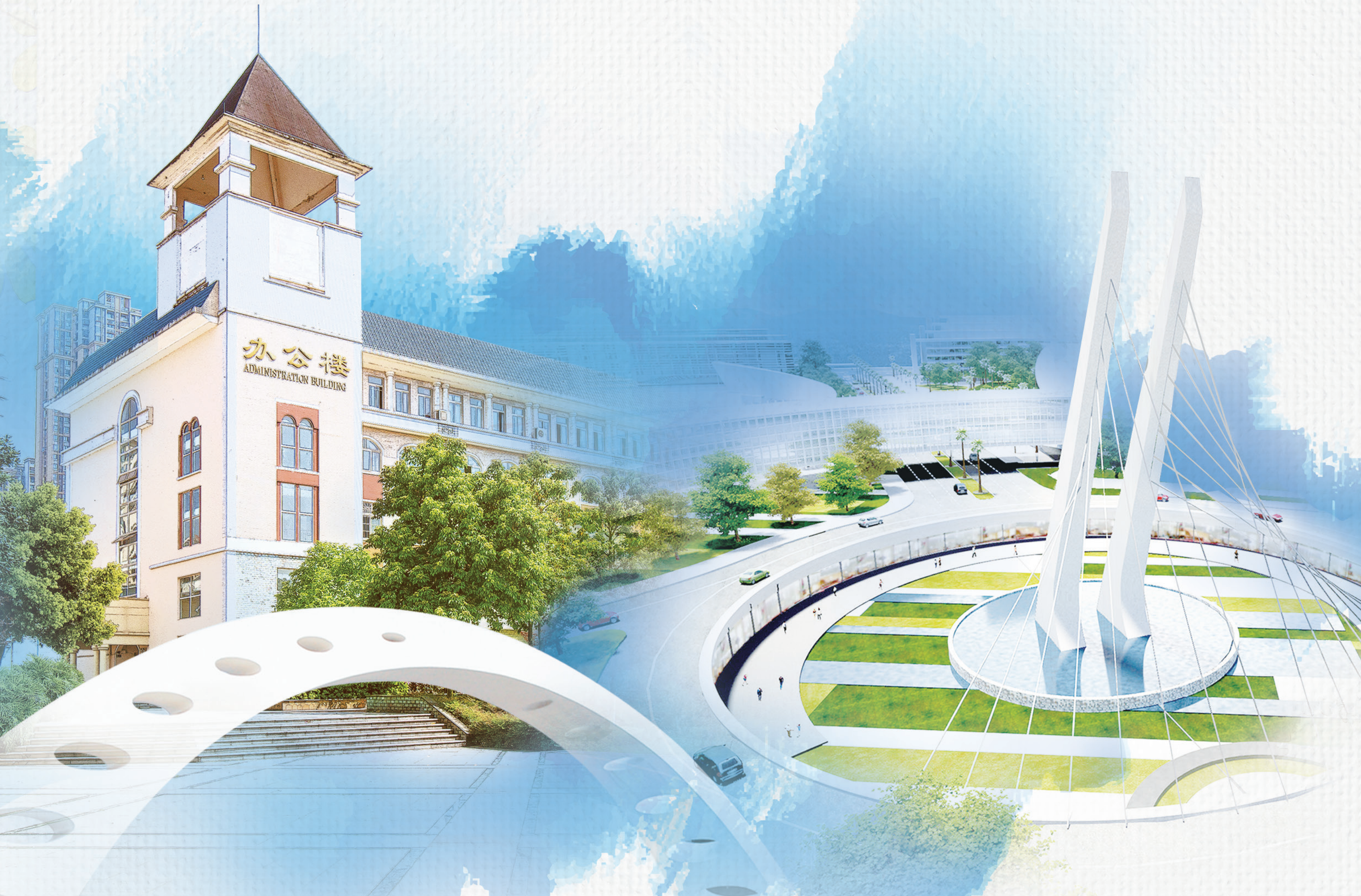
中國教育集團控股有限公司
CHINA EDUCATION GROUP HOLDINGS LIMITED

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

Stock Code : 839



To **Pioneer** Excellence and Innovation **In Education**

INTERIM REPORT **2019/2020**

Our Mission

Preparing students for success through
Excellence and Innovation in Education

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

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

Independent Non-Executive Directors

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

COMPANY SECRETARY

Mr. Mok Kwai Pui Bill

AUTHORISED REPRESENTATIVES

Dr. Yu Kai
Mr. Mok Kwai Pui Bill

AUDITOR

Deloitte Touche Tohmatsu
Registered Public Interest Entity Auditors
35/F, One Pacific Place
88 Queensway
Hong Kong

REGISTERED OFFICE IN CAYMAN ISLANDS

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

PRINCIPAL OFFICE IN HONG KONG

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

Corporate Information

HONG KONG SHARE REGISTRAR

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

COMPANY WEBSITE

www.chinaeducation.hk

STOCK CODE

839

To **Pioneer** Excellence and Innovation **In Education**

Management Discussion and Analysis

Graduation Ceremony, King's Own Institute (Australia)

BUSINESS OVERVIEW

The Group is a leading global higher and vocational education group with footprints in China and Australia, visioning to provide quality education through innovation. As at 29 February 2020, the Group's school network includes six higher education institutions and three vocational education institutions in China, including the No.1 ranked private university in the country, and a higher education institute in Sydney, Australia. The Group is also the largest listed higher and vocational education provider in China in terms of student enrollment; as at 29 February 2020, the Group enrolled approximately 182,000 students. After the reporting period, the Group has further expanded its business to the United Kingdom ("UK").

The Group offers a broad range of programmes and curricula. As at 29 February 2020, the Group offered four master's degree programmes, 217 bachelor's degree programmes, 72 junior college diploma programmes, 149 vocational education programmes and 117 continuing education programmes. The disciplines provided by us covered around 98% of undergraduate students' choices and 93% of junior college students' choices in China in 2019/2020 academic year.

School Consolidated into the Group During the Reporting Period

During the six months ended 29 February 2020, the Group acquired King's Own Institute in Sydney, Australia and the school became a wholly-owned subsidiary of the Company during the reporting period. Through welcoming King's Own Institute to the Group's school network, the Group has expanded its school portfolio from nine schools (as at 31 August 2019) to ten schools and become one of the most international higher and vocational education groups in China.

King's Own Institute is a tertiary level higher education institution that has three locations in central Sydney, New South Wales, Australia and is accredited in Australia and recognised in PRC. As at 29 February 2020, King's Own Institute offers 15 accredited postgraduate and undergraduate degree programmes in Accounting, Business, IT and TESOL (Teaching English to Speakers of Other Languages) to both Australian domestic and international students and its programmes have been accredited by relevant industry bodies including Chartered Accountants Australia and New Zealand (CA ANZ), Certified Practising Accountant Australia (CPA Australia), and The Institute of Public Accountants (IPA Australia).

Management Discussion and Analysis

Student Enrollment

As at 29 February 2020, the Group operated in three business segments and its school network includes six higher education institutions and three vocational education institutions in China, and a higher education institute in Sydney, Australia, with a total enrollment of 181,826 students, up 23.3% from the enrollment as at 28 February 2019. The rapid increase in student enrollment is attributable to the organic growth in students enrolled in our existing schools, as well as those from the three new schools joining the Group, during the year ended 29 February 2020.

Business Segment	As at 29 February 2020	As at 28 February 2019
Higher Education Segment	**111,759**(i)	80,265(ii)
Vocational Education Segment	**67,828**	67,149
Global Education Segment	**2,239**	–(iii)
Total	**181,826**	147,414

Notes:

(i) Included 23,790 students enrolled in the continuing education programmes as at 29 February 2020.

(ii) Included 19,171 students enrolled in the continuing education programmes as at 28 February 2019.

(iii) The school in this business segment has 2,058 students as at 28 February 2019. However, such number is excluded from the total as the Group did not have this segment as at 28 February 2019.

Tuition Fees and Boarding Fees

In general, we adjust our tuition fees between 0% and 30% among various programmes on an annual basis, subject to government approval where applicable. The tuition fee adjustment is determined by our school management teams subject to the operating costs and market conditions. The following table sets forth the listed tuition fees and boarding fees of our respective schools' as at 29 February 2020 for the 2019/2020 academic year.

	Listed tuition fees(i) in academic year		**Boarding fees(i) in academic year**	
	2019/2020 ***RMB***	2018/2019 *RMB*	**2019/2020** ***RMB***	2018/2019 *RMB*
Higher Education Segment				
Jiangxi University of Technology				
Bachelor's degree programmes	**19,000–26,000**	16,000–23,000	**1,800–2,500**	1,600–2,300
Junior college diploma programmes	**14,500–17,000**	13,500–16,000	**1,800–2,500**	1,600–2,300
Continuing education programmes	**2,500–6,000**	2,500–5,000	**N/A**	N/A
Guangdong Baiyun University				
Bachelor's degree programmes	**20,000–30,000**	19,000–30,000	**1,500–3,000**	1,500
Junior college diploma programmes	**30,000**	30,000	**1,500–3,000**	1,500
Continuing education programmes	**2,500–6,000**	3,000–6,000	**N/A**	N/A
Chongqing Translators University				
Bachelor's degree programmes	**12,000–18,000**	13,000–17,000	**900–1,300**	900–1,300

Management Discussion and Analysis

	Listed tuition fees[i] in academic year		Boarding fees[i] in academic year	
	2019/2020 *RMB*	2018/2019 *RMB*	**2019/2020** *RMB*	2018/2019 *RMB*
Guangzhou Songtian University				
Bachelor's degree programmes	**26,000–28,000**	23,000–25,000	**1,500**	1,500
Shandong Quancheng University				
Bachelor's degree programmes	**11,000–17,000**	11,000–14,800	**800–1,200**	800–1,200
Junior college diploma programmes	**8,000–12,000**	8,000	**800–1,200**	800–1,200
Songtian Polytechnic College				
Junior college diploma programmes	**13,500–16,500**	13,500–16,500	**1,500**	1,500
Vocational Education Segment				
Xi'an Railway College				
Technician diploma programmes	**9,800–10,800**	9,800–10,800	**1,500**	1,500
Zhengzhou Transit School				
Secondary vocational diploma programmes	**7,900–8,600**	7,900–8,600	**1,200**	1,000
Baiyun Technician College				
Technician diploma programmes	**13,500–15,500**	13,500–15,500	**1,500**	1,500
Post-secondary vocational diploma programmes	**12,500–15,000**	12,500–15,000	**1,500**	1,500
Secondary vocational diploma programmes	**12,000–14,500**	12,000–14,500	**1,500**	1,500

	AUD	*AUD*
Global Education Segment		
King's Own Institute (Australia)[ii][iii][iv]		
Master's degree programmes	**7,500–8,500**	7,250–8,000
Graduate certificate programmes	**7,500–8,500**	7,250–8,000
Graduate diploma programmes	**7,500–8,500**	7,250–8,000
Bachelor's degree programmes	**6,500–7,250**	6,250–7,000
Undergraduate diploma programmes	**6,500–6,750**	6,250–6,500

Notes:

(i) Tuition fees and boarding fees reported to regulatory authorities.

(ii) Tuition fees are same for both domestic and international students.

(iii) Tuition fees per trimester.

(iv) King's Own Institute's tuition fee as at 28 February 2019 for the 2018/2019 academic year is listed out for reference only as it was not yet in our school network in the 2018/2019 academic year.

Management Discussion and Analysis

Awards and Recognitions Received During the Reporting Period

We have received numerous awards and recognitions during the six months ended 29 February 2020 in recognition of the quality of education we provide and the outstanding achievements of our operation. The following table sets forth some of the awards and recognitions we have received.

	Award/Accreditation	Awarding Organisation(s)
Higher Education Segment		
Jiangxi University of Technology	Harmonious/Safe Campus in Jiangxi Province (江西省平安校園)	Education Department of Jiangxi Province (江西省教育廳)
Guangdong Baiyun University	Outstanding Contribution Award of Contemporary Private School in Guangdong Province (廣東當代民辦學校突出貢獻獎)	Guangdong Provincial Society of Education, etc. (廣東教育學會等)
	Vice-chairman of Education Evaluation Association in Guangdong Province (廣東省教育評估協會副會長單位)	Education Evaluation Association of Guangdong Province (廣東省教育評估協會)
Chongqing Translators University	Best Organization Award for Large-scale Volunteering Service Event in Chongqing Municipality in 2019 (2019年重慶市大型賽會志願者服務工作一最佳組織)	Youth Volunteers Association of Chongqing Municipality (重慶市青年志願者協會)
Guangzhou Songtian University	First and Third Prize of the 11th National Advertising and Art Design Competition for College Students in 2019 (2019第十一屆全國大學生廣告藝術大賽一等獎、三等獎)	Education Department of Guangdong Province (廣東省教育廳)
	Second Prize (of University in Guangdong Province) in 2019 National Undergraduate Mathematical Modeling Competition (2019年全國大學生數學建模競賽廣東賽區二等獎)	Education Department of Guangdong Province and China Society for Industrial and Applied Mathematics (廣東省教育廳，中國工業與應用數學學會)
Shandong Quancheng University	The Most Influential University in Shandong Province in 2019 (2019年度山東最具影響力本科院校)	Sina, Weibo and Sina Shandong (新浪，微博，和新浪山東)
	Best Social Reputation University in Shandong Province (山東最佳社會聲譽高校)	Internet Media Group of Shandong Province (山東省互聯網傳媒集團)

Management Discussion and Analysis

	Award/Accreditation	Awarding Organisation(s)
Vocational Education Segment		
Xi'an Railway College	Second Prize in National Rail Transportation Operation & Management Comprehensive Application Contest in 2019, Northern Division (2019年全國軌道交通運營管理綜合應用行業賽北方賽區團體二等獎)	China Communications Industry Association and The Industry and Education Alliance of China Communications Industry Association (中國通訊工業協會，中國通訊工業協會軌道交通產教聯盟)
Zhengzhou Transit School	Certificate of ISO29990 Quality Management System (ISO29990質量管理體系證書)	DQS AP Ltd (德世愛普認證(上海)有限公司)
	Certificate of GC-MARK (GC-MARK特色證書)	DQS AP Ltd (德世愛普認證(上海)有限公司)
	Outstanding Organisation in Education and Teaching in Xinzheng City (新鄭市教育教學工作先進單位)	The People's Government of Xinzheng City (新鄭市人民政府)
	China Social Organization Evaluation Grade — AAAA (中國社會組織評估等級—AAAA)	Zhengzhou Civil Affairs Bureau (鄭州市民政局)
Baiyun Technician College	Outstanding Contribution Award to WorldSkills Kazan 2019 (「在第45屆世界技能大賽工作中做出傑出貢獻，予以記大功」)	The People's Government of Guangdong Province (廣東省人民政府)
	Cantonese Cuisine Chef Training Base of Guangdong Province (廣東省粵菜師傅培訓基地)	Human Resources and Social Security Department of Guangdong Province (廣東省人力資源和社會保障廳)
	Outstanding Organisation in High Quality Technician Education Development in Guangzhou City in 2019 (2019年廣州市技工教育高質量發展工作優秀單位)	Guangzhou Municipal Human Resources and Social Security Bureau (廣州市人力資源和社會保障局)
	Outstanding Organisation in the 3rd Technician Institutes Microlecture Contest of Guangdong Province (第三屆全省技工院校微課比賽優秀組織獎)	Guangdong Vocational and Technical Education Research Office (廣東省職業技術教研室)

Management Discussion and Analysis

OUTLOOK

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

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

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

Acquisition and Integration

We have formulated our M&A strategy to achieve our growth target taking into account the high entry barrier of the higher education sector. Thus far, our M&A team, strong and with high execution capability, has already reviewed over 380 potential M&A targets since our Listing and some of them are presently in due diligence process. We plan to explore more acquisition opportunities with attractive growth potential and expect more schools to join the Group in the future.

We have a track record of successfully integrating newly acquired schools into our Group. The increasing student enrollment and the newly acquired schools coming with potential for quality improvement are proof of our capability to integrate and identify new schools with promising growth prospects. We believe China's private higher and vocational education sector is on a strong growth trend with attractive potential and opportunities. Going forward, building on our industry leadership and 30 years' education excellence and in fulfilling our mission of 'To Pioneer Excellence and Innovation in Education', we will adhere to our business strategies, endeavor to provide excellent quality education to more students.

Independent College Conversions

Education regulatory authorities in PRC have directed that the conversion of independent colleges into full private universities is a top priority in the establishment of higher education institutions. The Group believes such conversion will present significant opportunities in expanding the enrollment as well as improving the education quality and efficiency of independent colleges, and the Group has strategically acquired three high-quality independent colleges - namely, Chongqing Translators University, Guangzhou Songtian University, and Shandong Quancheng University. Benefiting from regulatory authorities' favorable policy support, the Group is actively promoting the conversion of its three independent colleges.

Management Discussion and Analysis

Development of New Campuses

The "Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area" (《粵港澳大灣區發展規劃綱要》) designates the Greater Bay Area as an "education and talent highland". Guangdong Province is also the province in China with the highest and fastest population growth. Higher education in Guangdong Province demonstrates a huge development potential with the economic and population growth creating a strong demand for quality education. The Group plans to further expand in the Greater Bay Area through M&A as well as campus expansion.

Guangdong Baiyun University's New Campus

With a site area of approximately 750 mu, Guangdong Baiyun University's new campus in Guangzhou, Guangdong Province, the PRC, is to be developed in two phases — phase one with a capacity of 8,000 students commenced operation in September 2019, and phase two with a capacity of 18,000 students has been proceeding as planned and is expected to be completed in Summer 2021.

Guangzhou Songtian University's New Campus

In response to the increasing demand for admissions, the Group signed an agreement with Zhaoqing New District Government which will supply the Group with a total area of land up to 1,500 mu for the establishment of a new university campus with a capacity of approximately 30,000 students.

International Education

With the acceleration of globalisation, China has become the largest international student export country and an important destination for study in the world. The Group acquired King's Own Institute (Australia) in October 2019 and entered into a cooperation agreement with Richmond, The American International University in London (UK) subsequent to the reporting period, to provide quality global education resources such as bachelor and master's degrees in business, art, IT and TESOL to students. The above two universities are located in Sydney, Australia and London, UK respectively, which are some of the most popular destinations among Chinese students and have propitious market prospects.

The Group has extensive experience in operating international education programmes, including exchange programmes and joint-education programmes in 11 languages and in partnership with 78 overseas institutions in 22 countries. The Group has four schools in Guangzhou, the capital city of Guangdong Province, which is an important strategic location of the Group and one of the largest provinces in China in sending student abroad. In addition, the Group operates a school specialising in international education and foreign languages in Chongqing. Both with proven growth track records, the Group and King's Own Institute's synergy are also evident in their well-aligned programme offerings and student-centric education cultures, sharing the same vision and an unwavering belief in offering excellent and innovative education with a prime focus on the student experience.

The acquisition of King's Own Institute will further enhance the Group's international education capabilities and enable the Group to prepare students for an increasingly globalised world. Australia is reputed worldwide for offering first-class higher education and is one of the world's most popular destinations for study. The acquisition will also open up opportunities for King's Own Institute to recruit more outstanding Chinese students, and as a result, provide the Group with attractive growth potential in the thriving international higher education market for more diversified and higher revenue.

The Group is in the process of developing tailored international bridging programmes, such as 2+2, 3+1, 2+2+1 and 3+1+1, to students who are intended to study abroad, and gradually and ultimately establishing comprehensive, distinctive and diversified international education programmes.

Management Discussion and Analysis

Entering into a Framework Agreement for the Establishment of China Education Fund

On 29 June 2018, the Group entered into the framework agreement with VP Shenzhen, a subsidiary of Value Partners Group Limited, for the establishment of the China Education Fund, with a targeted asset under management of RMB5 billion. The Group (and/or its affiliates and nominee(s)) and Value Partners Group Limited (and/or its subsidiary(ies)) will make an initial contribution of RMB250 million and RMB370 million, respectively, to the China Education Fund. Huajiao Education Investing Management (Ganzhou) Company Limited and VP Shenzhen are the co-sponsor of the China Education Fund. The Directors believe that the Group's cooperation with Value Partners Group Limited, a leading investment fund house in Asia, will enhance the performance of the China Education Fund by combining the Group's experience in private higher and vocational education in China and the investment expertise of Value Partners Group Limited. During the current interim period, China Education Fund completed registration with relevant authorities and the Group made capital contribution amounting to RMB31,303,000 to the China Education Fund.

EVENTS AFTER THE REPORTING PERIOD

Partnership with Richmond, The American International University in London

On 31 March 2020, the Company announced entering into agreements to partner with Richmond, The American International University in London ("Richmond"). Through the partnership, the Group will share its global resources, expertise and capabilities to support Richmond to fulfill its global potential as well as its mission in providing high quality internationally focused education to future generations.

Established in 1972, Richmond is a university accredited to award both UK and US degrees. Richmond offers undergraduate and postgraduate programmes in London, UK to students. The programmes combine the essences of UK and US teaching, blending the American focus on the Liberal Arts and personal development, with the British emphasis on academic enquiry and professional development. Richmond is also recognised by the Ministry of Education of the PRC.

Our Effort in Combating COVID-19 and Results Achieved

In view of the outbreak of coronavirus disease 2019 ("COVID-19"), the Group and its member schools have taken necessary health precaution such as postponing the start of the term to safeguard the safety of our employees and students. During the suspension of on-campus classes caused by the COVID-19 epidemic, the Group offers online learning to students and 96% of the programmes offered have been delivered online. Guangdong Baiyun University, a member school of the Group, was selected by the Steering Committee of the Online Open Courses of Undergraduate Universities in Guangdong Province (廣東省本科高校在線開放課程指導委員會) as an outstanding example of online teaching during the epidemic period, and the only private university among the first group of seven selected universities in Guangdong Province.

The Group will continue to closely monitor to the development of the COVID-19 situation and endeavor to minimise the effect on the operation and finance of the Group, and in the event of material adverse financial impact, the Group will announce in a timely manner and reflect it in the Group's 2019/2020 annual financial statements.

Management Discussion and Analysis

FINANCIAL REVIEW

The financial results for the six months ended 29 February 2020 and 28 February 2019 are as follows:

	Six months ended	
	29 February 2020 RMB'000	28 February 2019 RMB'000
Revenue	1,315,222	927,304
Cost of revenue	(557,881)	(390,906)
Gross profit	757,341	536,398
Other income	45,475	48,438
Selling expenses	(60,952)	(24,803)
Administrative expenses	(179,127)	(174,532)
Operating profit	562,737	385,501
Investment income	11,781	11,337
Other gains and losses	26,576	(19,754)
Finance costs	(51,192)	(33,066)
Profit before taxation	549,902	344,018
Taxation	(8,718)	(146)
Net profit	541,184	343,872
Net profit attributable to owners of the Company	497,625	299,648
Adjusted net profit attributable to owners of the Company	490,986	373,030

Revenue

The Group's revenue reached RMB1,315.2 million for the six months ended 29 February 2020, up 41.8% as compared to RMB927.3 million for the six months ended 28 February 2019. The increase reflected students' strong demand for quality higher and vocational education offered by the Group and the effective execution of the Group's expansion strategy.

Higher Education Segment

Revenue from higher education segment increased from RMB599.1 million for the six months ended 28 February 2019 to RMB872.4 million for the six months ended 29 February 2020, representing a 45.6% increase.

The significant increase in revenue of higher education institutions was mainly driven by the organic growth in student enrollment and tuition fees of existing higher education institutions and the inclusion of two new institutions, namely Shandong Quancheng University and Chongqing Translators University (which became consolidated affiliated entities of the Group in March 2019 and July 2019 respectively), to the Group.

Vocational Education Segment

Revenue from vocational education segment increased from RMB328.2 million for the six months ended 28 February 2019 to RMB374.9 million for the six months ended 29 February 2020, representing a 14.2% increase.

The significant increase in revenue of vocational education institutions was mainly driven by organic growth in student enrollment and tuition fees of three vocational education institutions.

Management Discussion and Analysis

Global Education Segment

The Group newly included a global education institution during the reporting period. The Group's operation also successfully established global education segment. Revenue from global education segment was RMB67.9 million for the six months ended 29 February 2020. No such amount was recorded in the same period of last year.

Cost of Revenue

The cost of revenue increased from approximately RMB390.9 million for the six months ended 28 February 2019 to approximately RMB557.9 million for the six months ended 29 February 2020, representing a 42.7% increase. The increase was due to the expansion of the Group, the growth of student number and the cost structure of the newly joined independent colleges, namely Shandong Quancheng University and Chongqing Translators University (which became consolidated affiliated entities of the Group in March 2019 and July 2019 respectively), which pay a partnership fee to their public school co-sponsors. Such partnership costs are expected to cease to exist after the independent colleges are converted to full private higher education schools and will drive the increase of the margins.

Gross Profit and Gross Profit Margin

The Group's gross profit was RMB757.3 million for the six months ended 29 February 2020 as compared to RMB536.4 million for the six months ended 28 February 2019. The gross profit margin was 57.6% for the six months ended 29 February 2020 as compared to 57.8% for the six months ended 28 February 2019. On a like-for-like basis for institutions (excluding the schools newly acquired after the comparative period), the gross profit margin was 59.8% for the six months ended 29 February 2020, up 200 basis points as compared to the same period of last year, which demonstrated the improvement in the schools' operations under the Group's management. The management's plan is to further improve the operations and enhance the profit margins of the newly acquired schools and the whole Group to levels that are comparable to the Group's existing mature schools through the Group's operational expertise.

Other Income

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

Selling Expenses

The Group's selling expenses was RMB61.0 million for the six months ended 29 February 2020 as compared to RMB24.8 million for the six months ended 28 February 2019. The significant increase in selling expenses incurred for the six months ended 29 February 2020 was mainly due to the inclusion of an overseas school which had higher proportion of selling expenses to its costs.

Administrative Expenses

The Group's administrative expenses was RMB179.1 million for the six months ended 29 February 2020 as compared to RMB174.5 million for the six months ended 28 February 2019. It represented about 13.6% of the revenue for the six months ended 29 February 2020 and was decreased as compared to that of 18.8% for the six months ended 28 February 2019 which was mainly attributable to the reversal of share-based payments under share option scheme. During the six months ended 29 February 2020, the Group recognised a reversal of RMB8.8 million of share-based payments as compared to a charge of RMB26.3 million of share-based payments during the six months ended 28 February 2019.

Operating Profit

The operating profit amounted to RMB562.7 million for the six months ended 29 February 2020, increased by 46.0% as compared to RMB385.5 million for the six months ended 28 February 2019. The increase was mainly due to the organic growth of the existing schools and the inclusion of new schools.

Management Discussion and Analysis

Other Gains and Losses

The other gains and losses were recorded at net gain of RMB26.6 million for the six months ended 29 February 2020 which was mainly attributable to the fair value gain on financial assets at fair value through profit or loss of RMB21.7 million and the foreign exchange net gain of RMB14.5 million, as a result of appreciation of Renminbi against US dollars and Hong Kong dollars during the current period.

Finance Costs

The finance costs of RMB51.2 million for the six months ended 29 February 2020 mainly represented the interest expenses on bank and other borrowings and imputed interest on deferred cash considerations.

Net Profit and Net Profit Margin

Calculation of Adjusted Net Profit

		Six months ended	
		29 February 2020 *RMB'000*	28 February 2019 *RMB'000*
Net profit		**541,184**	343,872
Adjustments for :	Foreign exchange gain/loss	**(14,486)**	22,556
	Share-based payments	**(8,806)**	26,331
	Imputed interest on deferred cash considerations	**14,300**	24,495
	Fair value change on convertible bonds	**2,353**	–
Adjusted net profit		**534,545**	417,254

Calculation of Adjusted Net Profit attributable to owners of the Company

		Six months ended	
		29 February 2020 *RMB'000*	28 February 2019 *RMB'000*
Net profit attributable to owners of the Company		**497,625**	299,648
Adjustments for :	Foreign exchange gain/loss	**(14,486)**	22,556
	Share-based payments	**(8,806)**	26,331
	Imputed interest on deferred cash considerations	**14,300**	24,495
	Fair value change on convertible bonds	**2,353**	–
Adjusted net profit attributable to owners of the Company		**490,986**	373,030

The Group's net profit was RMB541.2 million for the six months ended 29 February 2020, representing an increase of 57.4% compared to RMB343.9 million for the six months ended 28 February 2019. The net profit margin was increased from 37.1% for the six months ended 28 February 2019 to 41.1% for the six months ended 29 February 2020.

Management Discussion and Analysis

Adjusting for the foreign exchange gain/loss, share-based payments, imputed interest on deferred cash considerations and fair value change on convertible bonds, adjusted net profit was increased by 28.1% from RMB417.3 million for the six months ended 28 February 2019 to RMB534.5 million for the six months ended 29 February 2020. The adjusted net profit attributable to owners of the Company was increased by 31.6% to RMB491.0 million for the six months ended 29 February 2020. The adjusted net profit margin was decreased from 45.0% for the six months ended 28 February 2019 to 40.6% for the six months ended 29 February 2020. The decrease in adjusted net profit margin was mainly due to the inclusion of new schools which had lower net profit margins as compared to the existing and more mature schools of the Group. On a like-for-like basis for institutions (excluding the schools newly acquired after the comparative period), the net profit margin was 48.1% for the six months ended 29 February 2020 as compared to 46.4% for the six months ended 28 February 2019, up 170 basis points as compared to the same period of last year.

Earnings before interest, tax, depreciation and amortisation ("EBITDA")

EBITDA is calculated as profit before taxation adding back finance costs, depreciation of property, plant and equipment and amortisation of intangible assets and prepaid lease payments. EBITDA was increased by 54.5% to RMB761.3 million for the six months ended 29 February 2020 from RMB492.6 million for the six months ended 28 February 2019. Adjusting for the foreign exchange gain/loss, share-based payments and fair value change on convertible bonds, adjusted EBITDA was increased by 36.7% from RMB541.5 million for the six months ended 28 February 2019 to RMB740.4 million for the six months ended 29 February 2020.

Property, Plant and Equipment

Property, plant and equipment as at 29 February 2020 increased by 11.9% to approximately RMB6,544.2 million from approximately RMB5,850.8 million as at 31 August 2019. Increase in property, plant and equipment was mainly due to the construction of Guangdong Baiyun University's new campus and the acquisition of land and properties adjacent to Shandong Quancheng University.

Total Bank Balances and Cash

Including structured deposits and money market funds recognised in financial assets at fair value through profit or loss and restricted bank deposits, the total bank balances and cash amounted to approximately RMB2,765.7 million as at 29 February 2020 (31 August 2019: RMB4,254.4 million). The cash was mainly used for school acquisition and construction of campuses.

Capital Expenditures

Our capital expenditures for the six months ended 29 February 2020 were approximately RMB532.3 million and were primarily related to construction of new campus of Guangdong Baiyun University and new buildings at existing schools.

Liquidity, Financial Resources and Gearing Ratio

As at 29 February 2020, the Group had total bank balances and cash (including structured deposits and money market funds recognised in financial assets at fair value through profit or loss and restricted bank deposits) of approximately RMB2,765.7 million (31 August 2019: RMB4,254.4 million).

As at 29 February 2020, the Group had bank and other borrowings and convertible bonds of approximately RMB4,271.1 million (31 August 2019: RMB4,266.6 million). Certain bank and other borrowings and proceeds from convertible bonds were not yet utilised. In order to have a better use of our financial resources, the Group purchased certain structured deposits and money market funds during the six months ended 29 February 2020. The structured deposits and money market funds were short-term liquidity management products with minimal risk exposure and the Group held these investments for short-term cash management purpose.

As at 29 February 2020, the gearing ratio (which is calculated on the basis of total borrowings and total equity of the Group) and the net gearing ratio (which is calculated on the basis of total borrowings, net of total bank balances and cash, and total equity of the Group) were 60.0% (31 August 2019: 60.9%) and 21.1% (31 August 2019: 0.2%), respectively.

Management Discussion and Analysis

Foreign Exchange Risk Management

During the six months ended 29 February 2020, the Group mainly operated in the PRC and Australia. The majority of the Group's revenue and expenditures are denominated in Renminbi and Australian dollars, the functional currencies of the relevant territories, except that certain expenditures are denominated in Hong Kong dollars and US dollars. The Group also has certain foreign currency bank balances, other payables, other borrowings and convertible bonds denominated in Hong Kong dollars and US dollars, which would expose the Group to foreign exchange risk. After assessing the cost and benefit, the Group did not use any financial instruments for hedging purposes. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure when the need arises.

Charges on the Group's Assets

As at 29 February 2020 and 31 August 2019, 50% of the equity interest of Huajiao Education owned by the Group was pledged to International Finance Corporation to secure banking facilities granted to the Group. Details of the banking facilities were set out in the announcement of the Company dated 31 May 2018.

Save as above, there was no other material charge on the Group's assets as at 29 February 2020 and 31 August 2019.

Contingent Liabilities

As at 29 February 2020 and 31 August 2019, the Group had no significant contingent liability.

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

The Group issued 520,202,000 new Shares (after partially exercising the over-allotment option in January 2018) at the issue price of HK$6.45 per Share in connection with the Listing. The net proceeds after deducting underwriting commission and issuing expenses incurred from the Listing is amounted to approximately RMB2,725.7 million. As at 29 February 2020, the Company has utilised the net proceeds of approximately RMB2,702.9 million and the net proceeds have been applied in the manner as set out in the section headed "Future Plans and Use of Proceeds" of the Company's prospectus dated 5 December 2017. The unutilised net proceeds are placed in licensed financial institutions as short-term deposits.

The following sets forth a summary of the utilisation of the net proceeds from Company's initial public offering as at 29 February 2020:

Purpose	Percentage to total amount	Net proceeds amount[(i)] RMB (million)	Utilised amount RMB (million)	Unutilised amount RMB (million)
Acquisition of or cooperation with other universities both domestically and abroad	59.50%	1,621.8	1,621.8	–
New campus development	26.90%	733.2	733.2	–
Repayment of certain portion of bank loans	8.00%	218.1	218.1	–
Working capital supplement	2.40%	65.4	65.4	–
Establishing teacher and staff training centre	1.10%	30.0	11.9	18.1
Research and development	1.10%	30.0	25.3	4.7
Provision of scholarships	0.50%	13.6	13.6	–
Maintenance, renovation and upgrading of existing schools	0.50%	13.6	13.6	–
	100%	2,725.7	2,702.9	22.8

Note:

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

Management Discussion and Analysis

USE OF NET PROCEEDS FROM THE ISSUE OF CONVERTIBLE BONDS DUE 2024

The Company issued convertible bonds due 2024 bearing interest at the rate of 2.0% per annum in an aggregate principal amount of HK$2,355 million at initial conversion price of HK$14.69 per ordinary Share in March 2019. During the six months ended 29 February 2020, the conversion price was adjusted from HK$14.69 per ordinary Share to HK$14.52 per ordinary Share. Following such adjustment, the conversion shares to be issued upon full conversion of the convertible bonds were increased to 162,190,082 Shares. The net proceeds (after deducting the issuing expenses) from the subscription amounted to approximately RMB2,105.6 million. As at 29 February 2020, the Company has utilised the net proceeds of approximately RMB1,107.2 million. The unutilised net proceeds are placed in licensed financial institutions as short-term deposits.

The following sets forth a summary of the utilisation of the net proceeds from the issue of convertible bonds due 2024:

Purpose	Percentage to total amount	Net proceeds amount *RMB (million)*	Utilised amount *RMB (million)*	Unutilised amount *RMB (million)*
Construction and development of the Group's schools in the PRC	30%	631.7	353.5	278.2
Acquisitions of schools in the PRC	45%	947.5	227.3	720.2
Group's overseas development	25%	526.4	526.4	–
	100%	2,105.6	1,107.2	998.4

EMPLOYEES AND REMUNERATION POLICIES

Remuneration

As at 29 February 2020, the Group had 8,922 employees (28 February 2019: 7,230), a 23.4% increase mainly due to acquisition of three schools during the year ended 29 February 2020. The remuneration packages of the employees of the Group are determined with reference to individual qualification, experience, performance, contribution to the Group and prevailing market rate.

Remuneration policy of our schools is formulated under the guidance of the relevant laws and regulations of the local jurisdictions of our member schools and is also based on the industry characteristics as well as various market factors. Our member schools determine their respective compensation standards based on the employment by function (teachers, teaching assistants, administrative personnel and workers, etc.) and position (entry-level, team lead, and manager, etc.). Schools participate in social insurance (pension, medical, unemployment, work injury and maternity insurance) plans under the guidance of relevant national, provincial, and municipality policies and provide a variety of benefits for employees.

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

Management Discussion and Analysis

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

Recruitment

The Group and its member schools follow the Labour Law, Labour Contract Law, Employment Promotion Law, Labour Dispute Mediation and Arbitration Law as well as other relevant laws and regulations of their respective local jurisdictions in the recruitment process. We prohibit discrimination of staff by age, sex, race, nationality, religion or disability, ensuring everyone has equal employment opportunities and respects.

Our schools recruit talents based on business development and operational needs, as well as candidate's integrity and professionalism. Our talent selection policy does not only focus on professional knowledge, experience, and relevant qualification, but also on candidate's morality, professional ethics and discipline. All candidates with employment offer will have to sign the employment contract no later than one month since the first day report to work, and we stipulate the probation period according to law. Near the end of the probation period, human resources department will work with the candidates' respective departments to conduct comprehensive assessments on new employees' performance and personality fit during the probation period, to decide whether we should officially offer the position as scheduled or ahead of the schedule, or terminate the employment.

We actively attract talents through contacting the target colleges, participating in talent recruitment fairs and industry conferences, and encourage employee referral through social media or various means. In addition, we provide pre-employment and on-the-job trainings such as assigning coaches (experienced teachers) for newly hired teachers to ensure they have faster and smoother transitions and integrations.

To **Pioneer** Excellence and Innovation **In Education**

Other Information

INTERIM DIVIDEND

The Board declared an interim dividend of HK13.4 cents per ordinary Share for the six months ended 29 February 2020 (for the six months ended 28 February 2019: HK3.5 cents) to be paid by cash on Friday, 22 May 2020, to Shareholders whose names appear on the register of members of the Company on Wednesday, 13 May 2020.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 11 May 2020 to Wednesday, 13 May 2020, both days inclusive, during which period no transfer of Shares will be registered. In order to qualify for the interim dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Friday, 8 May 2020.

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

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the six months ended 29 February 2020.

CORPORATE GOVERNANCE PRACTICES

During the six months ended 29 February 2020, the Company has complied with all the code provisions set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as the Group's code of conduct to regulate the securities transactions of the Directors. Having made specific enquiries, all Directors confirmed that they have complied with the required standards set out in the Model Code throughout the six months ended 29 February 2020.

AUDIT COMMITTEE

The Audit Committee consists of three independent non-executive Directors and its main duties are to assist the Board in providing an independent review of the completeness, accuracy and fairness of the financial information of the Group, as well as the efficiency and effectiveness of the Group's operations and internal controls. The Audit Committee has reviewed the unaudited consolidated financial statements of the Group for the six months ended 29 February 2020.

Deloitte Touche Tohmatsu, the Company's auditor, had carried out review of the unaudited interim results of the Group for the six months ended 29 February 2020 in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

Other Information

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

As at 29 February 2020, the interests and short positions of the Directors and the chief executives of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

Interests and Short Positions In Shares And Underlying Shares

Name of Director	Number of Shares/underlying Shares			Approximate % of all Shares in Issue[1]
	Personal Interests	Other Interests	Total	
Yu Guo	(L)8,000,000[2]	(L)1,508,000,000[3][6]	(L)1,516,000,000	(L)75.04%
		(S)90,000,000[5][6]	(S)90,000,000	(S)4.46%
Xie Ketao	(L)8,000,000[2]	(L)1,508,000,000[4][6]	(L)1,516,000,000	(L)75.04%
		(S)90,000,000[5][6]	(S)90,000,000	(S)4.46%
Yu Kai	(L)8,000,000[2]	(L)750,000,000[7]	(L)758,000,000	(L)37.52%
		(S)45,000,000[7]	(S)45,000,000	(S)2.23%
Xie Shaohua	(L)8,000,000[2]	–	(L)8,000,000	(L)0.40%

L – long position
S – short position

Notes:

1. The calculation is based on the total number of 2,020,202,000 Shares in issue as at 29 February 2020.

2. These are long position interests in underlying Shares (being physically settled unlisted derivatives) and represent the maximum number of share options which may be vested with the Directors under the Pre-IPO Share Option Scheme of the Company. Details of each of their share options are set out in the section headed "SHARE OPTION SCHEMES AND SHARE AWARD SCHEME" in this report.

3. Blue Sky BVI is the beneficial owner of the long position interests in 750,000,000 Shares. Blue Sky BVI is a company wholly-owned by Passionate Jade Holding Limited and which in turn is wholly owned by Cantrust (Far East) Limited as the trustee of a discretionary trust, namely Blue Sky Trust. Mr. Yu is the settlor and a beneficiary of the Blue Sky Trust. For the remaining long position interests in 758,000,000 Shares/underlying Shares, please refer to note 6 below.

4. White Clouds BVI is the beneficial owner of the long position interests in 750,000,000 Shares. White Clouds BVI is a company wholly-owned by Shimmery Diamond Holding Limited and which in turn is wholly owned by Cantrust (Far East) Limited as the trustee of a discretionary trust, namely White Clouds Trust. Mr. Xie is the settlor and a beneficiary of the White Clouds Trust. For the remaining long position interests in 758,000,000 Shares/underlying Shares, please refer to note 6 below.

5. Each of Blue Sky BVI and White Clouds BVI entered into an agreement authorising stock borrow with Credit Suisse AG, Hong Kong Branch ("CS") on 21 March 2019 to facilitate the Company's issue of convertible bond in March 2019. As at 29 February 2020, 45,000,000 Shares were lent by each of Blue Sky BVI and White Clouds BVI to CS. Each of Blue Sky BVI and White Clouds BVI beneficially held the short position interests in 45,000,000 Shares.

6. Mr. Yu, Mr. Xie, Blue Sky BVI and White Clouds BVI entered into the concert party agreement to align their shareholding interests in the Company. Accordingly, each of Mr. Yu, Mr. Xie, Blue Sky BVI and White Clouds BVI is deemed to be interested in the Shares/underlying Shares held by other parties to the concert party agreement.

7. Dr. Yu Kai is a beneficiary of the Blue Sky Trust. His long position interests in 750,000,000 Shares and short position interests in 45,000,000 Shares were duplicated with the interests of Mr. Yu held under the Blue Sky Trust as disclosed above.

Other Information

Directors' Interest In Associated Corporation

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

Save as disclosed above, as at 29 February 2020, none of the Directors or the chief executives of the Company had or was deemed to have any interests or short positions in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

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

As at 29 February 2020, so far as the Directors are aware, the following persons (other than the Directors and the chief executives of the Company) had interests or short positions in the Shares or underlying Shares as recorded in the register required to be kept by the Company under section 336 of the SFO:

Name of Substantial Shareholder	Capacity	Total Number of Shares	Approximate % of all Shares in Issue[1]
Blue Sky BVI	Beneficial Owner[2][4]	(L)750,000,000	(L)37.12%
		(S)45,000,000	(S)2.22%
	Other interest[4][5]	(L)766,000,000	(L)37.91%
		(S)45,000,000	(S)2.22%
		(L)1,516,000,000	(L)75.04%
		(S)90,000,000	(S)4.45%
White Clouds BVI	Beneficial Owner[3][4]	(L)750,000,000	(L)37.12%
		(S)45,000,000	(S)2.22%
	Other interest[4][5]	(L)766,000,000	(L)37.91%
		(S)45,000,000	(S)2.22%
		(L)1,516,000,000	(L)75.04%
		(S)90,000,000	(S)4.45%
Passionate Jade Holding Limited	Interests in controlled corporation[2]	(L)750,000,000	(L)37.12%
		(S)45,000,000	(S)2.22%
Shimmery Diamond Holding Limited	Interests in controlled corporation[3]	(L)750,000,000	(L)37.12%
		(S)45,000,000	(S)2.22%
Cantrust (Far East) Limited	Trustee[2][3]	(L)1,500,000,000	(L)74.25%
		(S)90,000,000	(S)4.45%

L – long position
S – short position

Other Information

Notes:

1. The calculation is based on the total number of 2,020,202,000 Shares in issue as at 29 February 2020 (rounded down to two decimal places).

2. Blue Sky BVI is the beneficial owner of the long position interests in 750,000,000 Shares and the short position interests in 45,000,000 Shares. Blue Sky BVI is a company wholly-owned by Passionate Jade Holding Limited and which in turn is wholly owned by Cantrust (Far East) Limited as the trustee of a discretionary trust, namely Blue Sky Trust. Mr. Yu is the settlor and a beneficiary of the Blue Sky Trust.

3. White Clouds BVI is the beneficial owner of the long position interests in 750,000,000 Shares and the short position interests in 45,000,000 Shares. White Clouds BVI is a company wholly-owned by Shimmery Diamond Holding Limited and which in turn is wholly owned by Cantrust (Far East) Limited as the trustee of a discretionary trust, namely White Clouds Trust. Mr. Xie is the settlor and a beneficiary of the White Clouds Trust.

4. Each of Blue Sky BVI and White Clouds BVI entered into an agreement authorising stock borrow with Credit Suisse AG, Hong Kong Branch ("CS") on 21 March 2019 to facilitate the Company's issue of convertible bond in March 2019. As at 29 February 2020, 45,000,000 Shares were lent by each of Blue Sky BVI and White Clouds BVI to CS. Each of Blue Sky BVI and White Clouds BVI beneficially held the short position interests in 45,000,000 Shares.

5. Mr. Yu, Mr. Xie, Blue Sky BVI and White Clouds BVI entered into the concert party agreement to align their shareholding interests in the Company. Accordingly, each of Mr. Yu, Mr. Xie, Blue Sky BVI and White Clouds BVI is deemed to be interested in the Shares/underlying Shares held by other parties to the concert party agreement. The interests of Blue Sky BVI and White Clouds BVI were duplicated with the interests of Mr. Yu and Mr. Xie as disclosed under the section headed "DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES' in this report.

Save as disclosed above, as at 29 February 2020, the Directors were not aware of any other persons (other than the Directors and the chief executives of the Company) who had an interest or short position in the Shares or underlying Shares as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

SHARE OPTION SCHEMES AND SHARE AWARD SCHEME

Pre-IPO Share Option Scheme

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

	Date of grant (dd/mm/yyyy)	Exercise price (HK$)	Vesting date (dd/mm/yyyy)	Exercise period (dd/mm/yyyy)	Number of share options				
					At 01/09/2019[1]	Granted	Exercised	Lapsed	At 29/02/2020[1]
Directors									
Yu Guo	14/12/2017	6.45	15/12/2018	15/12/2018 – 14/12/2027	2,000,000	–	–	–	2,000,000
			15/12/2019	15/12/2019 – 14/12/2027	2,000,000	–	–	2,000,000	–
			15/12/2020	15/12/2020 – 14/12/2027	2,000,000	–	–	–	2,000,000
			15/12/2021	15/12/2021 – 14/12/2027	2,000,000	–	–	–	2,000,000
			15/12/2022	15/12/2022 – 14/12/2027	2,000,000	–	–	–	2,000,000

Other Information

	Date of grant (dd/mm/yyyy)	Exercise price (HK$)	Vesting date (dd/mm/yyyy)	Exercise period (dd/mm/yyyy)	Number of share options				
					At 01/09/2019[1]	Granted	Exercised	Lapsed	At 29/02/2020[1]
Xie Ketao	14/12/2017	6.45	15/12/2018	15/12/2018 – 14/12/2027	2,000,000	–	–	–	2,000,000
			15/12/2019	15/12/2019 – 14/12/2027	2,000,000	–	–	2,000,000	–
			15/12/2020	15/12/2020 – 14/12/2027	2,000,000	–	–	–	2,000,000
			15/12/2021	15/12/2021 – 14/12/2027	2,000,000	–	–	–	2,000,000
			15/12/2022	15/12/2022 – 14/12/2027	2,000,000	–	–	–	2,000,000
Yu Kai	14/12/2017	6.45	15/12/2018	15/12/2018 – 14/12/2027	2,000,000	–	–	–	2,000,000
			15/12/2019	15/12/2019 – 14/12/2027	2,000,000	–	–	2,000,000	–
			15/12/2020	15/12/2020 – 14/12/2027	2,000,000	–	–	–	2,000,000
			15/12/2021	15/12/2021 – 14/12/2027	2,000,000	–	–	–	2,000,000
			15/12/2022	15/12/2022 – 14/12/2027	2,000,000	–	–	–	2,000,000
Xie Shaohua	14/12/2017	6.45	15/12/2018	15/12/2018 – 14/12/2027	2,000,000	–	–	–	2,000,000
			15/12/2019	15/12/2019 – 14/12/2027	2,000,000	–	–	2,000,000	–
			15/12/2020	15/12/2020 – 14/12/2027	2,000,000	–	–	–	2,000,000
			15/12/2021	15/12/2021 – 14/12/2027	2,000,000	–	–	–	2,000,000
			15/12/2022	15/12/2022 – 14/12/2027	2,000,000	–	–	–	2,000,000
Employees	14/12/2017	6.45	15/12/2018	15/12/2018 – 14/12/2027	1,100,000	–	–	–	1,100,000
			15/12/2019	15/12/2019 – 14/12/2027	1,100,000	–	–	1,100,000	–
			15/12/2020	15/12/2020 – 14/12/2027	1,100,000	–	–	–	1,100,000
			15/12/2021	15/12/2021 – 14/12/2027	1,100,000	–	–	–	1,100,000
			15/12/2022	15/12/2022 – 14/12/2027	1,100,000	–	–	–	1,100,000
Total					45,500,000	–	–	9,100,000	36,400,000

Other Information

Notes:

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

2. No share options was cancelled during the period under review.

Post-IPO Share Option Scheme

The Post-IPO Share Option Scheme adopted on 29 November 2017 is valid and effective during the period commencing on 15 December 2017 and ending on 14 December 2027, being the date falling 10 years from the Listing Date. A summary of the movements of the share options granted under the Post-IPO Share Option Scheme during the period under review is as follows:

					Number of share options				
	Date of grant (dd/mm/yyyy)	Exercise price (HK$)	Vesting date (dd/mm/yyyy)	Exercise period (dd/mm/yyyy)	At 01/09/2019[1]	Granted[1]	Exercised	Lapsed	At 29/02/2020[1]
Employees	08/03/2019	12.48	08/03/2020	08/03/2020 – 07/03/2029	435,000	–	–	20,000	415,000
			08/03/2021	08/03/2021 – 07/03/2029	652,500	–	–	30,000	622,500
			08/03/2022	08/03/2022 – 07/03/2029	870,000	–	–	40,000	830,000
			08/03/2023	08/03/2023 – 07/03/2029	1,087,500	–	–	50,000	1,037,500
			08/03/2024	08/03/2024 – 07/03/2029	1,305,000	–	–	60,000	1,245,000
	16/12/2019	10.76	16/12/2020	16/12/2020 – 15/12/2029	–	40,000	–	20,000	20,000
			16/12/2021	16/12/2021 – 15/12/2029	–	60,000	–	30,000	30,000
			16/12/2022	16/12/2022 – 15/12/2029	–	80,000	–	40,000	40,000
			16/12/2023	16/12/2023 – 15/12/2029	–	100,000	–	50,000	50,000
			16/12/2024	16/12/2024 – 15/12/2029	–	120,000	–	60,000	60,000
Total					4,350,000	400,000	–	400,000	4,350,000

Notes:

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

2. The closing price of the Shares immediately before the share options granted on 16 December 2019 was HK$10.94.

3. No share options was cancelled during the period under review.

Other Information

Share Award Scheme

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

UPDATES IN RELATION TO QUALIFICATION REQUIREMENT

On 30 June 2019, National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會) and Ministry of Commerce of the PRC (中華人民共和國商務部) jointly promulgated the Special Administrative Measures for Access of Foreign Investment (Negative List) (2019) (《外商投資准入特別管理措施(負面清單)》(2019年版), the "Negative List"), which became effective on 30 July 2019. Pursuant to the Negative List, higher education in the PRC is a "restricted" industry. In particular, the Negative List explicitly restricts higher education institutions to Sino-Foreign cooperation, meaning that foreign investors may only operate higher education institutions through cooperating with PRC incorporated entities that are in compliance with the Regulations on Sino-Foreign Cooperative Education of the PRC (《中華人民共和國中外合作辦學條例》, which was promulgated by the State Council on 1 March 2003, taking effect as from 1 September 1 2003, amended on 18 July 2013, and further amended on 2 March 2019, the "Sino-Foreign Regulation"). In addition, the Negative List also provides that the domestic party shall play a dominant role in the Sino-Foreign cooperation, meaning that (a) the principal or other chief executive officer of the schools shall be a PRC national, and (b) the representative of the domestic party shall account for no less than 50% of the total members of the board of directors, the executive council or the joint administration committee of the Sino-Foreign cooperative educational institution. Pursuant to the Negative List, vocational education in the PRC is the "permitted" industry. However, the Administrative Measures for the Sino-Foreign Cooperative Education on Vocational Skills Training (《中外合作職業技能培訓辦學管理辦法》) (the "Sino-Foreign Vocational Skills Training Measures") explicitly restrict vocational education to Sino-Foreign cooperation, meaning that foreign investors may only operate vocational training schools through joint ventures with PRC incorporated entities that are in compliance with the Sino-Foreign Regulation.

In relation to the interpretation of Sino-foreign cooperation, pursuant to the Implementing Rules for the Regulations on Operating Sino-Foreign Schools (《中華人民共和國中外合作辦學條例實施辦法》, issued by the MOE on 2 June 2004 and became effective on 1 July 2004) (the "Implementing Rules"), the foreign investor in a Sino-Foreign Joint Venture Private Higher Education School must be a foreign educational institution with relevant qualification and high quality of education (the "Higher Education Qualification Requirement"). Similarly, pursuant to the Sino-foreign Vocational Skills Training Measures, the foreign investor in a Sino-Foreign Joint Venture Private Vocational Education School must be a foreign education institution with relevant qualification and high quality of education (the "Vocational Education Qualification Requirement") (Higher Education Qualification Requirement and Vocational Education Qualification Requirement are collectively referred as "Qualification Requirement"). Furthermore, pursuant to the Implementation Opinions of the MOE on Encouraging and Guiding the Entry of Private Capital in the Fields of Education and Promoting the Healthy Development of Private Education (《教育部關於鼓勵和引導民間資金進入教育領域促進民辦教育健康發展的實施意見》)(the "Implementation Opinions"), the foreign portion of the total investment in a Sino-Foreign School should be below 50% (the "Foreign Ownership Restriction") and the establishment of these schools is subject to approval of education authorities at the provincial or national level.

Other Information

The Company's PRC Legal Adviser has advised that the laws and regulations are currently uncertain as to what specific criteria must be met by a foreign investor (such as length of experience and form and extent of ownership in the foreign jurisdiction) in order to demonstrate to the relevant authority that it meets the Qualification Requirement. Notwithstanding the foregoing, the Company is committed to working towards meeting the Qualification Requirement and has implemented a business plan to ensure our compliance with Qualification Requirement and with a view to expanding our education operations overseas. In 2019, the company acquired King's Own Institute in Sydney, Australia, a higher education institute that is accredited in Australia to award both bachelor's and master's degrees and is recognised by the Ministry of Education of the PRC. We will continue to disclose our progress in the implementation of our overseas expansion plans and updates to the Qualification Requirement in our annual and interim reports.

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

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

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

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

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

Other Information

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

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

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

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

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

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

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

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

On behalf of the Board

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

Hong Kong, 22 April 2020

Report on Review of Condensed Consolidated Financial Statements

Deloitte. 德勤

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

INTRODUCTION

We have reviewed the condensed consolidated financial statements of China Education Group Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 31 to 67, which comprises the condensed consolidated statement of financial position as of 29 February 2020 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") issued by the International Accounting Standards Board. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

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

CONCLUSION

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

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
22 April 2020

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 29 February 2020

	NOTES	Six months ended 29 February 2020 RMB'000 (unaudited)	28 February 2019 RMB'000 (unaudited)
Revenue	3	**1,315,222**	927,304
Cost of revenue		**(557,881)**	(390,906)
Gross profit		**757,341**	536,398
Other income	4	**45,475**	48,438
Investment income		**11,781**	11,337
Other gains and losses	5	**26,576**	(19,754)
Selling expenses		**(60,952)**	(24,803)
Administrative expenses		**(179,127)**	(174,532)
Finance costs		**(51,192)**	(33,066)
Profit before taxation		**549,902**	344,018
Taxation	6	**(8,718)**	(146)
Profit for the period	7	**541,184**	343,872
Other comprehensive expense			
Item that may be reclassified subsequently to profit or loss:			
Exchange difference arising on translation of a foreign operation		**(24,550)**	–
Total comprehensive income for the period		**516,634**	343,872
Profit for the period attributable to:			
Owners of the Company		**497,625**	299,648
Non-controlling interests		**43,559**	44,224
		541,184	343,872
Total comprehensive income attributable to:			
Owners of the Company		**473,075**	299,648
Non-controlling interests		**43,559**	44,224
		516,634	343,872
Earnings per share	9		
Basic (RMB cents)		**24.63**	14.83
Diluted (RMB cents)		**22.27**	14.76

Condensed Consolidated Statement of Financial Position

At 29 February 2020

	NOTES	At 29 February 2020 RMB'000 (unaudited)	At 31 August 2019 RMB'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment	10	6,544,188	5,850,771
Right-of-use assets	10	1,334,061	–
Prepaid lease payments		–	1,051,059
Goodwill	11	1,772,635	1,565,905
Intangible assets	11	2,251,855	1,708,157
Contract costs		91,818	98,972
Prepayments for investment	12	–	73,837
Deposits paid for right-of-use assets/prepaid lease payments		26,761	1,181
Deposits paid for acquisition of property, plant and equipment		25,346	55,586
Other prepayment	13	31,303	–
Deferred tax asset	17	27,157	27,342
		12,105,124	10,432,810
CURRENT ASSETS			
Inventories		1,112	540
Trade receivables, deposits, prepayments and other receivables	13	522,417	570,868
Financial assets at fair value through profit or loss		1,346,206	660,283
Contract costs		62,781	52,675
Prepaid lease payments		–	24,998
Restricted bank deposits		100,300	100,300
Bank balances and cash		1,322,367	3,496,587
		3,355,183	4,906,251
CURRENT LIABILITIES			
Deferred income		38,685	38,364
Trade and bills payables	14	26,867	23,465
Other payables and accrued expenses	15	1,514,647	1,506,243
Provisions	15	239,748	238,292
Lease liabilities		18,976	–
Income tax payable		27,193	20,546
Contract liabilities		1,326,181	1,617,328
Bank and other borrowings	16	107,520	284,700
		3,299,817	3,728,938
NET CURRENT ASSETS		55,366	1,177,313
TOTAL ASSETS LESS CURRENT LIABILITIES		12,160,490	11,610,123

Condensed Consolidated Statement of Financial Position

At 29 February 2020

	NOTES	At 29 February 2020 RMB'000 (unaudited)	At 31 August 2019 RMB'000 (audited)
NON-CURRENT LIABILITIES			
Deferred income		28,493	31,573
Other payables	15	50,845	22,943
Bank and other borrowings	16	2,049,699	1,838,127
Lease liabilities		73,382	–
Deferred tax liability	17	727,189	565,460
Convertible bonds		2,113,897	2,143,783
		5,043,505	4,601,886
		7,116,985	7,008,237
CAPITAL AND RESERVES			
Share capital	18	17	17
Reserves		6,816,665	6,594,526
Equity attributable to owners of the Company		6,816,682	6,594,543
Non-controlling interests		300,303	413,694
		7,116,985	7,008,237

Condensed Consolidated Statement of Changes in Equity

For the six months ended 29 February 2020

	Attributable to owners of the Company										
	Share capital RMB'000	Share premium RMB'000	Merger reserve RMB'000 (Note i)	Other reserve RMB'000 (Note ii)	Share options reserve RMB'000	Statutory surplus reserve RMB'000 (Note iii)	Exchange reserve RMB'000	Retained profits RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 September 2018 (audited)	17	2,769,819	181,679	(32,309)	43,756	1,187,574	–	1,992,561	6,143,097	319,073	6,462,170
Profit and total comprehensive income for the period	–	–	–	–	–	–	–	299,648	299,648	44,224	343,872
Dividends recognised as distribution *(note 8)*	–	(127,874)	–	–	–	–	–	–	(127,874)	–	(127,874)
Transfer	–	–	–	–	–	45,368	–	(45,368)	–	–	–
Recognition of equity-settled share-based payments	–	–	–	–	26,331	–	–	–	26,331	–	26,331
At 28 February 2019 (unaudited)	17	2,641,945	181,679	(32,309)	70,087	1,232,942	–	2,246,841	6,341,202	363,297	6,704,499
At 1 September 2019 (audited)	**17**	**2,579,785**	**181,679**	**(32,309)**	**92,619**	**1,264,734**	**–**	**2,508,018**	**6,594,543**	**413,694**	**7,008,237**
Profit for the period	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**497,625**	**497,625**	**43,559**	**541,184**
Other comprehensive expense for the period	**–**	**–**	**–**	**–**	**–**	**–**	**(24,550)**	**–**	**(24,550)**	**–**	**(24,550)**
Profit and total comprehensive income for the period	**–**	**–**	**–**	**–**	**–**	**–**	**(24,550)**	**497,625**	**473,075**	**43,559**	**516,634**
Dividends recognised as distribution *(note 8)*	**–**	**(161,080)**	**–**	**–**	**–**	**–**	**–**	**–**	**(161,080)**	**–**	**(161,080)**
Transfer	**–**	**–**	**–**	**–**	**–**	**63,749**	**–**	**(63,749)**	**–**	**–**	**–**
Acquisition of additional interest in a subsidiary *(note (ii))*	**–**	**–**	**–**	**(120,498)**	**–**	**–**	**–**	**39,448**	**(81,050)**	**(156,950)**	**(238,000)**
Recognition of equity-settled share-based payments	**–**	**–**	**–**	**–**	**(8,806)**	**–**	**–**	**–**	**(8,806)**	**–**	**(8,806)**
At 29 February 2020 (unaudited)	**17**	**2,418,705**	**181,679**	**(152,807)**	**83,813**	**1,328,483**	**(24,550)**	**2,981,342**	**6,816,682**	**300,303**	**7,116,985**

Condensed Consolidated Statement of Changes in Equity

For the six months ended 29 February 2020

Notes:

i. Amounts represent the transfer of the combined paid-in capital of the subsidiaries comprising the Group to the merger reserve upon the Company became the holding company of the Group upon the reorganisation in 2017.

ii. The other reserve represents (i) the difference between the principal amounts of consideration paid and the relevant share of carrying value of the subsidiary's net assets acquired from/disposed to the non-controlling interests in prior years; (ii) the deemed distribution to equity holders which represents the differences between the fair value of the lower-than-market interest rate advances to Mr. Yu Guo ("Mr. Yu") and Mr. Xie Ketao ("Mr. Xie"), controlling equity holders and an entity controlled by Mr. Xie and the principal amount of the advances at initial recognition in prior years; (iii) the deemed contribution from equity holders which represents the differences between the carrying amount of the lower-than-market interest rate advances to Mr. Yu and Mr. Xie and the amount received for the settlement in prior years; (iv) capital contribution from Mr. Yu through a company controlled by him in prior years; and (v) the difference between the consideration paid for further acquisition of 20% interest in Shuren Education Management Company Limited (樹仁教育管理有限公司) ("Shuren Education") and the amount by which the non-controlling interests are adjusted, after reattribution of relevant reserve. Shuren Education became a wholly-owned subsidiary of the Group after the transaction.

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

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

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

Condensed Consolidated Statement of Cash Flows

For the six months ended 29 February 2020

	NOTES	Six months ended 29 February 2020 RMB'000 (unaudited)	28 February 2019 RMB'000 (unaudited)
OPERATING ACTIVITIES			
Operating cash flows before movements in working capital		**709,166**	509,171
Increase in trade receivables, deposits, prepayments and other receivables		**(167,604)**	(31,471)
Increase in contract costs		**(2,952)**	(35,821)
Decrease in other payables and accrued expenses		**(106,059)**	(92,021)
Decrease in contract liabilities		**(328,494)**	(288,173)
Decrease in deferred income		**(13,255)**	(3,723)
Movements in other working capital items		**2,052**	(13,431)
Cash generated from operations		**92,854**	44,531
Income tax paid		**(6,934)**	(257)
NET CASH FROM OPERATING ACTIVITIES		**85,920**	44,274
INVESTING ACTIVITIES			
Purchase of structured deposits		**(1,780,480)**	(410,020)
Purchase of money market funds		**(1,130,180)**	–
Net cash (outflow) inflow from acquisition of a business	*22(a)*	**(547,397)**	154,118
Payments/deposits paid for acquisition of property, plant and equipment		**(475,519)**	(347,190)
Settlement of consideration payables		**(227,250)**	(42,480)
Net cash outflow from acquisition of a group of assets	*22(b)*	**(174,015)**	–
Payment for capital contribution to an investment fund		**(31,303)**	–
Payment for deposit for right-of-use assets		**(25,580)**	–
Payment for right-of-use assets		**(60)**	–
Redemption of structured deposits		**1,640,964**	462,464
Redemption of money market funds		**604,922**	–
Government grants received		**18,136**	10,700
Interest income from banks		**11,781**	10,592
Proceeds on disposal of property, plant and equipment		**763**	1,113
Proceeds on disposal of PRC listed equity securities		**570**	–
Placement of prepayments for investment		**–**	(230,558)
Loan advanced to a third party		**–**	(135,000)
Payment for prepaid lease payments		**–**	(29,427)
Withdrawal of restricted bank deposits		**–**	10,000
NET CASH USED IN INVESTING ACTIVITIES		**(2,114,648)**	(545,688)

Condensed Consolidated Statement of Cash Flows

For the six months ended 29 February 2020

	Six months ended	
	29 February 2020	28 February 2019
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
FINANCING ACTIVITIES		
Repayment of bank borrowings	**(277,600)**	(20,000)
Payment for further acquisition of interest in a subsidiary	**(99,000)**	–
Interest paid	**(66,079)**	(3,134)
Repayment of lease liabilities	**(7,106)**	–
New bank borrowings raised	**320,870**	602,847
Repayment of other borrowings	**–**	(100,000)
Repayment to non-controlling interests	**–**	(29,447)
NET CASH (USED IN) FROM FINANCING ACTIVITIES	**(128,915)**	450,266
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(2,157,643)**	(51,148)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	**3,496,587**	1,738,455
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**(16,577)**	(7,971)
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD, REPRESENTING BANK BALANCES AND CASH	**1,322,367**	1,679,336

Notes to the Condensed Consolidated Financial Statements

For the six months ended 29 February 2020

1. BASIS OF PREPARATION

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

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values.

Other than changes in accounting policies resulting from application of new and amendments to International Financial Reporting Standards ("IFRSs") and early adoption of Amendment to IFRS 3 "Definition of Business", the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 29 February 2020 are the same as those presented in the Group's annual financial statements for the year ended 31 August 2019.

Application of new and amendments to IFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to IFRSs issued by the International Accounting Standard Board which are mandatory effective for the annual period beginning on or after 1 September 2019 for the preparation of the Group's condensed consolidated financial statements:

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

In addition, the Group has early applied Amendments to IFRS 3 "Definition of a Business" which will be mandatorily effective for the Group for business combinations and asset acquisitions for which the acquisition is on or after 1 September 2020.

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

2.1 Impacts and changes in accounting policies of application on IFRS 16 "Leases"

The Group has applied IFRS 16 for the first time in the current interim period. IFRS 16 superseded IAS 17 "Leases" ("IAS 17") and the related interpretations.

2.1.1 Key changes in accounting policies resulting from application of IFRS 16

The Group applied the following accounting policies in accordance with the transition provisions of IFRS 16.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 29 February 2020

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Application of new and amendments to IFRSs (Continued)

2.1 Impacts and changes in accounting policies of application on IFRS 16 "Leases" (Continued)

2.1.1 Key changes in accounting policies resulting from application of IFRS 16 (Continued)

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under IFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

As a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

As a practical expedient, leases with similar characteristics are accounted on a portfolio basis when the Group reasonably expects that the effects on the financial statements would not differ materially from individual leases within the portfolio.

Short-term leases

The Group applies the short-term lease recognition exemption to leases of school premises, office premises and staff quarters that have a lease term of twelve months or less from the commencement date and do not contain a purchase option. Lease payments on short-term leases are recognised as expense on a straight-line basis over the lease term.

Right-of-use assets

Except for short-term leases, the Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 29 February 2020

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Application of new and amendments to IFRSs (Continued)

2.1 *Impacts and changes in accounting policies of application on IFRS 16 "Leases"* (Continued)

2.1.1 *Key changes in accounting policies resulting from application of IFRS 16* (Continued)

As a lessee (Continued)

Right-of-use assets (Continued)

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term is depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the condensed consolidated statement of financial position.

Leasehold land and building

For payments of a property interest which includes both leasehold land and building elements, the entire property is presented as property, plant and equipment of the Group when the payments cannot be allocated reliably between the leasehold land and building elements.

Refundable rental deposits

Refundable rental deposits paid are accounted under IFRS 9 "Financial Instruments" and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. 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.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 29 February 2020

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Application of new and amendments to IFRSs (Continued)

2.1 Impacts and changes in accounting policies of application on IFRS 16 "Leases" (Continued)

2.1.1 Key changes in accounting policies resulting from application of IFRS 16 (Continued)

As a lessee (Continued)

Lease liabilities (Continued)

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate;
- amounts expected to be paid under residual value guarantees;
- the exercise price of a purchase option reasonably certain to be exercised by the Group; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.

The Group presents lease liabilities as a separate line item on the condensed consolidated statement of financial position.

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 29 February 2020

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Application of new and amendments to IFRSs (Continued)

2.1 Impacts and changes in accounting policies of application on IFRS 16 "Leases" (Continued)

2.1.1 *Key changes in accounting policies resulting from application of IFRS 16* (Continued)

As a lessee (Continued)

Lease modifications (Continued)

The Group accounts for the remeasurement of lease liabilities and lease incentive from lessor by making corresponding adjustments to the relevant right-of-use asset. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the modified contract to each lease component on the basis of the relevant stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Taxation

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies IAS 12 "Income Taxes" requirements to the leasing transaction as a whole. Temporary differences relating to right-of-use assets and lease liabilities are assessed on a net basis. Excess of depreciation on right-of-use assets over the lease payments for the principal portion of lease liabilities resulting in net deductible temporary differences.

2.1.2 *Transition and summary of effect arising from initial recognition of IFRS 16*

Definition of a lease

The Group has elected the practical expedient to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC-Int 4 "Determining whether an Arrangement contains a Lease" and not apply this standards to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 September 2019, the Group applies the definition of a lease in accordance with the requirements set out in IFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied IFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 September 2019. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 29 February 2020

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Application of new and amendments to IFRSs (Continued)

2.1 Impacts and changes in accounting policies of application on IFRS 16 "Leases" (Continued)

2.1.2 Transition and summary of effect arising from initial recognition of IFRS 16 (Continued)

As a lessee (Continued)

When applying the modified retrospective approach under IFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under IAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

i. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application; and

ii. applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment. Specifically, discount rate for certain leases of school premises and staff quarters in the PRC was determined on a portfolio basis; and

iii. used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension and termination options.

On transition, the Group has made the following adjustments upon application of IFRS 16:

Other than the reclassification of prepaid lease payments of RMB1,076,057,000, the Group recognised lease liabilities of RMB41,551,000 and right-of-use assets of RMB41,551,000 as at 1 September 2019 by applying IFRS 16.C8(b)(ii) transition.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average lessee's incremental borrowing rate applied is ranged from 5.45% to 6.00%.

	At 1 September 2019 *RMB'000*
Operating lease commitments disclosed as at 31 August 2019	60,459
Add: Extension options reasonably certain to be exercised	6,720
Less: Recognition exemption – short-term leases	(7,053)
Practical expedient – lease with lease term ending within 12 months from the date of initial application	(7,957)
	52,169
Lease liabilities discounted at relevant incremental borrowing rates relating to operating leases recognised upon application of IFRS 16 as at 1 September 2019	41,551
Analysed as	
Current	9,240
Non-current	32,311
	41,551

Notes to the Condensed Consolidated Financial Statements

For the six months ended 29 February 2020

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Application of new and amendments to IFRSs (Continued)

2.1 *Impacts and changes in accounting policies of application on IFRS 16 "Leases"* (Continued)

2.1.2 *Transition and summary of effect arising from initial recognition of IFRS 16* (Continued)

As a lessee (Continued)

The carrying amount of right-of-use assets as at 1 September 2019 comprises the following:

	Note	Right-of-use assets *RMB'000*
Right-of-use assets relating to operating leases recognised upon application of IFRS 16		41,551
Reclassified from prepaid lease payments	*(i)*	1,076,057
		1,117,608
By class:		
Leasehold lands		1,088,246
Office premises, student dormitories and staff quarters		29,362
		1,117,608

The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at 1 September 2019. Line items that were not affected by the changes have not been included:

	Note	Carrying amounts previously reported at 31 August 2019 *RMB'000*	Adjustments *RMB'000*	Carrying amounts under IFRS 16 at 1 September 2019 *RMB'000*
Non-current Assets				
Prepaid lease payments	*(i)*	1,051,059	(1,051,059)	–
Right-of-use assets		–	1,117,608	1,117,608
Current Asset				
Prepaid lease payments	*(i)*	24,998	(24,998)	–
Current Liability				
Lease liabilities		–	9,240	9,240
Non-current Liability				
Lease liabilities		–	32,311	32,311

Notes to the Condensed Consolidated Financial Statements

For the six months ended 29 February 2020

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Application of new and amendments to IFRSs (Continued)

2.1 Impacts and changes in accounting policies of application on IFRS 16 "Leases" (Continued)

2.1.2 Transition and summary of effect arising from initial recognition of IFRS 16 (Continued)

As a lessee (Continued)

Note:

(i) Upfront payments for leasehold lands in the PRC were classified as prepaid lease payments as at 31 August 2019. Upon application of IFRS 16, the current and non-current portion of prepaid lease payments amounting to RMB24,998,000 and RMB1,051,059,000 respectively were reclassified to right-of-use assets.

For the purpose of reporting cash flows from operating activities under indirect method for the six months ended 29 February 2020, movements in working capital have been computed based on opening condensed consolidated statement of financial position as at 1 September 2019 as disclosed above.

2.2 Impacts and changes in accounting policies of application of other new and amendments to IFRSs

Impacts and changes in accounting policies of application on IFRIC-23 "Uncertainty over Income Tax Treatments"

IFRIC-23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The interpretation requires the Group to determine whether uncertain tax positions are assessed separately or as a group and assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by individual group entities in their respective income tax filings. If it is probable, the current and deferred taxes are determined consistently with the tax treatment in the income tax filings. If it is not probable that the relevant taxation authority will accept an uncertain tax treatment, the effect of each uncertainty is reflected by using either the most likely amount or the expected value.

The Group applied this interpretation retrospectively with the cumulative effect of initially applying the interpretation recognised at the date of initial application, 1 September 2019, without restating comparatives. No adjustment has been made at the date of initial application.

Although the Implementation Rules for the Law for Promoting Private Education (the "Implementation Rules") has been announced, details underlying the Implementation Rules has not been finalised, the educational institutions of the Group in the PRC have not yet elected to be for-profit or not-for-profit schools, there will be uncertainty whether the schools could continue to follow previous PRC Enterprise Income Tax ("EIT") exemption treatment for the tuition related income, when facts and circumstances change or new information become available. The current tax having considered the current income tax exemption granted for tuition related income from relevant local tax authorities represented the most likely amount. The management would reassess any judgements and estimates if the facts and circumstances change or new information becomes available.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 29 February 2020

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Application of new and amendments to IFRSs (Continued)

2.2 *Impacts and changes in accounting policies of application of other new and amendments to IFRSs* (Continued)

Amendments to IFRSs Annual Improvements to IFRS Standards 2015–2017 Cycle

IAS 23 "Borrowing Costs"

For any specific borrowing that remains outstanding after the related qualifying asset is ready for its intended use or sale, that borrowing becomes part of the funds that the Group borrows generally when calculating the capitalisation rate on general borrowings.

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

The application of the amendments to IAS 23 in the current period has had no material effect on the amounts reported in these condensed consolidated financial statements.

2.3. *Early adoption of Amendments to IFRS 3 "Definition of a Business"*

In the current interim period, the Group has elected to early adopt Amendments to IFRS 3. The Group has applied the amendments prospectively to all business combinations and asset acquisitions for which the acquisition date is on or after 1 September 2019.

The amendments:

- add an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The election on whether to apply the optional concentration test is available on transaction-by-transaction basis;
- clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs; and
- narrow the definitions of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs.

The Group has performed concentration test for certain acquisition being accounted for as an asset acquisition.

3. REVENUE AND SEGMENT INFORMATION

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

Revenue represents services income from tuition, boarding fee and ancillary services, each being single performance obligations.

Information reported to the Group's chief operating decision maker ("CODM"), being the directors of the Company, for the purpose of resource allocation and assessment of segment performance, was based on the categories of education institution, namely higher education and vocational education. Higher education institutions mainly deliver master's degree programmes, bachelor's degree programmes, junior college diploma programmes and continuing education programmes in the PRC and overseas. Vocational education institutions mainly deliver vocational diploma programmes and technician diploma programmes. Each category of institution constitutes an operating segment and reportable segment in the PRC.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 29 February 2020

3. REVENUE AND SEGMENT INFORMATION (Continued)

In prior periods, each category of institution constituted an operating segment. The services provided and type of customers were similar in each operating segment, and each operating segment was subject to similar regulatory environment. Accordingly, the segment information was aggregated as a single reportable segment.

During the year ended 31 August 2019, upon acquisitions of certain higher education institutions, the Group reorganised its internal reporting structure which resulted in changes to the composition of its reportable segments from a single reportable segment to two reportable segments, namely, higher education segment and vocational education segment. In addition, during the current interim period, upon the acquisition of King's Own Institute ("KOI"), a higher education institution incorporated in Australia, the Group commenced the business engaging in provision of global education service in jurisdiction other than the PRC. The new business is considered as a new operating and reporting segment, namely "Global education" segment.

No analysis of segment assets or segment liabilities is presented as they are not regularly provided to the CODM.

Segment revenues and results

The following is an analysis of the Group's revenue and results by reportable and operating segments:

	Higher education *RMB'000*	**Vocational education** *RMB'000*	**Global education** *RMB'000*	**Total** *RMB'000*
For the six months ended 29 February 2020 (unaudited)				
Revenue	**872,405**	**374,867**	**67,950**	**1,315,222**
Segment results	**389,076**	**183,557**	**16,954**	**589,587**
Investment income				**11,781**
Other gains and losses				**26,576**
Finance costs				**(51,192)**
Unallocated corporate income and expenses				**(26,850)**
Profit before taxation				**549,902**

	Higher education *RMB'000*	Vocational education *RMB'000*	Total *RMB'000*
For the six months ended 28 February 2019 (unaudited) (Note)			
Revenue	599,099	328,205	927,304
Segment results	298,687	151,572	450,259
Investment income			11,337
Other gains and losses			(19,754)
Finance costs			(33,066)
Unallocated corporate income and expenses			(64,758)
Profit before taxation			344,018

Note: Prior period segment disclosures have been represented to conform with the current period's presentation.

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment results represent the profit earned by each segment without allocation of investment income, other gains and losses, finance cost and central administrative expenses.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 29 February 2020

3. REVENUE AND SEGMENT INFORMATION (Continued)

Revenue from major services

The following is an analysis of the Group's revenue by types of services:

	Higher education RMB'000	Vocational education RMB'000	Global education RMB'000	Total RMB'000
For the six months ended 29 February 2020 (unaudited)				
Tuition fees recognised over time	**801,235**	**327,535**	**67,950**	**1,196,720**
Boarding fees recognised over time	**58,731**	**30,708**	**–**	**89,439**
Ancillary services recognised over time	**12,439**	**16,624**	**–**	**29,063**
	872,405	**374,867**	**67,950**	**1,315,222**

	Higher education RMB'000	Vocational education RMB'000	Total RMB'000
For the six months ended 28 February 2019 (unaudited)			
Tuition fees recognised over time	551,710	297,124	848,834
Boarding fees recognised over time	40,684	27,388	68,072
Ancillary services recognised over time	6,705	3,693	10,398
	599,099	328,205	927,304

Geographical information

The Group operates in the PRC and Australia (for the six months ended 28 February 2019: in the PRC).

Information about the Group's revenue from customers is presented based on the location of operations and the Group's non-current assets is presented based on the geographical location of the assets.

	Revenue from customers Six months ended		Non-current assets *(Note)*	
	29 February 2020 RMB'000 (unaudited)	28 February 2019 RMB'000 (unaudited)	**29 February 2020 RMB'000 (unaudited)**	31 August 2019 RMB'000 (audited)
The PRC	**1,247,272**	927,304	**11,252,079**	10,405,468
Australia	**67,950**	–	**822,240**	–
Hong Kong	**–**	–	**3,648**	–
	1,315,222	927,304	**12,077,967**	10,405,468

Note: Non-current assets excluded deferred tax assets.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 29 February 2020

4. OTHER INCOME

	Six months ended	
	29 February 2020 ***RMB'000*** **(unaudited)**	28 February 2019 *RMB'000* (unaudited)
Academic administration income	**11,496**	17,325
Management fee income	**20,594**	16,443
Government grants *(Note)*	**9,910**	6,424
Staff quarter income	**1,600**	336
Others	**1,875**	7,910
	45,475	48,438

Note: Government grants mainly represent subsidies from government for procurement of laboratory apparatus and equipment and conducting educational programmes for both periods.

5. OTHER GAINS AND LOSSES

	Six months ended	
	29 February 2020 ***RMB'000*** **(unaudited)**	28 February 2019 *RMB'000* (unaudited)
Loss on disposal of property, plant and equipment, net	**(560)**	(1,311)
Fair value change on financial assets at fair value through profit or loss ("FVTPL")	**21,719**	4,864
Foreign exchange gain (loss), net	**14,486**	(22,556)
Impairment losses, net of reversal		
— trade receivables	**(2,107)**	1,273
— other receivables	**(4,609)**	(2,024)
Fair value change on convertible bonds	**(2,353)**	–
	26,576	(19,754)

6. TAXATION

	Six months ended	
	29 February 2020 ***RMB'000*** **(unaudited)**	28 February 2019 *RMB'000* (unaudited)
Current tax		
— EIT	**(6,602)**	(3,015)
— Australian Corporate Income Tax	**(6,497)**	–
Deferred tax *(note 17)*	**4,381**	2,869
	(8,718)	(146)

Notes to the Condensed Consolidated Financial Statements

For the six months ended 29 February 2020

7. PROFIT FOR THE PERIOD

	Six months ended	
	29 February 2020	28 February 2019
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Profit and total comprehensive income for the period has been arrived at after charging (crediting) the following items:		
Staff costs, including directors' remuneration		
— salaries and other allowances	**329,622**	245,310
— retirement benefit scheme contributions	**52,153**	36,157
— (net reversal of) expense of share-based payments *(Note)*	**(8,806)**	26,331
Total staff costs	**372,969**	307,798
Depreciation of property, plant and equipment	**126,080**	86,869
Depreciation of right-of-use assets	**23,517**	–
Amortisation of prepaid lease payments	**–**	9,306
Amortisation of intangible assets	**10,618**	19,366
Minimum operating lease rental expense in respect of rented premises	**–**	12,366
Expense relating to short term leases and other leases with lease terms end within 12 months from the date of initial application of IFRS 16	**7,991**	–
Interest income from banks	**(11,781)**	(10,592)
Interest income from loan receivable	**–**	(745)

Note: The amount for the six months ended 29 February 2020 includes reversal of RMB28,925,000 previously recognised share options expenses due to revision of estimate on the number of share options to be vested as detailed in note 19(a).

8. DIVIDENDS

During the current interim period, the Company recognised the following dividend as distribution:

	Six months ended	
	29 February 2020	28 February 2019
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Final dividend for the year ended 31 August 2019 of HK9.0 cents (for the six months ended 28 February 2019: HK7.4 cents final dividend for the eight months ended 31 August 2018) per ordinary share	**161,080**	127,874

Subsequent to the end of the current interim period, the directors of the Company have determined that an interim dividend of HK13.4 cents per ordinary share amounting to HK$270,707,000 in aggregate (for the six months ended 28 February 2019: HK3.5 cents per ordinary share amounting to HK$70,707,000) will be paid to the owners of the Company whose names appear in the register of members on Wednesday, 13 May 2020.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 29 February 2020

9. EARNINGS PER SHARE

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

	Six months ended	
	29 February 2020 ***RMB'000*** **(unaudited)**	28 February 2019 *RMB'000* (unaudited)
Earnings:		
Profit for the period attributable to owners of the Company for the purposes of calculating basic earnings per share	**497,625**	299,648
Effect of dilutive potential ordinary shares:		
Fair value change and exchange difference on convertible bonds	**(8,613)**	–
Profit for the period attributable to owners of the Company for the purposes of calculating diluted earnings per share	**489,012**	299,648

	Six months ended	
	29 February 2020 ***'000***	28 February 2019 *'000*
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**2,020,202**	2,020,202
Effect of dilutive potential ordinary shares:		
Share options granted under pre-IPO Share Option Scheme	**13,501**	9,344
Convertible bonds	**162,190**	–
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**2,195,893**	2,029,546

The computation of diluted earnings per share for the six months ended 29 February 2020 does not assume the exercise of the Company's share options granted under the Post-IPO Share Option Scheme as detailed in note 19 as the exercise price of those options was higher than the average market price for shares for the period.

10. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS

During the six months ended 29 February 2020, the Group made additions of approximately RMB395,902,000 (for the six months ended 28 February 2019: RMB245,481,000) for construction costs for new school premises and student dormitories and RMB108,703,000 (for the six months ended 28 February 2019: RMB45,325,000) for acquisition of office equipment and furniture and fixtures. In addition, the Group acquired a school and a group of assets which included RMB9,854,000 and RMB278,413,000 (for the six months ended 28 February 2019: RMB507,982,000 from acquisition of schools) in property, plant and equipment through acquisition of a business and a group of assets as set out in note 22.

During the current interim period, the Group entered into a new lease agreement for the use of a piece of land adjacent to school campus for 3 years. The Group has prepaid lease payment of RMB60,000 at the date of lease commencement and recognised the amount as right-of-use assets. In addition, the Group acquired a school and a group of assets which included RMB59,614,000 and RMB194,689,000, respectively, in right-of-use assets set out in note 22.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 29 February 2020

11. GOODWILL AND INTANGIBLE ASSETS

		Intangible assets		
	Goodwill	**Brand name**	**Student roster**	**Total**
	RMB'000	*RMB'000* *(Note i)*	*RMB'000* *(Note ii)*	*RMB'000*
COST				
At 1 September 2019	1,565,905	1,684,945	80,825	1,765,770
Acquisition of a business *(note 22(a))*	213,241	571,773	–	571,773
Exchange realignment	(6,511)	(17,457)	–	(17,457)
At 29 February 2020	1,772,635	2,239,261	80,825	2,320,086
AMORTISATION				
At 1 September 2019	–	–	57,613	57,613
Charge for the period	–	–	10,618	10,618
At 29 February 2020	–	–	68,231	68,231
CARRYING VALUES				
At 29 February 2020	1,772,635	2,239,261	12,594	2,251,855
At 1 September 2019	1,565,905	1,684,945	23,212	1,708,157

Notes:

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

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

12. PREPAYMENTS FOR INVESTMENT

The amount of prepayments for investment as at 31 August 2019 was for the acquisition of Yantai Haijun Property Limited (煙台海郡置業有限公司) ("Yantai Haijun"), a limited liability company established under the laws of PRC. Yantai Haijun primarily owns land and properties adjacent to Jinan University Quancheng College (濟南大學泉城學院) ("Shandong Quancheng University"). The acquisition of Yantai Haijun has been completed during the six months ended 29 February 2020 as detailed in note 22(b).

Notes to the Condensed Consolidated Financial Statements

For the six months ended 29 February 2020

13. TRADE RECEIVABLES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	At 29 February 2020 RMB'000 (unaudited)	At 31 August 2019 RMB'000 (audited)
Trade receivables *(Note i)*	**28,512**	19,332
Less: allowance for credit losses	**(11,288)**	(9,181)
	17,224	10,151
Receivables from educational bureaus	**72,492**	17,782
Management fee income receivables	**747**	5,043
Staff advances	**17,212**	22,122
Other receivables, net of allowance	**45,950**	37,020
Deposits	**40,015**	11,593
Other prepayment *(Note v)*	**31,303**	–
Prepayments and prepayments on behalf of students	**45,067**	22,060
Indemnification assets *(Note ii)*	**239,748**	238,292
Amount due from Yantai Haijun *(Note iii)*	**–**	171,130
Amounts due from a vendor of acquired school *(Note iv)*	**43,962**	35,675
	553,720	570,868
Current	**522,417**	570,868
Non-current	**31,303**	–
	553,720	570,868

Notes:

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

ii. Indemnification assets are recognised upon business combination as assets of the Group and on the same basis as the indemnified items, representing provisions for certain non-compliances as detailed in note 15, which are recognised as liabilities of certain acquisition targets in prior years. The indemnification assets are subject to impairment assessment at the end of the reporting period based on the evaluation of collectability.

iii. The amount represents interest-free loan to Yantai Haijun acquired through acquisition of Shandong Quancheng University and is interest free, unsecured and repayable on demand. The amount has been set off against the consideration paid for acquisition of Yantai Haijun as set out in note 22(b).

iv. The amounts represent payments made by the Group for settlement of litigation of acquired schools that are recoverable from the vendor pursuant to the acquisition agreement. The amounts are interest free, unsecured and management of the Group expects that the amounts would be settled together with deferred consideration payable to the vendor.

v. On 29 June 2018, Huajiao Education has entered into a framework agreement with Value Partners Private Equity Investment Management (Shen Zhen) Limited, a subsidiary of Value Partners Group Limited, for the establishment of a fund named 惠理華教(深圳)股權投資合伙企業(有限合伙) (formerly known as 惠理中教(深圳)教育產業投資(有限合伙)) ("China Education Fund"). The Group has made part of the committed capital contribution amounting to RMB31,303,000 to China Education Fund during the current interim period. There is no significant active operation for China Education Fund up to date of issuance these condensed consolidated financial statements and China Education Fund is still in an initial funding period. Further details are set out in the Company's announcement dated 29 June 2018.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 29 February 2020

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

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

	At 29 February 2020 RMB'000 (unaudited)	At 31 August 2019 RMB'000 (audited)
0–90 days	–	561
91–120 days	64,204	–
121–365 days	17,889	19,667
Over 365 days	7,623	7,705
	89,716	27,933

Allowance for credit losses

The movement in the allowance for credit losses in respect of trade receivables and other receivables during six months ended 29 February 2020 is as follows:

	Trade receivables RMB'000	Other receivables RMB'000	Total RMB'000
At 31 August 2019 (audited)	9,181	4,237	13,418
Net impairment loss recognised during the period	2,107	4,609	6,716
At 29 February 2020 (unaudited)	11,288	8,846	20,134

14. TRADE AND BILLS PAYABLES

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

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

	At 29 February 2020 RMB'000 (unaudited)	At 31 August 2019 RMB'000 (audited)
0–30 days	10,188	6,540
31–90 days	5,486	6,082
91–365 days	2,833	6,808
Over 365 days	8,360	4,035
	26,867	23,465

Notes to the Condensed Consolidated Financial Statements

For the six months ended 29 February 2020

15. OTHER PAYABLES, ACCRUED EXPENSES AND PROVISIONS

	At 29 February 2020 RMB'000 (unaudited)	At 31 August 2019 RMB'000 (audited)
Discretionary government subsidies receipt in advance *(Note i)*	**51,699**	55,174
Receipt on behalf of ancillary services providers	**188,518**	205,887
Construction cost payable for school premises *(Note ii)*	**234,126**	236,921
Retention money payables	**24,006**	24,206
Accrued staff benefits and payroll	**51,548**	68,643
Accrued operating expenses	**27,872**	47,638
Other payables and accruals	**64,092**	86,927
Deferred cash consideration payables *(Note iii)*	**751,660**	787,204
Dividend payable	**163,393**	–
Other taxes payables	**8,578**	16,586
	1,565,492	1,529,186
Current	**1,514,647**	1,506,243
Non-current	**50,845**	22,943
	1,565,492	1,529,186
Provisions *(Note iv)*	**239,748**	238,292

Notes:

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

ii. Included in payables in respect of construction of school premises is amount of RMB5,394,000 (31 August 2019: RMB6,995,000) which are payable beyond twelve months after the end of the reporting period and is included as non-current liabilities as at 29 February 2020.

iii. The amounts represent consideration payables for the acquisitions of certain schools in prior and current periods. Amount of approximately RMB706,209,000 (31 August 2019: RMB771,256,000) which is repayable within twelve months after the end of the reporting period in accordance with acquisition agreements were included in other payables as current liabilities. An amount of RMB45,451,000 (31 August 2019: RMB15,948,000) is included as non-current liabilities as at 29 February 2020 which were repayable beyond twelve months after the end of the reporting period. Including in the balance is an amount of RMB158,941,000 (31 August 2019: RMB126,229,000) classified as financial liabilities at FVTPL while the remaining balances are measured at amortised cost.

iv. The amount of provisions assumed through acquisitions of businesses, representing (a) provisions for compliance matters, mainly on social insurance benefit, housing provident fund, lack of building ownership certificates for certain school premises and idle lands, and (b) provisions for legal cases, is the best estimate of the considerations required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. The aforementioned compliance matters and legal cases are indemnified by respective vendors. Indemnification assets of approximately RMB239,748,000 (31 August 2019: RMB238,292,000) are recognised upon acquisitions of businesses in prior year and adjusted according to subsequent development of the indemnified matters.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 29 February 2020

16. BANK AND OTHER BORROWINGS

During the current interim period, the Group obtained new bank loans amounting to RMB320,870,000 (for the six months ended 28 February 2019: RMB602,847,000). The proceeds of new bank borrowings were used to finance acquisitions of schools, construction of new campus and daily operation of the Group. Except for the borrowings amounted to RMB782,795,000 (31 August 2019: RMB782,700,000), which carry interest rate at fixed rate from 5.70% to 6.50% per annum (31 August 2019: 5.70% to 9.00% per annum), the remaining borrowings are variable-rate borrowings which bear interest rate from 4.36% to 6.18% per annum (31 August 2019: 4.77% to 6.18% per annum) with reference to the Benchmark Borrowing Rate of The People's Bank of China or London Inter-bank Offered Rate.

During the current interim period, the Group repaid bank borrowings amounting to RMB277,600,000 (for the six months ended 28 February 2019: RMB20,000,000). During six months ended 28 February 2019, the Group repaid other borrowings representing loans from independent third parties amounting to RMB100,000,000.

17. DEFERRED TAXATION

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

	Tax losses	Fair value adjustments of intangible assets, prepaid lease payments, right-of-use assets and property, plant and equipment on business combinations	Total
	RMB'000	*RMB'000*	*RMB'000*
At 31 August 2019 (audited)	(27,342)	565,460	538,118
Acquisition of a business *(note 22(a))*	–	171,532	171,532
Charge (credit) to profit or loss *(note 6)*	185	(4,566)	(4,381)
Exchange realignment	–	(5,237)	(5,237)
At 29 February 2020 (unaudited)	(27,157)	727,189	700,032

Notes to the Condensed Consolidated Financial Statements

For the six months ended 29 February 2020

18. SHARE CAPITAL

	Number of shares	Share capital	Shown in the condensed consolidated financial statements RMB'000
Ordinary shares			
Authorised			
At 1 September 2018, 28 February 2019, 1 September 2019 and 29 February 2020	50,000,000,000	HK$500,000	
Issued and fully paid			
At 1 September 2018, 28 February 2019, 1 September 2019 and 29 February 2020	2,020,202,000	HK$20,202	17

19. SHARE-BASED PAYMENTS

(a) Share option schemes of the Company

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

Pre-IPO Share Option Scheme

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

As at 29 February 2020, the number of shares in respect of which options had been granted and outstanding under the Pre-IPO Share Option Scheme was 36,400,000 (31 August 2019: 45,500,000), representing 1.80% (31 August 2019: 2.25%) of the shares of the Company in issue at that date.

As at 29 February 2020, there are 8,000,000 and 1,100,000 share options held by directors and employees, respectively, were not vested ultimately as the performance targets have not been achieved as determined by the remuneration committee of the Company during the vesting period. The Group recognised a reversal of previously recognised share options expenses of RMB28,925,000 in respect of such share options while recognised share options expenses of RMB15,901,000 for the remaining share options not yet vested. Except for the above, no share option has been granted, exercised, cancelled or lapsed during the current interim period under Pre-IPO Share Option Scheme.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 29 February 2020

19. SHARE-BASED PAYMENTS (Continued)

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

Pre-IPO Share Option Scheme (Continued)

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

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

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

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

Post-IPO Share Option Scheme

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

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

At 29 February 2020, the number of shares in respect of which options had been granted and remained outstanding under the Post-IPO Share Option Scheme was 4,350,000 (31 August 2019: 4,350,000), representing 0.22% (31 August 2019: 0.22%) of the Shares of the Company in issue at that date.

During the six months ended 29 February 2020, there are 400,000 share options held by employee being lapsed.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 29 February 2020

19. SHARE-BASED PAYMENTS (Continued)

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

Post-IPO Share Option Scheme (Continued)

During the six months ended 29 February 2020, 400,000 share options were granted on 16 December 2019. The estimated fair value of the share options granted on that date was RMB1,844,000. The share options will be vested over 5 vesting period. The vesting of share option will be conditional on the grantees on the respective vesting dates. After date of grant, the 200,000 share options were subsequently lapsed, while the fair value attributable to the remaining share options was RMB922,000.

These fair values at grant date were calculated using the Binomial model. The inputs into the model were as follows:

	Granted on 16 December 2019
Weighted average share price	HK$10.76
Exercise price	HK$10.76
Expected volatility	48.61%
Expected life	10 years
Risk-free rate	1.64%
Expected dividend yield	1.16%

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

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

The Group recognised a total expense of RMB4,218,000 (for the six months ended 28 February 2019: nil) in relation to share options granted under Post-IPO Share Option Scheme by the Company during the six months ended 29 February 2020.

(b) Share award scheme of the Company

The Company's share award scheme (the "Share Award Scheme") was adopted pursuant to a resolution passed on 29 November 2017. The objective of the Share Award Scheme is for the primary purpose of providing incentives to employee, director, officer, consultant, advisor, distributor, contractor, customer, supplier, agent, business partner, joint venture business partner or service provider of any member of the Group or any affiliate who the directors of the Company considers, in its sole discretion, to have contributed or will contribute to the Group is entitled to be offered and granted options, and is valid and effective for 10 years from the date of Listing.

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 29 February 2020

20. CAPITAL COMMITMENTS

As at the end of the current interim period, the Group was committed to acquire property, plant and equipment and right-of-use assets/prepaid lease payments mainly for the construction of new campus amounting to RMB217,795,000 (31 August 2019: RMB370,334,000).

As detailed in note 13(v), the Group committed to make an initial contribution of RMB250,000,000 to China Education Fund, up to 29 February 2020, the Group made capital contribution amounting to RMB31,303,000 to China Education Fund.

21. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

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

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

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

	Fair value	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
Financial assets					
Financial assets at FVTPL (Equity securities listed in the PRC)	At 29 February 2020: RMB3,137,000 (unaudited) (31 August 2019 RMB2,760,000 (audited))	Level 1	Quoted prices in active markets	N/A	N/A
Financial assets at FVTPL (Structured deposits)	At 29 February 2020: RMB525,509,000 (unaudited) (31 August 2019 RMB373,729,000 (audited))	Level 3	Discounted cash flow — Future cash flows are estimated based on estimated return, and discounted at a rate that reflects the credit risk of various counterparties	Estimated return and discount rate	The higher the estimated return, the higher the fair value, vice versa *(Note i)* The higher the discount rate, the lower the fair value, vice versa *(Note ii)*

Notes to the Condensed Consolidated Financial Statements

For the six months ended 29 February 2020

21. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (Continued)

Fair value of the Group's financial assets and liabilities that are measured at fair value on a recurring basis (Continued)

	Fair value	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
Financial assets at FVTPL (Money market funds)	At 29 February 2020 RMB817,560,000 (unaudited) (31 August 2019: 283,794,000 (audited))	Level 1	Quoted price from financial institution	N/A	N/A
Financial liabilities					
Financial liabilities designated as at FVTPL (Convertible bonds)	At 29 February 2020 RMB2,113,897,000 (unaudited) (31 August 2019: 2,143,783,000 (audited))	Level 3	Binomial model, the key inputs are: — Underlying share price, conversion price, risk free interest rate, time to maturity, expected volatility of share price, discount rate, and expected dividend yield.	Expected volatility of share price and discount rate taking into account the historical share price of the Company for the period of time close to the expected time to exercise	The higher the volatility, the higher the fair value, vice versa *(Note iii)* The higher the discount rate, the lower the fair value, vice versa *(Note iv)*
Financial liabilities at FVTPL (Deferred cash consideration payables)	At 29 February 2020 RMB158,941,000 (unaudited) (31 August 2019: RMB126,229,000 (audited))	Level 3	Discounted cash flow — Future cash flows are estimated based on estimated cash outflow and discounted at a rate that reflects the risk of the acquired businesses.	Expected cash outflow and discount rate	The higher the cash outflow, the higher the fair value, vice versa The higher the discount rate, the lower the fair value, vice versa *(Note v)*

Notes:

i. As at 29 February 2020, if the estimated return was 5% higher/lower and the other variables were held constant, the total carrying amount of structured deposits would increase/decrease by RMB451,000/RMB451,000 (31 August 2019: RMB148,000/RMB148,000), respectively.

ii. As at 29 February 2020, if the discount rate was 5% higher/lower and the other variables were held constant, the total carrying amount of structured deposits would decrease/increase by RMB119,000/RMB119,000 (31 August 2019: RMB48,600/RMB48,700), respectively.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 29 February 2020

21. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (Continued)

Fair value of the Group's financial assets and liabilities that are measured at fair value on a recurring basis (Continued)

iii. As at 29 February 2020, if the expected volatility of share price was 5% higher/lower and the other variables were held constant, the total carrying amount of convertible bonds payable would increase/decrease by RMB20,576,000/RMB17,667,000 (31 August 2019: RMB22,197,000/RMB22,460,000), respectively.

iv. As at 29 February 2020, if the discount rate was 5% higher/lower and the other variables were held constant, the total carrying amount of convertible bonds payable would decrease/increase by RMB14,044,000/RMB14,456,000 (31 August 2019: RMB16,687,001/RMB17,336,000), respectively.

v. As at 29 February 2020, if the discount rate was 5% higher/lower and the other variables were held constant, the total carrying amount of deferred cash consideration for business acquisitions would decrease/increase by RMB604,000/RMB613,000 (31 August 2019: RMB675,000/RMB684,000), respectively.

Reconciliation of Level 3 Measurements

The following table presents the reconciliation of Level 3 measurements of the financial assets (liabilities) during both periods:

	Structured deposits *RMB'000*	Convertible bonds *RMB'000*	Deferred cash consideration payables *RMB'000*	Total *RMB'000*
At 1 September 2018 (audited)	58,648	–	–	58,648
Purchase of structured deposits	410,020	–	–	410,020
Redemption of structured deposits	(462,464)	–	–	(462,464)
Net gain on structured deposits	4,876	–	–	4,876
At 28 February 2019 (unaudited)	11,080	–	–	11,080
At 1 September 2019 (audited)	**373,729**	**(2,143,783)**	**(126,229)**	**(1,896,283)**
Acquisition of a business *(note 22(a))*	**–**	**–**	**(21,940)**	**(21,940)**
Fair value gain (loss)	**12,264**	**(2,353)**	**–**	**9,911**
Exchange difference credited to profit or loss	**–**	**10,966**	**–**	**10,966**
Interest paid	**–**	**21,273**	**–**	**21,273**
Finance costs	**–**	**–**	**(11,457)**	**(11,457)**
Purchase of structured deposits	**1,780,480**	**–**	**–**	**1,780,480**
Redemption of structured deposits	**(1,640,964)**	**–**	**–**	**(1,640,964)**
Exchange realignment	**–**	**–**	**685**	**685**
At 29 February 2020 (unaudited)	**525,509**	**(2,113,897)**	**(158,941)**	**(1,747,329)**

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 29 February 2020

21. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (Continued)

Reconciliation of Level 3 Measurements (Continued)

The total gains or losses for the current interim period included an unrealised gain of RMB5,652,000 and RMB18,827,000 (for the six months ended 28 February 2019: RMB12,000 and nil) relating to structured deposits and convertible bonds, respectively, that are measured at fair value at the end of each reporting period. Such fair value gains or losses are included in "other gains and losses".

The board of directors of the Company has set up a valuation committee, which is headed up by the chief financial officer of the Company, to determine the appropriate valuation techniques and inputs for fair value measurements.

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

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

Fair value of financial instruments that are recorded at amortised cost

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

22. ACQUISITION OF A BUSINESS/ACQUISITION OF A SUBSIDIARY ACCOUNTED FOR AS ASSET ACQUISITION

(a) Acquisition of a business during the six months ended 29 February 2020

On 16 October 2019, the Group completed the acquisition of 100% of issued shares of Aspen Higher Education Pty Ltd ("Aspen") at a consideration of AUD134,300,000 (equivalent to RMB638,677,000) from independent third parties. Aspen and its wholly-owned subsidiary, KOI, are engaged in provision of higher education in Australia. Aspen and KOI became wholly-owned subsidiaries of the Company.

Details of the acquisition were set out in the announcements of the Company dated 23 September 2019 and 16 October 2019.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 29 February 2020

22. ACQUISITION OF A BUSINESS/ACQUISITION OF A SUBSIDIARY ACCOUNTED FOR AS ASSET ACQUISITION (Continued)

(a) Acquisition of a business during the six months ended 29 February 2020 (Continued)

Consideration transferred

	RMB'000
Cash consideration transferred	599,040
Contingent consideration arrangement, at fair value *(Note)*	21,940
Deferred cash consideration	17,697
	638,677

Note: The contingent consideration arrangement requires the Group to pay the vendors up to AUD6,000,000 (approximately RMB28,534,000) subject to the satisfaction of certain conditions such as KOI maintaining certain registration and accreditations with the Australian regulatory authorities and the financial performance and business operation of KOI. The financial performance depends on KOI's earnings before interest, tax, depreciation and amortisation ranging from AUD18,000,000 to AUD25,000,000 during the financial years of KOI ending 30 June 2021 and 2022. The maximum undiscounted amount of all future payments that the Group could be required to make under this was up to AUD6,000,000. The fair value of the contingent consideration arrangement was the best estimate on the satisfaction of all these conditions based on the information available to the management of the Group.

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

	RMB'000
Property, plant and equipment	9,854
Right-of-use assets	59,614
Intangible assets	571,773
Prepayments and other receivables	5,594
Bank balances and cash	51,643
Trade payables, other payables and provisions	(2,252)
Income tax payable	(489)
Contract liabilities	(39,063)
Lease liabilities	(59,706)
Deferred tax liabilities	(171,532)
	425,436

The fair values of intangible assets (representing brand name) amounting to RMB571,773,000 was based on estimation used by the management of the Group with reference to valuation carried out by independent valuers, key assumptions and estimations used by the management included discount rates, growth rates and useful lives of the intangible assets. The fair value of other receivables at the date of acquisition amounted to RMB1,955,000, which was also the gross contractual amounts of these other receivables.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 29 February 2020

22. ACQUISITION OF A BUSINESS/ACQUISITION OF A SUBSIDIARY ACCOUNTED FOR AS ASSET ACQUISITION (Continued)

(a) Acquisition of a business during the six months ended 29 February 2020 (Continued)

Goodwill arising on acquisition (determined on a provisional basis)

	RMB'000
Consideration transferred	638,677
Less: recognised amount of identifiable net assets acquired (100%)	(425,436)
Goodwill arising on acquisition	213,241

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

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

Net cash outflow arising on acquisition

	RMB'000
Consideration paid in cash	599,040
Less: cash and cash equivalent balances acquired	(51,643)
	547,397

Included in the profit for the six months ended 29 February 2020 was RMB16,954,000 attributable to the additional business generated by KOI. Revenue for the six months ended 29 February 2020 included RMB67,950,000 generated from KOI.

No pro forma information for the acquisition of KOI are prepared as KOI has no significant contribution to the Group's revenue or financial performance for the period from 1 September 2019 to 16 October 2019 and the pro forma revenue and results of operations of the Group for the acquisition of KOI approximate the Group's revenue and results for the six months ended 29 February 2020.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 29 February 2020

22. ACQUISITION OF A BUSINESS/ACQUISITION OF A SUBSIDIARY ACCOUNTED FOR AS ASSET ACQUISITION (Continued)

(b) Acquisition of a subsidiary accounted for as asset acquisition during the six months ended 29 February 2020

On 25 December 2018, Renjing Education Consulting (Ganzhou) Company Limited (仁敬教育諮詢(贛州)有限公司), a consolidated affiliated entity, entered into a series of agreements (collectively referred to as the "Haijun Acquisition Agreements") with independent third parties for the acquisition of aggregate 96.7% equity interest of Yantai Haijun, at cash consideration of RMB246,127,000 and the acquisition was completed on 25 November 2019. Subsequently, the Group acquired the remaining 3.3% equity interest at cash consideration of RMB8,423,000. Considerations have been fully paid and the Group has obtained control during the current interim period. As at the date of acquisition, Yantai Haijun did not have significant business process except for holding certain lands and completed properties in Yantai, Shandong Province. The acquisition of Yantai Haijun has been accounted for by the Group as acquisition of assets.

	RMB'000
Net assets of Yantai Haijun acquired:	
Right-of-use assets	194,689
Property, plant and equipment	278,413
Other receivables and prepayments	3,626
Bank balances and cash	6,698
Amounts due to subsidiaries of the Company	(218,419)
Other payables and accruals	(10,457)
	254,550
Net cash outflow arising from asset acquisition:	
Consideration paid in cash	254,550
Less: cash and cash equivalent balances acquired	(6,698)
Less: prepayment for acquisition of investment in prior year	(73,837)
	174,015

Notes to the Condensed Consolidated Financial Statements

For the six months ended 29 February 2020

23. RELATED PARTIES BALANCE

(a) Related parties balances

As at 29 February 2020, amounts due to non-controlling interests of certain group entities of RMB99,587,000 (31 August 2019: RMB126,229,000) was included in other payables being deferred cash consideration payables, which are unsecured and interest-free, amounting to nil (31 August 2019: RMB15,948,000) of which was repayable beyond one year and remaining balances were repayable within one year.

Balances with related parties are set out in notes 13 and 15.

(b) Compensation of key management personnel

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

	2020 *RMB'000* (unaudited)	2019 *RMB'000* (unaudited)
Short-term benefits	**8,474**	7,906
Post-employment benefits	**240**	198
(Net reversal of) expense of share-based payments *(Note)*	**(8,806)**	26,331
	(92)	34,435

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

Note: The amount for the six months ended 29 February 2020 includes reversal of RMB28,925,000 previously recognised share options expenses due to revision of estimate on the number of share options to be vested as detailed in note 19(a).

24. EVENT AFTER THE END OF THE REPORTING PERIOD

In view of the outbreak of coronavirus disease 2019 ("COVID-19"), the Group and its member schools have taken necessary health precaution such as postponing the start of the term to safeguard the safety of our employees and students. During the suspension of on-campus classes caused by the COVID-19 epidemic, the Group offers online learning to students.

Given the effective and smooth implementation of the online teaching work plan, the management of the Group considers the COVID-19 epidemic has no material adverse impact on the financial position and results of the Group for the six months ended 29 February 2020 and up to the date of issuance of these condensed consolidated financial statements.

The Group will continue to closely monitor to the development of the COVID-19 situation and endeavor to minimise the effect on the operation and finance of the Group, and in the event of material adverse financial impact, the Group will announce in a timely manner and reflect it in the Group's 2019/2020 annual financial statements.

25. RECLASSIFICATION AND COMPARATIVE FIGURES

Certain comparative figures in the condensed consolidated financial statements have been reclassified to conform to the presentation in the current period.

Glossary

"affiliate"	with respect to any specified person, any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person
"AUD"	Australian dollars, the lawful currency of Australia
"Baiyun Technician College"	Guangzhou Baiyun Senior Technical School of Business and Technology (Guangzhou Baiyun Technician College of Business and Technology) (廣州白雲工商高級技工學校(廣州市白雲工商技師學院)), one of our PRC member schools
"Blue Sky BVI"	Blue Sky Education International Limited (藍天教育國際有限公司), a controlling shareholder of the Company
"Board"	the board of directors of the Company
"China" or "PRC"	the People's Republic of China and for the purposes of this document only, except where the context requires otherwise, references to China or the PRC exclude Hong Kong, Macau and Taiwan
"Chongqing Translators University"	Chongqing Nanfang Translators College of Sichuan International Studies University (四川外國語大學重慶南方翻譯學院), one of our PRC member schools
"Company"	China Education Group Holdings Limited (中國教育集團控股有限公司), a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange
"consolidated affiliated entities" or "consolidated affiliated entity"	the entities we control through the Contractual Arrangements
"Contractual Arrangements"	the series of contractual arrangements entered into by, among others, Huajiao Education, Mr. Yu, Mr. Xie and the relevant consolidated affiliated entities
"Controlling Shareholder"	has the meaning ascribed to it under the Listing Rules
"Director(s)"	the director(s) of the Company
"Group", "we", "us", or "our"	the Company, its subsidiaries and its consolidated affiliated entities from time to time
"Guangdong Baiyun University"	Guangdong Baiyun University (廣東白雲學院), one of our PRC member schools
"Guangzhou Songtian University"	Guangzhou University Songtian College (廣州大學松田學院), one of our PRC member schools

Glossary

"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the People's Republic of China
"Hong Kong dollars" or "HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Huafang Education"	Huafang Education Investment Group (Ganzhou) Company Limited (華方教育投資集團(贛州)有限公司, one of our consolidated affiliated entities
"Huajiao Education"	Huajiao Education Technology (Jiangxi) Company Limited (華教教育科技(江西)有限公司), a company established in the PRC with limited liability and a wholly-owned subsidiary of the Company
"independent third party(ies)"	any entity(ies) or person(s) who is not a connected person of the Company within the meaning ascribed thereto under the Listing Rules
"Jiangxi University of Technology"	Jiangxi University of Technology (江西科技學院), one of our PRC member schools
"King's Own Institute" or "KOI"	Australian Institute of Business and Management Pty Ltd (trading as King's Own Institute), a company incorporated in New South Wales, Australia and our member school in Australia
"Listing"	the listing of the Shares on the Main Board of the Stock Exchange on the Listing Date
"Listing Date"	15 December 2017, the date on which the Shares were listed and on which dealings in the Shares were first permitted to take place on the Main Board of the Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"Model Code"	Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules
"MOE"	the Ministry of Education of the PRC (中華人民共和國教育部)
"Mr. Xie"	Mr. Xie Ketao (謝可滔), an executive director, co-chairman of the Company and a controlling shareholder of the Company
"Mr. Yu"	Mr. Yu Guo (于果), an executive director, co-chairman of the Company and a controlling shareholder of the Company
"RMB" or "Renminbi"	Renminbi, the lawful currency of China
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)

Glossary

"Shandong Quancheng University"	University of Jinan Quancheng College (濟南大學泉城學院), one of our PRC member schools
"Shareholder(s)"	holder(s) of our Share(s)
"Shares"	ordinary shares in our Company of par value HK$0.00001 each
"Songtian Polytechnic College"	Guangzhou Songtian Polytechnic College (廣州松田職業學院), one of our PRC member schools
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"subsidiary(ies)"	has the meaning ascribed thereto in section 15 of the Companies Ordinance (Chapter 622 of the laws of Hong Kong)
"United States" or "US"	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
"US dollars"	United States dollars, the lawful currency of the United States
"VP Shenzhen"	Value Partners Private Equity Investment Management (Shen Zhen) Limited (惠理股權投資管理(深圳)有限公司), a company established in the PRC and a wholly-owned subsidiary of Value Partners Group Limited
"White Clouds BVI"	White Clouds Education International Limited (白雲教育國際有限公司), a controlling shareholder of the Company
"Xi'an Railway College"	Xi'an Railway Technician College (西安鐵道技師學院), one of our PRC member schools
"Zhengzhou Transit School"	Zhengzhou City Rail Transit School (鄭州城軌交通中等專業學校), one of our PRC member schools
"%"	per cent

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