continued)*

(c) Balances with related parties *(Continued)*

Amounts due to related parties

	30 June 2019 RMB' 000 (Unaudited)	31 December 2018 RMB' 000
Wuyang Construction	12,022	32,764
College of Science and Technology of Guizhou University	1,147	4,587
Dawu Trading	1,096	—
Hope English School	803	939
Tianyuan Insurance	443	—
Mayflower Wine Sales	310	11
Chengdu Muma Car	156	—
Wanqian Trading	82	86
Chengdu Mayflower Property Management	10	—
Hope Insurance	3	3
Tequ Education	—	14,070
Mayflower Precision Instrument	—	1
Chengdu Mayflower Training	—	40
Chengdu Red May	—	9
Tianyuan Insurance	—	443
	<u>16,072</u>	<u>52,953</u>

Other payables due to the above related parties are unsecured, interest-free and have no fixed terms of repayment.

19. RELATED PARTY TRANSACTIONS AND BALANCES *(Continued)*

(d) Compensation of key management personnel of the Group:

	For the six months ended 30 June	
	2019 RMB' 000 (Unaudited)	2018 RMB' 000 (Unaudited)
Salaries, allowances and benefits in kind	1,098	1,108
Equity-settled share option expense	1,313	3,050
Pension scheme contributions	167	171
	<u>2,578</u>	<u>4,329</u>

20. SHARE OPTION SCHEME

On 18 March 2018, the Company adopted a share option scheme (the “2018 Pre-IPO Share Option Scheme”) for the purpose of providing incentives to senior management, mid-level employees and staff who contribute to the success of the Group. The 2018 Pre-IPO Share Option Scheme became effective on 18 March 2018. The 2018 Pre-IPO Share Option Scheme has been expired on 3 August 2018, the date on which the shares of the Company first commence trading on the Stock Exchange of Hong Kong Limited, after which period no further Pre-IPO Share Options will be granted but the provisions of the 2018 Pre-IPO Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any Pre-IPO Share Options which are granted during the life of the scheme or otherwise as may be required in accordance with the provisions of the 2018 Pre-IPO Share Option Scheme.

Share options do not confer rights on the holders to dividends or to vote at shareholders’ meetings.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 JUNE 2019

20. SHARE OPTION SCHEME (Continued)

(i) Movements in share options

The following share options were outstanding under the 2018 Pre-IPO Share Option Scheme during the Period:

	Weighted average exercise price RMB	Number of options
At 1 January 2019	0.99	451,951,661
Forfeited during the Period	0.99	(9,546,801)
At 30 June 2019	<u>0.99</u>	<u>442,404,860</u>

There are in total three tranches of share options under the 2018 Pre-IPO Share Option Scheme, namely tranche A ("Tranche A Options"), tranche B ("Tranche B Options") and tranche C ("Tranche C Options").

(ii) Outstanding share options

The following table discloses the details of share options outstanding at 30 June 2019:

	Number of share options	Exercise price per share RMB	Fair value per share RMB	Vesting period/ exercise period of share options Notes
Tranche A Options	3,383,731	0.5911	0.4427	(a)
Tranche B Options – 1	251,380,294	0.9311	0.3542	(a)
Tranche B Options – 2	57,247,357	0.9311	0.2377	(b)
Tranche C Options – 1	112,984,725	1.1311	0.3133	(a)
Tranche C Options – 2	17,408,753	1.1311	0.1840	(b)
	<u>442,404,860</u>			

Notes:

- (a) Tranche A Options, Tranche B Options – 1 and Tranche C Options – 1 are exercisable on 30 January 2019 and will expire on 18 March 2038.
- (b) Tranche B Options – 2 and Tranche C Options – 2 will vest over the period from the grant date to 18 months after 3 August 2018. The exercise period of Tranche B Options – 2 and Tranche C Options – 2 commences after a vesting period and ends 6 months later when Tranche B Options – 2 and Tranche C Options – 2 vest.

20. SHARE OPTION SCHEME (Continued)

(iii) Fair value of the share options

The fair value of the share options under the 2018 Pre-IPO Share Option Scheme was RMB149,983,000 (RMB0.1840 to RMB0.4427 each), of which the Group recognised a share option expense of RMB16,055,000 after netting off fair value reversed due to forfeited options for the Period.

The fair value of equity-settled share options, was estimated as at the date of grant using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

	Tranche A Options	Tranche B Options	Tranche C Options
Dividend yield	0.00%	0.00%	0.00%
Expected volatility	50%	50%	50%
Risk-free interest rate	1.75%	1.41-1.75%	1.41-1.75%
Forfeiture rate	2.36%	2.36%	2.36%

The expected life of the options is based on the historical data over the past three years and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

At the end of the reporting period, the Company had 442,404,860 share options outstanding under the 2018 Pre-IPO Share Option Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 442,404,860 additional ordinary shares of the Company and additional share capital of US\$4,424 (equivalent to approximately RMB30,414) and share premium of RMB436,820,978 (before issue expenses).

At the date of approval of this financial information, the Company had 442,404,860 share options outstanding under the 2018 Pre-IPO Share Option Scheme, which represented approximately 6.6% of the Company's shares in issue as at that date.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 JUNE 2019

21. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximately to their fair values, are as follows:

	Carrying amount		Fair value	
	30 June 2019 RMB' 000 (Unaudited)	31 December 2018 RMB' 000	30 June 2019 RMB' 000 (Unaudited)	31 December 2018 RMB' 000
Financial liabilities				
Other payable, non-current portion	6,416	6,416	6,416	6,416
Interest-bearing bank loans, non-current portion	1,555,610	1,605,052	1,561,747	1,677,380
	<u>1,562,026</u>	<u>1,611,468</u>	<u>1,568,163</u>	<u>1,683,796</u>

Management has assessed that the fair values of cash and cash equivalents, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals, short-term interest-bearing bank and other borrowings and amounts due from/to related parties, approximate to their carrying amounts largely due to the short-term maturities of these instruments.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of the non-current interest-bearing bank and other borrowings, and the non-current other payable have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for non-current financial liabilities as at 30 June 2019 was assessed to be insignificant.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 JUNE 2019

21. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

Liabilities for which fair values are disclosed:

	Fair value measurement using			Total RMB' 000
	Quoted prices in active markets Level 1 RMB' 000	Significant observable inputs Level 2 RMB' 000	Significant unobservable inputs Level 3 RMB' 000	
30 June 2019				
Interest-bearing bank loans, non-current portion	—	—	1,561,747	1,561,747
Other payable, non-current portion	—	—	6,416	6,416
	<u>—</u>	<u>—</u>	<u>1,568,163</u>	<u>1,568,163</u>
31 December 2018				
Interest-bearing bank loans, non-current portion	—	—	1,677,380	1,677,380
Other payable, non-current portion	—	—	6,416	6,416
	<u>—</u>	<u>—</u>	<u>1,683,796</u>	<u>1,683,796</u>

22. EVENTS AFTER THE REPORTING PERIOD

- (a) On 10 July 2019, an ordinary resolution in relation to the acquisition of the entire interests in Chengdu Maysunshine Education Management Co., Ltd. from Sichuan Tequ Education at a consideration of RMB70,000,000, was duly passed at the extraordinary general meeting. Further details of such acquisition are disclosed in the Company's announcement dated 20 June 2019.
- (b) On 22 July 2019, Sichuan Hope Education Industry Group Limited ("Hope Education" (as purchaser)), one of the Group's subsidiary and Guizhou Jiexing Huilv Education Training Co., Ltd. (as vendor, "Jiexing Training") and Guo Xiaolan entered into the "Further Acquisition Agreement", pursuant to which Jiexing Training and Guo Xiaolan agreed to transfer the remaining 30% interests in Guizhou Jiexing Huilv Air Service Consultant Services Limited ("Jiexing Huilv") and the corresponding sponsor right of the College to Hope Education at a total consideration of RMB78,000,000. Further details of such acquisition are disclosed in the Company's announcement dated 22 July 2019.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 JUNE 2019

22. EVENTS AFTER THE REPORTING PERIOD *(Continued)*

- (c) On 29 July 2019, Hope Education entered into a sale and purchase agreement with an independent third party in relation to the acquisition by Hope Education of 95% interests in Hebi Automotive Engineering Professional College (鶴壁汽車工程職業學院) at a cash consideration of RMB160 million. Further details of such acquisition are disclosed in the Company's announcement dated 29 July 2019.
- (d) On 23 August 2019, Hope Education entered into a sale and purchase agreement with an independent third party in relation to the acquisition by Hope Education of 100% interests in Suzhou TOP Information Vocational Technology Institute ("Suzhou TOP", 蘇州托普信息職業技術學院) and 100% interests in Kunshan Technical School and Business School at a consideration of RMB375,745,000, pursuant to which, Hope Education will also provide loans to Suzhou TOP and Kunshan Technical School and Business School to repay their debts of RMB24,255,000. Further details of such acquisition are disclosed in the Company's announcement dated 25 August 2019.
- (e) On 23 August 2019, Zhangshu Yude Education Management Co., Ltd., a wholly-owned subsidiary of the Group, entered into a land use right acquisition agreement with the Municipal Government of Zhangshu City, Jiangxi Province, with a cash consideration of RMB20.55 million. Further details of such acquisition are disclosed in the Company's announcement dated 25 August 2019.
- (f) On 29 August 2019, Hope Education entered into a sale and purchase agreement with an independent third party in relation to the acquisition by Hope Education of 100% interests in a group of schools and companies (including Yinchuan University of Energy, Yinchuan Vocational School of Science and Technology, Ningxia Modern Senior Technical School, Vocational-technical Training Center of Yinchuan University, Auto Repair Factory of Yinchuan University Education Group Co., Ltd. And Car Driving Training School of Yinchuan University Education Group Co., Ltd.) at a consideration of RMB550,000,000. Further details of such acquisition are disclosed in the Company's announcement dated 29 August 2019.

23. APPROVAL OF THE INTERIM CONDENSED FINANCIAL INFORMATION

The interim condensed consolidated financial information was approved and authorised for issue by the board of directors on 29 August 2019.

In this report, unless the context otherwise requires, the following expressions have the following meanings:

“Board” or “Board of Directors”	the board of Directors of the Company
“Business College of Guizhou University of Finance and Economics”	Business College of Guizhou University of Finance and Economics (貴州財經大學商務學院), a college established under the laws of PRC in 2004, acquired by our Group in April 2014 and approved by the MOE to be operated under the cooperation between Guizhou University of Finance and Economics and our Group in September 2014
“CG Code” or “Corporate Governance Code”	the code on corporate governance practices set out in Appendix 14 to the Listing Rules
“China” or “PRC”	the People’s Republic of China excluding for the purpose of this announcement, Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Company”	Hope Education Group Co., Ltd. (希望教育集團有限公司), an exempted company incorporated in the Cayman Islands with limited liability on 13 March 2017
“Director(s)”	the directors of our Company
“Group,” “our Group,” “we” or “us”	our Company, its subsidiaries and the consolidated affiliated entities from time to time, or, where the context so requires in respect of the period before our Company became the holding company of our present subsidiaries, the entities which carried on the business of the present Group at the relevant time
“Guizhou Vocational Institute of Technology”	Guizhou Vocational Institute of Technology* (貴州應用技術職業學院), a college established by our Group under the laws of PRC in March 2016
“Hebi Automotive Engineering Professional College”	Hebi Automotive Engineering Professional College* (鶴壁汽車工程職業學院), a college established as a higher vocational college in 2002
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Exchanges and Clearing Limited”	Hong Kong Exchanges and Clearing Limited



DEFINITIONS

“Hope Education”	Sichuan Hope Education Industry Group Limited* (四川希望教育產業集團有限公司) (formerly known as Sichuan Mayflower Investment Company Limited (四川五月花投資有限公司), Sichuan Hope Mayflower Investment Limited (四川希望五月花投資有限公司), Sichuan Hope Education Industry Company Limited (四川希望教育產業有限公司)), a limited liability company established under the laws of PRC on 12 January 2005, and one of the consolidated affiliated entities of the Company
“IFRS”	the International Financial Reporting Standard(s)
“Jinci College of Shanxi Medical University”	Jinci College of Shanxi Medical University* (山西醫科大學晉祠學院), a college established under the laws of PRC in June 2002, acquired by our Group in April 2014, and approved by the MOE to be operated under the cooperation between Shanxi Medical University and our Group in August 2014
“Listing”	the listing of the Company’s Shares on the Main Board of The Stock Exchange of Hong Kong Limited on 3 August 2018
“Listing Date”	3 August 2018, the date on which the Company’s Shares are listed and from which dealings therein are permitted to take place on The Stock Exchange of Hong Kong Limited
“Listing Rules”	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time
“Model Code”	Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules
“MOE”	Ministry of Education of the PRC
“Prospectus”	the prospectus published in connection with the Listing dated 24 July 2018
“Reporting Period”	for the six months ended 30 June 2019
“RMB” or “Renminbi”	Renminbi, the lawful currency for the time being of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)

“Share(s)”	ordinary share(s) of a nominal value of US\$0.00001 each in the share capital of our Company
“Shareholder(s)”	holder(s) of the Share(s)
“Sichuan Hope Automotive Technical College”	Sichuan Hope Automotive Technical College* (四川希望汽車技師學院), a college established by our Group under the laws of PRC in July 2016
“Sichuan Hope Automotive Vocational College”	Sichuan Hope Automotive Vocational College* (四川希望汽車職業學院), a college established by our Group under the laws of PRC in March 2013
“Sichuan Tianyi College”	Sichuan Tianyi College* (民辦四川天一學院), a college established and named as Sichuan Tianyi Open College (四川天一開放函授進修學院) in 1991, approved by the State Education Commission (currently, the MOE) to be a formal junior-college-level higher education institution in 1994 and acquired by our Group in September 2011
“Suzhou Top Institute of Information Technology”	Suzhou Top Institute of Information Technology* (蘇州托普信息職業技術學院), a college established as a higher vocational college in 2002
“Sichuan TOP IT Vocational Institute”	Sichuan TOP IT Vocational Institute* (四川托普信息技術職業學院), a college established by Sichuan TOP Education Co., Ltd. (四川托普教育股份有限公司) in June 2000 and acquired by our Group in December 2017
“Sichuan Vocational College of Culture & Communication”	Sichuan Vocational College of Culture & Communication* (四川文化傳媒職業學院), a college established as a higher vocational college in 2005 and acquired by our Group in March 2014
“Southwest Jiaotong University Hope College”	Southwest Jiaotong University Hope College* (西南交通大學希望學院), a college approved by the MOE to be established under the cooperation between Southwest Jiaotong University, Chengdu West Hope Group Limited and our Group in April 2009
“State”	the central government of the PRC, including all governmental sub-divisions (such as provincial, municipal and other regional or local government entities)
“Subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules



DEFINITIONS

“Tequ Education”	Sichuan Tequ Education Management Limited* (四川特驅教育管理有限公司), a limited liability company established under the laws of PRC on 30 November 2017 following the division under reorganization, the shareholding of which largely mirrors that of Hope Education and is indirectly controlled by Mr. Wang Huiwu
“The College of Science and Technology of Guizhou University”	The College of Science and Technology of Guizhou University* (貴州大學科技學院), a college established under the laws of PRC in May 2001, approved by the MOE to be operated under the cooperation between Guizhou University and a third party in December 2014. Our Group has formally approved the acquisition of the College of Science and Technology of Guizhou University at the special general meeting held on 10 July 2019
“The Stock Exchange of Hong Kong Limited”	The Stock Exchange of Hong Kong Limited
“U.S. dollar(s)” or “US\$” or “USD”	United States dollars, the lawful currency for the time being of the United States
“%”	per cent