



中國教育集團控股有限公司

CHINA EDUCATION GROUP HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

Stock Code : 839

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



INTERIM
REPORT **2022/2023**

Our Mission

Preparing students for success through
Excellence and Innovation in Education



Contents

Corporate Information	2
Management Discussion and Analysis	5
Other Information	17
Report on Review of Condensed Consolidated Financial Statements	29
Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income	30
Condensed Consolidated Statement of Financial Position	31
Condensed Consolidated Statement of Changes in Equity	33
Condensed Consolidated Statement of Cash Flows	35
Notes to the Condensed Consolidated Financial Statements	36
Glossary	59

Corporate Information

BOARD OF DIRECTORS

Executive Directors

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

Independent Non-Executive Directors

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

COMPANY SECRETARY

Mr. Chan Yuen Fung
(appointed with effect from 1 May 2023)
Mr. Mok Kwai Pui Bill
(resigned with effect from 1 May 2023)

AUTHORISED REPRESENTATIVES

Dr. Yu Kai
Mr. Chan Yuen Fung
(appointed with effect from 1 May 2023)
Mr. Mok Kwai Pui Bill
(resigned with effect from 1 May 2023)

AUDITOR

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

REGISTERED OFFICE IN CAYMAN ISLANDS

Walkers Corporate Limited
190 Elgin Avenue
George Town
Grand Cayman KY1-9008
Cayman Islands

PRINCIPAL OFFICE IN HONG KONG

Suite 6703-04, 67/F, Central Plaza
18 Harbour Road
Wanchai
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Walkers Corporate Limited
190 Elgin Avenue
George Town
Grand Cayman KY1-9008
Cayman Islands

Corporate Information

HONG KONG SHARE REGISTRAR

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

COMPANY WEBSITE

www.chinaeducation.hk

STOCK CODE

839

To Pioneer Excellence and
Innovation In Education



Management Discussion and Analysis

BUSINESS OVERVIEW

The Group is a leading provider of vocational education services. The Group is committed to developing more high-quality skilled professionals and enhancing the core competencies of vocational schools by cultivating a “dual-qualified” teaching workforce, establishing open regional academia-industry practice centers, expanding student development pathways, and innovating international exchange and cooperation mechanisms. The Group's education management system has received ISO-9001 certification. For four consecutive years, Deloitte has named the Group one of China's “Best Managed Companies”. The Group operates in China, Australia, and the United Kingdom and has been listed on the main board of the Hong Kong Stock Exchange since 2017. The World Bank Group has designated the Group as an “inclusive business” due to its successful promotion of social equity.

FINANCIAL REVIEW

The financial results for the six months ended 28 February 2023 and 2022 are as follows:

	Six months ended	
	28 February 2023 RMB million	28 February 2022 RMB million
Revenue	2,775	2,351
Cost of revenue	(1,182)	(957)
Gross profit	1,593	1,394
Other income	138	95
Selling expenses	(87)	(73)
Administrative expenses	(387)	(373)
Operating profit	1,257	1,043
Investment income	43	23
Other gains and losses	(41)	(20)
Fair value change on convertible bonds	–	318
Finance costs	(190)	(135)
Profit before taxation	1,069	1,229
Taxation	(33)	(22)
Net profit	1,036	1,207
Net profit attributable to owners of the Company	977	1,169
Adjusted net profit attributable to owners of the Company	1,045	908

EVENT AFTER THE REPORTING PERIOD

Issuance of Investment Grade Guaranteed Bonds

On 12 April 2023, the Company announced its proposed issue of offshore CNY500 million investment grade guaranteed bonds due 2026. The bonds, which are guaranteed by the Asian Development Bank and are rated “AA” by Standard & Poor's Global, are one of the first investment grade offshore RMB bonds issued by a Chinese education company. The bond proceeds will be mainly used for the construction and expansion of the onshore schools operated by the Group.

The issuance of the guaranteed bonds was completed on 19 April 2023 while the listing of the guaranteed bonds on the Singapore Exchange Securities Trading Limited became effective on 20 April 2023. Further details of the guaranteed bonds are set out in the announcements of the Company dated 12 April and 13 April 2023.

Management Discussion and Analysis

Non-IFRS Measures

To supplement our condensed consolidated financial statements, which are presented in accordance with International Financial Reporting Standards (“IFRS”), we also use adjusted net profit, adjusted net profit attributable to owners of the Company and adjusted EBITDA as additional financial measures.

We present these financial measures because they are used by our management to evaluate our financial performance by eliminating the impact of items that we do not consider indicative of the performance of our business. We also believe that these non-IFRS measures provide additional information to investors and others in understanding and evaluating our consolidated results of operations

in the same manner as they help our management and in comparing financial results across accounting periods and to those of our peer companies. The use of non-IFRS measures has limitations as an analytical tool, as they do not include all items that impact on our results for the relevant periods. In light of the foregoing limitations for non-IFRS measures, when assessing our operating and financial performance, readers should not view the non-IFRS measures in isolation or as a substitute for our profit for the period or any other operating performance measure that is calculated in accordance with IFRS. In addition, because these non-IFRS measures may not be calculated in the same manner by all companies, they may not be comparable to other similarly titled measures used by other companies.

The calculations of adjusted net profit, adjusted net profit attributable to owners of the Company and adjusted EBITDA are as follows:

Calculation of Adjusted Net Profit

		Six months ended	
		28 February 2023 RMB million	28 February 2022 RMB million
Net profit		1,036	1,207
Adjustments for:	Foreign exchange gain/loss	21	(1)
	Share-based payments ⁽ⁱ⁾	17	18
	Imputed interest on deferred cash considerations ⁽ⁱⁱ⁾	–	2
	Fair value change on convertible bonds ⁽ⁱⁱⁱ⁾	–	(318)
	Current period expenses related to conversion of independent colleges into private universities ^(iv)	10	17
	Fair value change on construction cost payables for school premises ^(v)	20	21
Adjusted net profit		1,104	946

Management Discussion and Analysis

Calculation of Adjusted Net Profit Attributable to Owners of the Company

		Six months ended	
		28 February 2023	28 February 2022
		RMB million	RMB million
Net profit attributable to owners of the Company		977	1,169
Adjustments for:	Foreign exchange gain/loss	21	(1)
	Share-based payments ⁽ⁱ⁾	17	18
	Imputed interest on deferred cash considerations ⁽ⁱⁱ⁾	–	2
	Fair value change on convertible bonds ⁽ⁱⁱⁱ⁾	–	(318)
	Current period expenses related to conversion of independent colleges into private universities ^(iv)	10	17
	Fair value change on construction cost payables for school premises ^(v)	20	21
Adjusted net profit attributable to owners of the Company		1,045	908

Calculation of Adjusted EBITDA

		Six months ended	
		28 February 2023	28 February 2022
		RMB million	RMB million
Profit for the period		1,036	1,207
Add:	Finance costs	190	135
	Taxation	33	22
	Depreciation of property, plant and equipment	317	272
	Depreciation of right-of-use assets	29	29
	Amortisation of intangible assets	3	5
EBITDA		1,608	1,670
Adjustments for:	Foreign exchange gain/loss	21	(1)
	Share-based payments ⁽ⁱ⁾	17	18
	Fair value change on convertible bonds ⁽ⁱⁱⁱ⁾	–	(318)
	Current period expenses related to conversion of independent colleges into private universities ^(iv)	10	17
	Fair value change on construction cost payables for school premises ^(v)	20	21
Adjusted EBITDA		1,676	1,407

Management Discussion and Analysis

Notes:

- i. Non-cash share-based payments recognised for share options granted to directors and employees of the Group, which did not result in cash outflow.
- ii. Non-cash imputed interest accrued because of consideration payments due over one year for the acquisitions, which did not result in cash outflow.
- iii. Non-cash fair value change on convertible bonds, which are measured at fair value through profit or loss and did not result in cash outflow.
- iv. The Group's independent colleges pay partnership fees to their public school co-sponsors. The independent colleges have been converted into private universities during the year ended 31 August 2021. The partnership fees recognised during the current period will cease to exist after all students enrolled by the independent college are graduated.
- v. Non-cash fair value change on long-term construction cost payables for school premises, which are measured at fair value through profit or loss, which did not result in cash outflow.

Revenue

The Group's revenue reached RMB2,775 million for the six months ended 28 February 2023, up 18.0% as compared to RMB2,351 million for the six months ended 28 February 2022.

Higher Vocational Education Segment

Revenue from higher vocational education segment increased from RMB1,947 million for the six months ended 28 February 2022 to RMB2,348 million for the six months ended 28 February 2023, representing a 20.6% increase. The significant increase in revenue of

higher vocational education institutions was mainly driven by the growth in student enrollment and revenue per student of higher vocational education institutions.

Secondary Vocational Education Segment

Revenue from secondary vocational education segment decreased slightly from RMB330 million for the six months ended 28 February 2022 to RMB320 million for the six months ended 28 February 2023, representing a 3.0% decrease. The decrease in revenue of secondary vocational education segment was due to a decrease in the number of students enrolled. The number of new students in certain schools has declined because of the prevention measures and social restrictions of coronavirus disease 2019. Although such restrictions have been relieved, the new student enrollments of these schools have not yet instantly and completely recovered. The Company will continue to closely monitor the market situation and will evaluate the recoverable amounts of the relevant assets in accordance with applicable accounting standards in due course.

Global Education Segment

Revenue from global education segment increased from RMB74 million for the six months ended 28 February 2022 to RMB107 million for the six months ended 28 February 2023, representing a 44.6% increase. The significant increase in revenue of global education segment was mainly driven by the increase in the number of new students after the travel bans resulted from coronavirus disease 2019 were lifted in February 2022.

Management Discussion and Analysis

Cost of Revenue

The cost of revenue increased from RMB957 million for the six months ended 28 February 2022 to RMB1,182 million for the six months ended 28 February 2023, representing a 23.5% increase. The increase was mainly due to the expansion of the Group and the growth of student number. Furthermore, to improve the connotation construction of the schools and promote the high-quality development of the schools, the investment in teachers and teaching were increased.

Gross Profit

The Group's gross profit was RMB1,593 million for the six months ended 28 February 2023, up 14.3% as compared to RMB1,394 million for the six months ended 28 February 2022.

Other Income

Other income mainly included management fee income and government grants. The management fee income and government grants were increased from RMB48 million and RMB16 million for the six months ended 28 February 2022 to RMB59 million and RMB26 million for the six months ended 28 February 2023, respectively.

Selling Expenses

The Group's selling expenses were RMB87 million for the six months ended 28 February 2023 as compared to RMB73 million for the six months ended 28 February 2022. The selling expenses represented about 3.1% of revenue for both the six months ended 28 February 2023 and the six months ended 28 February 2022.

Administrative Expenses

The Group's administrative expenses were RMB387 million for the six months ended 28 February 2023 as compared to RMB373 million for the six months ended

28 February 2022. The increase was mainly attributable to the increase of student enrollment and the new campuses and buildings commencing to use and starting to recognise depreciation.

Operating Profit

The operating profit amounted to RMB1,257 million for the six months ended 28 February 2023, increased by 20.5% as compared to RMB1,043 million for the six months ended 28 February 2022.

Fair Value Change on Convertible Bonds

During the year ended 31 August 2022, the Company redeemed and repurchased convertible bonds with principal amounts of HK\$1,544 million and HK\$807 million, respectively. During the six months ended 28 February 2023, the principal amount of the convertible bonds that remains outstanding was HK\$4 million. The convertible bonds are classified as financial liabilities and are measured at fair values. During the six months ended 28 February 2023, no fair value change on convertible bonds was recognised in profit or loss (the six months ended 28 February 2022: the fair value gain of RMB318 million as a result of the decrease in fair value of convertible bonds).

Finance Costs

The finance costs were increased from RMB135 million for the six months ended 28 February 2022 to RMB190 million for the six months ended 28 February 2023. For the six months ended 28 February 2023, the finance costs mainly represented i) the interest expenses on bank and other borrowings and bonds of RMB231 million (the six months ended 28 February 2022: RMB160 million) and ii) deduction of interest expenses capitalised in the cost of property, plant and equipment of RMB46 million (the six months ended 28 February 2022: RMB40 million). The increase in the interest expenses was aligned with the increase in the borrowings of the Group.

Management Discussion and Analysis

Net Profit and Return on Equity

The adjusted net profit was increased by 16.7% to RMB1,104 million for the six months ended 28 February 2023 from RMB946 million for the six months ended 28 February 2022, after adjusting for the foreign exchange gain/loss, share-based payments, imputed interest on deferred cash considerations, fair value change on convertible bonds, current period expenses related to conversion of independent colleges into private universities and fair value change on construction cost payables for school premises. The Group's net profit was decreased by 14.2% to RMB1,036 million for the six months ended 28 February 2023 from RMB1,207 million for the six months ended 28 February 2022. The drop in net profit was mainly attributable to the fair value gain on convertible bonds of RMB318 million recognised for the six months ended 28 February 2022 while no such gain recognised during the current reporting period. The adjusted net profit attributable to owners of the Company was increased by 15.1% to RMB1,045 million for the six months ended 28 February 2023.

The adjusted return on equity (which is calculated on the basis of annualised adjusted net profit attributable to owners of the Company to the average of the beginning and ending balance of equity attributable to owners of the Company) of the Group was 14.1% for the six months ended 28 February 2023 and remained sound and fair.

EBITDA

Adjusting for the foreign exchange gain/loss, share-based payments, fair value change on convertible bonds, current period expenses related to conversion of independent colleges into private universities and

fair value change on construction cost payables for school premises, the adjusted EBITDA was increased by 19.1% from RMB1,407 million for the six months ended 28 February 2022 to RMB1,676 million for the six months ended 28 February 2023. EBITDA was decreased to RMB1,608 million for the six months ended 28 February 2023 from RMB1,670 million for the six months ended 28 February 2022.

Property, Plant and Equipment

Property, plant and equipment as at 28 February 2023 increased by 5.7% to RMB16,593 million from RMB15,700 million as at 31 August 2022. Increase in property, plant and equipment was mainly due to the construction of new campuses in Guangdong Province and new buildings of existing schools.

Capital Expenditures

Our capital expenditures for the six months ended 28 February 2023 were RMB1,220 million (the six months ended 28 February 2022: RMB1,047 million) and were primarily related to construction of new campuses in Guangdong Province and new buildings of existing schools.

Cash Reserve

Including bank balances and cash, restricted bank deposits, time deposits and structured deposits and money market funds recognised in financial assets at fair value through profit or loss, the cash reserve amounted to RMB5,874 million as at 28 February 2023 (31 August 2022: RMB5,521 million). The Group placed 147,000,000 Shares and received total net proceeds of HK\$1,598 million (equivalent to RMB1,406 million) in January 2023.

Management Discussion and Analysis

Liquidity, Financial Resources and Gearing Ratio

As at 28 February 2023, the Group had cash reserve of RMB5,874 million (31 August 2022: RMB5,521 million).

As at 28 February 2023, the Group had bank and other borrowings and bonds of RMB8,423 million (31 August 2022: RMB8,888 million) and convertible bonds of RMB3 million (31 August 2022: RMB3 million).

As at 28 February 2023, the net gearing ratio (which is calculated on the basis of total amount of bank and other borrowings and bonds and convertible bonds, net of cash reserve, to total equity of the Group) was 14.0% (31 August 2022: 20.3%). As at 28 February 2023, the debt to asset ratio (which is calculated on the basis of total amount of bank and other borrowings and bonds and convertible bonds to total assets of the Group) was 24.2% (31 August 2022: 26.5%). Certain bank and other borrowings and proceeds from placement and bonds issue were not yet fully utilised. In order to have a better use of our financial resources, the Group placed certain structured deposits and money market funds during the six months ended 28 February 2023. The structured deposits and money market funds were short-term liquidity management products with minimal risk exposure and the Group held these investments for short-term cash management purpose.

Treasury Policy

During the six months ended 28 February 2023, the Group has adopted a prudent treasury policy and maintained a robust liquidity structure. In the management of the liquidity risk, the Group monitors and maintains appropriate levels of financial resources to meet its funding needs.

Foreign Exchange Risk Management

During the six months ended 28 February 2023, the Group operated schools in the PRC and Australia. The majority of the Group's revenue and expenditures are denominated in Renminbi and some in Australian dollars, the functional currencies of the relevant territories, except that certain expenditures are denominated in Hong Kong dollars and US dollars. The Group also has certain foreign currency bank balances, other borrowings and convertible bonds denominated in Hong Kong dollars and US dollars, which would expose the Group to foreign exchange risk. After assessing the cost and benefit, the Group did not use any financial instruments for hedging purposes. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure when the need arises.

Contingent Liabilities

As at 28 February 2023, the Group had no significant contingent liability.

Charges on the Group's Assets

As at 28 February 2023, the bank and other borrowings of the Group amounting to RMB6,649 million (31 August 2022: RMB5,831 million) were secured by tolling right of tuition fee, boarding fee and ancillary income, deposits, plant and equipment under sale and leaseback arrangements and equity interest of certain subsidiaries of the Group.

Saved as disclosed above, there was no other material charge on the Group's assets as at 28 February 2023.

Management Discussion and Analysis

TOP-UP PLACING AND SUBSCRIPTION

January 2021

The net proceeds amounted to approximately HK\$2,012.6 million (net of related costs, professional fees and out-of-pocket expenses) from the subscription completed on 3 February 2021 have been partly utilised, and will be fully utilised in next six months for (1) potential acquisitions; and (2)

expansion and development of the Group's new campuses in the Greater Bay Area. The Group did not have material acquisition during the financial year ended 31 August 2022, and therefore results in delay in the use of proceeds. The purposes for the use of proceeds are consistent with the intentions previously disclosed in the Company's announcements.

The following sets forth a summary of the utilisation of the net proceeds during the six months ended 28 February 2023:

Purpose	Percentage to total amount	Net proceeds amount RMB (million)	Unutilised amount as at	Utilised amount during	Unutilised amount as at
			1 September 2022 RMB (million)	the period RMB (million)	28 February 2023 RMB (million)
Expansion and development of the Group's new campuses in the Greater Bay Area	70%	1,177.0	–	–	–
Potential acquisitions	30%	504.4	93.3	–	93.3
	100%	1,681.4	93.3	–	93.3

Further details of the top-up placing and the subscription are set out in the Company's announcements dated 26 January 2021 and 3 February 2021.

October 2021

The net proceeds amounted to approximately HK\$1,170.0 million (net of related costs, professional fees and out-of-pocket expenses) from the subscription completed on 27 October 2021 will be fully utilised in next twelve months for potential acquisitions in the modern-vocational education space. The Group did not have material acquisition during the financial year ended 31 August 2022 and the six months ended 28 February 2023, and therefore

results in delay in the use of proceeds. The purposes for the use of proceeds are consistent with the intentions previously disclosed in the Company's announcements. As at 28 February 2023, none of the net proceeds has been utilised.

Further details of the top-up placing and the subscription are set out in the Company's announcements dated 19 October 2021 and 27 October 2021.

Management Discussion and Analysis

January 2023

On 9 January 2023, Blue Sky, White Clouds and the Company entered into a placing agreement (the "Placing Agreement") with UBS AG Hong Kong Branch (the "Placing Agent") pursuant to which Blue Sky and White Clouds have agreed to appoint the Placing Agent, and the Placing Agent has agreed to procure independent placees (or failing which itself as principal) to purchase a total of 147,000,000 Shares at the placing price of HK\$10.94 per Share (the "Placing").

On the same day, Blue Sky, White Clouds and the Company entered into a subscription agreement (the "Subscription Agreement"), pursuant to which Blue Sky and White Clouds agree to subscribe for, and the Company agrees to issue to Blue Sky and

White Clouds the subscription shares equivalent to the number of placing shares at HK\$10.94 per Share upon the terms and conditions set out in the Subscription Agreement (the "Subscription").

The Placing and the Subscription were completed on 12 January 2023 and 17 January 2023 respectively. The placing shares were issued to more than six independent placees and they are all independent investors. The net proceeds amounted to approximately HK\$1.60 billion (net of related costs, professional fees and out-of pocket expenses) will be fully utilised in next twelve months for the expansion of school network (including campus development and potential mergers and acquisitions) and working capital purposes as previously disclosed in the Company's announcements.

The following sets forth a summary of the utilisation of the net proceeds during the six months ended 28 February 2023:

Purpose	Percentage to total amount	Net proceeds amount <i>RMB (million)</i>	Utilised amount during the period <i>RMB (million)</i>	Unutilised amount as at 28 February 2023 <i>RMB (million)</i>
Expansion of school network (including campus development and potential mergers and acquisitions)	90%	1,438.2	–	1,438.2
General working capital	10%	159.8	–	159.8
	100%	1,598.0	–	1,598.0

The Directors consider that the Placing and the Subscription will further strengthen the capital base of the Company to continue executing its industry consolidation strategy.

Management Discussion and Analysis

The aggregate nominal value of the subscription shares is HK\$1,470 and the net subscription price is approximately HK\$10.87 per Share. The subscription shares have a market value of approximately HK\$1,764 million based on the closing price of HK\$12 of the Shares on 9 January 2023, being the date of the Subscription Agreement.

Further details of the Placing and the Subscription are set out in the Company's announcements dated 10 January 2023 and 17 January 2023.

EMPLOYEES AND REMUNERATION POLICIES

Remuneration

As at 28 February 2023, the Group had 14,925 employees (28 February 2022: 12,908), a 15.6% increase from 2022's due to organic growth in employees in our existing schools and new campuses.

The remuneration packages of the employees of the Group are determined with reference to individual qualification, experience, performance, contribution to the Group and prevailing market rate.

Remuneration policy of our schools is formulated under the guidance of the relevant laws and regulations of the local jurisdictions of our member

schools and is also based on the industry characteristics as well as various market factors. Our member schools determine their respective compensation standards based on the employment by function (teachers, teaching assistants, administrative personnel and workers, etc.) and position. Schools participate in social insurance (pension, housing provident fund, medical, unemployment, work injury and maternity insurance) plans under the guidance of relevant national, provincial, and municipality policies and provide a variety of benefits for employees.

Our employees are members of retirement benefits schemes administrated by their respective jurisdictions. Employers and employees are required to contribute to the retirement benefits scheme in accordance with the respective local laws and regulations.

Recruitment

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

Management Discussion and Analysis

Our schools recruit talents based on business development and operational needs, as well as candidate's integrity and professionalism. Our talent selection policy does not only focus on candidate's academic qualification, relevant work experience, past performance and professionalism, but also on candidate's morality, professional ethics and discipline. All candidates with employment offer will have to sign the employment contract as soon as reporting to work, and we stipulate the probation period according to law. Near the end of the probation period, human resources department will work with the candidates' respective departments to conduct comprehensive assessments on new employees' performance and personality fit during the probation period according to job responsibilities and employment conditions, to decide whether we should officially offer the position as scheduled or ahead of the schedule, or terminate the employment.

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



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Other Information

INTERIM DIVIDEND

The Board declared an interim dividend of RMB16.38 cents (equivalent to HK18.58 cents, according to the central parity rate of Renminbi to Hong Kong dollars as announced by the People's Bank of China on 27 April 2023, i.e. RMB0.88166 equivalent to HKD1.00) per ordinary Share for the six months ended 28 February 2023 (for the six months ended 28 February 2022: nil) to be paid on Thursday, 20 July 2023, to Shareholders whose names appear on the register of members of the Company on Friday, 16 June 2023. The distribution equals to approximately 40% of the adjusted net profit attributable to owners of the Company.

The dividend will be paid to all Shareholders on an all-cash basis by default. Shareholders will also be provided with an option to receive the interim dividend wholly or partly in form of new fully paid Shares in lieu of cash. Such new Shares so issued will rank pari passu in all respect with the existing issued shares in the capital of the Company. The scheme is conditional upon the Listing Committee of the Stock Exchange granting the listing of and permission to deal in the new Shares to be issued under the scheme. Shareholders not making any election will be receiving the whole dividend in cash.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 13 June 2023 to Friday, 16 June 2023, both days inclusive, during which period no transfer of Shares will be registered. In order to qualify for the interim dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Monday, 12 June 2023.

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

During the six months ended 28 February 2023, the Company repurchased a total of 3,923,000 Shares in September 2022 on the Stock Exchange with an aggregate consideration paid (before expenses) amounting to HK\$22,181,280.09. The highest and lowest price paid per Share of such repurchases are HK\$6.28 and HK\$5.35 respectively. All the Shares repurchased were subsequently cancelled. The Board considered that such repurchases would benefit the Company and create value to the Shareholders ultimately. Please refer to the Company's next day disclosure returns dated 6, 19, 27 and 28 September 2022 and 16 November 2022 for details of such repurchases and cancellation.

Save as disclosed above, during the six months ended 28 February 2023, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company.

ISSUE OF NEW SHARES

On 13 January 2023, 20,687,068 new Shares were issued pursuant to an acquisition agreement dated 26 July 2021 in respect of the acquisition of 100% shares in Long Link Investment Limited in settlement of the second and third payment. For details, please refer to the Company's announcements dated 26 July 2021, 10 August 2021 and 14 September 2021.

On 17 January 2023, 147,000,000 new Shares were issued under the general mandate pursuant to the subscription agreement dated 9 January 2023 in respect of placing.

On 14 February 2023, 250,000 new Shares were issued pursuant to the exercise of share options granted under the Pre-IPO Share Option Scheme by eligible employee of the Company.

Other Information

CORPORATE GOVERNANCE PRACTICES

During the six months ended 28 February 2023, the Company has complied with all the code provisions set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as the Group's code of conduct to regulate the securities transactions of the Directors. Having made specific enquiries, all Directors confirmed that they have complied with the required standards set out in the Model Code throughout the six months ended 28 February 2023.

AUDIT COMMITTEE

The Audit Committee consists of three independent non-executive Directors and its main duties are to assist the Board in providing an independent review of the completeness, accuracy and fairness of the financial information of the Group, as well as the efficiency and effectiveness of the Group's operations and internal controls. The Audit Committee has reviewed the unaudited consolidated financial statements of the Group for the six months ended 28 February 2023.

Deloitte Touche Tohmatsu, the Company's auditor, had carried out review of the unaudited interim results of the Group for the six months ended 28 February 2023 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.

CORPORATE CHANGES

Ms. Xie Shaohua tendered her resignation as an executive Director with effect from 1 September 2022 as she needs to devote more time to her other business commitment. She has confirmed that she has no disagreement with the Board and there is no matter that needs to be brought to the attention of the Shareholders in connection with her resignation. And Mr. Wang Rui has been appointed as an executive Director with effect from 1 September 2022 to fill the casual vacancy.

Mr. Mok Kwai Pui Bill in order to devote more time on his other work tendered his resignation as the chief financial officer (the "Chief Financial Officer"), the company secretary (the "Company Secretary"), an authorised representative under Rule 3.05 of the Listing Rules (the "Authorised Representative under the Listing Rules") as well as the authorised representative of the Company for acceptance of service of process or notice in Hong Kong on behalf of the Company in accordance with Part 16 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) (the "Authorised Representative under the Companies Ordinance") with effect from 1 May 2023. Mr. Mok has confirmed that he has no disagreement with the Board and there is no matter that needs to be brought to the attention of the Shareholders in connection with his resignation.

Following the resignation of Mr. Mok, Mr. Lan Gongcheng has been appointed as the Chief Financial Officer, and Mr. Chan Yuen Fung has been appointed as the Company Secretary, the Authorised Representative under the Listing Rules and the Authorised Representative under the Companies Ordinance, all with effect from 1 May 2023.

Other Information

CHANGES IN INFORMATION OF DIRECTORS

Pursuant to Rule 13.51B(1) of the Listing Rules, the change in information of the Directors since the date of the latest published 2021/2022 Annual Report of the Company is set out below:

Mr. Yu Guo ceased to be a member of the Standing Committee of Thirteenth Jiangxi People's Congress (第十三屆江西省人民代表大會) in January 2023.

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

As at 28 February 2023, the interests and short positions of the Directors and the chief executives of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

Interests and Short Positions in Shares and Underlying Shares

Name of Directors	Number of Shares/Underlying Shares Held			Approximate % of all Shares in Issue ⁽¹⁾
	Personal Interests	Other Interests	Total	
Yu Guo	(L)6,500,000 ⁽²⁾	(L)1,507,900,000 ⁽³⁾⁽⁵⁾	(L)1,514,400,000	(L)59.36%
Xie Ketao	(L)6,500,000 ⁽²⁾	(L)1,507,900,000 ⁽⁴⁾⁽⁵⁾	(L)1,514,400,000	(L)59.36%
Yu Kai	(L)6,500,000 ⁽²⁾	(L)750,700,000 ⁽⁶⁾	(L)757,200,000	(L)29.68%

L – long position

Notes:

- The calculation is based on the total number of 2,551,084,455 Shares in issue as at 28 February 2023.
- These are long position interests in underlying Shares (being physically settled unlisted derivatives) and represent the maximum number of share options which may be vested with the Directors under the Pre-IPO Share Option Scheme of the Company. Details of each of their share options are set out in the section headed "SHARE OPTION SCHEMES AND SHARE AWARD SCHEME" in this report.
- Blue Sky is the beneficial owner of the long position interests in 750,700,000 Shares. Blue Sky is a company wholly-owned by Passionate Jade Holding Limited and which in turn is wholly owned by Cantrust (Far East) Limited as the trustee of a discretionary trust, namely Blue Sky Trust. Mr. Yu Guo is the settlor and a beneficiary of the Blue Sky Trust. For the remaining long position interests in 757,200,000 Shares/underlying Shares, please refer to note 5 below.
- White Clouds is the beneficial owner of the long position interests in 750,700,000 Shares. White Clouds is a company wholly-owned by Shimmery Diamond Holding Limited and which in turn is wholly owned by Cantrust (Far East) Limited as the trustee of a discretionary trust, namely White Clouds Trust. Mr. Xie Ketao is the settlor and a beneficiary of the White Clouds Trust. For the remaining long position interests in 757,200,000 Shares/underlying Shares, please refer to note 5 below.
- Mr. Yu Guo, Mr. Xie Ketao, Blue Sky and White Clouds entered into the concert party agreement to align their shareholding interests in the Company. Accordingly, each of Mr. Yu Guo, Mr. Xie Ketao, Blue Sky and White Clouds is deemed to be interested in the Shares/underlying Shares held by other parties to the concert party agreement.
- Dr. Yu Kai is a beneficiary of the Blue Sky Trust. His long position interests in 750,700,000 Shares were duplicated with the interests of Mr. Yu Guo held under the Blue Sky Trust as disclosed above.

Other Information

Directors' Interest in Associated Corporation

Name of Directors	Nature of Interests	Name of Associated Corporations	Percentage of Shareholding in the Associated Corporation
Yu Guo	Beneficial owner	Nanchang Jiangke	99%
	Beneficial owner	Huafang Education	50%
Xie Ketao	Beneficial owner	Guangdong Baiyun University	100%
	Beneficial owner	Huafang Education	50%
Yu Kai	Beneficial owner	Nanchang Jiangke	1%

Directors' Interest in Debentures of the Company

Name of Directors	Capacity	Amount of Debentures Held CNY	Approximate % to the Total Amount of Debentures in issue
Yu Guo	Founder of a discretionary trust	10,000,000 ⁽¹⁾	2%
Xie Ketao	Founder of a discretionary trust	10,000,000	2%
Yu Kai	Beneficiary of a discretionary trust	10,000,000 ⁽¹⁾	2%

Note:

- The two references to CNY10,000,000 principal amount of debentures relate to the same block of debenture held by Mr. Yu Guo under the Blue Sky Trust.

Save as disclosed above, as at 28 February 2023, none of the Directors or the chief executives of the Company had or was deemed to have any interests or short positions in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Other Information

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

As at 28 February 2023, so far as the Directors are aware, the following persons (other than the Directors and the chief executives of the Company) had interests or short positions in the Shares or underlying Shares as recorded in the register required to be kept by the Company under section 336 of the SFO:

Name of Substantial Shareholders	Capacity	Number of Shares/ Underlying Shares Held	Approximate % of all Shares in Issue ⁽¹⁾
Blue Sky	Beneficial Owner ⁽²⁾	(L)750,700,000	(L)29.43%
	Other interests ⁽⁴⁾	(L)763,700,000	(L)29.93%
		(L)1,514,400,000	(L)59.36%
White Clouds	Beneficial Owner ⁽³⁾	(L)750,700,000	(L)29.43%
	Other interests ⁽⁴⁾	(L)763,700,000	(L)29.93%
		(L)1,514,400,000	(L)59.36%
Passionate Jade Holding Limited	Interests in controlled corporation ⁽²⁾	(L)750,700,000	(L)29.43%
Shimmery Diamond Holding Limited	Interests in controlled corporation ⁽³⁾	(L)750,700,000	(L)29.43%
Cantrust (Far East) Limited	Trustee ⁽²⁾⁽³⁾	(L)1,501,400,000	(L)58.85%

L – long position

Notes:

- The calculation is based on the total number of 2,551,084,455 Shares in issue as at 28 February 2023.
- Blue Sky is the beneficial owner of the long position interests in 750,700,000 Shares. Blue Sky is a company wholly-owned by Passionate Jade Holding Limited and which in turn is wholly owned by Cantrust (Far East) Limited as the trustee of a discretionary trust, namely Blue Sky Trust. Mr. Yu Guo is the settlor and a beneficiary of the Blue Sky Trust.
- White Clouds is the beneficial owner of the long position interests in 750,700,000 Shares. White Clouds is a company wholly-owned by Shimmery Diamond Holding Limited and which in turn is wholly owned by Cantrust (Far East) Limited as the trustee of a discretionary trust, namely White Clouds Trust. Mr. Xie Ketao is the settlor and a beneficiary of the White Clouds Trust.
- Mr. Yu Guo, Mr. Xie Ketao, Blue Sky and White Clouds entered into the concert party agreement to align their shareholding interests in the Company. Accordingly, each of Mr. Yu Guo, Mr. Xie Ketao, Blue Sky and White Clouds is deemed to be interested in the Shares/underlying Shares held by other parties to the concert party agreement. The interests of Blue Sky and White Clouds were duplicated with the interests of Mr. Yu Guo and Mr. Xie Ketao as disclosed under the section headed "DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES" in this report.

Save as disclosed above, as at 28 February 2023, the Directors were not aware of any other persons (other than the Directors and the chief executives of the Company) who had an interest or short position in the Shares or underlying Shares as recorded in the register required to be kept by the Company under section 336 of the SFO.

Other Information

SHARE OPTION SCHEMES AND SHARE AWARD SCHEME

Pre-IPO Share Option Scheme

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

	Date of grant (dd/mm/yyyy)	Exercise price (HK\$)	Vesting date (dd/mm/yyyy)	Exercise period (dd/mm/yyyy)	Number of share options				
					At 01/09/2022 ⁽¹⁾	Granted	Exercised	Lapsed	At 28/02/2023 ⁽¹⁾
Directors									
Yu Guo	14/12/2017	6.45	15/12/2018	15/12/2018 – 14/12/2027	2,000,000	-	-	-	2,000,000
			15/12/2020	15/12/2020 – 14/12/2027	500,000	-	-	-	500,000
			15/12/2021	15/12/2021 – 14/12/2027	2,000,000	-	-	-	2,000,000
			15/12/2022	15/12/2022 – 14/12/2027	2,000,000	-	-	-	2,000,000
Xie Ketao	14/12/2017	6.45	15/12/2018	15/12/2018 – 14/12/2027	2,000,000	-	-	-	2,000,000
			15/12/2020	15/12/2020 – 14/12/2027	500,000	-	-	-	500,000
			15/12/2021	15/12/2021 – 14/12/2027	2,000,000	-	-	-	2,000,000
			15/12/2022	15/12/2022 – 14/12/2027	2,000,000	-	-	-	2,000,000
Yu Kai	14/12/2017	6.45	15/12/2018	15/12/2018 – 14/12/2027	2,000,000	-	-	-	2,000,000
			15/12/2020	15/12/2020 – 14/12/2027	500,000	-	-	-	500,000
			15/12/2021	15/12/2021 – 14/12/2027	2,000,000	-	-	-	2,000,000
			15/12/2022	15/12/2022 – 14/12/2027	2,000,000	-	-	-	2,000,000
Employees⁽²⁾	14/12/2017	6.45	15/12/2018	15/12/2018 – 14/12/2027	2,450,000	-	250,000	-	2,200,000
			15/12/2020	15/12/2020 – 14/12/2027	775,000	-	-	-	775,000
			15/12/2021	15/12/2021 – 14/12/2027	3,100,000	-	-	-	3,100,000
			15/12/2022	15/12/2022 – 14/12/2027	3,100,000	-	-	-	3,100,000
Total					28,925,000	-	250,000	-	28,675,000

Other Information

Notes:

1. These figures (except those relating to the vested share options) represent the maximum number of underlying Shares that may be vested with the grantee on vesting of his/her relevant share options. The actual number of underlying Shares that will finally vest with each relevant grantee may range from zero to such maximum number subject to the satisfaction of performance condition.
2. Ms. Xie Shaohua ceased to be an executive Director with effect from 1 September 2022 but remains an employee of the Group.
3. The weighted average closing price of the Shares immediately before the date on which the share options were exercised was HK\$11.3.
4. No share option was cancelled during the period under review.

Post-IPO Share Option Scheme

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

	Date of grant (dd/mm/yyyy)	Exercise price (HK\$)	Vesting date (dd/mm/yyyy)	Exercise period (dd/mm/yyyy)	Number of share options				
					At 01/09/2022 ⁽¹⁾	Granted	Exercised	Lapsed	At 28/02/2023 ⁽¹⁾
Employees	08/03/2019	12.48	08/03/2020	08/03/2020 – 07/03/2029	345,000	-	-	-	345,000
			08/03/2021	08/03/2021 – 07/03/2029	537,500	-	-	-	537,500
			08/03/2022	08/03/2022 – 07/03/2029	650,000	-	-	-	650,000
			08/03/2023	08/03/2023 – 07/03/2029	962,500	-	-	-	962,500
			08/03/2024	08/03/2024 – 07/03/2029	1,155,000	-	-	-	1,155,000
	16/12/2019	10.76	16/12/2020	16/12/2020 – 15/12/2029	20,000	-	-	-	20,000
			16/12/2021	16/12/2021 – 15/12/2029	30,000	-	-	-	30,000
			16/12/2022	16/12/2022 – 15/12/2029	40,000	-	-	-	40,000
			16/12/2023	16/12/2023 – 15/12/2029	50,000	-	-	-	50,000
			16/12/2024	16/12/2024 – 15/12/2029	60,000	-	-	-	60,000
Total					3,850,000	-	-	-	3,850,000

Notes:

1. These figures (except those relating to the vested share options) represent the maximum number of underlying Shares that may be vested with the grantee on vesting of his/her relevant share options. The actual number of underlying Shares that will finally vest with each relevant grantee may range from zero to such maximum number subject to the satisfaction of performance condition.
2. No share option was cancelled during the period under review.

Other Information

Share Award Scheme

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

UPDATES IN RELATION TO QUALIFICATION REQUIREMENT

On 27 December 2021, National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會) and Ministry of Commerce of the PRC (中華人民共和國商務部) jointly promulgated the Special Administrative Measures for Access of Foreign Investment (Negative List) (2021) (《外商投資准入特別管理措施(負面清單)》(2021年版), the “Negative List”), which became effective on 1 January 2022. Pursuant to the Negative List, higher education in the PRC is a “restricted” industry. In particular, the Negative List explicitly restricts higher education institutions to Sino-Foreign cooperation, meaning that foreign investors may only operate higher education institutions through cooperating with PRC incorporated entities that are in compliance with the Regulations on Sino-Foreign Cooperative Education of the PRC (《中華人民共和國中外合作辦學條例》, which was promulgated by the State Council on 1 March 2003, taking effect as from 1 September 2003, amended on 18 July 2013, and further amended on 2 March 2019, the “Sino-Foreign Regulation”). In addition, the Negative List also provides that the domestic party shall play a dominant role in the Sino-Foreign cooperation, meaning that (a) the principal or other chief executive officer of the schools shall be a PRC national, and (b) the representative of the domestic party shall account for no less than 50% of the total members of the board of directors, the executive council or the joint administration committee of the Sino-Foreign cooperative educational institution. Pursuant to the Negative List, vocational education in the PRC is the “permitted” industry. However, the Administrative Measures for the Sino-Foreign Cooperative Education on Vocational Skills Training (《中外合作職業技能培訓辦學管理辦法》) (the “Sino-Foreign Vocational Skills Training Measures”) explicitly restrict vocational education to Sino-Foreign cooperation, meaning that foreign investors may only operate vocational training schools through joint ventures with PRC incorporated entities that are in compliance with the Sino-Foreign Regulation.

In relation to the interpretation of Sino-foreign cooperation, pursuant to the Implementing Rules for the Regulations on Operating Sino-Foreign Schools (《中華人民共和國中外合作辦學條例實施辦法》, issued by the MOE on 2 June 2004 and became effective on 1 July 2004) (the “Implementing Rules”), the foreign investor in a Sino-Foreign Joint Venture Private Higher Education School must be a foreign educational institution with relevant qualification and high quality of education (the “Higher Education Qualification Requirement”). Similarly, pursuant to the Sino-foreign Vocational Skills Training Measures, the foreign investor in a Sino-Foreign Joint Venture Private Vocational Education School must be a foreign education institution with relevant qualification and high quality of education (the “Vocational Education Qualification Requirement”) (Higher Education Qualification Requirement and Vocational Education Qualification Requirement are collectively referred as “Qualification Requirement”). Furthermore, pursuant to the Implementation Opinions of the MOE on Encouraging and Guiding the Entry of Private Capital in the Fields of Education and Promoting the Healthy Development of Private Education (《教育部關於鼓勵和引導民間資金進入教育領域促進民辦教育健康發展的實施意見》) (the “Implementation Opinions”), which was issued by the MOE on 28 June 2012, the foreign portion of the total investment in a Sino-Foreign School should be below 50% (the “Foreign Ownership Restriction”) and the establishment of these schools is subject to approval of education authorities at the provincial or national level.

Other Information

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

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

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

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

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

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

Other Information

CONVERTIBLE BONDS DUE 2024

The Company completed the issue of convertible bonds due 2024 bearing interest at the rate of 2.0% per annum in an aggregate principal amount of HK\$2,355,000,000 on 28 March 2019 to enhance its working capital for the Group's continual business development. The convertible bonds were formally listed on the Stock Exchange on 29 March 2019 with stock code number 5926. During the six months ended 28 February 2023, the conversion price of the convertible bonds was adjusted from HK\$13.75 per Share to HK\$12.99 per Share due to the allotment and issue of 20,687,068 new Shares to settle part of the consideration of the acquisition of Long Link Investment Limited and the payment of final dividend for the year ended 31 August 2022.

During the six months ended 28 February 2023, no conversion of the convertible bonds had been exercised by any holders of the convertible bonds and no redemption or purchase or cancellation was made by the Company. As at 28 February 2023, the aggregate principal amount of the convertible bonds that remains outstanding was HK\$4,000,000. Upon full conversion of the outstanding convertible bonds, the Company may issue 307,929 Shares (based on the conversion price of HK\$12.99 per Share), which represent approximately 0.012% of the total number of Shares in issue as at 28 February 2023 and approximately 0.012% of the total number of Shares in issue as enlarged by the number of new Shares issued upon full conversion of the outstanding convertible bonds. Set out below is the dilution effect on equity interest of the substantial Shareholders:

Name of Substantial Shareholders	As at 28 February 2023		Upon full conversion of the outstanding convertible bonds as of 28 February 2023 at the conversion price of HK\$12.99 per Share	
	Number of Shares	Approximate % of all Shares in issue	Number of Shares	Approximate % of all Shares in issue
Blue Sky	750,700,000	29.43%	750,700,000	29.42%
White Clouds	750,700,000	29.43%	750,700,000	29.42%

On 28 February 2023, the Group recorded total net assets of approximately RMB34,870 million and cash reserve of approximately RMB5,874 million. Based on the financial positions of the Group, the Company was able to meet its redemption obligations under the convertible bonds.

Please refer to note 8 to the condensed consolidated financial statements for the dilutive impact on earnings per Share.

For details, please refer to the Company's announcements dated 22 and 28 March 2019, 14 and 16 February 2022, 9 and 28 March 2022 and 29 August 2022.

Other Information

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

2018 IFC Loan

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

Pursuant to the 2018 IFC Loan Agreement, so long as any of the 2018 IFC Loan remains available or outstanding, the Controlling Shareholders shall collectively maintain:

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

Failure of the Controlling Shareholders to comply with the aforesaid obligations could constitute an event of default under the 2018 IFC Loan Agreement. Nevertheless, it will not be an event of default in respect of the above shareholding requirement to the extent that the failure to comply is not a result of a direct or indirect transfer of the Shares by the Controlling Shareholders.

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

If an event of default under the 2018 IFC Loan Agreement occurs and is continuing, the lender may, by notice to the borrowers, require the borrowers to immediately repay the 2018 IFC Loan (or such part of the 2018 IFC Loan) and any other payments pursuant to the 2018 IFC Loan Agreement.

Facility Agreement

On 6 September 2021, Admiral One International Limited (an indirect wholly-owned subsidiary of the Company) as borrower, the Company as guarantor and certain wholly-owned subsidiaries of the Company entered into a facility agreement (the "Facility Agreement") with certain banks as lenders, pursuant to which the lenders agreed to provide a term loan facility of US\$189,500,000 (the "Facility") with a term up to seven years.

Other Information

Pursuant to the terms of the Facility Agreement, the Controlling Shareholders shall remain the single largest direct or indirect shareholder of the Company. A breach of such undertaking will constitute an event of default under the Facility Agreement and the agent of the lenders may, by notice to the borrower, declare that all or part of the outstanding loan, together with accrued interest and all other amounts accrued or outstanding under the Facility Agreement be immediately due and payable by the borrower.

2021 IFC Loan

On 13 September 2021, the Company and certain of its wholly-owned subsidiaries as borrowers entered into a loan agreement and related financing documents (the "2021 IFC Loan Agreement") with IFC as lender in relation to a long-term loan facility up to US\$150,000,000 (the "2021 IFC Loan") and with a term of up to seven years. The 2021 IFC Loan Agreement imposes, among other things, specific performance obligations on the Controlling Shareholders.

Pursuant to the 2021 IFC Loan Agreement, so long as the 2021 IFC Loan remains available or outstanding, the Controlling Shareholders shall collectively maintain at all times:

- (1) directly or indirectly at least 50% of the beneficial ownership of the shares of the Company; and
- (2) effective control of the Company.

Failure of the Controlling Shareholders to comply with the aforesaid obligations could constitute an event of default under the 2021 IFC Loan Agreement.

In addition, it could also constitute an event of default should there be a change of control of the Company or any of its relevant subsidiaries or consolidated affiliated entities, to the extent (amongst other things) any person other than the Controlling Shareholders obtains effective control (including such person having obtained directly or indirectly ownership of 50% or more of the voting shares or equity in such entities) of any of them.

If an event of default under the 2021 IFC Loan Agreement occurs and is continuing, the Lender may, by notice to the borrowers, require the borrowers to immediately repay the 2021 IFC Loan (or such part of the 2021 IFC Loan) and any other payments pursuant to the 2021 IFC Loan Agreement.

On behalf of the Board

Yu Guo and Xie Ketao
Co-Chairmen

Hong Kong, 27 April 2023

Report on Review of Condensed Consolidated Financial Statements

Deloitte.

德勤

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

INTRODUCTION

We have reviewed the condensed consolidated financial statements of China Education Group Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 30 to 58, which comprise the condensed consolidated statement of financial position as of 28 February 2023 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") issued by the International Accounting Standards Board. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

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

CONCLUSION

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

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
27 April 2023

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 28 February 2023

	NOTES	Six months ended	
		28 February 2023 RMB million (unaudited)	28 February 2022 RMB million (unaudited)
Revenue	3	2,775	2,351
Cost of revenue		(1,182)	(957)
Gross profit		1,593	1,394
Investment income	4	43	23
Other income		138	95
Other gains and losses		(41)	(20)
Fair value change on convertible bonds		–	318
Selling expenses		(87)	(73)
Administrative expenses		(387)	(373)
Finance costs		(190)	(135)
Profit before taxation		1,069	1,229
Taxation	5	(33)	(22)
Profit for the period	6	1,036	1,207
Other comprehensive expenses			
Item that may be reclassified subsequently to profit or loss:			
Exchange difference arising on translation of foreign operations		(1)	(3)
Total comprehensive income for the period		1,035	1,204
Profit for the period attributable to:			
Owners of the Company		977	1,169
Non-controlling interests		59	38
		1,036	1,207
Total comprehensive income attributable to:			
Owners of the Company		976	1,166
Non-controlling interests		59	38
		1,035	1,204
Earnings per share	8		
Basic (RMB cents)		40.06	49.08
Diluted (RMB cents)		40.06	33.21

Condensed Consolidated Statement of Financial Position

At 28 February 2023

	NOTES	At 28 February 2023 RMB million (unaudited)	At 31 August 2022 RMB million (audited)
NON-CURRENT ASSETS			
Property, plant and equipment	9	16,593	15,700
Right-of-use assets	9	2,215	2,101
Goodwill		3,833	3,835
Other intangible assets		5,091	5,100
Deposits paid for acquisition of property, plant and equipment/ right-of-use assets		51	71
Contract costs		65	81
Other prepayments and deposits	10	48	78
Deferred tax asset		18	13
Restricted bank deposits		10	422
		27,924	27,401
CURRENT ASSETS			
Trade receivables, deposits, prepayments and other receivables	10	1,038	1,058
Financial assets at fair value through profit or loss	11	2,511	215
Contract costs		64	68
Restricted bank deposits		31	41
Bank balances and cash		3,302	4,793
		6,946	6,175
CURRENT LIABILITIES			
Trade payables	12	58	56
Contract liabilities		2,817	3,178
Other payables and accrued expenses	13	2,537	1,992
Deferred income		59	61
Provisions	14	349	371
Lease liabilities		26	26
Income tax payable		88	98
Bank and other borrowings	15	2,325	1,831
		8,259	7,613
NET CURRENT LIABILITIES		(1,313)	(1,438)
TOTAL ASSETS LESS CURRENT LIABILITIES		26,611	25,963

Condensed Consolidated Statement of Financial Position

At 28 February 2023

	NOTES	At 28 February 2023 RMB million (unaudited)	At 31 August 2022 RMB million (audited)
NON-CURRENT LIABILITIES			
Other payables	13	601	613
Deferred income		14	15
Lease liabilities		54	67
Deferred tax liability		1,632	1,631
Bank and other borrowings and bonds	15	6,098	7,057
Convertible bonds		3	3
		8,402	9,386
		18,209	16,577
CAPITAL AND RESERVES			
Share capital	16	—*	—*
Reserves		15,581	14,008
Equity attributable to owners of the Company		15,581	14,008
Non-controlling interests		2,628	2,569
		18,209	16,577

* Less than RMB1 million

Condensed Consolidated Statement of Changes in Equity

For the six months ended 28 February 2023

	Attributable to owners of the Company											Total RMB million
	Share capital RMB million	Share premium RMB million	Merger reserve RMB million (Note i)	Other reserve RMB million (Note ii)	Deferred consideration shares RMB million	Share options reserve RMB million	Statutory surplus reserve RMB million (Note iii)	Exchange reserve RMB million	Retained profits RMB million	Sub-total RMB million	Non-controlling interests RMB million	
At 1 September 2021 (audited)	-*	5,019	182	(339)	-	72	1,824	(44)	4,206	10,920	837	11,757
Profit for the period	-	-	-	-	-	-	-	-	1,169	1,169	38	1,207
Other comprehensive expense for the period	-	-	-	-	-	-	-	(3)	-	(3)	-	(3)
Profit and total comprehensive (expense) income for the period	-	-	-	-	-	-	-	(3)	1,169	1,166	38	1,204
Dividends recognised as distribution (note 7)	-	(395)	-	-	-	-	-	-	-	(395)	-	(395)
Acquisition of a business	-	424	-	-	229	-	-	-	-	653	1,641	2,294
Issue of shares (note 16)	-*	981	-	-	-	-	-	-	-	981	-	981
Transaction costs attributable to issue of shares (note 16)	-	(6)	-	-	-	-	-	-	-	(6)	-	(6)
Transfer	-	-	-	-	-	-	188	-	(188)	-	-	-
Recognition of equity-settled share-based payments	-	-	-	-	-	18	-	-	-	18	-	18
At 28 February 2022 (unaudited)	-*	6,023	182	(339)	229	90	2,012	(47)	5,187	13,337	2,516	15,853
At 1 September 2022 (audited)	-*	6,013	182	(339)	229	92	2,126	(44)	5,749	14,008	2,569	16,577
Profit for the period	-	-	-	-	-	-	-	-	977	977	59	1,036
Other comprehensive expense for the period	-	-	-	-	-	-	-	(1)	-	(1)	-	(1)
Profit and total comprehensive (expense) income for the period	-	-	-	-	-	-	-	(1)	977	976	59	1,035
Dividends recognised as distribution (note 7)	-	(806)	-	-	-	-	-	-	-	(806)	-	(806)
Issue of shares (note 16)	-	1,415	-	-	-	-	-	-	-	1,415	-	1,415
Transaction costs attributable to issue of shares (note 16)	-	(9)	-	-	-	-	-	-	-	(9)	-	(9)
Issue of consideration shares (note 16)	-	229	-	-	(229)	-	-	-	-	-	-	-
Repurchase of shares (note 16)	-	(20)	-	-	-	-	-	-	-	(20)	-	(20)
Transfer	-	-	-	-	-	-	143	-	(143)	-	-	-
Recognition of equity-settled share-based payments	-	-	-	-	-	17	-	-	-	17	-	17
At 28 February 2023 (unaudited)	-*	6,822	182	(339)	-	109	2,269	(45)	6,583	15,581	2,628	18,209

* Less than RMB1 million

Condensed Consolidated Statement of Changes in Equity

For the six months ended 28 February 2023

Notes:

- i. Amounts represent the transfer of the combined paid-in capital of the subsidiaries comprising the Group to the merger reserve upon the Company became the holding company of the Group upon the reorganisation in 2017.
- ii. The other reserve represents (i) the difference between the principal amounts of consideration paid and the relevant share of carrying value of the subsidiary's net assets acquired from/disposed to the non-controlling interests in prior years; (ii) the deemed distribution to equity holders which represents the differences between the fair value of the lower-than-market interest rate advances to Mr. Yu Guo ("Mr. Yu") and Mr. Xie Ketao ("Mr. Xie"), the controlling equity holders, and an entity controlled by Mr. Xie and the principal amount of the advances at initial recognition in prior years; (iii) the deemed contribution to equity holders which represents the differences between the carrying amount of the lower-than-market interest rate advances to Mr. Yu and Mr. Xie and the amount received for the settlement in prior years; (iv) capital contribution from Mr. Yu through a company controlled by him in prior years, and (v) the difference between the fair value of consideration paid for further acquisition of subsidiaries in prior years and the amount by which the non-controlling interests are adjusted, after reattribution of relevant reserve.
- iii. Pursuant to the relevant laws in the People's Republic of China (the "PRC"), the Company's subsidiaries in the PRC shall make appropriations from after-tax profit to non-distributable reserve funds as determined by the board of directors of the relevant PRC subsidiaries. These reserves include (i) general reserve of the limited liabilities companies and (ii) the development fund of schools.

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

According to the relevant PRC laws and regulations, for private school of which the school sponsor does not require for reasonable return, it is required to appropriate to development fund of not less than 10% of the annual increase in non-restricted net asset of the relevant school as determined in accordance with generally accepted accounting principles in the PRC. The development fund shall be used for the construction or maintenance of the schools or procurement or upgrading of educational equipment.

Condensed Consolidated Statement of Cash Flows

For The Six Months Ended 28 February 2023

	Six months ended	
	28 February 2023 RMB million (unaudited)	28 February 2022 RMB million (unaudited)
NET CASH FROM OPERATING ACTIVITIES	969	680
INVESTING ACTIVITIES		
Purchase of money market funds	(1,576)	(1,175)
Purchase of structured deposits	(1,544)	(10,368)
Payments/deposits paid for acquisition of property, plant and equipment	(1,142)	(1,202)
Payments for right of use assets	(151)	–
Withdrawal of money market funds	293	2,001
Withdrawal of restricted bank deposits	422	–
Redemption of structured deposits	540	9,673
Net cash outflow from acquisition of a business	–	(902)
Other investing cash flows	83	1
NET CASH USED IN INVESTING ACTIVITIES	(3,075)	(1,972)
FINANCING ACTIVITIES		
New bank borrowings raised	1,736	2,343
Proceeds from issuance of new shares, net of transaction costs	1,406	975
New other borrowings raised	802	293
Repayments to connected entities of a non-controlling interest	(1)	(240)
Interest paid	(214)	(198)
Repayment of other borrowings	(686)	(304)
Repayment of bank borrowings	(2,354)	(891)
Repayments to other payables	–	(141)
Repurchase of convertible bond	–	(564)
Other financing cash flows	(74)	(51)
NET CASH FROM FINANCING ACTIVITIES	615	1,222
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,491)	(70)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	4,793	3,315
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	–	(23)
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	3,302	3,222
ANALYSIS OF THE BALANCE OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	3,302	3,236
Less: bank deposits with maturity over three months	–	(14)
	3,302	3,222

Notes to the Condensed Consolidated Financial Statements

For The Six Months Ended 28 February 2023

1. BASIS OF PREPARATION

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

In preparing the condensed consolidated financial statements, the directors of the Company have given careful consideration of the future liquidity of the Group in light of the fact that its current liabilities exceeded its current assets of RMB1,313 million as at 28 February 2023. The directors of the Company have, at the time of approving the condensed consolidated financial statements, a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The directors of the Company consider that after taking into account the internal fund resources and issuance of bonds subsequent to the end of the reporting period, the Group will have sufficient working capital to satisfy its present requirements for at least twelve months from the date of approval of the condensed consolidated financial statements. Accordingly, the condensed consolidated financial statements have been prepared on a going concern basis.

2. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 28 February 2023 are the same as those presented in the Group's annual financial statements for the year ended 31 August 2022.

In the current interim period, the Group has applied the following amendments to International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standard Board which are mandatory effective for the annual period beginning on or after 1 September 2022 for the preparation of the Group's condensed consolidated financial statements:

Amendments to IFRS 3	Reference to the Conceptual Framework
Amendments to IAS 16	Property, Plant and Equipment — Proceeds before Intended Use
Amendments to IAS 37	Onerous Contracts — Cost of Fulfilling a Contract
Amendments to IFRS Standards	Annual Improvements to IFRS Standards 2018–2020

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

Notes to the Condensed Consolidated Financial Statements

For The Six Months Ended 28 February 2023

3. REVENUE AND SEGMENT INFORMATION

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

Revenue represents services income from education services (including tuition and boarding) and ancillary services.

Information reported to the Group's chief operating decision maker ("CODM"), being the directors of the Company, for the purpose of resource allocation and assessment of segment performance, was based on the categories of education institution, namely higher vocational education, secondary vocational education and global education.

- Higher vocational education institutions mainly deliver bachelor's degree programmes, junior college diploma programmes and continuing education programmes in the PRC;
- Secondary vocational education institutions mainly deliver secondary vocational diploma programmes, post-secondary vocational diploma programmes and technician diploma programmes in the PRC; and
- Global education institutions mainly deliver master's degree programmes, graduate certificate programmes, graduate diploma programmes, bachelor's degree programmes and undergraduate diploma programmes overseas.

The higher vocational education segment and secondary vocational education segment principally derive revenue by provision of education services (including tuition and boarding) and ancillary services while the global education segment principally derives its revenue by provision of tuition services. Each category of institution constitutes an operating segment and reportable segment.

Segment revenues and results

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

	Higher vocational education RMB million	Secondary vocational education RMB million	Global education RMB million	Total RMB million
<i>For the six months ended 28 February 2023 (unaudited)</i>				
Revenue	2,348	320	107	2,775
Segment results	1,143	114	17	1,274
Investment income				43
Other gains and losses				(41)
Finance costs				(190)
Unallocated corporate income and expenses				(17)
Profit before taxation				1,069

Notes to the Condensed Consolidated Financial Statements

For The Six Months Ended 28 February 2023

3. REVENUE AND SEGMENT INFORMATION (Continued)

Segment revenues and results (Continued)

	Higher vocational education RMB million	Secondary vocational education RMB million	Global education RMB million	Total RMB million
<i>For the six months ended</i>				
<i>28 February 2022 (unaudited)</i>				
Revenue	1,947	330	74	2,351
Segment results	931	137	19	1,087
Investment income				23
Other gains and losses				(20)
Fair value change on convertible bonds				318
Finance costs				(135)
Unallocated corporate income and expenses				(44)
Profit before taxation				1,229

The accounting policies of the reportable segments are the same as the Group's accounting policies. Segment results represent the profit earned by each segment without allocation of investment income, other gains and losses, fair value change on convertible bonds, finance costs, corporate income and central administrative expenses. This is the measure reported to the CODM of the Group for the purpose of resource allocation and performance assessment. No analysis of segment assets or segment liabilities is presented as they are not regularly provided to the CODM.

Revenue from major services

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

	Six months ended	
	28 February 2023 RMB million (unaudited)	28 February 2022 RMB million (unaudited)
Education services recognised over time	2,753	2,326
Ancillary services recognised over time	22	25
	2,775	2,351

Notes to the Condensed Consolidated Financial Statements

For The Six Months Ended 28 February 2023

3. REVENUE AND SEGMENT INFORMATION (Continued)

Geographical information

The Group operates in the PRC and Australia.

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

	Revenue from customers Six months ended		Non-current assets (Note)	
	28 February 2023 RMB million (unaudited)	28 February 2022 RMB million (unaudited)	At 28 February 2023 RMB million (unaudited)	At 31 August 2022 RMB million (audited)
The PRC	2,668	2,277	26,998	26,021
Australia	107	74	848	865
Hong Kong	–	–	2	2
	2,775	2,351	27,848	26,888

Note: Non-current assets exclude financial instruments and deferred tax assets.

4. INVESTMENT INCOME

	Six months ended	
	28 February 2023 RMB million (unaudited)	28 February 2022 RMB million (unaudited)
Banks interest income	33	16
Loan receivables interest income	10	7
	43	23

Notes to the Condensed Consolidated Financial Statements

For The Six Months Ended 28 February 2023

5. TAXATION

	Six months ended	
	28 February 2023 RMB million (unaudited)	28 February 2022 RMB million (unaudited)
Income tax charge (credit):		
Current tax		
— Enterprise Income Tax ("EIT")	31	23
— Australian Corporate Income Tax	4	2
Deferred tax	(2)	(3)
	33	22

According to the relevant provisions of the Law for Promoting Private Education and the relevant implementation rules issued from time to time, private schools of which the school sponsors do not require reasonable returns or which schools are elected as to be not-for-profit schools that are eligible to enjoy the same EIT preferential tax treatment for the tuition and certain related incomes as public schools. As a result, private schools, which are providing academic qualification education, are eligible to enjoy income tax preferential treatment if the school sponsors of such schools do not require reasonable returns or the schools elected to be not-for-profit schools.

During the year ended 31 August 2022, the Group submitted the applications for the election for two schools in the PRC for the conversion into for-profit private schools (the "Conversion") in accordance with these laws and regulations. During the six months ended 28 February 2023, the Group submitted the application for the election for one more school in PRC for the Conversion. Other schools of the Group have not yet elected to be for-profit or not-for-profit schools since it was not compulsory to be elected, up to the end of the current reporting period. As at 28 February 2023, the Conversion of these three (at 31 August 2022: two) schools was still in process and the tax positions of these schools and other schools have not been changed.

During the six months ended 28 February 2023 and 2022, except for one school which is chargeable at the standard EIT rate based on the local practice of the region that the school is located, all other schools followed previous EIT preferential treatments for the tuition and certain related incomes according to the current tax practice. Should any school elected and be approved to be for-profit upon completion of the Conversion, the relevant school may not be able to follow previous EIT preferential treatments for the tuition and certain related incomes. Consequently, the discontinuation of the preferential tax treatment would cause an increase in the income tax expense in the future. The Group has considered all relevant facts and circumstances, including the executions and local practices of the relevant provisions of the Law for Promoting Private Education and the relevant implementation rules issued from time to time; the plans for election, progress and results of the Conversion for individual schools of the Group; as well as other relevant tax rules and regulations, when assessing the effect of the estimation uncertainty by using the most likely amounts.

Notes to the Condensed Consolidated Financial Statements

For The Six Months Ended 28 February 2023

6. PROFIT FOR THE PERIOD

	Six months ended	
	28 February 2023 RMB million (unaudited)	28 February 2022 RMB million (unaudited)
Profit for the period has been arrived at after charging(crediting) the following items:		
Staff costs, including directors' remuneration		
— salaries and other allowances	708	571
— retirement benefit scheme contributions	114	98
— share-based payments	17	18
Total staff costs	839	687
Depreciation of property, plant and equipment	317	272
Depreciation of right-of-use assets	29	29
Amortisation of intangible assets (included in cost of revenue)	3	5
Short-term leases expense in respect of rented premises	11	10
Management fee income (included in other income)	(59)	(48)
Government grants (Note) (included in other income)	(26)	(16)

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

Notes to the Condensed Consolidated Financial Statements

For The Six Months Ended 28 February 2023

7. DIVIDENDS

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

	Six months ended	
	28 February 2023 RMB million (unaudited)	28 February 2022 RMB million (unaudited)
Final dividend for the year ended 31 August 2022 of RMB33.57 cents (six months ended 28 February 2022: HK20.2 cents final dividend for the year ended 31 August 2021) per ordinary share	806	395

The 2022 final dividend was settled in cash, with an alternative to receive the dividend (or part thereof) in form of scrip shares. Subsequent to 28 February 2023, the 2022 final dividend has been settled by cash of HK\$931 million (equivalent to RMB825 million) and the issue of 342,088 ordinary shares of the Company.

Subsequent to the end of the current interim period, the directors of the Company have determined that an interim dividend of RMB16.38 cents per ordinary share (the six months ended 28 February 2022: nil) will be paid to the owners of the Company whose names appear in the register of members on 16 June 2023.

Notes to the Condensed Consolidated Financial Statements

For The Six Months Ended 28 February 2023

8. EARNINGS PER SHARE

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

	Six months ended	
	28 February 2023 RMB million (unaudited)	28 February 2022 RMB million (unaudited)
Earnings:		
Profit for the period attributable to owners of the Company for the purposes of calculating basic earnings per share	977	1,169
Effect of dilutive potential ordinary shares:		
Fair value change on convertible bonds	—*	(318)
Profit for the period attributable to owners of the Company for the purpose of calculating diluted earnings per share	977	851
	<i>million</i>	<i>million</i>
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	2,439	2,381
Effect of dilutive potential ordinary shares:		
— share options granted under Pre-IPO Share Option Scheme	—	13
— convertible bonds	—*	164
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	2,439	2,558

* Less than RMB1 million/1 million shares

The weighted average number of ordinary shares for purpose of calculating basic earnings per share for the six months ended 28 February 2023 and 2022 has included the deferred consideration shares of the Company in relation to the acquisition of Long Link Investment Limited ("Long Link") and its subsidiaries during the six months ended 28 February 2023 and 2022 from the acquisition date.

The computation of diluted earnings per share for the six months ended 28 February 2023 did not assume the exercise of the Company's share options granted under the Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme as defined in note 17 (2022: share options granted under the Post-IPO Share Option Scheme) as the adjusted exercise prices of those share options were higher than the average market price of the shares of the Company for the period.

Notes to the Condensed Consolidated Financial Statements

For The Six Months Ended 28 February 2023

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

During the six months ended 28 February 2023, the Group made additions of RMB840 million (six months ended 28 February 2022: RMB722 million) for construction costs for new school premises and student dormitories and RMB252 million (six months ended 28 February 2022: RMB283 million) for acquisition of office equipment, furniture and fixtures and motor vehicles. During the six months ended 28 February 2022, included in additions to property, plant and equipment was also an amount of RMB1,991 million through acquisition of a business.

The Group also made additions of right-of-use assets of RMB151 million (six months ended 28 February 2022: RMB383 million) during the current interim period.

10. TRADE RECEIVABLES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	At 28 February 2023 RMB million (unaudited)	At 31 August 2022 RMB million (audited)
Trade receivables (Note (i))	74	30
Less: allowance for credit losses	(23)	(10)
	51	20
Receivables from education bureaus (Note (i))	69	40
Loan receivables, net of allowance (Note (ii))	195	199
Indemnification assets (Note (iii))	321	343
Amounts due from a vendor of acquired school (Note (iv))	176	167
Deposits (Note (v))	128	157
Other prepayments and receivables, net of allowance (Note (vi))	146	210
	1,086	1,136
Non-current	48	78
Current	1,038	1,058
	1,086	1,136

Notes to the Condensed Consolidated Financial Statements

For The Six Months Ended 28 February 2023

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

Notes:

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

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

	At 28 February 2023 RMB million (unaudited)	At 31 August 2022 RMB million (audited)
0-90 days	15	10
91-120 days	12	15
Over 120 days	93	35
	120	60

- ii. The loan receivables are non-trade in nature, interest bearing 12% (31 August 2022: from 6% to 12%) per annum, unsecured and repayable within twelve months from the end of the reporting period. As at 28 February 2023, the Group granted a loan commitment of RMB168 million (31 August 2022: RMB161 million), of which the entire balance has been drawn down by the counterparty (31 August 2022: RMB9 million has not yet been drawn down).
- iii. Indemnification assets are recognised upon business combination as assets of the Group and on the same basis as the indemnified items, representing provisions for certain compliance matters, which are recognised as liabilities of certain acquisition targets in prior years. The indemnification assets are subject to impairment assessment at the end of the reporting period based on the evaluation of collectability.
- iv. The amounts represent payments made by the Group for settlement of litigation of acquired schools that are recoverable from a vendor pursuant to an acquisition agreement. The amounts are interest-free, unsecured and the management of the Group expects that the amounts would be settled together with deferred consideration payable to the vendor.
- v. As at 28 February 2023, included in the amounts are (i) deposits secured for long-term borrowings under sale and leaseback arrangements that are accounted for as financing arrangements amounting to RMB28 million (31 August 2022: RMB28 million) and (ii) long-term deposits with a bank with original maturity of more than one year amounting to RMB20 million (31 August 2022: RMB50 million). All of these amounts are repayable beyond twelve months after the end of the reporting period and are presented as non-current assets.
- vi. Amount mainly represents prepayments and receivables relating to operations of the Group's schools.

Notes to the Condensed Consolidated Financial Statements

For The Six Months Ended 28 February 2023

11. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	At 28 February 2023 RMB million (unaudited)	At 31 August 2022 RMB million (audited)
Structured deposits (Notes (i) and (ii))	1,213	198
Money market funds (Note (i))	1,298	17
	2,511	215

Notes:

- i. Details of the fair value measurement for the financial assets at fair value through profit or loss ("FVTPL") are set out in note 19. Except for the money market funds of carrying amount of RMB587 million and RMB711 million (31 August 2022: RMB13 million and nil respectively) as at 28 February 2023 which is denominated in United States Dollars ("US\$") and HK\$, respectively, all of the financial assets at FVTPL are denominated in RMB, which is the same as the functional currency of the relevant group entities.
- ii. As at 28 February 2023 and 31 August 2022, the structured deposits were issued by banks and financial institutions in the PRC and Hong Kong.

The expected rates of return (not guaranteed) of the structured deposits depend on the foreign exchange rates and market price of underlying financial instruments, including listed shares, bonds, debentures and other financial assets.

At 28 February 2023, structured deposits of carrying amount of RMB301 million (31 August 2022: RMB55 million) are restricted to redeem from 21 to 189 days (31 August 2022: from 7 to 63 days) from the relevant dates of issuances. Other than these amounts, all of the other structured deposits are redeemable at any time with prior notice.

Notes to the Condensed Consolidated Financial Statements

For The Six Months Ended 28 February 2023

12. TRADE PAYABLES

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

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

	At 28 February 2023 RMB million (unaudited)	At 31 August 2022 RMB million (audited)
0–30 days	7	2
31–90 days	26	31
Over 90 days	25	23
	58	56

13. OTHER PAYABLES, ACCRUED EXPENSES

	At 28 February 2023 RMB million (unaudited)	At 31 August 2022 RMB million (audited)
Discretionary government subsidies receipt in advance (Note (i))	118	177
Receipt on behalf of ancillary services providers	353	369
Long term construction cost payables for school premises (Note (ii))	366	385
Construction cost payables and retention money payables for school premises (Note (iii))	619	660
Accrued staff benefits and payroll	114	146
Fees payable for conversion of certain independent colleges into private universities (Note (iv))	71	125
Deferred cash consideration (Note (v))	387	423
Other tax payables	11	21
Amount due to connected entities of a non-controlling interest (Note (vi))	18	19
Dividend payables	828	–
Other payables and accruals	253	280
	3,138	2,605
Current	2,537	1,992
Non-current	601	613
	3,138	2,605

Notes to the Condensed Consolidated Financial Statements

For The Six Months Ended 28 February 2023

13. OTHER PAYABLES, ACCRUED EXPENSES (Continued)

Notes:

- i. The amounts represent scholarships and government subsidies to be distributed from time to time or upon demand to eligible students and teachers of the schools based mainly on the financial conditions or academic achievements of students and teachers, on behalf of the government.
- ii. Long term construction cost payables for school premises arose from arrangements between the Group and other constructors for building student dormitories and academic building, pursuant to which the constructors are entitled to future cash payments with payment terms ranging from 40 to 42 years after completion of construction, typically with guaranteed amounts and variable premium proportionate to boarding fees and tuition fees earned by respective buildings they constructed and are designated as at FVTPL calculated by discounting the expected future cash flow, with change in fair value recognised in profit or loss. Included in long term construction cost payables for school premises are amounts of RMB366 million (31 August 2022: RMB385 million) which are payable beyond twelve months after the end of the reporting period and are presented as non-current liabilities as at 28 February 2023.
- iii. The construction cost payables and retention money payables for school premises include an amount of RMB94 million (31 August 2022: RMB106 million) which is payable beyond twelve months after the end of the reporting period and presented as non-current liabilities as at 28 February 2023.
- iv. The amount includes fees payable for conversions of two schools from independent colleges into full private universities. Included in the amount is RMB43 million (31 August 2022: RMB52 million) which is payable beyond twelve months after the end of the reporting period and is presented as non-current liabilities as at 28 February 2023.
- v. The amounts represent consideration payables for the acquisitions of certain schools in prior years. Amount of RMB317 million (31 August 2022: RMB353 million) are repayable within twelve months after the end of the reporting period in accordance with acquisition agreements were included in other payables as current liabilities. The remaining amount is included as non-current liabilities which are repayable beyond twelve months after the end of the reporting period.

Including in the balance as at 31 August 2022 was RMB7 million classified as financial liabilities at FVTPL while the remaining balances are measured at amortised cost. The entire balance as at 28 February 2023 are measured at amortised cost.

- vi. The entire amounts as at 28 February 2023 and 31 August 2022 represent payables to entities controlled by a substantial shareholder of a non-controlling interest of a subsidiary of the Company, and are interest-free, unsecured and repayable within twelve months from the end of reporting period.

Notes to the Condensed Consolidated Financial Statements

For The Six Months Ended 28 February 2023

14. PROVISIONS

The amount of provisions assumed through acquisitions of businesses, representing (a) provisions for compliance matters, mainly on social insurance benefit, housing provident fund, lack of building ownership certificates for certain school premises and idle lands, and (b) provisions for legal cases, is the best estimate of the considerations required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. The aforementioned compliance matters and legal cases are indemnified by respective vendors. Indemnification assets as set out in note 10 are recognised upon acquisitions of businesses in prior years and adjusted according to subsequent development of the indemnified matters.

	Compliance matters RMB million	Legal cases RMB million	Total RMB million
At 28 February 2023 (unaudited)	253	96	349
At 31 August 2022 (audited)	253	118	371

15. BANK AND OTHER BORROWINGS AND BONDS

	At 28 February 2023 RMB million (unaudited)	At 31 August 2022 RMB million (audited)
Bank borrowings		
— secured	4,673	3,943
— unsecured	1,167	2,505
Other borrowings		
— secured	1,976	1,888
— unsecured	110	57
Guaranteed bonds due in 2025		
— guaranteed and unsecured	497	495
Total	8,423	8,888
Current	2,325	1,831
Non-current	6,098	7,057
	8,423	8,888
Variable-rate borrowings	4,980	4,731
Fixed-rate borrowings	3,443	4,157
	8,423	8,888

Notes to the Condensed Consolidated Financial Statements

For The Six Months Ended 28 February 2023

15. BANK AND OTHER BORROWINGS AND BONDS (Continued)

The variable-rate bank and other borrowings carried interest with reference to the Benchmark Borrowing Rate of The People's Bank of the PRC, Loan Prime Rate of The People's Bank of the PRC or London Interbank Offered Rate. The range of effective interest rates on the Group's borrowings are as follows.

	At 28 February 2023 (unaudited)	At 31 August 2022 (audited)
Effective interest rate:		
Fixed-rate borrowings	3.55 % to 10.00%	3.40% to 10.00%
Variable-rate borrowings	2.41% to 6.00%	2.41% to 6.18%

As at 28 February 2023 and 31 August 2022, secured bank borrowings are secured by tolling right of tuition fee, boarding fee and ancillary income of certain schools of the Group and equity interest of several subsidiaries and consolidated affiliated entities of the Company while secured other borrowings are secured by tolling rights of tuition fee, boarding fee and ancillary income of certain schools of the Group, deposits and plant and equipment under sale and leaseback arrangements and equity interest of a subsidiary of the Company.

16. SHARE CAPITAL

	Number of shares	Share capital HK\$
Ordinary shares of HK\$0.00001 each		
Authorised		
At 1 September 2021, 28 February 2022, 1 September 2022 and 28 February 2023	50,000,000,000	500,000
Issued and fully paid		
As 1 September 2021	2,272,952,000	22,729
Issue of new shares (Note (i))	78,000,000	780
Acquisition of a business (Note (iii))	38,309,387	383
At 28 February 2022	2,389,261,387	23,892
As 1 September 2022	2,387,070,387	23,871
Issue of new shares (Note (iii))	147,000,000	1,470
Issue of deferred consideration shares (Note (ii))	20,687,068	207
Repurchase of shares (Note (iv))	(3,923,000)	(39)
Exercise of share options	250,000	2
At 28 February 2023	2,551,084,455	25,511

Notes to the Condensed Consolidated Financial Statements

For The Six Months Ended 28 February 2023

16. SHARE CAPITAL (Continued)

Notes:

- i. On 19 October 2021, the Company entered into placing agreements (the "2021 Placing Agreements") with Blue Sky Education International Limited and White Clouds Education International Limited (collectively, the "Vendors") and an placing agent and subscription agreements (the "2021 Subscription Agreements") with the Vendors, pursuant to which the placing agent agreed to place 78,000,000 existing shares to certain placees at HK\$15.10 per share (the "2021 Placing"), and the Vendors agreed to subscribe for 78,000,000 new shares of the Company at HK\$15.10 per share (the "2021 Subscription"), respectively. The 2021 Placing and the 2021 Subscription were completed on 22 October 2021 and 27 October 2021 respectively, in accordance with the terms and conditions of the 2021 Placing Agreements and the 2021 Subscription Agreements. The proceeds, net of related fees and expenses, from the 2021 Subscription amounted to HK\$1,170 million (equivalent to RMB975 million). The new shares rank pari passu with the existing shares in all respects.
- ii. On 26 July 2021, the Group has entered into the an acquisition agreement in respect of the acquisition of entire equity interest in Long Link. Part of the consideration is 58,996,455 shares of the Company at the contractual issue price of HK\$15.69 per share. Certain conditions have to be fulfilled or waived before the Company issues these shares. On 2 September 2021, 38,309,387 of these consideration shares have been allotted and issued. The excess of the quoted market price at the acquisition date of the 38,309,387 shares amounting to RMB424 million over the par value has been credited to the share premium.

On 13 January 2023, the remaining 20,687,068 of these consideration shares have been allotted and issued. The excess of the quoted market price at the acquisition date of the 20,687,068 shares amounting to RMB229 million over the par value has been credited to the share premium. The new shares rank pari passu with the existing shares in all respects.
- iii. On 9 January 2023, the Company entered into the placing agreements (the "2023 Placing Agreements") with the Vendors and an placing agent and a subscription agreement (the "2023 Subscription Agreement") with the Vendors, pursuant to which the placing agent agreed to place 147,000,000 existing shares to certain placees at HK\$10.94 per share (the "2023 Placing"), and the Vendors agreed to subscribe for 147,000,000 new shares of the Company at HK\$10.94 per share (the "2023 Subscription"), respectively. The 2023 Placing and the 2023 Subscription were completed on 12 January 2023 and 17 January 2023 respectively, in accordance with the terms and conditions of the 2023 Placing Agreements and the 2023 Subscription Agreement. The proceeds, net of related fees and expenses, from the 2023 Subscription amounted to HK\$1,598 million (equivalent to RMB1,406 million). The new shares rank pari passu with the existing shares in all respects.
- iv. During the current interim period, the Company repurchased a total of 3,923,000 its own ordinary shares through the Stock Exchange in September 2022 with price per share ranging from HK\$5.35 to HK\$6.28 per share for an aggregate consideration of RMB20 million. These shares have been cancelled before the end of the reporting period.

Notes to the Condensed Consolidated Financial Statements

For The Six Months Ended 28 February 2023

17. SHARE-BASED PAYMENTS

(a) Share option schemes of the Company

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

Pre-IPO Share Option Scheme

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

As at 28 February 2023, the number of shares in respect of which options had been granted and outstanding under the Pre-IPO Share Option Scheme was 28,675,000 (31 August 2022: 28,925,000) representing 1.12% (31 August 2022: 1.21%) of the shares of the Company in issue at that date.

During the six months ended 28 February 2023, the Group recognised a total expense of RMB16 million (six months ended 28 February 2022: RMB16 million) for the remaining unvested share options based on the managements estimation of the share options that will eventually be vested. 250,000 share options have been exercised while no share option has been granted, cancelled or lapsed during the current interim period under Pre-IPO Share Option Scheme.

Post-IPO Share Option Scheme

The Post-IPO Share Option Scheme was adopted pursuant to a resolution passed on 29 November 2017 for the primary purpose of providing incentives to employee, director, officer, consultant, advisor, distributor, contractor, customer, supplier, agent, business partner, joint venture business partner or service provider of any member of the Group or any affiliate who the directors of the Company consider, in its sole discretion, to have contributed or will contribute to the Group is entitled to be offered and granted options, and is valid and effective from 10 years the date of listing of the Company's share on the Main Board of the Stock Exchange (the "Listing"). Under the Post-IPO Share Option Scheme, the total number of ordinary shares which may be issued upon exercise of all options to be granted under the Post-IPO Share Option Scheme and any other schemes is 200,000,000, being no more than 10% of the ordinary shares in issue on the date of Listing. The overall limit on the number of ordinary shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Post-IPO Share Option Scheme and any other share option schemes of the Company at any time must not exceed 30% of the ordinary shares in issue from time to time (the "Post-IPO Option Scheme Limit"). Post-IPO Share Option Scheme Limit may be refreshed at any time by obtaining prior approval of the shareholders of the Company in general meeting. However, Post-IPO Share Option Scheme Limit cannot exceed 10% of the ordinary shares in issue as at the date of such approval.

Notes to the Condensed Consolidated Financial Statements

For The Six Months Ended 28 February 2023

17. SHARE-BASED PAYMENTS (Continued)

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

Post-IPO Share Option Scheme (Continued)

At 28 February 2023, the number of shares in respect of which options had been granted and remained outstanding under the Post-IPO Share Option Scheme was 3,850,000 (31 August 2022: 3,850,000), representing 0.15% (31 August 2022: 0.16%) of the shares of the Company in issue at that date. No share options are granted, lapsed, exercised or cancelled during the six months ended 28 February 2023.

During the six months ended 28 February 2023, the Group recognised a total expense of RMB1 million (six months ended 28 February 2022: RMB2 million) in relation to share options granted under Post-IPO Share Option Scheme by the Company.

(b) Share award scheme of the Company

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

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

18. CAPITAL COMMITMENTS

	At 28 February 2023 RMB million (unaudited)	At 31 August 2022 RMB million (audited)
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of the acquisition of property, plant and equipment and right-of-use assets	1,070	1,370

As at 31 August 2022, the Group also committed for an undrawn loan commitment of RMB9 million.

Notes to the Condensed Consolidated Financial Statements

For The Six Months Ended 28 February 2023

19. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

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

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

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

Financial instruments	Fair value		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
	At 28 February 2023 RMB million (unaudited)	At 31 August 2022 RMB million (audited)				
Financial assets						
Financial assets at FVTPL (Structured deposits)	1,213	198	Level 3	Discounted cash flow — Future cash flows are estimated based on estimated return, and discounted at a rate that reflects the credit risk of various counterparties.	Estimated return and discount rate	The higher the estimated return, the higher the fair value, vice versa (Note (i)) The higher the discount rate, the lower the fair value, vice versa (Note (i))
Financial assets at FVTPL (Money market funds)	1,298	17	Level 2	Quoted price from financial institutions	N/A	N/A

Notes to the Condensed Consolidated Financial Statements

For The Six Months Ended 28 February 2023

19. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (Continued)

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

Financial instruments	Fair value		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
	At 28 February 2023 RMB million (unaudited)	At 31 August 2022 RMB million (audited)				
Financial liabilities						
Financial liabilities designated as at FVTPL (Convertible bonds)	3	3	Level 3	Binomial model, the key inputs are: — underlying share price, conversion price, risk free interest rate, time to maturity, expected volatility of share price, discount rate, and expected dividend yield.	Expected volatility of share price and discount rate taking into account the historical share price of the Company for the period of time close to the expected time to exercise	The higher the volatility, the higher the fair value, vice versa (Note (i)) The higher the discount rate, the lower the fair value, vice versa (Note (i))
Financial liabilities at FVTPL (Deferred cash consideration for business acquisitions)	N/A	7	Level 3	Discounted cash flow — Future cash flows are estimated based on estimated cash outflow and discounted at an appropriate rate.	Expected cash outflow and discount rate	The higher the cash outflow, the higher the fair value, vice versa (Note (i)) The higher the discount rate, the lower the fair value, vice versa (Note (i))
Long term construction cost payables for school premises	366	385	Level 3	Discounted cash flow — Future cash flows are estimated based on estimated cash outflow and discounted at an appropriate rate.	Expected cash outflow and discount rate	The higher the expected cash outflow, the higher the fair value, vice versa (Note (ii)) The higher the discount rate, the lower the fair value, vice versa (Note (iii))

Notes:

- i. No sensitivity analysis has been presented as changes in fair values due to changes in the unobservable inputs above are insignificant.
- ii. As at 28 February 2023, if the expected variable cash outflow was 5% higher/lower and the other variables were held constant, the total carrying amount of long term construction costs payables for school premises would increase/decrease by RMB4 million/RMB5 million (31 August 2022: RMB3 million/RMB5 million), respectively.
- iii. As at 28 February 2023, if the discount rate was 5% higher/lower and the other variables were held constant, the total carrying amount of long term construction costs payables for school premises would decrease/increase by RMB17 million/RMB18 million (31 August 2022: RMB18 million/RMB18 million), respectively.

Notes to the Condensed Consolidated Financial Statements

For The Six Months Ended 28 February 2023

19. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (Continued)

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

Reconciliation of Level 3 Measurements

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

	Structured deposits RMB million	Convertible bonds RMB million	Deferred cash considerations RMB million	Long term construction cost payables for school premises RMB million	Total RMB million
At 1 September 2021 (audited)	795	(2,244)	(9)	(419)	(1,877)
Settlement of contingent considerations	–	–	5	–	5
Acquisition of a business	200	–	–	–	200
Fair value change	18	317	–	(21)	314
Interest paid	–	16	–	–	16
Finance costs	–	–	(1)	–	(1)
Settlement of long-term construction cost payables for school premises	–	–	–	37	37
Purchase of structured deposits	10,368	–	–	–	10,368
Redemption of structured deposits	(9,673)	–	–	–	(9,673)
Repurchase of convertible bonds	–	564	–	–	564
Gain on repurchase of convertible notes	–	1	–	–	1
At 28 February 2022 (unaudited)	1,708	(1,346)	(5)	(403)	(46)

Notes to the Condensed Consolidated Financial Statements

For The Six Months Ended 28 February 2023

19. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (Continued)

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

Reconciliation of Level 3 Measurements (Continued)

	Structured deposits RMB million	Convertible bonds RMB million	Deferred cash considerations RMB million	Long term construction cost payables for school premises RMB million	Total RMB million
At 1 September 2022 (audited)	198	(3)	(7)	(385)	(197)
Settlement of contingent considerations	-	-	7	-	7
Fair value change	11	-	-	(20)	(9)
Settlement of long-term construction cost payables for school premises	-	-	-	39	39
Purchase of structured deposits	1,544	-	-	-	1,544
Redemption of structured deposits	(540)	-	-	-	(540)
At 28 February 2023 (unaudited)	1,213	(3)	-	(366)	844

Fair value changes on structured deposits, deferred cash considerations and long-term construction cost payables for school premises are presented in "other gains and losses" line item while fair value change on convertible bonds is presented separately in the condensed consolidated statement of profit or loss and other comprehensive income.

The board of directors of the Company designates a team headed up by the chief financial officer of the Company to determine the appropriate valuation techniques and inputs for fair value measurements.

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

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

Fair value of the Group's financial assets and liabilities that are recorded at amortised cost

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

Notes to the Condensed Consolidated Financial Statements

For The Six Months Ended 28 February 2023

20. RELATED PARTY DISCLOSURES

Compensation of key management personnel

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

	Six months ended	
	28 February 2023 RMB million (unaudited)	28 February 2022 RMB million (unaudited)
Short-term benefits	8	9
Expense of share-based payments	13	17
	21	26

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

21. EVENT AFTER REPORTING PERIOD

Bonds in an aggregate principal amount of RMB500 million were issued by the Company subsequent to 28 February 2023, which are due in 2026, bearing interest at the rate of 4.0% per annum and are guaranteed by Credit Guarantee and Investment Facility (the "Guaranteed Bonds"). The Guaranteed Bonds are listed on the Singapore Exchange Securities Trading Limited.

Glossary

"affiliate"	with respect to any specified person, any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person
"Blue Sky"	Blue Sky Education International Limited (藍天教育國際有限公司), a controlling shareholder of the Company
"Board"	the board of directors of the Company
"China" or "PRC"	the People's Republic of China and for the purposes of this document only, except where the context requires otherwise, references to China or the PRC exclude Hong Kong, Macau and Taiwan
"Company"	China Education Group Holdings Limited (中國教育集團控股有限公司), an exempted company incorporated in the Cayman Islands with limited liability, the issued shares of which are listed on the Main Board of the Stock Exchange
"controlling shareholders"	has the meaning ascribed to it under the Listing Rules
"Director(s)"	the director(s) of the Company
"Group", "we", "us", or "our"	the Company, its subsidiaries and its consolidated affiliated entities from time to time
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China
"Hong Kong dollars" or "HK\$"	Hong Kong dollars, the lawful currency of Hong Kong
"Huafang Education"	Huafang Education Investment Group (Ganzhou) Company Limited (華方教育投資集團(贛州)有限公司), one of our consolidated affiliated entities
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"Model Code"	Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules
"Nanchang Jiangke"	Nanchang Jiangke Education Investment Co., Ltd. (南昌江科教育投資有限公司), one of our consolidated affiliated entities
"MOE"	the Ministry of Education of the PRC (中華人民共和國教育部)
"RMB" or "Renminbi"	Renminbi, the lawful currency of China

Glossary

“Securities and Futures Ordinance” or “SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shareholder(s)”	holder(s) of our Share(s)
“Shares”	the ordinary share(s) in the capital of the Company with a par value of HK\$0.00001 each
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed thereto in section 15 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong)
“United States” or “US”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
“US dollars”	United States dollars, the lawful currency of the United States
“White Clouds”	White Clouds Education International Limited (白雲教育國際有限公司), a controlling shareholder of the Company
“%”	per cent

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