



希望教育集團有限公司

Hope Education Group Co., Ltd.

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1765



2020

INTERIM REPORT



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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Non-executive Directors

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

Independent Non-executive Directors

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

Audit Committee

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

Nomination and Remuneration Committee

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

Strategy and Development Committee

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

AUTHORIZED REPRESENTATIVES

Mr. Li Tao
Ms. Leung Wing Han Sharon

JOINT COMPANY SECRETARIES

Ms. Leung Wing Han Sharon
Mr. Huang Zhongcai

REGISTERED OFFICE

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

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN CHINA

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2000 Xi Qu Avenue, Pidu District
Chengdu
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

40th Floor, Sunlight Tower
No. 248 Queen's Road East
Wanchai, Hong Kong

LEGAL ADVISOR AS TO HONG KONG LAW

William Ji & Co. LLP (in association
with Tian Yuan Law Firm Hong Kong Office)
Suite 702, 7th Floor
Two Chinachem Central
26 Des Voeux Road Central
Central
Hong Kong

CORPORATE INFORMATION

AUDITOR

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

PRINCIPAL SHARE REGISTRAR

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

HONG KONG SHARE REGISTRAR

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

PRINCIPAL BANKERS

Bank of China
China Minsheng Bank
Chengdu Rural Commercial Bank

COMPANY'S WEBSITE

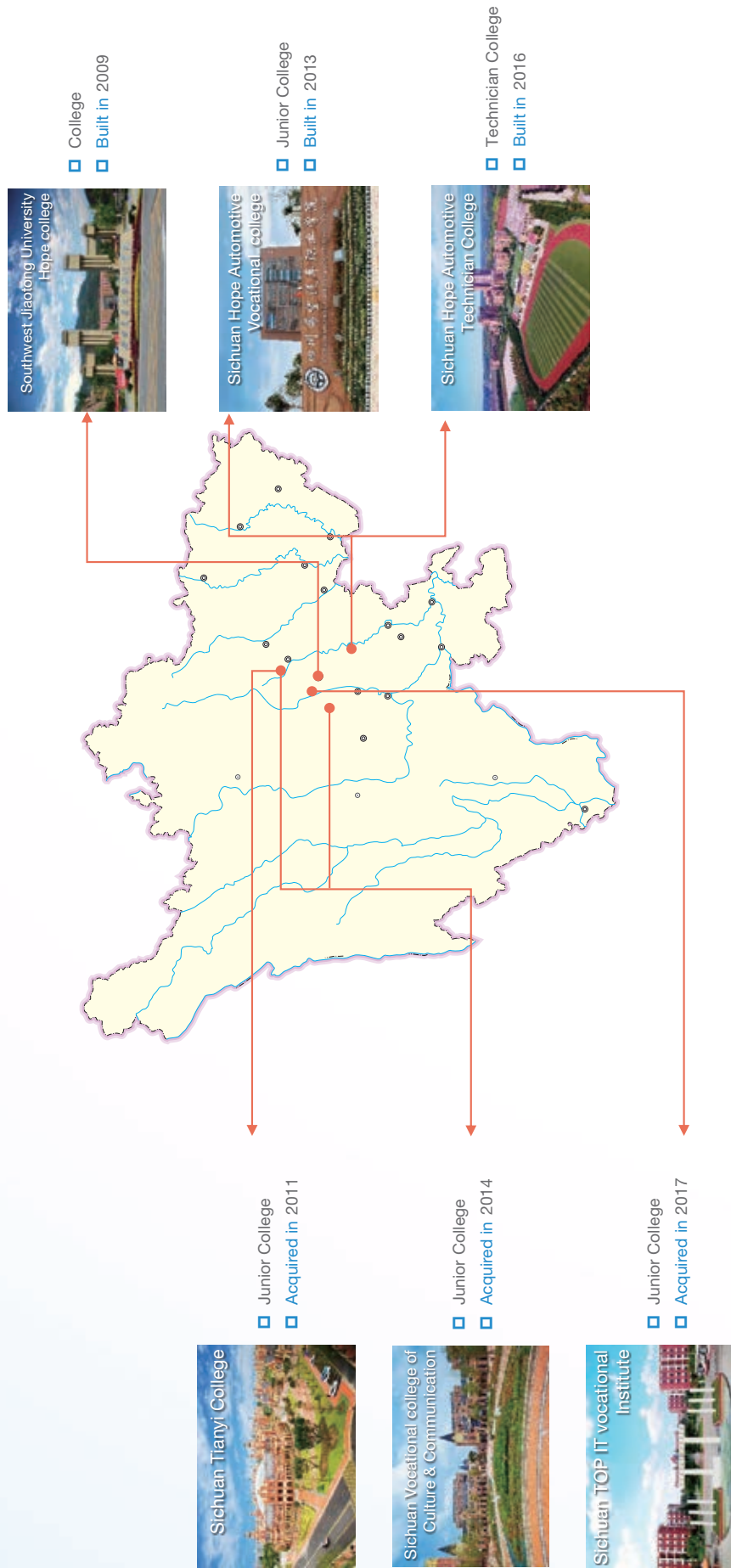
www.hopeedu.com

STOCK CODE

1765

OUR SCHOOLS

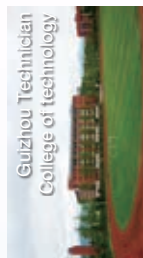
We have **14** Schools in **6** provinces, include **5** Colleges & Universities, **7** Junior Colleges, **2** Technician Colleges



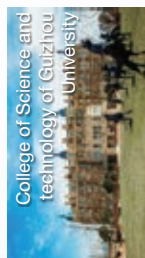
OUR SCHOOLS



- Junior College
- Built in 2016



- Technician College
- Built in October 2019



- College
- Acquired in 2019



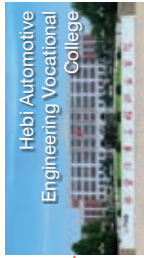
- College
- Acquired in 2014



- University
- Acquired in 2019



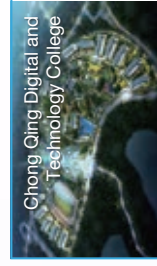
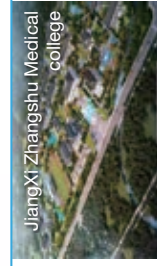
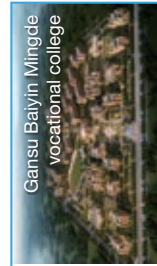
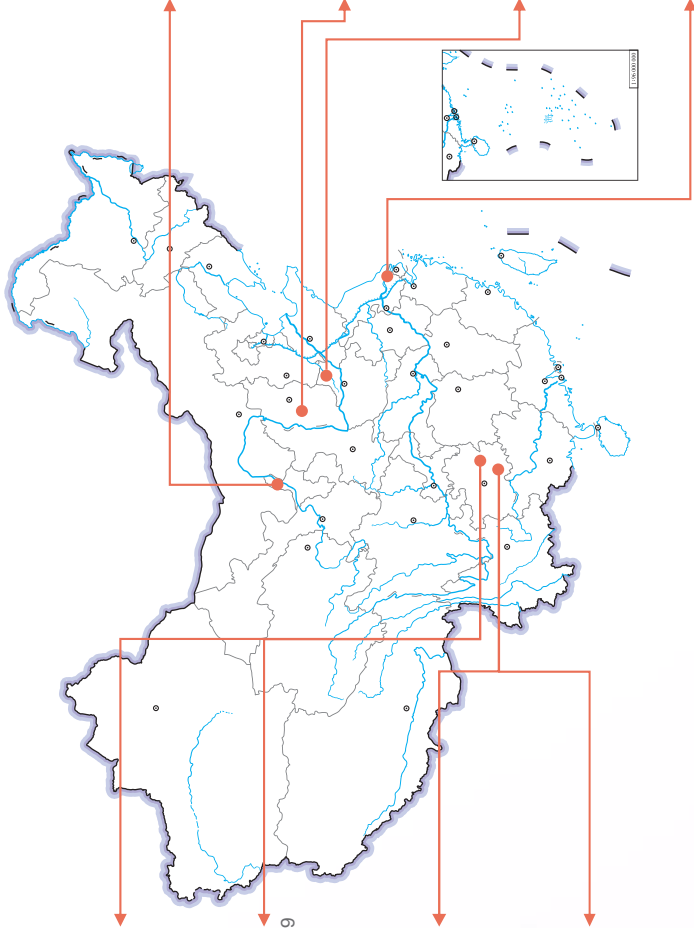
- College
- Acquired in 2014



- Junior College
- Acquired in 2019



- Junior College
- Acquired in 2019



Campus in Building

FINANCIAL AND BUSINESS SUMMARY

	For the six Months Ended 29 February 2020 (in millions of RMB) Unaudited	For the six Months Ended 28 February 2019 (in millions of RMB (proforma) ⁶	Change (in millions of RMB)	Change (percentage)	For the six months ended 30 June 2019 (in millions of RMB) Unaudited
Revenue	870.63	595.92	274.71	46.1%	594.73
Gross profit	457.33	303.09	154.24	50.9%	315.59
Adjusted gross profit ¹	480.68	305.05	175.63	57.6%	317.49
Adjusted gross profit margin	55.2%	51.2%	–	4.0%	53.4%
Net profit	333.77	150.52	183.25	121.7%	243.48
Adjusted net profit ²	382.93	229.03	153.90	67.2%	258.43
Adjusted net profit margin	44.0%	38.4%	–	5.6%	43.5%
		2019/2020 school year ⁵	2018/2019 school year ⁵	Change	Change (percentage)
New students enrolled ³		48,789	31,025	17,764	57.3%
Total student enrollment ⁴		140,125	86,033	54,092	62.9%

Notes:

- Adjusted gross profit is measured by gross profit for the period after eliminating additional depreciation and amortization from temporary fair value adjustment of identifiable assets resulted from the acquisition of Jinci College of Shanxi Medical University, Sichuan Vocational College of Culture & Communication, Sichuan TOP IT Vocational Institute, Suzhou Top Institute of Information Technology, Yinchuan University of Energy and Hebi Automotive Engineering Vocational College.
- Adjusted net profit is measured by deducting (i) equity-settled share option expense; (ii) additional depreciation and amortization from temporary fair value adjustment of identifiable assets resulted from the acquisition of Jinci College of Shanxi Medical University, Sichuan Vocational College of Culture & Communication, Sichuan TOP IT Vocational Institute, Suzhou Top Institute of Information Technology, Yinchuan University of Energy, Hebi Automotive Engineering Vocational College and The College of Science and Technology of Guizhou University; (iii) exchange gains or losses; (iv) finance cost accrued at amortized cost because of over one year payment period for purchase of equity interest under the relevant agreement. The difference between the adjusted net profit of RMB256.55 million for the six months ended 30 June 2019 in the interim results announcement for the six months ended 30 June 2019 and the adjusted net profit of RMB258.43 million for the six months ended 30 June 2019 in this report was RMB1.90 million, which was mainly due to deducting the additional depreciation and amortization from fair value adjustment resulted from acquisition of identifiable assets during the year. The Company considers that the deduction of additional depreciation and amortization from fair value adjustment resulted from acquisition of identifiable assets could eliminate potential impacts of items that the management do not consider to be indicative of the Group's operating performance, which in turns facilitates comparisons of operating performance from period to period and company to company.

FINANCIAL AND BUSINESS SUMMARY

- Number of new students enrolled as of 29 February 2020 includes 10,527 students enrolled in newly merged and acquired schools for the year, namely College of Science and Technology of Guizhou University, Hebi Automotive Engineering Vocational College, Suzhou Top Institute of Information Technology and Yinchuan University of Energy as of 29 February 2020. Number of students enrolled in original schools as of 29 February 2020 was 38,262.
- Total number of students enrolled as of 29 February 2020 includes students of the original eight colleges, one technical college, as well as four newly merged and acquired schools and one newly established technical college in 2019 but excludes students of continuing education.
- An academic year generally starts from 1 September of each calendar year to 31 August of the following calendar year.
- In order to provide meaningful comparative information, the Group has prepared proforma financial information covering the six months ended 28 February 2019 (proforma period). The proforma figures have not been audited. Source of the proforma financial information: The consolidated management statements of the Company for the period from 1 September 2018 to 28 February 2019.

Non-IFRS Measurement

To supplement the Group's interim condensed consolidated financial statements which are presented in accordance with IFRS, the Company also uses adjusted gross profit, adjusted net profit and other adjusted figures as additional financial measures, which are not required by, or presented in accordance with, IFRS. The Company believes that these non-IFRS measures facilitate comparisons of operating performance from period to period and company to company by eliminating potential impacts of items that the management do not consider to be indicative of the Group's operating performance.

Calculation of adjusted gross profit

Item	For the six	For the six	For the six
	months ended	months ended	months ended
	29 February	30 June	28 February
	2020	2019	2019
	(in millions	(in millions	(in millions
	of RMB)	of RMB)	of RMB)
			(proforma)
Gross profit	457.33	315.59	303.09
Add:			
Additional depreciation and amortization from			
fair value adjustment of identifiable assets resulted			
from acquisition of:	-	-	
Jinci College of Shanxi Medical University	0.44	0.44	0.44
Sichuan Vocational College of Culture & Communication	0.58	0.73	0.73
Sichuan TOP IT Vocational Institute	0.65	0.73	0.79
Suzhou Top Institute of Information Technology	3.41	-	
Yinchuan University of Energy	17.58	-	
Hebi Automotive Engineering Vocational College	0.69	-	
Adjusted gross profit	480.68	317.49	305.05

FINANCIAL AND BUSINESS SUMMARY

Calculation of adjusted net profit

Item	For the six months ended 29 February 2020 (in millions of RMB)	For the six months ended 30 June 2019 (in millions of RMB)	For the six months ended 28 February 2019 in millions of RMB) (proforma)
Profit from continuing operations for the period	333.77	243.48	150.52
Add:			
Equity-settled share option expense	8.19	16.06	55.45
Exchange loss	2.96	21.10	
Additional depreciation and amortization from fair value adjustment of identifiable assets resulted from acquisition of:			
Jinci College of Shanxi Medical University	0.44	0.44	0.44
Sichuan Vocational College of Culture & Communication	0.58	0.73	0.73
Sichuan TOP IT Vocational Institute	0.65	0.73	0.79
Suzhou Top Institute of Information Technology	3.75	–	
Yinchuan University of Energy	18.66	–	
Hebi Automotive Engineering Vocational College	1.02	–	
College of Science and Technology of Guizhou University	3.05	–	
Finance cost accrued at amortized cost because of a over one year payment period for purchase of equity interest under the relevant agreement	9.86	–	
Less:			
Exchange gains	–	2.99	
Adjusted net profit	382.93	258.45	229.03

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the Board, I am pleased to present to the Shareholders the annual report of the Group for the six months ended 29 February 2020.

RESULTS OF THE COMPANY ACCOMPLISHED RAPID GROWTH

For 29 February 2020, we recorded revenue of RMB0.87 billion and adjusted net profit of RMB0.38 billion, representing year-on-year growth of 46.1% and 67.2%, respectively. As of 29 February 2020, our student enrollment exceeded 140,000, 63% higher than the previous year. Meanwhile, we made several acquisitions, namely The College of Science and Technology of Guizhou University, Hebi Automotive Engineering Vocational College, Suzhou Top Institute of Information Technology, Yinchuan University of Energy, and Guizhou Technical College of Technology, a newly built college, adding 5 more schools in our portfolio. Currently, the Group has a total of 14 schools which are comprised of 5 undergraduate colleges, 7 higher vocational colleges, and 2 technical colleges. Simultaneously, we commenced the construction for Chongqing Digital Industry Vocational College (重慶數字產業職業學院), Jiangxi Zhangshu Vocational College of Traditional Chinese Medicine (江西樟樹中醫藥職業學院) and Gansu Mingde Vocational Education College (甘肅明德職業教育學院), laying a solid foundation for our future development, the three institutions are expected to start recruiting students in 2021. Moreover, through collaboration with North Bangkok University, we eventually established our Chinese International School, our first school in overseas. After listing, we continued to further our precision management, and our adjusted gross profit margin was boosted to 55.2% during the Reporting Period, 4% higher than the previous corresponding period. We paid much more attention to picking out and promotion of talents and enhancement of teaching quality. As such, we won wider recognition for our teaching quality and enrollment figures of some of our schools made a record high in reporting period. We also introduced information-based means to improve efficiency in management. High quality courses of our various schools have been uploaded online to materialize sharing of excellent educational resources within the Group.

A NEW DECADE: MORE FRUITFUL YEARS TO COME

Subsequent to the founding of our first college, Southwest Jiaotong University Hope College, in 2009, in these over ten-year-time, our Group has emerged as a leader in the private higher education industry in the PRC. Our education services cover 6 provinces and have released a great number of high-quality professional technical talents to our society. Entering 2020, it marks a new chapter for the development of Hope Education. The State has enrolled a series of policies which give vigorous support to vocational education, unveiling a very bright future for this sector. Specifically, Hope Education Group takes vocational education as the core of our business and the encouragement given to private investment by the government has rendered a much larger room for our development.

CHAIRMAN'S STATEMENT

Looking forward to the next decade, we shall uphold our original idea of education and training of people. We will continue to build a strong teaching team and put more efforts in practical training and upgrade of our existing schools. While we shall also expand the scale of our existing schools, more schools will also be built, so as to create conditions for sustainable development. In order to provide all-round development for students in our schools and meet their diversified needs, the Group will carry out more training on practical skills, open up the employment service market, provide a variety of education promotion channels, and improve the capability of students to obtain employment and serve the society. In early 2020, we signed an agreement for acquisition of INTI International University & Colleges in Malaysia (馬拉西亞英迪大學). After the acquisition, Hope Education will have the ability to provide junior college, undergraduate, master and doctorate grade of education, and will achieve the new pattern of collaborative development of domestic and overseas colleges of the Group.

REALIZING OUR VISION BY PRAGMATISM, DEDICATION AND DILIGENCE

In 2020, Chinese higher education will enter into the popularized stage from the affordable stage. At present, China is gradually introducing a series of higher education enrollment expansion plans. As the leader of China's private higher education, Hope Education Group has the responsibility and ability to provide more and better higher education degrees for the society. We will uphold our spirit and style of pragmatism, dedication and diligence, and contribute to the development of China's higher education and the high-quality development of China's social economy.

APPRECIATION

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

Hope Education Group Co., Ltd.

Chairman

Xu Changjun

Hong Kong, 29 April 2020

BUSINESS REVIEW

During the Reporting Period, the Group has operated and invested in twelve higher education schools and two technical colleges in China, including (i) five undergraduate colleges, namely, Southwest Jiaotong University Hope College, Jinci College of Shanxi Medical University, Business College of Guizhou University of Finance and Economics, College of Science and Technology of Guizhou University and Yinchuan University of Energy; (ii) seven junior colleges, namely Tianyi College, Sichuan Hope Automotive Vocational College, Sichuan Vocational College of Culture & Communication, Guizhou Vocational Institute of Technology, Sichuan TOP IT Vocational Institute, Hebi Automotive Engineering Vocational College and Suzhou Top Institute of Information Technology; and (iii) two technical colleges, namely, Sichuan Hope Automotive Technical College and Guizhou Technical College of Technology. As of 29 February 2020, the student enrollment in our schools was 140,125, representing a significant increase of 62.9% as compared with that as of 28 February 2019. We have established a national enrollment network.

Significant Events for the Reporting Period

- (1) In September 2019, the Group completed the consolidation of financial results of several schools and companies including Hebi Automobile Engineering Vocational College and Yinchuan University of Energy.
- (2) In September 2019, The Group completed the new enrollment work for the 2019 ~ 2020 school year, with 48,789 new students enrolled, representing an increase of 57.3% over the previous year; the number of full-time students in all schools exceeded 140,000.
- (3) In February 2020, the Group signed the acquisition agreement for Inti International University of Malaysia at a consideration of US\$140 million. Inti International University is the largest private higher education institution in Malaysia. There are currently 16,557 students in Inti International University. The audited revenue for 2019 was about RMB489 million with the adjusted EBITDA of RMB102 million. This acquisition is conditional upon the vendor having obtained all necessary approvals granted by the MOE for the change of the ownership from the vendor to the purchaser and the change of directors. Upon completion of relevant approval process, Inti International University will become one of the Group's institutions, and its financial results will be consolidated into the Group's accounts.

MANAGEMENT DISCUSSION AND ANALYSIS

Our Schools

As at 29 February 2020, we operated and invested five undergraduate colleges, seven junior colleges and two technical colleges. The table below sets out some details of our schools.

School	Year Founded	Year of Joining our Group	Description
Southwest Jiaotong University Hope College	2009	2009	The college offered a total of 43 undergraduate and specialist majors. Of which, rail transportation and civil engineering majors take a leading position among the private colleges in the Western region.
Jinci College of Shanxi Medical University	2002	2014	The college offered a total of 13 undergraduate majors and is one of the twelve private undergraduate medical schools in China and is the only independent college in Shanxi that provides clinical medical education.
Business College of Guizhou University of Finance and Economics	2004	2014	The college offered a total of 28 undergraduate majors, featuring economics and management and finance majors.
College of Science and Technology of Guizhou University	2001	2019	The college offered 24 majors to train professional talents possessing knowledge and skills in information technology, science and finance.
Yinchuan University of Energy	1999	2019	The university offered 24 undergraduate majors, covering 8 disciplines, had 1 national key laboratory and 3 provincial experimental teaching demonstration centers. It is the only private university in Ningxia that can enroll foreign students.
Tianyi College	1994	2011	The college offered 21 majors and is one of the first private schools (totaling seven schools) in China and the first private school in Southwest China approved to be a formal private higher education institution.
Sichuan Hope Automotive Vocational College	2013	2013	The college offered 21 majors, specialising in automobile related majors.

MANAGEMENT DISCUSSION AND ANALYSIS

School	Year Founded	Year of Joining our Group	Description
Sichuan Vocational College of Culture & Communication	2005	2014	The college offered over 30 majors, specialising in film, media and pre-school education majors.
Guizhou Vocational Institute of Technology	2016	2016	The college offered over 10 majors, specialising in pre-school education and healthcare majors.
Sichuan TOP IT Vocational Institute	2000	2017	The college offered 39 majors, specialising in computer and information and software technology majors and is the MOE approved national demonstration software vocational and technical college and the national high-skilled personnel training base for the electronic information industry.
Hebi Automotive Engineering Vocational College	2011	2019	The college offered over 40 majors to train professional talents possessing automobile related knowledge and skills.
Suzhou Top Institute of Information Technology	2003	2019	The college offered 30 majors, specialising in computer and information software technology majors.
Sichuan Hope Automotive Technical College	2016	2016	The college offered 15 majors to train professional talents possessing automobile related knowledge and skills.
Guizhou Technical College of Technology	2019	2019	The college offered 10 majors, specialising in pre-school education and healthcare majors.

MANAGEMENT DISCUSSION AND ANALYSIS

Southwest Jiaotong University Hope College

The first university (independent college) established by the Group in 2009, located in Chengdu, Sichuan Province, provides undergraduate and junior college education. The number of students in 2019-2020 academic year reached a new record; the one-time employment rate of 2019 graduates reached 95.7%, and the one-time employment rate of graduates exceeded 95% for seven consecutive years. Transportation and civil engineering were approved as the first-class undergraduate majors at the provincial level and recommended to be part of the national “Double-10,000 Program”.

Jinci College of Shanxi Medical University

Jinci College of Shanxi Medical University is an independent undergraduate medical college in Shanxi Province. It is the only independent college of full-time undergraduate education for medical majors in Shanxi Province, and one of the only 12 private undergraduate medical colleges in China. Jinci College offers 13 majors, including clinical medicine, stomatology, anesthesiology and nursing. As of 29 February 2020, the registration rate of new students in Jinci College was 99.08%, which had been rising continuously since 2015 (93.17%), and reached a new high.

Business College of Guizhou University of Finance and Economics

Business College of Guizhou University of Finance and Economics is an independent undergraduate college of finance and economics in Guizhou Province. The college covers a total area of 1,038 mu and has over 18,000 full-time undergraduate students. In the past five years, the enrollment work of the Group has reached a new high, and the registration rate ranked in the forefront of similar schools and ranked first in the province. In 2019, the registration rate of new students reached 97.15%, reaching a new record.

College of Science and Technology of Guizhou University

College of Science and Technology of Guizhou University is a comprehensive independent college in Guizhou Province. It has successively won the titles of national “Advanced Independent College (先進獨立學院)”, national “Advanced Grassroots Party Organization with Excellent Performance (創先爭優先進基層黨組織)”, national “8 March Red-banner Group (三八紅旗集體)”, national “Advanced Education and Scientific Research Group under the 11th Five-Year Plan (「十一五」教育科研先進集體). At present, it has 24 undergraduate majors, such as law, finance, Internet of things engineering, communication engineering, financial management, etc., covering seven disciplines, including literature, law, economics, management, science, engineering and art. As of 29 February 2020, the College of Science and Technology had more than 9,500 students, which reached a new record.

MANAGEMENT DISCUSSION AND ANALYSIS

Yinchuan University of Energy

Founded in October 1999, the undergraduate college is located in Ningxia and provides undergraduate and junior college education, with 24 undergraduate majors. The college covers an area of more than 1,500 mu and has a school building area of nearly 480,000 square meters. It has the largest library among higher education institutions in Ningxia in terms of single zone area, with more than 1 million books. The college has 1 national key laboratory, 3 provincial experimental teaching demonstration centers, 3 provincial off-campus practical education bases for college students, 9 practical teaching centers, 182 experimental training rooms and 65 stable off-campus practice bases for college students built with enterprises. The college is the intended cooperative college of the national “Internet + Made in China 2025” Plan for the Integration and Promotion of Industry and Education (「互聯網+中國製造2025」產教融合促進計劃專案) and is the only private higher education institution in Ningxia that can enroll foreign students.

Tianyi College

Founded in 1994, Tianyi College was one of the first private schools in China and the first private school in Southwest China approved by the MOE to be a formal private higher education institution, covering an area of more than 1,200 mu. As of 29 February 2020, the college was successfully approved with the second batch of national 1+X pilot certificates (website operation and promotion), established three provincial featured majors, one key featured major of Sichuan Association for Non-Government Education (四川省民辦教育協會), and 20 teacher scientific research projects. In respect of cooperation between the college and enterprises, the 2016 and 2018 Baoye order classes were established by the department of construction engineering and Baoye Group, and 1 set of teaching materials was jointly developed. In respect of practical training, 41 off-campus training bases were established.

Sichuan Hope Automotive Vocational College

Sichuan Hope Automotive Vocational College was the first formal higher education institution established by the Group in Ziyang, Sichuan Province in 2013. As of 29 February 2020, the number of students of the college achieved a new record high. In respect of training, the college equipped with more than 120 training rooms, such as automobile engine disassembly and assembly training room, automobile chassis disassembly and assembly training room and automobile structure training room. In respect of cooperation between the college and enterprises, the college successively signed school-enterprise cooperation agreements with more than 100 well-known enterprises such as Changzheng-BMW Group (長征寶馬集團), Sichuan Hyundai Automobile and CRRC Group. In respect of scientific research, majors of rehabilitative technology (provincial approved) and midwifery (provincial approved) applied by the college were approved in 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

Sichuan Vocational College of Culture & Communication

Sichuan Vocational College of Culture & Communication is a formal higher education institution located in Chengdu, Sichuan Province. As of 29 February 2020, the number of students of the college was more than 10,000, reached a record high. The employment rate of graduates in 2019 reached 96.45%, a new three-year high. In respect of scientific research, three majors of the college, namely “film and television multimedia technology, animation production technology and public cultural services and management”, have been listed in the quality enhancement plan for key featured majors of private higher education institutions in Sichuan Province. In respect of training, more than 100 enterprises were invited to the college this year to discuss the cooperation between the college and enterprises regarding the employment and entrepreneurship of students. At present, more than 30 enterprises have signed school-enterprise cooperation agreements.

Guizhou Vocational Institute of Technology

Guizhou Vocational Institute of Technology was the first formal higher education institution established by the Group in Guizhou Province in 2016, covering an area of more than 600 mu. As of 29 February 2020, there were more than 8,000 students. The college offers more than 10 majors, such as automobile technical service and marketing, automobile inspection and maintenance technology, automobile refitting technology, automobile new energy technology, urban rail transit operation and management, etc. In respect of practical training and cooperation between the college and enterprises, the college has built more than 50 experiment and training rooms, and signed school-enterprise cooperation agreements with more than 100 enterprises such as Shanghai Volkswagen, Wengfu Group, Chanhen Chemical, etc. and more than 20 county-level hospitals in Guizhou.

Sichuan TOP IT Vocational Institute

Founded in 2000, Sichuan TOP IT Vocational Institute is one of the first national demonstration software vocational and technical colleges approved by the MOE. It is also a national training base for skilled talents in short supply, a national high-skilled personnel training base for the electronic information industry, a national service outsourcing talents training base, and a training base for young technicians in the electronic information industry in Sichuan Province. The employment rate of graduates has maintained at above 98% for years. The college is equipped with 7 on-campus innovative training bases for integration of industry and education, as well as more than 60 professional experimental training rooms with advanced equipment, among which the college’s Hwadee training base is one of the six “training bases for software engineering talents” recognized by the MOE.

Hebi Automotive Engineering Vocational College

It is the only formal automobile engineering higher education institution in Henan Province. In 2019, 67 projects above department level, 38 utility model patents, 15 education research achievement awards above provincial level, 2 municipal scientific and technological progress awards (second prize) were added, while 58 academic papers (including 6 core journals) and 28 textbooks were published. During the school year of 2019/2020, the college signed strategic cooperation agreements with 15 enterprises, signed cooperation agreements with more than 40 large and medium-sized enterprises, and held 25 order classes to train talents for enterprises.

MANAGEMENT DISCUSSION AND ANALYSIS

Suzhou Top Institute of Information Technology

The college is located in Kunshan, Jiangsu Province, with 30 majors. The year-end employment rate of 2019 graduates reached 97.62%. Focusing on school-enterprise cooperation and deepening the integration of industries and education, in 2019, the college and enterprises deepened cooperation by opening 32 customized classes in the mode of rotating the learning and work experience, as such, internship of more than 3,570 students were successfully completed. There were 63 internship projects, of which, 18 units cooperated for the first time. The college won the title of “excellent college for “government-school-enterprise” cooperation” for six consecutive years.

Sichuan Hope Automotive Technical College

Sichuan Hope Automotive Technical College is a full-time technical college established by the Group in 2016 with the approval of the People’s Government of Sichuan Province and on the basis of Sichuan Hope Automotive Vocational College. As of 29 February 2020, the number of students of the college reached a new high. In respect of scientific research, the college offers 15 major groups, including automobile manufacturing and assembly, new energy vehicle inspection and maintenance regarding the markets before and after the automobile industry. In respect of cooperation between the college and enterprises, the college cooperated with more than 40 enterprises, including Sichuan Nanyun Automobile Group, Sichuan Hyundai Dymos Automotive System Co., Ltd., etc.

Guizhou Technical College of Technology

Guizhou Technical College of Technology is a full-time technical college established by the Group in 2019 with the approval of the People’s Government of Guizhou Province and on the basis of Guizhou Vocational Institute of Technology. The establishment of Guizhou Technical College of Technology filled in the gap of private technical colleges in Guizhou Province, and became the first technical college established by private higher education institution in Guizhou Province.

MANAGEMENT DISCUSSION AND ANALYSIS

STUDENT ENROLLMENT

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

Schools	Student Enrollment		Change	
	As at 29 February 2020	As at 28 February 2019	Change in amounts	Change in percentage
Undergraduate College	71,259	38,784	32,475	83.73%
Junior Colleges	60,631	43,053	17,578	40.83%
Technical Education	8,235	4,196	4,039	96.26%
Total	140,125	86,033	54,092	62.87%

Notes:

- (1) The student enrollment information during the Reporting Period was based on the official records of the relevant PRC education authorities or the internal records of our Group's schools, as the case may be.
- (2) Student enrollment for undergraduate colleges included 15,569 students from Yinchuan University of Energy and 9,959 students from College of Science and Technology of Guizhou University, both colleges joined the Group in 2019; student enrollment for junior colleges included 5,434 students from Hebi Automotive Engineering Vocational College and 5,012 students from Suzhou Top Institute of Information Technology, both colleges joined the Group in 2019.

DORMITORY UTILIZATION RATE

	For the six months ended 29 February 2020	For the six months ended 28 February 2019
Total number of student enrollment	140,125	86,033
Total capacity	171,170	107,669
Overall utilization rate	82%	80%

INDUSTRY POLICY DIRECTION

In 2019, the Chinese Government placed unprecedented strategic importance on the development of vocational education. In February 2019, the State Council issued the Implementation Plan on Reform of National Vocational Education 《國家職業教育改革實施方案》 (“20 Articles on Vocational Education (職教20條)”), which put vocational education, especially higher vocational education, in a more prominent position in the reform and innovation of education and economic and social development. In March 2019, the State Council’s “Government Work Report” proposed enrollment expansion to millions, and provided RMB100 billion from the unemployment insurance fund for skill upgrading and job transfer training for over 15 million people. In May 2019, the General Office of the State Council issued the Action Plan for Upgrading Vocational Skills (2019-2021) 《職業技能提升行動方案(2019-2021年)》, which proposed to carry out various subsidized vocational skills training with over 50 million attendances in three years from 2019 to 2021, including training with over 15 million attendances in 2019. In February 2020, the Ministry of Education proposed to expand the scale of enrollment of postgraduate students, which is to represent an increase of 189,000 compared with last year; expand the scale of upgrading college degree to undergraduate degree, which is strived for a year-on-year increase of 322,000.

In a series of policies on the development of vocational education issued by the State, it is clearly proposed that the government should change its focus from “running” vocational education to “management and service”, with a view to encouraging more diversified and market-oriented social education, and providing support on land, finance, tax, capital, enrollment indicators, etc. to the sponsors of vocational education. Hope Education, as a group with higher vocational education as its principal part, seized the opportunity of national support for higher vocational education development, with the number of students enrolled in 2019-2020 academic year reaching a record high both in absolute number and in growth rate since our Group has been engaged in school running. This series of policies are powerful and maneuverable, creating a broader development space for private higher education, which will benefit private higher education institutions in the medium and long term.

OUTLOOK

The private higher education industry has entered the golden age of great development. The Company will seize this period of strategic opportunities by actively accelerating the development in a bid to expand the scale of school education on one hand, and continuously improving the quality of school education and the quality of talent cultivation to enhance the brand value of the colleges on the other, thereby realizing the synergy between speed and quality, as well as scale and efficiency, so as to ensure financial stability and sustainable development. To achieve this goal, our Group plans to pursue the following business strategies:

- (1) Continuing to promote the internal growth of the Company. Improving the quality of school education, enhancing student enrollment scale and increasing the dormitory utilization rate are the important drivers for the steady development of our Group. To this end, our Group will continue to expand its education management committee comprising of experts in the higher education industry to strengthen the management of our Group’s school education and teaching activities; actively introduce academic leaders to strengthen our Group’s teaching team; by leveraging our Group’s strengths in student recruitment that

MANAGEMENT DISCUSSION AND ANALYSIS

has accumulated over a decade, our Group will increase its application rate, enrollment rate and registration rate through expanding its enrollment scale; deepen its teaching reform and increase efforts in skills training in order to improve students' professional skills and employment capacity in a comprehensive manner; and improve the quality and brand influence of our existing schools.

- (2) Continuing to seek high-quality expansion opportunities while further expand the development coverage based on students' needs. New construction and mergers and acquisitions have always been the driving force for our developments. In selection the development direction, we will focus more on the future development potential from the perspective of industrial layout, make an emphasis on linkage with existing institutions and utilization of cash flows. At the same time, we will further enrich endogenous growth, provide more valuable services for students so as to increase return for our shareholders while reducing marginal costs.

OTHER EVENTS

Event after the Reporting Period

On 25 March 2020, the board of the directors of the Company announced that it has resolved to change the financial year end date of the Company from 31 December to 31 August. Accordingly, the next financial year end date of the Group will be 31 August 2020. The Change is to align the financial year end date of the Group with the academic year of the schools operated by the Group in the PRC, which ends in August each year. The board of the directors considers that the Change will facilitate the preparation of the consolidated financial statements of the Group and to better reflect the operational results of the Group for the financial year. To the best of its knowledge, belief and information, the board of directors does not foresee any adverse impact on the Group resulting from the Change and there is no other significant matter that needs to be brought to the attention of the shareholders of the Company in this regard.

FINANCIAL REVIEW

Overview

For the six months ended 29 February 2020, we recorded a revenue of RMB870.63 million, adjusted gross profit of RMB480.68 million and a gross profit of RMB457.33 million. For the six months ended 29 February 2020, adjusted gross profit margin of the Group was 55.2%, as compared to 51.2% for the corresponding period in 2019 proforma. For the six months ended 29 February 2020, gross profit margin was 52.5%, as compared to 50.9% for the corresponding period in 2019 proforma.

For the six months ended 29 February 2020, adjusted net profit of the Group amounted to RMB382.93 million, representing an increase of RMB153.90 million or 67.2% as compared to the corresponding period in 2019 proforma. For the six months ended 29 February 2020, adjusted net profit margin was 44.0% as compared to 38.4% for the corresponding period in 2019 proforma.

MANAGEMENT DISCUSSION AND ANALYSIS

For the six months ended 29 February 2020, net profit of the Group amounted to RMB333.77 million, representing an increase of RMB183.25 million or 121.7% as compared to the corresponding period in 2019 proforma. For the six months ended 29 February 2020, net profit margin of the Group was 38.3% as compared to 25.3% for the corresponding period in 2019 proforma.

Revenue

For the six months ended 29 February 2020, revenue of the Group reached RMB870.63 million, representing an increase of RMB274.71 million or 46.1% from RMB595.92 million of the corresponding period in 2019 proforma. Such increase is mainly due to (i) number of students enrolled increased in various schools; and (ii) the consolidation of Hebi project, Kunshan project and Yinchuan project into the Group's accounts after completion of the acquisitions one after another.

Cost of Sales

For the six months ended 29 February 2020, adjusted cost of sales¹ of the Group amounted to RMB389.95 million, representing an increase of RMB99.08 million or 34.1% from RMB290.87 million of the corresponding period in 2019 proforma. For the six months ended 29 February 2020, cost of sales of the Group were RMB413.30 million, representing an increase of RMB120.47 million or 41.1% as compared to RMB292.83 million for the corresponding period in 2019 proforma. Such increase is mainly due to (i) enhancement of teacher quality and teaching facilities as a result of increment in number of students enrolled in original schools of the Group, (ii) consolidation of various schools upon acquisition completed during the period leading to an increase in corresponding costs.

Gross Profit and Gross Profit Margin

For the six months ended 29 February 2020, adjusted gross profit of the Group amounted to RMB480.68 million, representing an increase of RMB175.63 million or 57.6% from RMB305.05 million of the corresponding period in 2019 proforma. For the six months ended 29 February 2020, adjusted gross profit margin of the Group was 55.2%, as compared to 51.2% for the corresponding period in 2019 proforma.

For the six months ended 29 February 2020, gross profit of the Group was RMB457.33 million, representing an increase of RMB154.24 million or 50.9% as compared to RMB303.09 million for the corresponding period in 2019 proforma; with gross profit margin of 52.5% as compared to 50.9% for the corresponding period in 2019 proforma.

Improvement on gross profit margin was mainly due to an increase in the Group's revenue, coupled with lean management and enhanced cost control. We believe that with consolidation of newly merged and acquired schools, the gross profit margin will be continuously enhanced.

¹ Adjusted cost of sales is measured by cost of sales for the period after eliminating additional depreciation and amortization from temporary fair value adjustment of identifiable assets resulted from the acquisition of Jinci College of Shanxi Medical University, Sichuan Vocational College of Culture & Communication, Sichuan TOP IT Vocational Institute, Suzhou Top Institute of Information Technology, Yinchuan University of Energy and Hebi Automotive Engineering Vocational College.

MANAGEMENT DISCUSSION AND ANALYSIS

Other Income and Gains

For the six months ended 29 February 2020, other income and gains of the Group amounted to RMB144.78 million, representing an increase of RMB50.53 million from RMB94.25 million of the corresponding period in 2019 proforma; which was mainly due to the increase in interest income, rental income and government subsidies.

Selling Expenses

For the six months ended 29 February 2020, selling expenses of the Group amounted to RMB29.94 million, representing an increase of RMB20.12 million from RMB9.82 million of the corresponding period in 2019 proforma. Such increase was mainly due to the increment in marketing expense of student enrollment.

Administrative Expenses

For the six months ended 29 February 2020, administrative expenses of the Group amounted to RMB115.59 million, representing an increase of RMB1.12 million from RMB114.47 million of the corresponding period in 2019 proforma. Such increase was mainly due to (i) decrease in equity-settled share option expenses, and (ii) offset by consolidation of newly merged and acquired schools.

Other Expenses

For the six months ended 29 February 2020, other expenses of the Group amounted to RMB11.49 million, representing a decrease of RMB34.91 million from RMB46.40 million of the corresponding period in 2019 proforma. Such decrease was mainly due to certain one-off expenses like additional land costs of RMB23.12 million resulting from the disposal of the Xuefu Street project of Business College of Guizhou University of Finance and Economics that occurred in 2018 have not incurred during the period and the exchange loss of RMB21.10 million for the corresponding period in 2019 proforma.

Finance Costs

For the six months ended 29 February 2020, finance cost of the Group amounted to RMB102.13 million, representing an increase of RMB26.1 million from RMB76.03 million of the corresponding period in 2019 proforma. Such increase was mainly due to (i) the increase in interest expenses on bank and other borrowings; and (ii) provision of RMB9.86 million finance cost accrued at amortized cost because of the payment terms for the consideration of purchase of acquisition project of Yinchuan pursuant to the relevant agreement were beyond one year.

Profits of the Reporting Period

For the six months ended 29 February 2020, adjusted net profit of the Group amounted to RMB382.93 million, representing an increase of RMB153.90 million or 67.2% as compared to the corresponding period in 2019 proforma. For the six months ended 29 February 2020, adjusted net profit margin was 44.0% as compared to 38.4% for the corresponding period in 2019 proforma.

MANAGEMENT DISCUSSION AND ANALYSIS

Increase in adjusted net profit was mainly due to (i) number of students enrolled and tuition fees increased in various schools; (ii) the consolidation of Hebi project, Kunshan project and Yinchuan project into the Group's accounts after completion of the acquisitions; and (iii) acquisition of Guizhou Jiexing Huilv Air Service Consultant Services Limited (joint sponsor of the College of Science and Technology of Guizhou University), and the financial results of Jiexing Huilv were consolidated into the Group upon completion of acquisition at the end of July 2019.

For the six months ended 29 February 2020, net profit of the Group amounted to RMB333.77 million, representing an increase of RMB183.25 million or 121.7% as compared to the corresponding period in 2019 proforma. For the six months ended 29 February 2020, net profit margin of the Group was 38.3% as compared to 25.3% for the corresponding period in 2019 proforma.

Capital Commitments

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

	29 February 2020 in millions of RMB	31 December 2019 in millions of RMB
Contracted, but not provided for:		
Property and equipment	758.47	740.78
Acquisition of equity interests	945.89	—
	<u>1,704.36</u>	<u>740.78</u>

Liquidity and Financial Resources

As of 29 February 2020, the Group had total cash and bank balances and structured deposit of RMB2,269.79 million, among which: (i) cash and cash equivalents amounted to RMB1,097.42 million (31 December 2019: RMB1,690.42 million), (ii) restricted cash deposit amounted to RMB158.78 million (31 December 2019: RMB158.78 million), and (iii) structured deposit in Minsheng Bank amounted to RMB1,013.59 million (31 December 2019: RMB1,002.97 million).

MANAGEMENT DISCUSSION AND ANALYSIS

INDEBTEDNESS

Bank Loans and Other Borrowings

The Group's bank loans and other borrowings primarily consist of short-term working capital loans and long-term loans for constructing school buildings and facilities and merger and acquisitions. The Group supplements its working capital and finances its expenditure primarily through borrowings obtained from banks. As of 29 February 2020, the aggregate loan balance amounted to RMB2,496.03 million (31 December 2019: RMB2,596.89 million). All of our loans were denominated in RMB. As of 29 February 2020, the Group's bank loans and other borrowings bore effective interest rates ranging from 4.75% to 8.55% per annum. Without taking into account the loans arising from new schools acquired during 2019, other bank loans and other borrowings bore effective interest rates ranging from 4.75% to 7.5% per annum. The Group considers that, as subsequent loans bore by the entities of Yinchuan acquisition project being settled when due, effective interest rates per annum will be reduced, coupled by the fact that loans bearing relatively higher annual interest rates is of lower principle amount, effect on finance cost of the Group will not be material.

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

Current Ratio

As at 29 February 2020, current asset of the Group amounted to RMB3,012.15 million, consisted of bank balance of RMB1,157.50 million, structured deposit in Minsheng Bank of RMB1,013.59 million and other current asset of RMB841.06 million. Current liabilities of the Group amounted to RMB2,892.85 million, including accruals and other payables of RMB1,085.21 million, contract liabilities of RMB638.44 million, interest-bearing bank and other loans of RMB981.22 million and other current liabilities of RMB187.98 million. As at 29 February 2020, current ratio (current assets divided by current liabilities) of the Group was 1.04 (31 December 2019: 1.12).

Contingent Liabilities

As of 29 February 2020, the Group did not have any material contingent liabilities, guarantees or any litigations or claims of material importance, pending or threatened against any member of our Group.

Net Debt to Equity Ratio

Net debt to equity ratio equals to total interest-bearing bank loans and other borrowings of RMB2,496.03 million, net of cash and cash equivalents of RMB1,097.42 million, restricted cash deposit of RMB158.78 million and structured deposit in Minsheng Bank of RMB1,013.59 million at the end of the period, divided by total equity of RMB4,570.75 million at the end of the period. The Group's net debt to equity ratio increased from -5.6% as of 31 December 2019 to 4.9% as of 29 February 2020, primarily due to continuous investment of the Group in teaching facilities, equipment and construction of campus.

MANAGEMENT DISCUSSION AND ANALYSIS

Debt to Equity Ratio

As at 29 February 2020, debt to equity ratio of the Group (calculated by dividing total interest-bearing bank loans by total equity) is approximately 54.6% (31 December 2019: 56.9%).

USE OF PROCEEDS

The net proceeds from the Listing (after deducting the underwriting fees and related expenses) amounted to approximately RMB2,704.86 million. As at 29 February 2020, the Group has utilized a total of RMB1,413.08 million of the net proceeds in accordance with the allocation set out in the Prospectus.

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

Use	% of total	Net proceeds RMB (million)	Amount utilised (as at 29 February 2020) RMB (million)	Amount unutilised (as at 29 February 2020) RMB (million)
Used to acquire of higher education schools and establish new campus for the acquired schools	40%	1,081.94	220.03	861.91
Used to construct new buildings for education purposes	30%	811.46	381.59	429.87
Used to repay bank loans and other borrowings	20%	540.97	540.97	–
Used for working capital and general corporate purposes	10%	270.49	270.49	–
Total	100%	2,704.86	1,413.08	1,291.78

FOREIGN EXCHANGE RISK MANAGEMENT

The majority of our Group's revenue and expenditures are denominated in Renminbi, the functional currency of the Company. As at 29 February 2020, certain bank balances and cash were denominated in Hong Kong dollar and U.S. dollar. Our Group has not entered into any financial arrangements for hedging purpose as it is expected that there will be no material foreign exchange exposure.

MANAGEMENT DISCUSSION AND ANALYSIS

HUMAN RESOURCES, EMPLOYEES AND REMUNERATION POLICY

As at 29 February 2020, the Group had approximately 7,711 faculty members. The remuneration of employees is determined on the basis of current industry practices and the educational background, experience and performance of employees. As required by the PRC laws and regulations, the Group participates in various employee social security plans for its employees that are administered by local governments, including housing, pension, medical insurance, maternity insurance and unemployment insurance and share option scheme (for the scheme, please refer to page 33 of this report). The Group believes that it maintains a good working relationship with its employees, and the Group has not experienced any material labour disputes for the six months ended 29 February 2020.

OTHER INFORMATION

INTERIM DIVIDEND

The Board did not recommend the payment of any interim dividend for the Reporting Period to shareholders.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

Save as disclosed in this announcement, the Group did not have other plans for material investments and capital assets.

CORPORATE GOVERNANCE CODE

The Company is committed to the establishment of good corporate governance practices and procedures with a view to being a transparent and responsible organization which is open and accountable to the Shareholders. The Board strives for adhering to the principles of corporate governance and has adopted sound corporate governance practices to meet the legal and commercial standards, focusing on areas such as internal control, fair disclosure and accountability to all Shareholders to ensure the transparency and accountability of all operations of the Company. The Company believes that effective corporate governance is the foundation to create more value for the Shareholders. The Board will continue to review and improve the corporate governance practices of the Group from time to time to ensure that the Group is led by an effective Board in order to optimize return for Shareholders.

Throughout the six months ended 29 February 2020, the Company has complied with the CG Code.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has also adopted the Model Code set out in Appendix 10 of the Listing Rules as its code of conduct regarding securities transactions by the Directors during the six months ended 29 February 2020.

Having made specific enquiry with all Directors of the Company, it is confirmed that all Directors have complied with the required standard set out in the Model Code regarding securities transactions by the Directors throughout the six months ended 29 February 2020.

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

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

OTHER INFORMATION

QUALIFICATION REQUIREMENT

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

LIQUIDITY AND CAPITAL RESOURCES

The Group’s primary uses of cash are to fund its working capital requirements, its purchase of property and equipment and repayment of loans and related interest expenses. As at the date of this report, the Group has funded its operations principally with cash generated from operations, bank loans, capital contribution by shareholders and net proceeds from Global Offering (as defined in the Prospectus). In the future, the Group believes that its liquidity requirements will be satisfied with a combination of cash flows generated from operating activities, bank loans and other borrowings and other funds raised from the capital markets from time to time. As of 29 February 2019, the Group had cash and cash equivalents of RMB1,097.42 million.

PLEDGED ASSETS

Save as disclosed herein, as at 31 December 2019 and 29 February 2020, the Group had no other pledged assets.

AUDIT COMMITTEE AND REVIEW OF INTERIM FINANCIAL INFORMATION

The audit committee of the Company has reviewed the accounting principles and practices adopted by the Group and discussed matters in relation to internal control and financial reporting. The audit committee of the Company has reviewed the Group’s interim results and unaudited condensed consolidated financial statements for the six months ended 29 February 2020.

OTHER INFORMATION

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

As at 29 February 2020, the interests or short positions of the Directors and chief executives of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which was required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which any such Directors and chief executive(s) of the Company is taken or deemed to have under such provisions of the SFO) or which was required to be entered in the register required to be kept by the Company pursuant to Section 352 of the SFO or which was otherwise required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code were as follows:

Name of Director	Position	Capacity/Nature of Interest	Number of Shares Held	Long Position/ Short Position	Approximate Percentage of Shareholding in the Company as at 29 February 2020 ⁽³⁾
Wang Huiwu (汪輝武) ⁽¹⁾	Executive Director	Interest in controlled corporation	4,140,948,240	Long Position	62.07%
Wang Degen (王德根) ⁽²⁾	Non-executive Director	Interest of spouse	4,183,190,943	Long Position	62.70%

Notes:

- (1) Wang Huiwu (汪輝武) holds 96.00% interest in Maysunshine Limited, which in turn holds 49.00% interest in Hope Education Investment Limited. Hope Education Investment Limited holds 62.07% interest in the Company. Accordingly, Wang Huiwu (汪輝武) is deemed as holding interest in the Company through Hope Education Investment Limited.
- (2) Wang Degen (王德根) and Zhang Qiang (張強) are spouses. Therefore, for the purpose of the SFO, Wang Degen (王德根) is deemed or taken to be interested in all the shares Zhang Qiang (張強) is interested in.
- (3) Based on the number of issued shares as of 29 February 2020, being 6,671,668,000 Shares.

Save as disclosed above, as at 29 February 2020, none of the Directors and chief executive(s) of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be entered in the register required to be kept by the Company pursuant to Section 352 of the SFO or which was required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

OTHER INFORMATION

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

To the knowledge of any of directors or chief executives of the Company, as at 29 February 2020, the following persons (other than the directors or chief executives of the Company) or entities have an interest or short positions in Shares or underlying Shares of the Company which are required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept under Section 336 of the SFO:

Name of Shareholder	Capacity/Nature of Interest	Number of Shares Held	Long Position/ Short Position	Approximate Percentage of Shareholding in the Company as at 29 February 2020 ⁽⁵⁾
Hope Education Investment Limited ⁽¹⁾	Beneficial interest	4,140,948,240	Long Position	62.07%
Maysunshine Limited ⁽¹⁾	Interest in controlled corporation	4,140,948,240	Long Position	62.07%
Tequ Group A Limited ⁽¹⁾	Interest in controlled corporation	4,140,948,240	Long Position	62.07%
Tequ Group (Hong Kong) Company Limited ⁽¹⁾	Interest in controlled corporation	4,183,190,943	Long Position	62.70%
Shanghai Yi Zeng Management Co., Ltd. (上海乙增管理有限公司) ⁽¹⁾	Interest in controlled corporation	4,183,190,943	Long Position	62.70%
Sichuan Tequ Investment ⁽¹⁾	Interest in controlled corporation	4,183,190,943	Long Position	62.70%
West Hope ⁽¹⁾	Interest in controlled corporation	4,183,190,943	Long Position	62.70%
Sichuan Puhua Agricultural Technology Development Limited (四川普華農業科技發展有限公司) ⁽¹⁾	Interest in controlled corporation	4,183,190,943	Long Position	62.70%
Zhang Qiang (張強) ⁽¹⁾	Interest in controlled corporation	4,183,190,943	Long Position	62.70%
Chen Yuxin (陳育新) ⁽¹⁾	Interest in controlled corporation	4,183,190,943	Long Position	62.70%
Zhao Guiqin (趙桂琴) ⁽¹⁾	Interest in controlled corporation	4,183,190,943	Long Position	62.70%
CEL Maiming ⁽²⁾	Interest in controlled corporation	183,394,354	Long Position	2.75%
CEL Huiling Investment (Shanghai) Co., Limited (光控匯領投資(上海)有限公司) ("CEL Huiling") ⁽²⁾	Interest in controlled corporation	421,494,412	Long Position	6.32%
CEL Venture Capital (Shenzhen) Co., Limited (光大控股創業投資(深圳)有限公司) ⁽²⁾⁽⁴⁾	Interest in controlled corporation	421,494,412	Long Position	6.32%
China Everbright Limited ⁽²⁾⁽³⁾⁽⁴⁾	Interest in controlled corporation	852,861,338	Long Position	12.78%
Honorich Holdings Limited ⁽³⁾	Interest in controlled corporation	852,861,338	Long Position	12.78%
Datten Investments Limited ⁽³⁾	Interest in controlled corporation	852,861,338	Long Position	12.78%
China Everbright Holdings Co., Limited (中國光大集團有限公司) ("CE Hong Kong") ⁽³⁾	Interest in controlled corporation	852,861,338	Long Position	12.78%

OTHER INFORMATION

Name of Shareholder	Capacity/Nature of Interest	Number of Shares Held	Long Position/ Short Position	Approximate Percentage of Shareholding in the Company as at 29 February 2020 ⁽⁵⁾
China Everbright Group Ltd. (中國光大集團股份公司) ("China Everbright Group") ⁽³⁾	Interest in controlled corporation	852,861,338	Long Position	12.78%
Central Huijin Investment Limited (中央匯金投資有限責任公司) ("Central Huijin") ⁽³⁾	Interest in controlled corporation	852,861,338	Long Position	12.78%
Beijing CEL Anya Investment Centre (Limited Partnership) (北京光控安雅投資中心 (有限合伙)) ⁽⁴⁾	Interest in controlled corporation	183,394,354	Long Position	2.75%
Shanghai CEL Jiaxin Equity Investment Management Co., Limited (上海光控嘉鑫股權投資管理有限公司) ⁽⁴⁾	Interest in controlled corporation	183,394,354	Long Position	2.75%
Chongqing CEL Equity Investment Management Limited (重慶光控股權投資管理有限公司) ⁽⁴⁾	Interest in controlled corporation	183,394,354	Long Position	2.75%
Yixing CEL ⁽⁴⁾	Interest in controlled corporation	183,394,354	Long Position	2.75%
CEL Capital Prestige Asset Management Co., Ltd. (首譽光控資產管理有限公司) ⁽⁴⁾	Interest in controlled corporation	183,394,354	Long Position	2.75%

Notes:

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

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

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

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

OTHER INFORMATION

- (2) Star Leap Limited and China Everbright Financial Investments Limited, an investment holding company, each directly holds approximately 3.01% and 3.46% of the Company respectively, are indirectly wholly-owned by China Everbright Limited.

Pearl Glory Global Limited, an investment holding company holding approximately 6.21% of the Company, is wholly-owned by CEL Maiming. CEL Huiling is the general partner of CEL Maiming. Accordingly, each of CEL Maiming and CEL Huiling is deemed to be interested in the Shares held by Pearl Glory Global Limited under the SFO.

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

Glory Aurora Limited, an investment holding company directly holding approximately 3.57% of the Company, is wholly-owned by Zhuhai Maiwen. The general partner of Zhuhai Maiwen is CEL Huiling, a wholly-owned subsidiary of CEL Venture Capital (Shenzhen) Co., Limited (光大控股創業投資(深圳)有限公司), which is in turn indirectly wholly-owned by China Everbright Limited.

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

- (3) China Everbright Limited was owned as to approximately 49.39% by Honorich Holdings Limited and 0.358% by Everbright Investment & Management Limited (光大投資管理有限公司), respectively. Honorich Holdings Limited was wholly-owned by Datten Investments Limited, and each of Everbright Investment & Management Limited (光大投資管理有限公司) and Datten Investments Limited was in turn wholly-owned by CE Hong Kong, which was in turn wholly-owned by China Everbright Group. China Everbright Group was owned as to approximately 55.67% by Central Huijin and was indirectly wholly-owned by the State Council of the PRC.

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

- (4) Beijing CEL Anya Investment Centre (Limited Partnership) (北京光控安雅投資中心(有限合夥)) is a limited partnership holding approximately 40.82% of the limited partnership interest in CEL Maiming.

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

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

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

- (5) Based on the number of issued shares as of 29 February 2020, being 6,671,668,000 Shares.

OTHER INFORMATION

Save as disclosed above, as at 29 February 2020, the Directors or chief executives of the Company are not aware of any other person or entity who has an interest or short positions in Shares or underlying Shares of the Company which are required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept under Section 336 of the SFO.

2018 PRE-IPO SHARE OPTION SCHEME

As of 29 February 2020, the number of relevant Shares subject to outstanding options granted under the 2018 Pre-IPO Share Option Scheme is 441,422,454 Shares, representing approximately 6.6% of the issued share capital of the Company. As of 29 February 2020, our Company had granted Pre-IPO Share Options to 319 Participants under the 2018 Pre-IPO Share Option Scheme.

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

Grantees	Number of Share Options					Date of grant	Exercise period	Exercise Price per share option RMB per share	Vesting period	The weighted average closing price of the Company's shares		
	As at 1 September 2019	Granted during the period	Exercised during the period	Lapsed during the period	As at 29 February 2020					Share price of the Company immediately before the date of grant of share options RMB per share	Immediately before the date of exercise RMB per share	As at the date of exercise of share options HK\$ per share
Directors												
Xu Changjun	1,288,871	-	-	-	1,288,871	18 March 2018	From 2 February 2019 to 2 August 2038	0.9311	From 18 March 2018 to 2 February 2019	-	-	-
	859,247				859,247		From 2 February 2020 to 2 August 2020		From 18 March 2018 to 2 February 2020			
Li Tao	6,659,167	-	-	-	6,659,167	18 March 2018	From 2 February 2019 to 2 August 2038	0.9311	From 18 March 2018 to 2 February 2019	-	-	-
	2,685,148				2,685,148		From 2 February 2020 to 2 August 2020		From 18 March 2018 to 2 February 2020			
Sub-total	11,492,433	-	-	-	11,492,433					-	-	-
Employees (including Senior Management)												
78 individuals	142,102,188	-	-	-	142,102,188	18 March 2018	From 2 February 2019 to 2 August 2038 or From 2 February 2020 to 2 August 2020	0.9311/1.131	From 18 March 2018 to 2 February 2019 or From 18 March 2018 to 2 February 2020	-	-	-
Other Grantees												
232 individuals	292,827,833	-	5,000,000	-	287,827,833	18 March 2018	From 2 February 2019 to 2 August 2038 or From 2 February 2020 to 2 August 2020	0.9311/1.131	From 18 March 2018 to 2 February 2019 or From 18 March 2018 to 2 February 2020	-	-	-
Total	446,422,454	-	5,000,000	-	441,422,454					-	-	-

As of 29 February 2020, save for disclosed above, no share options were exercised, cancelled or lapsed under the Pre-IPO Share Option Scheme.

Note: Details of the 2018 Pre-IPO Share Option Scheme adopted on 18 March 2018 are set out in note 24 to the Interim Condensed Consolidated Financial Information.

INDEPENDENT REVIEW REPORT



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

INTRODUCTION

We have reviewed the interim financial information set out on pages 35 to 81, which comprises the condensed consolidated statement of financial position of Hope Education Group Co., Ltd. (the “Company”) and its subsidiaries (the “Group”) as at 29 February 2020 and the related condensed consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six-month period then ended, and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 *Interim Financial Reporting* (“IAS 34”) issued by the International Accounting Standards Board (“IASB”). The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

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

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with IAS 34.

Ernst & Young
Certified Public Accountants
Hong Kong
29 April 2020

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

FOR THE SIX MONTHS ENDED 29 FEBRUARY 2020

	Notes	For the six months ended	
		29 February 2020 RMB' 000 (Unaudited)	30 June 2019 RMB' 000 (Unaudited)
Revenue	3	870,627	594,730
Cost of sales		<u>(413,297)</u>	<u>(279,139)</u>
Gross profit		457,330	315,591
Other income and gains	3	144,778	100,913
Gain on a bargain purchase	21(a)	27,256	–
Selling expenses		(29,938)	(11,918)
Administrative expenses		(115,591)	(68,934)
Other expenses		(11,492)	(3,194)
Finance costs	4	(102,133)	(74,216)
Share of profit of a joint venture		<u>7,661</u>	<u>–</u>
Profit before tax	5	377,871	258,242
Income tax expense	6	<u>(44,098)</u>	<u>(14,763)</u>
Profit for the period		<u><u>333,773</u></u>	<u><u>243,479</u></u>
Other comprehensive income for the period		<u>–</u>	<u>–</u>
Total comprehensive for the period		<u><u>333,773</u></u>	<u><u>243,479</u></u>
Profit and total comprehensive income attributable to:			
Owners of the Company		333,599	243,306
Non-controlling interests		<u>174</u>	<u>173</u>
		<u><u>333,773</u></u>	<u><u>243,479</u></u>
Earnings per share attributable to ordinary equity holders of the Company:	7		
Basic		<u>RMB0.050</u>	<u>RMB0.036</u>
Diluted		<u>RMB0.049</u>	<u>RMB0.036</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

29 FEBRUARY 2020

	Notes	29 February 2020 RMB' 000 (Unaudited)	31 December 2019 RMB' 000
NON-CURRENT ASSETS			
Property, plant and equipment	8	4,633,444	4,563,972
Right-of-use assets	8	1,152,951	1,163,340
Goodwill	9	595,820	595,820
Amounts due from related parties	23(c)	279,610	275,110
Other intangible assets	8	216,893	218,976
Investment in a joint venture		194,650	196,242
Prepayments, deposits and other receivables	11	347,299	224,815
Restricted bank balance	13	98,707	108,787
Deferred tax assets		2,225	1,404
Total non-current assets		<u>7,521,599</u>	<u>7,348,466</u>
CURRENT ASSETS			
Trade receivables	10	9,101	3,714
Prepayments, deposits and other receivables	11	778,952	720,787
Amounts due from related parties	23(c)	53,013	30,868
Structured deposits	12	1,013,585	1,002,967
Other financial assets at fair value through profit or loss	12	–	9,310
Restricted bank balance	13	60,080	50,000
Cash and cash equivalents	13	1,097,417	1,690,419
Total current assets		<u>3,012,148</u>	<u>3,508,065</u>
CURRENT LIABILITIES			
Contract liabilities	3	638,435	806,431
Trade payables	14	29,489	33,610
Other payables and accruals	15	1,085,209	1,142,865
Deferred income	16	32,062	32,545
Lease liabilities	17	32,764	27,825
Interest-bearing bank and other borrowings	18	981,217	1,003,293
Amounts due to related parties	23(c)	30,844	30,763
Taxes payable		62,828	65,203
Total current liabilities		<u>2,892,848</u>	<u>3,142,535</u>
NET CURRENT ASSETS		<u>119,300</u>	<u>365,530</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>7,640,899</u>	<u>7,713,996</u>

continued/...

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

29 FEBRUARY 2020

	Notes	29 February 2020 RMB' 000 (Unaudited)	31 December 2019 RMB' 000
NON-CURRENT LIABILITIES			
Other payables	15	346,206	343,885
Deferred income	16	1,075,976	1,072,673
Lease liabilities	17	127,357	132,662
Interest-bearing bank and other borrowings	18	1,514,813	1,593,599
Deferred tax liabilities		5,794	5,889
Total non-current liabilities		<u>3,070,146</u>	<u>3,148,708</u>
NET ASSETS		<u>4,570,753</u>	<u>4,565,288</u>
EQUITY			
Equity attributable to owners of the Company			
Issued capital	19	454	454
Reserves		<u>4,567,204</u>	<u>4,561,763</u>
		4,567,658	4,562,217
Non-controlling interests		<u>3,095</u>	<u>3,071</u>
Total equity		<u>4,570,753</u>	<u>4,565,288</u>

Xu Changjun
Director

Wang Huiwu
Director

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 29 FEBRUARY 2020

	Attributable to owners of the Company								
	Issued capital	Share premium*	Capital reserve*	Statutory		Retained profits*	Total	Non-controlling interests	Total equity
				surplus reserve*	Share option reserve*				
	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000
(unaudited) (note 19)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	
As at 1 September 2019	454	2,596,260	598,468	252,261	135,543	638,225	4,221,211	2,891	4,224,102
Profit and total comprehensive income for the period	-	-	-	-	-	333,599	333,599	174	333,773
Exercise of share options	-	6,427	-	-	(1,771)	-	4,656	-	4,656
Capital contribution by a non-controlling shareholder	-	-	-	-	-	-	-	30	30
Transfer from retained profits	-	-	-	72,590	-	(72,590)	-	-	-
Equity-settled share option arrangement	-	-	-	-	8,192	-	8,192	-	8,192
As at 29 February 2020	<u>454</u>	<u>2,602,687</u>	<u>598,468</u>	<u>324,851</u>	<u>141,964</u>	<u>899,234</u>	<u>4,567,658</u>	<u>3,095</u>	<u>4,570,753</u>
As at 1 January 2019	454	2,701,755	598,426	234,221	122,345	500,069	4,157,270	2,882	4,160,152
Profit and total comprehensive income for the period	-	-	-	-	-	243,306	243,306	173	243,479
Transfer from retained profits	-	-	-	45,874	-	(45,874)	-	-	-
Final 2018 dividend declared	-	(105,495)	-	-	-	-	(105,495)	-	(105,495)
Equity-settled share option arrangement	-	-	-	-	16,055	-	16,055	-	16,055
As at 30 June 2019	<u>454</u>	<u>2,596,260</u>	<u>598,426</u>	<u>280,095</u>	<u>138,400</u>	<u>697,501</u>	<u>4,311,136</u>	<u>3,055</u>	<u>4,314,191</u>

* These reserve accounts comprise the consolidated reserves of RMB4,567,204,000 in the consolidated statement of financial position as at 29 February 2020 (31 December 2019: RMB4,561,763,000).

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 29 FEBRUARY 2020

	Notes	For the six months ended	
		29 February 2020 RMB' 000 (Unaudited)	30 June 2019 RMB' 000 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		377,871	258,242
Adjustments for:			
Depreciation of items of property, plant and equipment	8	99,077	73,717
Depreciation of right-of-use assets	8	31,222	15,996
Amortisation of other intangible assets	8	6,840	4,590
Deferred income released to profit or loss	3	(13,513)	(4,896)
Interest income	3	(45,727)	(56,342)
Finance costs	4	102,133	74,216
(Gains)/losses on disposal of items of property, plant and equipment, net	3,5	(20,831)	869
Losses on disposal of subsidiaries	5	2,011	–
Gain on bargain purchase	21	(27,256)	–
Equity-settled share option expense	24	8,192	16,055
Share of profit of a joint venture		(7,661)	–
Fair value gains on financial assets through profit or loss, net	3	(346)	(757)
Other interest income from financial assets at fair value through profit or loss	3	(19,053)	–
Foreign exchange losses/(gains), net		2,959	(3,181)
		495,918	378,509
Increase in inventories		–	(1,425)
Increase in prepayments, deposits and other receivables		(2,164)	(16,144)
Increase in trade receivables		(8,426)	–
Increase in amounts due from related parties		(11,061)	(3,098)
Decrease in contract liabilities		(217,565)	(471,062)
Increase in trade payables		17,675	–
Decrease in amounts due to related parties		(8,474)	(2,067)
Decrease in other payables and accruals		(127,537)	(26,178)
Receipt of government grants related to expense items		5,354	–
		143,720	(141,465)
Cash generated from/(used in) operations		143,720	(141,465)
Bank interest received		5,736	23,100
Corporate income tax and land appreciation tax paid		(19,093)	(15,155)
		130,363	(133,520)
Net cash flows from/(used in) operating activities		130,363	(133,520)

continued/...

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 29 FEBRUARY 2020

	Notes	For the six months ended	
		29 February 2020 RMB' 000 (Unaudited)	30 June 2019 RMB' 000 (Unaudited)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(311,742)	(91,736)
Prepaid land lease payments		(180,890)	(19,807)
Additions to other intangible assets		(1,273)	(1,736)
Payment of other payables relating to disposal of items of property, plant and equipment in the prior year		–	(19,887)
Acquisition of subsidiaries	21	(63,206)	–
Acquisition of subsidiaries that is not a business		(42,020)	–
Prepayment for acquisition of equity interests	11	(35,033)	(20,000)
Proceeds from disposal of items of property, plant and equipment		37,970	3,282
Increase in amounts due from related parties		(278,679)	(515)
Receipt of government grants for property, plant and equipment		211,860	32,036
Decrease in a restricted bank balance		663	–
Loans to an independent third party		(87,000)	–
Decrease/(increase) in time deposits with original maturity of over three months		531,469	(597,971)
Decrease/(increase) in financial assets at fair value through profit or loss, net		261,700	757
Investment income from financial assets at fair value through profit or loss		22,577	–
Interest income received from time deposits		28,620	3,702
Loan repaid by an independent third party		1,120	–
Interest income received from an independent third party		154	–
Net cash flows from/(used in) investing activities		<u>96,290</u>	<u>(711,875)</u>

continued/...

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 29 FEBRUARY 2020

	For the six months ended	
	29 February	30 June
	2020	2019
Notes	RMB' 000	RMB' 000
	(Unaudited)	(Unaudited)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from bank and other borrowings	580,000	114,950
Repayment of bank and other borrowings	(591,070)	(114,939)
Interest paid	(91,280)	(61,845)
Dividends paid	–	(105,495)
Principal portion of lease payments	(6,456)	(9,032)
Interest portion of the lease liabilities	(5,153)	(5,017)
Capital contribution by a non-controlling shareholder	30	–
Proceeds from the issue of shares	4,656	–
Repayment of other loans recorded in other payables	(28,068)	–
Repayment of loans from related parties	(34,787)	–
	(172,128)	(181,378)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	54,525	(1,026,773)
Cash and cash equivalents at beginning of the period	829,243	2,588,905
Effect of foreign exchange rate changes, net	(2,959)	3,181
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	880,809	1,565,313
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS:		
Cash and cash equivalents as stated in the consolidated statement of financial position (note 13)	1,097,417	2,613,284
Less: Time deposits with original maturity over three months	(216,608)	(1,047,971)
Cash and cash equivalents as stated in the consolidated statement of cash flows	880,809	1,565,313

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

29 FEBRUARY 2020

1. CORPORATE INFORMATION

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

The Company is an investment holding company. During the six months ended 29 February 2020 (the “Period”), the Company and its subsidiaries (collectively referred to as the “Group”) are principally engaged in the provision of higher education services in the People’s Republic of China (the “PRC”). There were no significant changes in the nature of the Group’s principal activities during the Period.

2.1 BASIS OF PREPARATION

The interim condensed consolidated financial information for the Period has been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting*. The interim condensed consolidated financial information does not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group’s annual consolidated financial statements for the year ended 31 December 2019.

2.2 CHANGE OF FINANCIAL YEAR END DATE

On 25 March 2020, the board of the directors and the Company have resolved to change the financial year end date of the Company from 31 December to 31 August. Accordingly, the next financial year end date of the Group will be 31 August 2020.

In view of the change of financial year end date, the interim condensed consolidated financial information and the related notes presented for the current period cover a six-month period from 1 September 2019 to 29 February 2020 while the corresponding comparative amounts shown for the interim condensed consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows, and the related notes cover a six-month period from 1 January 2019 to 30 June 2019. As a result, the comparative amounts may not be entirely comparable with the amounts shown for the current period.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

29 FEBRUARY 2020

3. REVENUE, OTHER INCOME AND GAINS

Revenue

Revenue represents the values of services rendered after deducting scholarships granted by the Group and refunds during the Period and the six months ended 30 June 2019.

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

(a) *Disaggregated revenue information*

Type of revenue	Note	For the six months ended	
		29 February 2020 RMB' 000 (Unaudited)	30 June 2019 RMB' 000 (Unaudited)
Tuition fees		720,087	504,297
Boarding fees		63,499	43,677
Sales of books and daily necessities		24,288	–
Others	(i)	62,753	46,756
		<u>870,627</u>	<u>594,730</u>

Timing of revenue recognition	For the six months ended	
	29 February 2020 RMB' 000 (Unaudited)	30 June 2019 RMB' 000 (Unaudited)
Services transferred over time	846,339	594,730
Goods transferred at a point in time	24,288	–
Total revenue from contracts with customers	<u>870,627</u>	<u>594,730</u>

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

29 FEBRUARY 2020

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

Revenue *(Continued)*

(b) Performance obligations

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

Provision of education services

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

Sales of goods

The performance obligation is satisfied at a point in time upon delivery of goods, and payment in advance is normally required.

Changes in contract liabilities during the period are as follows:

	For the six months ended	
	29 February 2020 RMB' 000 (Unaudited)	30 June 2019 RMB' 000 (Unaudited)
Carrying amount at beginning of the period	738,891	590,785
Additions from acquisition of subsidiaries (note 21)	117,108	–
Revenue recognised that was included in the contract liabilities at beginning of the period	(421,465)	(569,571)
Revenue recognised that was included in the contract liabilities arising from acquisition of subsidiaries	(67,845)	–
Increase due to cash received, excluding amounts recognised as revenue during the periods	271,746	98,509
Carrying amount at end of the period	<u>638,435</u>	<u>119,723</u>

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

29 FEBRUARY 2020

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

Revenue *(Continued)*

(b) Performance obligations (Continued)

Contract liabilities at the end of each reporting period represented advances received from students. The Group receives tuition and boarding fees from students in advance prior to the beginning of each academic year. Tuition and boarding fees are recognised proportionately over the relevant period of the respective applicable program. The students are entitled to the refund of payments in relation to the proportionate services not yet rendered. The decrease in contract liabilities was mainly due to the recognition of revenue relating to the provision of formal education services during the Period.

The amounts of transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at the end of the reporting period are as follows:

	29 February 2020 RMB' 000 (Unaudited)	31 December 2019 RMB' 000
Amounts expected to be recognised as revenue:		
Within one year	634,202	802,045
After one year	4,233	4,386
	<u>638,435</u>	<u>806,431</u>

The amounts of transaction prices allocated to the remaining performance obligations which are expected to be recognised as revenue after one year relate to higher education services, of which the performance obligations are to be satisfied within two years. All the other amounts of transaction prices allocated to the remaining performance obligations are expected to be recognised as revenue within one year.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

29 FEBRUARY 2020

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

Other income and gains

An analysis of other income and gains is as follows:

	Notes	For the six months ended	
		29 February 2020 RMB' 000 (Unaudited)	30 June 2019 RMB' 000 (Unaudited)
Other income			
Interest income from bank balances		20,822	40,413
Interest income from loans to a related party		8,912	–
Other interest income from financial assets at fair value through profit or loss		19,053	–
Interest income from loans to an independent third party		15,993	15,929
Total interest income		64,780	56,342
Deferred income released to profit or loss:			
– related to assets	16	5,499	4,896
– related to expenses	16	8,014	–
Government grants received	(ii)	6,358	14,382
Rental income		15,999	3,121
Service income	(iii)	14,695	13,988
Donation income		67	775
Others		8,022	3,454
		123,434	96,958
Gains			
Gains on disposal of items of property, plant and equipment		20,998	208
Fair value gains on financial assets at fair value through profit or loss, net		346	757
Gain on exchange differences, net		–	2,990
		21,344	3,955
Total other income and gains		144,778	100,913

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

29 FEBRUARY 2020

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

Other income and gains *(Continued)*

Notes:

- (i) During the Period and the six months ended 30 June 2019, others mainly represented income received from the provision of other education services of self-study examination education services, adult education services and training services to the students, which were amortised within the training periods of the services rendered.
- (ii) Government grants received represented the subsidies compensated for the incurred operating expenses arising from teaching activities, which are recognised as other income in profit or loss when received. There were no unfulfilled conditions or contingencies relating to these grants.
- (iii) During the Period and the six months ended 30 June 2019, the service income mainly represented income derived from granting the rights of canteen and convenient store operations to independent third-party operators; and income from services provided to the students related to the purchase of textbooks, dormitory bedding and examination materials.

4. FINANCE COSTS

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

	For the six months ended	
	29 February 2020 RMB' 000 (Unaudited)	30 June 2019 RMB' 000 (Unaudited)
Interest on bank and other borrowings	84,150	71,409
Less: interest capitalised	–	(2,210)
Interest expense on lease liabilities (note 17)	5,153	5,017
Increase in the discounted amount of payables arising from the passage of time	12,830	–
	<u>102,133</u>	<u>74,216</u>
Interest rate/capitalisation rate of borrowing costs capitalised	<u>4.75% to 8.55%</u>	<u>4.75% to 7.5%</u>

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

29 FEBRUARY 2020

5. PROFIT BEFORE TAX

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

	Notes	For the six months ended	
		29 February 2020 RMB' 000 (Unaudited)	30 June 2019 RMB' 000 (Unaudited)
Cost of services provided		413,297	279,139
Employee benefit expense:			
Wages and salaries		202,023	130,001
Equity-settled share option expense	24	6,225	7,565
Pension scheme contributions (defined contribution scheme)		33,444	28,403
		241,692	165,969
Management fees	(i)	75,187	64,990
Depreciation of items of property, plant and equipment	8	99,077	73,717
Depreciation of right-of-use assets	8	31,222	15,996
Amortisation of other intangible assets	8	6,840	4,590
Marketing and advertising costs		8,825	3,676
Losses on disposal of subsidiaries	21	2,011	–
Lease payments not included in the measurement of lease liabilities	17	1,207	529
Auditors' remuneration		6,800	1,500
Equity-settled share option expense	24	1,967	8,490
Losses on disposal of items of property, plant and equipment		167	1,077

Note:

- (i) During the Period and the six months ended 30 June 2019, management fees represented the annual fees payable to the universities where the Group had entered into cooperation agreements to operate independent colleges. Management fees are charged based on a certain percentage of tuition fees received or receivable by the Group.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

29 FEBRUARY 2020

6. INCOME TAX

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

	For the six months ended	
	29 February 2020 RMB' 000 (Unaudited)	30 June 2019 RMB' 000 (Unaudited)
Current – Mainland China		
PRC corporate income tax for the period	36,907	2,317
Underprovision of PRC corporate income tax in prior years	2,597	12,629
PRC land appreciation tax for the period	6,225	–
Deferred	(1,631)	(183)
Total tax charged for the period	<u>44,098</u>	<u>14,763</u>

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

No provision for Hong Kong profits tax has been made as the Group had no assessable profits derived from or earned in Hong Kong during the Period and the six months ended 30 June 2019.

According to the Implementation Rules for the Law for Promoting Private Education, private schools for which the school sponsors do not require reasonable returns are eligible to enjoy the same preferential tax treatment as public schools. The preferential tax treatment policies applicable to private schools requiring reasonable returns are to be separately formulated by the relevant authorities under the State Council. Up to date of approval of the interim condensed consolidated financial information, no separate policies, regulations or rules have been promulgated by such authorities in this regard. During the Period, no corporate income tax was provided on the income from the provision of formal education services by certain private schools in the People's Republic of China ("PRC Private Schools") of the Group, which have elected to be private schools requiring reasonable returns. In accordance with the historical tax returns filed to the relevant tax authorities and the tax compliance confirmations obtained therefrom, these PRC Private Schools did not pay corporate income tax for the income from providing formal educational services and had enjoyed the preferential tax treatment since their establishment. As a result, no income tax expense was recognised for the income from the provision of formal educational services during the Period for these schools. According to the Circular on Issues Concerning Tax Policies for In-depth Implementation of Western Development Strategies, certain PRC Private Schools of the Group that are located in Sichuan Province and engaged in the encouraged business of higher vocational education services are entitled to a preferential CIT rate of 15% since 1 January 2019. The non-academic education services provided by these schools are subject to corporate income tax at a rate of 25%.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

29 FEBRUARY 2020

6. INCOME TAX *(Continued)*

Horgos Tequ Mayflower Information Technology Co., Ltd. (“WFOE”) was established in Horgos, Xinjiang, the PRC and is exempted from income tax for the first five years since 2018 in accordance with the preferential tax rules. Therefore, WFOE will be subject to the PRC corporate income tax rate of 25% after 2023.

All of the Group’s non-school subsidiaries established in the PRC are subject to the PRC corporate income tax rate of 25% during the Period, except WFOE mentioned above.

PRC land appreciation tax (“LAT”) is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds from the sale of properties less deductible expenditures. The Group has estimated and included in taxation a provision for LAT according to the requirements set forth in the relevant PRC laws and regulations. The LAT provision is subject to final review and approval by the local tax bureau.

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

The calculation of the basic earnings per share amount is based on the profit attributable to ordinary equity holders of the Company for the Period and the weighted average number of 6,667,130,122 ordinary shares in issue during the Period (for the six months ended 30 June 2019: 6,666,668,000 ordinary shares in issue).

The diluted earnings per share for the Period is calculated based on the profit attributable to ordinary equity holders of the Company as used in the basic earnings per share calculation. The weighted average number of ordinary shares used in the calculation is the weighted average number of ordinary shares in issue during the Period and the six months ended 30 June 2019, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

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

	For the six months ended	
	29 February 2020 RMB’ 000 (Unaudited)	30 June 2019 RMB’ 000 (Unaudited)
Earnings		
Profit attributable to ordinary equity holders of the Company	<u>333,599</u>	<u>243,306</u>

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

29 FEBRUARY 2020

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

(Continued)

	For the six months ended	
	29 February 2020 (Unaudited)	30 June 2019 (Unaudited)
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	6,667,130,122	6,666,668,000
Effect of dilution – weighted average number of ordinary shares:		
Share options	<u>99,372,515</u>	<u>13,838,791</u>
Weighted average number of ordinary shares used in the diluted earnings per share calculation	<u><u>6,766,502,637</u></u>	<u><u>6,680,506,791</u></u>

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

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

	Property, plant and equipment RMB' 000 (Unaudited) (note (a))	Other intangible assets RMB' 000 (Unaudited)	Right-of-use assets RMB' 000 (Unaudited)
Carrying amounts at 1 September 2019	3,601,697	128,223	884,614
Additions	364,154	2,667	83,150
Acquisition of subsidiaries (note 21)	789,555	92,843	216,409
Disposals	(22,885)	–	–
Depreciation/amortisation charged for the Period (note 5)	<u>(99,077)</u>	<u>(6,840)</u>	<u>(31,222)</u>
Carrying amounts at 29 February 2020	<u><u>4,633,444</u></u>	<u><u>216,893</u></u>	<u><u>1,152,951</u></u>

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

29 FEBRUARY 2020

8. PROPERTY, PLANT AND EQUIPMENT, OTHER INTANGIBLE ASSETS AND RIGHT-OF-USE ASSETS *(Continued)*

Notes:

- (a) As at 29 February 2020, the Group was in the customary process of obtaining the relevant property ownership certificates for certain buildings with an aggregate net carrying amount of approximately RMB1,530,008,000 (31 December 2019: RMB1,467,274,000). The Group's buildings can only be sold, transferred or mortgaged when the relevant certificates have been obtained.
- (b) As at 29 February 2020, certain of the Group's property, plant and equipment with a net carrying amount of approximately RMB388,945,000 (31 December 2019: RMB390,013,000) were pledged to secure the bank loans granted to the Group (note 18(a)).
- (c) As at 29 February 2020, the Group's prepaid land lease payments with a net carrying amount of approximately RMB45,368,000 (31 December 2019: RMB45,543,000) were pledged to secure the bank loans granted to the Group (note 18(a)).

9. GOODWILL

	29 February 2020 RMB' 000 (Unaudited)
Cost and net carrying amount at 1 September 2019	585,025
Acquisition of subsidiaries during the Period (note 21)	10,795
Cost and net carrying amount at 29 February 2020	<u>595,820</u>

IAS 36 requires an entity to perform impairment tests on goodwill on an annual basis. The outbreak of the novel coronavirus (COVID-19) had a certain impact on the education business of the Company, mainly due to domestic travel restrictions and various precaution measures undertaken by respective local authorities which included, inter alia, closure of campuses and delays in school commencement during the outbreak period. The Group has put in place certain alternative action plans for its students during the campus closure period, which included the implementation of on-line modules and website distance learning activities and the shortening of summer vacation.

In view of the implementation of the abovementioned action plans, the management has concluded that there was no impairment indicator of goodwill at 29 February 2020. Accordingly, management did not perform impairment testing on goodwill as at 29 February 2020.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

29 FEBRUARY 2020

10. TRADE RECEIVABLES

An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of loss allowance, is as follows:

	29 February 2020 RMB' 000 (Unaudited)	31 December 2019 RMB' 000
Within 1 month	5,882	1,068
2 to 3 months	665	–
Over 3 months	2,554	2,646
	<u>9,101</u>	<u>3,714</u>

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

29 FEBRUARY 2020

11. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Notes	29 February 2020 RMB' 000 (Unaudited)	31 December 2019 RMB' 000
Current portion:			
Prepayments for management fees	5(i)	57,894	72,734
Prepaid expense		12,072	12,248
Deposits		19,000	13,225
Refundable deposits related to proposed equity acquisitions		70,011	70,011
Other receivables		14,694	16,395
Staff advance		6,443	1,775
Interest receivable from time deposits		858	7,000
Interest receivable from a third party	(a)	64,430	58,849
Loans to third parties	(a)	533,550	468,550
		<u>778,952</u>	<u>720,787</u>
Non-current portion:			
Prepayments for property, plant and equipment		5,376	3,375
Prepayments for acquisition of prepaid land lease payments		305,890	220,440
Prepayment for acquisition of an equity interest		35,033	–
Prepayment for an intangible asset		1,000	1,000
		<u>347,299</u>	<u>224,815</u>
		<u><u>1,126,251</u></u>	<u><u>945,602</u></u>

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

Notes:

(a) Loans to third parties represent:

- (i) loans of RMB446,550,000 to Chengdu Wuhou Guixi Property Development Company Limited (“Guixi Property”), a company controlled by the previous ultimate shareholder of Sichuan TOP IT Vocational Institute, which bear interest at a fixed rate of 7.5% per annum and will become mature within two years from the date when the loans were granted. The interest is paid half-yearly, and the principal of the loans will be repaid in a lump sum as the loans become mature. The loans are secured by the pledge of buildings and certain car parks (the “Collateral”) belonging to Guixi Property.

As at 29 February 2020, the principal of the loans to Guixi Property of RMB90,962,000 and relating interest receivables with the amount of RMB64,430,000 have been partially past due. The Group does not recognise any expected credit losses (“ECLs”) as the fair value of the Collateral held by the Group over the principal of the loans and the interest receivables of approximately RMB1,064,226,000 (31 December 2019: RMB1,064,226,000) is significantly higher than the aggregate amounts of the loans and the interest receivables. The fair value of the Collateral was determined by an independent qualified valuer at 31 December 2019. The fair value was revisited by the directors with reference to the market trend of the real estate market in which there were no significant adverse changes during the two months ended 29 February 2020.

- (ii) the interest-free loan of RMB87,000,000 to Luohe City Yancheng District Songjiang Investment Development Co., Ltd. for acquiring land use rights in Luohe City, of which RMB22,000,000 with maturity due in June 2020 and RMB65,000,000 with maturity due in July 2020. The interest-free loan is guaranteed by the People’s Government of Yancheng District, Luohe City, Henan Province.

The remaining receivables are interest-free and are not secured with collateral. None of the financial assets included in the above balances related to receivables is past due except the loan to Guixi Property and the relating interest receivables as mentioned in note (a) (i) above.

Other than the loan to Guixi Property, the above financial assets related to receivables have no recent history of default.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

29 FEBRUARY 2020

12. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	29 February 2020 RMB' 000 (Unaudited)	31 December 2019 RMB' 000
Structured deposits	1,013,585	1,002,967
Wealth management products	—	9,310
	<u>1,013,585</u>	<u>1,012,277</u>

The structured deposits are issued by licensed banks in Mainland China. The structured deposits are with expected rates of return (not guaranteed) at floating rates ranging from 1% to 2.90% linked to 3M-LIBOR (31 December 2019: 1% to 3.16%, linked to 3M-LIBOR). If the structured deposits are redeemable by the Group before maturity, the Group will be charged a penalty at the rate of 1% based on the principal amount.

All the financial assets at fair value through profit or loss are denominated in RMB.

13. CASH AND CASH EQUIVALENTS

	29 February 2020 RMB' 000 (Unaudited)	31 December 2019 RMB' 000
Cash and bank balances	1,039,596	1,553,220
Time deposits with original maturity of over three months	216,608	295,986
	<u>1,256,204</u>	<u>1,849,206</u>
<i>Less: Restricted bank balance in an escrow account (note (i))</i>		
Current	(60,080)	(50,000)
Non-current	(98,707)	(108,787)
	<u>(158,787)</u>	<u>(158,787)</u>
Cash and bank balances	<u>1,097,417</u>	<u>1,690,419</u>

Note:

- (i) The amount represents cash received from the Finance Bureau of Zhangshu City, Jiangxi Province (“江西省樟樹市財政局”) and placed into an escrow account for the construction of a new campus and procurement of school equipment in Jiangxi Province. Among the restricted bank balance, RMB60,080,000 will be released from the escrow account in 10 days after prepaying land lease payment and commencing the construction of the new campus in 2020, and the remaining will be released when the construction condition is fulfilled at a later stage which is expected to be after 2020.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

29 FEBRUARY 2020

13. CASH AND CASH EQUIVALENTS *(Continued)*

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

	29 February 2020 RMB' 000 (Unaudited)	31 December 2019 RMB' 000
RMB	1,026,370	1,589,138
HK\$	6,310	437
US\$	223,524	259,631
Cash and cash equivalents	<u>1,256,204</u>	<u>1,849,206</u>

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

Cash at banks earns interest at floating rates based on daily bank deposit rates. The time deposits are made for six months and earn interest at the deposit rates ranging from 2.60% to 2.87% per annum (31 December 2019: 2.02% to 3.18%). The bank balances and restricted bank balance are deposited with creditworthy banks with no recent history of default.

14. TRADE PAYABLES

An ageing analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	29 February 2020 RMB' 000 (Unaudited)	31 December 2019 RMB' 000
Within 1 month	–	26,676
1 to 2 months	–	2,433
2 to 3 months	25,116	1,440
Over 3 months	4,373	3,061
	<u>29,489</u>	<u>33,610</u>

The trade payables are non-interest-bearing and are normally settled on terms of one to ten months.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

29 FEBRUARY 2020

15. OTHER PAYABLES AND ACCRUALS

	Notes	29 February 2020 RMB' 000 (Unaudited)	31 December 2019 RMB' 000
Current portion:			
Payables for purchase of property, plant and equipment		399,283	441,906
Payables for acquisitions of equity interests	(i)	63,000	63,000
Miscellaneous advances received from students	(ii)	84,598	98,956
Accrued bonuses and other employee benefits		78,082	80,548
Rental payable		1,870	1,844
Government scholarship		20,018	23,575
Payables for purchase of teaching materials and operating expenditure		44,890	55,540
Payables for management fees		2,744	2,454
Construction deposits		34,748	36,325
Other taxes payable		23,141	26,315
Other payables and accrued expenses		257,003	236,570
Construction loan from Mianzhu Education Bureau	(iii)	75,832	75,832
		<u>1,085,209</u>	<u>1,142,865</u>
Non-current portion:			
Payables for acquisitions of equity interests	(i)	337,025	334,768
Other payables	(iv)	9,181	9,117
		<u>346,206</u>	<u>343,885</u>
		<u>1,431,415</u>	<u>1,486,750</u>

Notes:

- (i) The balance at 29 February 2020 represented the payables arising from the acquisition of equity interests in subsidiaries and a non-controlling interest.
- (ii) The advances received from students represented expenses relating to textbooks, military training, medical examination, insurance, etc. collected from students which will be paid out on behalf of students.
- (iii) Sichuan Tianyi College obtained an interest-free and non-repayable construction loan amounting to RMB75,832,000 from the Mianzhu Educational Bureau in 2015.
- (iv) The non-current other payables mainly represent the liabilities to Nanchong No.19 Middle School for the purchase of fixed assets and are measured at amortised cost.

Except for payables arising from the acquisition of a 100% equity interest in Shanghai Pumeng Zhichuan Educational Technology Co., Ltd. amounting to RMB80,000,000, all other payables and accruals are unsecured and non-interest-bearing.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

29 FEBRUARY 2020

16. DEFERRED INCOME

	29 February 2020 RMB' 000 (Unaudited)
<i>Government grants related to assets</i>	
At 1 September 2019	874,401
Government grants received	211,860
Acquisition of subsidiaries (note 21)	6,056
Released to profit or loss (note 3)	(5,499)
	<hr/>
At 29 February 2020	<u>1,086,818</u>
	<hr/>
Current	10,842
Non-current	1,075,976
	<hr/>
	<u>1,086,818</u>
	<hr/>
<i>Government grants related to expense items</i>	
At 1 September 2019	290
Government grants received	5,354
Acquisition of subsidiaries (note 21)	23,590
Released to profit or loss (note 3)	(8,014)
	<hr/>
At 29 February 2020 – Current	<u>21,220</u>
	<hr/>

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

Deferred income related to expense items is government grants received for the purpose of subsidising teaching related operating costs incurred during the provision of education services. Upon completion of the operating activities, the grants would be released to profit or loss as other income on a systematic basis over the periods in which the costs, which they are intended to compensate, are expensed.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

29 FEBRUARY 2020

17. LEASE LIABILITIES

The carrying amount of lease liabilities and the movements during the Period are as follows:

	29 February 2020 RMB' 000 (Unaudited)
Carrying amount at 1 September 2019	166,577
Accretion of interest recognised during the Period	5,153
Payments	(11,609)
	<hr/>
Carrying amount at 29 February 2020	160,121
	<hr/>
Analysed into:	
Current portion	32,764
Non-current portion	127,357
	<hr/> <hr/>

The amounts recognised in profit or loss in relation to leases are as follows:

	For the six months ended 29 February 2020 RMB' 000 (Unaudited)
Interest on lease liabilities	5,153
Depreciation charge of right-of-use assets	31,222
Expense relating to short-term leases (included in cost of sales and administrative expenses)	1,207
	<hr/>
Total amount recognised in profit or loss	37,582
	<hr/> <hr/>

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

29 FEBRUARY 2020

18. INTEREST-BEARING BANK AND OTHER BORROWINGS

	As at 29 February 2020			As at 31 December 2019		
	Effective interest rate (%) (Unaudited)	Maturity (Unaudited)	RMB' 000 (Unaudited)	Effective interest rate (%) (Unaudited)	Maturity (Unaudited)	RMB' 000 (Unaudited)
Current						
Bank loans – secured	5.66-6.09	2020	583,570	5.66-6.09	2020	583,570
Bank loans – secured	8.55	On demand	82,495	8.55	On demand	82,495
Other borrowings – secured		On demand	8,000		On demand	8,000
Current portion of:						
– long term bank loans – secured	4.75-7.06	2020	130,152	4.75-7.06	2020	132,142
– other borrowings – secured	7.00-7.50	2020-2021	177,000	7.00-7.50	2020	197,086
			<u>981,217</u>			<u>1,003,293</u>
Non-current						
Bank loans – secured	4.75-7.06	2021-2023	1,034,950	4.75-7.06	2021-2023	1,034,950
Other borrowings – secured	7.00-7.50	2021-2023	479,863	7.00-7.50	2021-2023	558,649
			<u>1,514,813</u>			<u>1,593,599</u>
			<u>2,496,030</u>			<u>2,596,892</u>

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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

	29 February 2020 RMB' 000 (Unaudited)	31 December 2019 RMB' 000
Analysed into:		
Bank loans repayable:		
Within one year	796,217	798,207
In the second year	820,000	820,000
In the third to fifth years, inclusive	214,950	214,950
	<u>1,831,167</u>	<u>1,833,157</u>
Other borrowings repayable:		
Within one year	185,000	205,086
In the second year	220,608	179,394
In the third to fifth years, inclusive	259,255	379,255
	<u>664,863</u>	<u>763,735</u>
	<u><u>2,496,030</u></u>	<u><u>2,596,892</u></u>

Notes:

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

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

(a) Mortgages over the following assets:

- (i) Certain of the Group's non-current assets are pledged for bank loans of RMB157,500,000 as at 29 February 2020 (31 December 2019: RMB157,500,000):

	29 February 2020 RMB' 000 (Unaudited)	31 December 2019 RMB' 000
<i>Net book amount of:</i>		
Property, plant and equipment	388,945	390,013
Prepaid land lease payments	45,368	45,543
	<u>434,313</u>	<u>435,556</u>

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

Notes: *(Continued)*

(a) Mortgages over the following assets: *(Continued)*

(ii) Buildings and car parks of third parties:

Guixi Property's buildings and car parks with the fair value of RMB845,142,000 were pledged for the bank loans of the Group amounting to RMB250,000,000 as at 29 February 2020 (31 December 2019: RMB250,000,000).

The building in construction owned by Ningxia Baota Petrochemical Technology Industry Development Co., Ltd. ("Baota Petrochemical") and two prepaid land lease payments owed by Baota Petrochemical and Ningxia Baota United Chemical Co., Ltd. were pledged for the bank loans of the Group amounting to RMB64,995,000 as at 29 February 2020 (31 December 2019: RMB64,995,000).

(b) Pledges of equity interests in the following subsidiaries to secure the bank loans and other borrowings granted to the Group:

(i) 100% of the equity interest in Sichuan Yonghe Education Investment Limited has been pledged for bank loans of RMB300,000,000 as at 29 February 2020 (31 December 2019: RMB300,000,000);

(ii) 100% of the equity interest in Sichuan TOP Education Co., Ltd. has been pledged for the other borrowings of RMB424,000,000 as at 29 February 2020 (31 December 2019: RMB524,000,000);

(iii) 100% of the equity interest in Sichuan Guojian Investment Limited, the guarantee granted by Sichuan Hope Education Industry Group Limited, and the rights over tuition fees of Southwest Jiaotong University Hope College have been provided or pledged to China National Investment and Guaranty Corporation to counter guarantee the corporate guarantee provided by China National Investment and Guaranty Corporation in relation to the Group's asset-backed-securities borrowings of RMB302,000,000 as at 29 February 2020 (31 December 2019: RMB302,000,000);

(iv) 100% of the equity interest in Taiyuan Xudong Technology Development Co., Ltd. has been pledged for bank loans of RMB90,000,000 as at 29 February 2020 (31 December 2019: RMB90,000,000); and

(v) 100% of the equity interest in Shanghai Shurui Investment Consulting Co., Ltd. has been pledged for bank loans of RMB250,000,000 as at 29 February 2020 (31 December 2019: RMB250,000,000).

(c) The Group's other borrowings of RMB8,000,000 as at 29 February 2020 (31 December 2019: RMB8,000,000) are guaranteed by a third party. At the same time, Yinchuan University of Energy has given a corporate guarantee to the third party to counter guarantee the corporate guarantee over the Group's other borrowings.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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

Notes: *(Continued)*

(d) The rights over tuition or boarding fees of the following schools:

	Loan amount	
	29 February 2020 RMB' 000 (Unaudited)	31 December 2019 RMB' 000
Sichuan Tianyi College	116,062	115,817
Sichuan Tianyi College, Sichuan Hope Automotive Vocational College, Business College of Guizhou University of Finance and Economics, Sichuan Vocational College of Culture & Communication	300,000	300,000
Southwest Jiaotong University Hope College	232,863	231,649
Sichuan TOP IT Vocational Institute	424,000	524,000
Guizhou Vocational Institute of Technology	100,000	100,000
Jinci College of Shanxi Medical University	249,040	249,040
Yinchuan University of Energy	17,500	17,500
	<u>1,439,465</u>	<u>1,538,006</u>

In addition, certain of the Group's bank and other borrowings are guaranteed by the following related parties:

Name of related party (as defined in note 23)	Loan amount	
	29 February 2020 RMB' 000 (Unaudited)	31 December 2019 RMB' 000
Tequ Education and Mr. Wang Huiwu	50,000	50,000
Mr. Wang Huiwu	300,000	300,000
	<u>350,000</u>	<u>350,000</u>

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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19. SHARE CAPITAL

	29 February 2020 US\$ (Unaudited)	31 December 2019 US\$
Authorised:		
10,000,000,000 shares of US\$0.00001 each	<u>100,000</u>	<u>100,000</u>
Issued and fully paid:		
6,671,668,000 shares (31 December 2019: 6,666,668,000 ordinary shares) of US\$0.00001 each share	<u>66,717</u>	<u>66,667</u>
Equivalent to (in RMB)	<u>RMB454,420</u>	<u>RMB454,070</u>

A summary of movements in the Company's share capital is as follows:

	Number of shares in issue (Unaudited)	Share capital US\$ (Unaudited)
At 1 September 2019	6,666,668,000	66,667
Share options exercised	<u>5,000,000</u>	<u>50</u>
At 29 February 2020	<u>6,671,668,000</u>	<u>66,717</u>

The subscription rights attaching to 5,000,000 share options were exercised at the subscription price of RMB0.9311 per share (note 24), resulting in the issue of 5,000,000 shares for a total cash consideration, before expenses, of RMB4,656,000.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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20. DIVIDENDS

	For the six months ended	
	29 February 2020 RMB'000 (Unaudited)	30 June 2019 RMB'000 (Unaudited)
2018 final declared and paid – HK\$1.8 cents per ordinary share	–	105,495

At the meeting of the directors held on 29 April 2020, the directors of the Company did not recommend any payment of an interim dividend (six months ended 30 June 2019: nil).

21. BUSINESS COMBINATIONS

- (a) On 2 September 2019, the Group acquired a 100% equity interest in Hebi Automotive Engineering Professional College (“Hebi Automotive”), which is engaged in the provision of higher education services. The purchase consideration was RMB5,000,000.

Hebi Automotive was acquired to facilitate the Group to expand its market share of higher education services in China.

- (b) On 12 September 2019, the Group acquired 100% sponsor rights in each of Yinchuan University of Energy, Yinchuan Vocational School of Science and Technology, Vocational-technical Training Center of Yinchuan University, Ningxia Modern Senior Technical School, and a 100% equity interest in each of Car Driving Training School of Yinchuan University Education Group Co., Ltd. (“Driving Training”), Auto Repair Factory of Yinchuan University Education Group Co., Ltd. (“Auto Repair Factory”) (collectively “Yinchuan Group”), from independent third parties (the “Yinchuan Group Vendors”). The acquisition of Yinchuan Group will further expand the Group’s school network and coverage, increase the total number of students of the Group, improve profitability and will form strong synergy with other schools of the Group.

The principal activity of these newly acquired schools is mainly the provision of education services. Driving Training and Auto Repair Factory were principally engaged in car driving training and motor vehicle repairment, respectively. Both Driving Training and Auto Repair Factory were disposed of by the Group to an independent third party during the Period, resulting in the recognition of losses on disposal of subsidiaries of RMB2,011,000.

21. BUSINESS COMBINATIONS *(Continued)*

(b) *(continued)*

The initial purchase consideration for the acquisition of Yinchuan Group is RMB550,000,000, which shall be subject to the following adjustments:

- (i) Upon completion of the acquisition, the Group will provide financing support to Yinchuan Group to repay liabilities of RMB400,000,000 (the “Loan”). The Loan will be determined based on the amount audited by an auditor jointly appointed by the Group and the Yinchuan Group Vendors. If the Loan exceeds RMB400,000,000, the consideration will be adjusted downward based on the excess amount (the “Loan Excess”). If the Loan is less than RMB400,000,000, the consideration will be adjusted upward based on the shortfall (the “Loan Shortfall”); and
- (ii) As part of the arrangement, the Group will also purchase certain buildings (the “Subject Assets”) from the Yinchuan Group Vendors through a public auction involving the Subject Assets. The Group will provide financing support of RMB500,000,000 to Yinchuan Group to participate in the auction and bidding of the Subject Assets. If the transaction price of the Subject Assets is more than RMB500,000,000 (the “Transaction Indicative Price”), the consideration will be adjusted downward based on the excess amount. If the transaction price is lower than RMB500,000,000, the consideration will be adjusted upward based on the shortfall.

In any event, the total amount payable by the Group for the acquisition of Yinchuan Group, financing support to Yinchuan Group and payable for the purchase of the Subject Assets shall not exceed RMB1,450,000,000.

The initial purchase consideration amount recognised was RMB455,728,000 which was determined based on the discounted cash flow model using the discount rate of 6.59% and is within the Level 3 fair value measurement, after taking into account the adjustment for the Loan Excess of RMB21,638,000 based on the price adjustment mechanism as explained in (i) above and the best estimation of the transaction price of the Subject Assets of RMB500,000,000 with no material shortfall or excess as explained in (ii) above. The consideration is recognised initially at fair value and subsequently measured at amortised cost. Up to 29 February 2020, RMB165,552,000 was paid by the Group. The remaining consideration is expected to be paid within 10 working days after, inter alia, the completion of the business registration procedures for the change of the equity interest in Yinchuan Group and the completion of the purchase of the Subject Assets, which is expected to be in 2022.

A significant excess (shortfall) from the Transaction Indicative Price would result in a significant decrease (increase) in the fair value of the contingent consideration liability. A significant increase (decrease) in the discount rate would result in a significant decrease (increase) in the fair value of the contingent consideration.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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21. BUSINESS COMBINATIONS (Continued)

The acquisitions of Hebi Automotive and Yinchuan Group have been accounted for using the acquisition method.

The fair values of the identifiable assets and liabilities of each acquisition as at the respective dates of acquisitions are as follows:

	Notes	Hebi Automotive RMB' 000	Yinchuan Group RMB' 000	Total RMB' 000
Property, plant and equipment	8	151,283	638,272	789,555
Right-of-use assets	8	44,416	171,993	216,409
Other intangible assets	8	279	92,564	92,843
Cash and bank balances		872	101,474	102,346
Trade receivables		228	290	518
Prepayments and other receivables		1,948	6,045	7,993
Contract liabilities	3	(1,213)	(115,895)	(117,108)
Accruals and other payables		(154,174)	(298,380)	(452,554)
Due to the Group		(5,327)	–	(5,327)
Bank loans and other borrowings		–	(119,065)	(119,065)
Tax payables		–	(8,775)	(8,775)
Deferred income	16	(6,056)	(23,590)	(29,646)
Total identifiable net assets at fair value		<u>32,256</u>	<u>444,933</u>	<u>477,189</u>

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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21. BUSINESS COMBINATIONS (Continued)

In the opinion of the directors, the fair value of trade receivables, prepayments and other receivables as at the date of the respective acquisition dates of Hebi Automotive and Yinchuan Group amounted to RMB2,176,000 and RMB6,335,000, respectively. The total gross contractual amounts of trade receivables, prepayments and other receivables of Hebi Automotive and Yinchuan Group were RMB4,631,000 and RMB169,038,000, respectively, of which other receivables of RMB2,455,000 and RMB162,703,000, respectively are expected to be uncollectible.

Goodwill/(gain on bargain purchase):

	Hebi Automotive RMB' 000	Yinchuan Group RMB' 000	Total RMB' 000
Consideration satisfied by:			
Cash	–	165,552	165,552
Other payables	5,000	290,176	295,176
	<u>5,000</u>	<u>455,728</u>	<u>460,728</u>
Total consideration	5,000	455,728	460,728
Less: Net assets acquired	(32,256)	(444,933)	(477,189)
	<u>–</u>	<u>10,795</u>	<u>10,795</u>
Goodwill	–	10,795	10,795
Gain on bargain purchase [^]	(27,256)	–	(27,256)
	<u>(27,256)</u>	<u>–</u>	<u>(27,256)</u>

[^] The gain on a bargain purchase of approximately RMB27,256,000 arose from the need of the vendor to dispose of the investment in a short period of time to avoid liquidation as a result of the lack of management experience in operating an education institute.

None of the goodwill recognised is expected to be deductible for income tax purposes.

Analyses of the cash flows in respect of the above acquisitions are as follows:

	Hebi Automotive RMB' 000	Yinchuan Group RMB' 000	Total RMB' 000
Cash paid during the Period	–	(165,552)	(165,552)
Cash and cash equivalents acquired	872	101,474	102,346
	<u>872</u>	<u>101,474</u>	<u>102,346</u>
Net inflow/(outflow) of cash and cash equivalents included in cash flows from investing activities	872	(64,078)	(63,206)
	<u>872</u>	<u>(64,078)</u>	<u>(63,206)</u>

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

29 FEBRUARY 2020

21. BUSINESS COMBINATIONS *(Continued)*

Contribution to the Group's revenue and consolidated profit for the Period since the respective acquisition dates are as follows:

	Hebi Automotive RMB' 000	Yinchuan Group RMB' 000	Total RMB' 000
Revenue	13,093	97,960	111,053
Consolidated profit	<u>(647)</u>	<u>38,674</u>	<u>38,027</u>

22. COMMITMENTS

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

	29 February 2020 RMB' 000 (Unaudited)	31 December 2019 RMB' 000
Contracted but not provided for:		
Property, plant and equipment	758,470	740,782
Acquisition of equity interests	<u>945,891</u>	<u>—</u>
	<u><u>1,704,361</u></u>	<u><u>740,782</u></u>

23. RELATED PARTY TRANSACTIONS AND BALANCES

(a) Name and relationship

The directors of the Company are of the opinion that the following parties/companies are related parties that had significant transactions or balances with the Group during the Period.

Related parties	Relationships
Mr. Wang Huiwu	One of the ultimate jointly controlling parties
Mr. Chen Yuxin	One of the ultimate jointly controlling parties
Mr. Wang Xiaoqiang	A relative of Mr. Wang Huiwu
Sichuan Tequ Investment Group Ltd. ("Tequ Investment Group")	One of the jointly controlling shareholders
Sichuan Tequ Education Management Co., Ltd. ("Tequ Education")	A company controlled by the jointly controlling shareholders
Mianzhu May Sunshine Property Development Co., Ltd. ("Mianzhu Property")	A company controlled by Tequ Education
College of Science and Technology of Guizhou University	Joint venture of the Group
Ziyang Automobile Science and Technology Vocational College ("Ziyang Automobile College")	A school controlled by Tequ Education
Ziyang May Sunshine Property Development Co., Ltd. ("Ziyang Property")	A company controlled by Tequ Education
Sichuan Dawu Trading Co., Ltd. ("Dawu Trading")	A company controlled by a close relative of Mr. Wang Huiwu
Sichuan Rongxing Driving School Co., Ltd. ("Rongxing Driving School")	A company controlled by a close relative of Mr. Wang Huiwu
Sichuan Tianyuan Insurance Co., Ltd. ("Tianyuan Insurance")	A company controlled by Dawu Trading
Guizhou Mayflower Property Development Co., Ltd. ("Guizhou Mayflower Property")	A company controlled by Tequ Education
Chengdu Mayflower Property Management Co., Ltd. ("Chengdu Mayflower Property Management")	A company controlled by Dawu Trading
Sichuan Wuyang Construction Co., Ltd. ("Wuyang Construction")	A company controlled by a close relative of Mr. Wang Huiwu
Chengdu Mayflower Senior Technical School ("Chengdu Mayflower Technical")	A company controlled by Tequ Education
Sichuan Mayflower Wine Sales Co., Ltd. ("Mayflower Wine Sales")	A company controlled by Ziyang Property
Jintang Golden May Property Development Co., Ltd. ("Jintang Property")	A company controlled by Tequ Education

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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

(b) Transactions with related parties

(i) Interest income

	For the six months ended	
	29 February 2020 RMB' 000 (Unaudited)	30 June 2019 RMB' 000 (Unaudited)
College of Science and Technology of Guizhou University	<u>8,912</u>	<u>–</u>

During the Period, the Group granted interest-bearing loans amounting to RMB279,610,000 to College of Science and Technology of Guizhou University and charged interest at 8% per annum. The interest is payable yearly and the principal of the loan will be repaid in a lump sum when the loan becomes mature in 2024.

(ii) Procurement of property, equipment and fixtures

	For the six months ended	
	29 February 2020 RMB' 000 (Unaudited)	30 June 2019 RMB' 000 (Unaudited)
Wuyang Construction	35,960	16,933
Dawu Trading	–	1,096
Mianzhu Property	–	631
Chengdu Mayflower Technical	–	84
Jintang Property	<u>68,660</u>	<u>–</u>
	<u>104,620</u>	<u>18,744</u>

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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

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

(iii) Goods purchased and services received from related parties

	For the six months ended	
	29 February 2020 RMB' 000 (Unaudited)	30 June 2019 RMB' 000 (Unaudited)
Mayflower Wine Sales	819	425
Chengdu Mayflower Property Management	358	20
Tianyuan Insurance	446	239
Mr. Wang Xiaoqiang	900	–
Wuyang Construction	300	–
Others	42	162
	<u>2,865</u>	<u>846</u>

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

(iv) Properties leased to related parties

	For the six months ended	
	29 February 2020 RMB' 000 (Unaudited)	30 June 2019 RMB' 000 (Unaudited)
Chengdu Mayflower Technical	6,215	2,857
Ziyang Automobile College	2,315	–
Rongxing Driving School	893	481
Others	979	519
	<u>10,402</u>	<u>3,857</u>

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

29 FEBRUARY 2020

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

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

(v) *Service provided to a related party*

The Group has provided property management service to College of Science and Technology of Guizhou University since the second half of 2019 and charged service fees amounting to RMB2,394,000 during the Period at a price mutually agreed between the Group and the related party.

(c) Balances with related parties

The Group had outstanding balances due from and to related parties at the end of the reporting period.

Amounts due from related parties

	29 February 2020 RMB' 000 (Unaudited)	31 December 2019 RMB' 000
Non-trade in nature		
College of Science and Technology of Guizhou University		
– Current	9,447	5,738
– Non-current	279,610	275,110
	<u>289,057</u>	<u>280,848</u>
Trade in nature		
Chengdu Mayflower Technical	13,447	11,255
Chengdu Mayflower Property Management	3,314	2,519
Ziyang Automobile College	5,847	5,732
College of Science and Technology of Guizhou University	3,647	2,823
Guizhou Mayflower Property	1,100	1,100
Ziyang Property	14,403	–
Others	1,808	1,701
	<u>43,566</u>	<u>25,130</u>
	<u><u>332,623</u></u>	<u><u>305,978</u></u>

Except for the amounts due from College of Science and Technology of Guizhou University of RMB289,057,000, amounts due from the related parties are unsecured, interest-free and have no fixed terms of repayment.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

29 FEBRUARY 2020

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

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

Amounts due to related parties

	29 February 2020 RMB' 000 (Unaudited)	31 December 2019 RMB' 000
Trade in nature		
Wuyang Construction	27,588	26,342
Tianyuan Insurance	760	1,956
Others	2,496	2,465
	<u>30,844</u>	<u>30,763</u>

Payables due to related parties are unsecured, interest-free and have no fixed terms of repayment.

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

	For the six months ended	
	29 February 2020 RMB' 000 (Unaudited)	30 June 2019 RMB' 000 (Unaudited)
Salaries, allowances and benefits in kind	1,495	1,108
Equity-settled share option expense	432	3,050
Pension scheme contributions	181	171
	<u>2,108</u>	<u>4,329</u>

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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24. SHARE OPTION SCHEME

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

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

(i) Movements in share options

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

	Weighted average exercise price RMB	Number of options
At 1 September 2019	0.99	446,687,697
Exercised during the Period	0.99	(5,000,000)
Forfeited during the Period	0.99	(265,243)
At 29 February 2020	<u>0.99</u>	<u>441,422,454</u>

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

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24. SHARE OPTION SCHEME (Continued)

(ii) Outstanding share options

The following table discloses the details of share options outstanding at 29 February 2020:

	Number of share options	Exercise price per share RMB	Fair value per share RMB	Vesting period/ exercise period of share options Notes
Tranche A Options	3,383,731	0.5911	0.4427	(a)
Tranche B Options – 1	249,810,427	0.9311	0.3542	(a)
Tranche B Options – 2	57,569,575	0.9311	0.2377	(b)
Tranche C Options – 1	113,249,883	1.1311	0.3133	(a)
Tranche C Options – 2	17,408,838	1.1311	0.1840	(b)
	<u>441,422,454</u>			

Notes:

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

(iii) Fair value of the share options

The Group recognised a share option expense of RMB8,192,000 (for the six months ended 30 June 2019: RMB16,055,000) after netting off fair value reversed due to forfeited options for the Period.

The 5,000,000 share options exercised during the Period resulted in the issue of 5,000,000 ordinary shares of the Company, new share capital of US\$50, and an increase of share premium of RMB6,427,000 (before issue expenses), with an amount of RMB1,771,000 transferred from the share option reserve to share premium upon the exercise of the share options.

At the end of the reporting period, the Company had 441,422,454 share options outstanding under the 2018 Pre-IPO Share Option Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 441,422,454 additional ordinary shares of the Company and additional share capital of US\$4,414 (equivalent to approximately RMB30,929) and share premium of RMB435,959,000 (before issue expenses).

At the date of approval of this financial information, the Company had 435,240,454 share options outstanding under the 2018 Pre-IPO Share Option Scheme, which represented approximately 6.5% of the Company's shares in issue as at that date.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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25. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

	Carrying amount		Fair value	
	29 February 2020 RMB' 000 (Unaudited)	31 December 2019 RMB' 000	29 February 2020 RMB' 000 (Unaudited)	31 December 2019 RMB' 000
Financial assets				
Restricted bank balance, non-current portion	98,707	108,787	98,707	108,787
Structured deposits	1,013,585	1,002,967	1,013,585	1,002,967
Amount due from a joint venture, non-current portion	279,610	275,110	279,610	275,110
Wealth management products	–	9,310	–	9,310
	<u>1,391,902</u>	<u>1,396,174</u>	<u>1,391,902</u>	<u>1,396,174</u>
Financial liabilities				
Other payable, non-current portion	346,206	343,885	346,206	343,885
Interest-bearing bank loans, non-current portion	1,514,813	1,593,599	1,527,492	1,590,863
	<u>1,861,019</u>	<u>1,937,484</u>	<u>1,873,698</u>	<u>1,934,748</u>

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

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

The Group invests in unlisted investments, which represent structured deposits issued by banks in Mainland China. The Group has estimated the fair value of these unlisted investments and the non-current restricted bank balance, the non-current amount due from a joint venture by using a discounted cash flow valuation model based on the market interest rates of instruments with similar terms and risks.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

29 FEBRUARY 2020

25. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(Continued)*

The fair values of the non-current interest-bearing bank and other borrowings, and the non-current other payable have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for non-current financial liabilities as at 29 February 2020 was assessed to be insignificant.

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

	Fair value measurement using			Total RMB' 000
	Quoted prices in active markets Level 1 RMB' 000	Significant observable inputs Level 2 RMB' 000	Significant unobservable inputs Level 3 RMB' 000	
29 February 2020				
Structured deposits	-	1,013,585	-	1,013,585
31 December 2019				
Structured deposits	-	1,002,967	-	1,002,967
Wealth management products	-	9,310	-	9,310
	-	1,012,277	-	1,012,277

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

29 FEBRUARY 2020

25. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(Continued)*

Assets for which fair values are disclosed:

	Fair value measurement using			Total RMB' 000
	Quoted prices in active markets Level 1 RMB' 000	Significant observable inputs Level 2 RMB' 000	Significant unobservable inputs Level 3 RMB' 000	
29 February 2020				
Restricted bank balance, non-current portion	-	98,707	-	98,707
Amount due from a joint venture, non-current portion	-	-	279,610	279,610
	<u>-</u>	<u>98,707</u>	<u>279,610</u>	<u>378,317</u>
31 December 2019				
Restricted bank balance, non-current portion	-	108,787	-	108,787
Amount due from a joint venture, non-current portion	-	-	275,110	275,110
	<u>-</u>	<u>108,787</u>	<u>275,110</u>	<u>383,897</u>

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

29 FEBRUARY 2020

25. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(Continued)*

Liabilities for which fair values are disclosed:

	Fair value measurement using			Total RMB' 000
	Quoted prices in active markets Level 1 RMB' 000	Significant observable inputs Level 2 RMB' 000	Significant unobservable inputs Level 3 RMB' 000	
29 February 2020				
Interest-bearing bank loans, non-current portion	-	-	1,527,492	1,527,492
Other payable, non-current portion	-	-	346,206	346,206
	<u>-</u>	<u>-</u>	<u>1,873,698</u>	<u>1,873,698</u>
31 December 2019				
Interest-bearing bank loans, non-current portion	-	-	1,590,863	1,590,863
Other payable, non-current portion	-	-	343,885	343,885
	<u>-</u>	<u>-</u>	<u>1,934,748</u>	<u>1,934,748</u>

26. EVENT AFTER THE REPORTING PERIOD

In addition to the event detailed elsewhere in this report, the Group has no significant event after the reporting period that needs to be disclosed.

27. APPROVAL OF THE INTERIM CONDENSED FINANCIAL INFORMATION

The interim condensed consolidated financial information was approved and authorised for issue by the board of directors on 29 April 2020.

DEFINITIONS

In this report, unless the context otherwise requires, the following expressions shall have the meanings set forth below:

“2018 Pre-IPO Share Option Scheme”	The 2018 pre-IPO share option scheme conditionally approved and adopted by our Shareholders on 18 March 2018 for the benefit of, amongst others, our Group’s directors, senior management, employees, advisors, consultants, distributors, contractors, customers, suppliers, agents, business partners, joint venture business partners and service providers, a summary of the principal terms of which is set out in “Appendix V – Statutory and General Information” of the Prospectus
“Board” or “Board of Directors”	The board of Directors of the Company
“Business College of Guizhou University of Finance and Economics”	Business College of Guizhou University of Finance and Economics (貴州財經大學商務學院), a college established under the laws of PRC in 2004, acquired by our Group in April 2014 and approved by the MOE to be operated under the cooperation between Guizhou University of Finance and Economics and our Group in September 2014
“Business Day” or “Business Day”	A day on which banks in Hong Kong are generally open for business to the public and which is not a Saturday, Sunday or public holiday in Hong Kong
“CG Code” or “Corporate Governance Code”	The code on corporate governance practices set out in Appendix 14 to the Listing Rules
“China” or “PRC”	The People’s Republic of China excluding for the purpose of this report, Hong Kong, the Macau Special Administrative Region and Taiwan
“Company” or “our Company”	Hope Education Group Co., Ltd. (希望教育集團有限公司), an exempted company incorporated in the Cayman Islands with limited liability on 13 March 2017
“date of this report”	29 April 2020
“Director(s)”	The directors of our Company
“Group,” “our Group,” “We” or “Us”	Our Company, its subsidiaries and the consolidated affiliated entities from time to time, or, where the context so requires in respect of the period before our Company became the holding company of our present subsidiaries, the entities which carried on the business of the present Group at the relevant time

DEFINITIONS

“Guizhou Vocational Institute of Technology”	Guizhou Vocational Institute of Technology* (貴州應用技術職業學院), a college established by our Group under the laws of PRC in March 2016
“HK\$” or “Hong Kong Dollar(s)”	The lawful currency of Hong Kong, Hong Kong dollars
“Hong Kong” or “HK”	The Hong Kong Special Administrative Region of the PRC
“Hong Kong Exchanges and Clearing Limited”	Hong Kong Exchanges and Clearing Limited
“Hope Education”	Sichuan Hope Education Industry Group Limited* (四川希望教育產業集團有限公司) (formerly known as Sichuan Mayflower Investment Company Limited (四川五月花投資有限公司), Sichuan Hope Mayflower Investment Limited (四川希望五月花投資有限公司), Sichuan Hope Education Industry Company Limited (四川希望教育產業有限公司)), a limited liability company established under the laws of PRC on 12 January 2005
“IFRS”	The International Financial Reporting Standard(s)
“Independent Third Party(ies)”	An individual(s) or a company(ies) who or which is/are independent of and not connected with (within the meaning of the Listing Rules) any Director, chief executive or substantial shareholder (within the meaning of the Listing Rules) of our Company, its subsidiaries or any of their respective associates
“Jiexing Huilv”	Guizhou Jiexing Huilv Air Service Consultant Services Limited (貴州捷星慧旅航空空乘諮詢服務有限公司), a limited liability company established under the laws of PRC on 9 September 2010
“Jinci College of Shanxi Medical University”	Jinci College of Shanxi Medical University* (山西醫科大學晉祠學院), a college established under the laws of PRC in June 2002, acquired by our Group in April 2014, and approved by the MOE to be operated under the cooperation between Shanxi Medical University and our Group in August 2014
“Listing”	The listing of the Company’s Shares on the Main Board of the Stock Exchange of Hong Kong Limited
“Listing Date”	3 August 2018, the date on which the Company’s Shares are listed and from which dealings therein are permitted to take place on the Stock Exchange of Hong Kong Limited

DEFINITIONS

“Listing Rules”	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time
“Main Board”	The stock exchange (excluding the option market) operated by the Stock Exchange is independent of and operated in parallel with the GEM of the Stock Exchange
“Model Code”	The Model Code for securities transactions by Directors of listed issuers set out in Appendix 10 to the Listing Rules
“MOE”	Ministry of Education of the PRC
“M&A”	Mergers and acquisitions
“Prospectus”	The prospectus published by the Company on 24 July 2018
“Reporting Period”	The six months ended 29 February 2020
“RMB” or “Renminbi”	Renminbi, the lawful currency for the time being of the PRC
“SFO” or “Securities and Futures Ordinance”	The Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shanghai Pumeng Group”	Shanghai Pumeng and its subsidiary, Kunshan Xinwei, which held 100% sponsor interest in each of Suzhou Top Institute and Kunshan Technical School
“Share(s)”	Ordinary share(s) of a nominal value of US\$0.00001 each in the share capital of our Company
“Shareholder(s)”	Holder(s) of the Share(s)
“Sichuan Department of Education”	Sichuan Department of Education
“Sichuan Hope Automotive Technical College”	Sichuan Hope Automotive Technical College* (四川希望汽車技師學院), a college established by our Group under the laws of PRC in July 2016
“Sichuan Hope Automotive Vocational College”	Sichuan Hope Automotive Vocational College* (四川希望汽車職業學院), a college established by our Group under the laws of PRC in March 2013

DEFINITIONS

“Sichuan TOP IT Vocational Institute”	Sichuan TOP IT Vocational Institute (四川托普信息技術職業學院), a college established by Sichuan TOP Education Co., Ltd. (四川托普教育股份有限公司) in June 2000 and acquired by our Group in December 2017
“Sichuan Vocational College of Culture & Communication”	Sichuan Vocational College of Culture & Communication* (四川文化傳媒職業學院), a college established as a higher vocational college in 2005 and acquired by our Group in March 2014
“Southwest Jiaotong University Hope College”	Southwest Jiaotong University Hope College* (西南交通大學希望學院), a college approved by the MOE to be established under the cooperation between Southwest Jiaotong University, Chengdu West Hope Group Limited and our Group in April 2009
“State”	The central government of the PRC, including all governmental subdivisions (such as provincial, municipal and other regional or local government entities)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subsidiary(ies)”	Has the meaning ascribed to it in the Listing Rules
“Tequ Education”	Sichuan Tequ Education Management Limited* (四川特驅教育管理有限公司), a limited liability company established under the laws of PRC on 30 November 2017 following the division under reorganization, the shareholding of which largely mirrors that of Hope Education and is indirectly controlled by Mr. Wang Huiwu
“The College of Science and Technology of Guizhou University”	The College of Science and Technology of Guizhou University* (貴州大學科技學院), a college established under the laws of PRC in May 2001, approved by the MOE to be operated under the cooperation between Guizhou University and a third party in December 2014
“The Stock Exchange of Hong Kong Limited”	The Stock Exchange of Hong Kong Limited

DEFINITIONS

“Tianyi College”	Sichuan Tianyi College* (四川天一學院), a college established and named as Sichuan Tianyi Open College (四川天一開放函授進修學院) in 1991, approved by the State Education Commission (currently, the MOE) to be a formal junior- college-level higher education institution in 1994 and acquired by our Group in September 2011
“U.S.” or “United States”	The United States of America, its territories, its possessions and all areas subject to its jurisdiction
“U.S. Dollar(s)” or “US\$” or “USD”	United States dollars, the lawful currency for the time being of the United States
“Yinchuan Group”	The six entities the Group acquired during the period, namely Yinchuan University of Energy, Yinchuan Vocational School of Science and Technology, Vocational- technical Training Center of Yinchuan University, Ningxia Modern Senior Technical School, Car Driving Training School of Yinchuan University Education Group, and Auto Repair Factory of Yinchuan University Education Group
“%”	Percent