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CHINA YUHUA EDUCATION CORPORATION LIMITED

中国宇华教育集团有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 6169)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 AUGUST 2018

HIGHLIGHTS

The board (the “**Board**”) of directors (the “**Directors**”) of China YuHua Education Corporation Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) is pleased to announce the audited consolidated annual results of the Group for the year ended 31 August 2018 (the “**Reporting Period**”). These annual results have been reviewed by the Company’s audit committee and the Company’s auditors, PricewaterhouseCoopers.

The financial results of LEI Lie Ying Limited and its subsidiaries (including Hunan International Economics University) have been consolidated into the Group’s financial results since 1 January 2018.

(RMB '000)	Year ended 31 August		Change
	2018	2017	
Revenue	1,195,110	846,222	+41%
Gross Profit	670,723	435,758	+54%
Net Profit attributable to owners of the Company	530,812	313,801	+69%
Adjusted Gross Profit ¹	700,349	461,415	+52%
Adjusted Net Profit attributable to owners of the Company ²	609,100	408,652	+49%

Notes:

- (1) The Adjusted Gross Profit for the year ended 31 August 2018 is calculated as gross profit for the period, excluding the impact from share-based expense (in cost of revenue) and additional depreciation and amortization due to the fair value adjustments to the acquired identifiable assets of LEI Lie Ying Limited. For the calculation of the Adjusted Gross Profit for the year ended 31 August 2017, please refer to the Company’s annual results announcement for the year ended 31 August 2017.
- (2) The Adjusted Net Profit attributable to owners of the Company for the year ended 31 August 2018 is calculated as the profit for the period, excluding the impact from share-based compensation expense, additional depreciation and amortization due to the fair value adjustments to the acquired identifiable assets of LEI Lie Ying Limited, derecognition of deferred tax assets due to the changes in applied taxation rate of LEI Lie Ying Limited from 1 January 2018, government grants recognised during the period, compensation for the realisation of security interests and waiver of the payable by the selling shareholder. For the calculation of the Adjusted Net Profit for the year ended 31 August 2017, please refer to the Company’s annual results announcement for the year ended 31 August 2017.

Non-IFRS Measures

To supplement the Group's consolidated financial statements which are presented in accordance with the International Financial Reporting Standards ("IFRS"), the Company also uses Adjusted Gross Profit, Adjusted Net Profit and other adjusted figures as additional financial measures, which are not required by, or presented in accordance with, IFRS. The Company believes that these non-IFRS measures facilitate comparisons of operating performance from period to period and company to company by eliminating potential impacts of items that the management do not consider to be indicative of the Group's operating performance. The Company believes that these measures provide useful information to shareholders and potential investors in understanding and evaluating the Group's consolidated results of operations in the same manner as they help the Group's management. However, the Company's presentation of such adjusted figures may not be comparable to a similarly titled measure presented by other companies. The use of these non-IFRS measures have limitations as an analytical tool, and you should not consider it in isolation from, or as substitute for analysis of, the Company's results of operations or financial condition as reported under IFRS.

(RMB '000)	Year ended 31 August		Change
	2018	2017	
Adjusted Items:			
One-off Listing Expense	—	24,503	-24,503
Share-based compensation expense (in cost of revenue)	16,823	25,657	-8,834
Share-based compensation expense (in administrative expense)	45,715	65,921	-20,206
Additional depreciation and amortisation due to the fair value adjustments to the acquired identifiable assets of LEI Lie Ying Limited	12,803	—	+12,803
Derecognition of deferred tax assets due to the changes in applied taxation rate of LEI Lie Ying Limited from 1 January 2018	9,018	—	+9,018
Government grants	-13,442	-21,230	+7,788
Compensation for the realisation of security interests	-134,797	—	-134,797
Waiver of the payable by the selling shareholder	108,275	—	+108,275

CONSOLIDATED STATEMENT OF PROFIT AND LOSS

		Year ended 31 August	
	Note	2018	2017
		<i>RMB'000</i>	<i>RMB'000</i>
Revenue	5	1,195,110	846,222
Cost of revenue	8	(524,387)	(410,464)
Gross profit		670,723	435,758
Selling expenses	8	(6,522)	(3,755)
Administrative expenses	8	(132,631)	(147,203)
Other income	6	16,081	22,870
Other gains — net	7	31,714	1,060
Operating profit		579,365	308,730
Finance income	10	23,813	15,527
Finance expenses	10	(11,218)	(10,456)
Finance income — net		12,595	5,071
Profit before income tax		591,960	313,801
Income tax expense	11	(3,726)	—
Profit for the year		588,234	313,801
Profit attributable to:			
Owners of the Company		530,812	313,801
Non-controlling interests		57,422	—
		588,234	313,801
Earnings per share attributable to owners of the Company (RMB Yuan)			
Basic earnings per share	12	0.17	0.12
Diluted earnings per share	12	0.16	0.12

CONSOLIDATED BALANCE SHEET

		As at 31 August	
	Note	2018	2017
		RMB'000	RMB'000
Assets			
Non-current assets			
Prepaid land lease payments	13	793,175	236,322
Property, plant and equipment	14	2,239,853	1,477,434
Intangible assets	15	756,001	1,689
Other non-current assets	17	37,107	17,687
Total non-current assets		3,826,136	1,733,132
Current assets			
Trade and other receivables	18	27,104	12,944
Financial assets at fair value through profit or loss	19	—	153,114
Cash and cash equivalents	20(a)	1,593,177	642,506
Restricted cash	20(b)	270,963	587
Term deposits with initial term of over three months	21	414,680	832,237
Total current assets		2,305,924	1,641,388
Total assets		6,132,060	3,374,520
Equity and liabilities			
Equity attributable to owners of the Company			
Share capital	23	28	26
Share premium	23	2,130,457	1,318,313
Reserves	24	582,779	516,564
Retained earnings		762,140	642,193
Non-controlling interests		283,779	—
Total equity		3,759,183	2,477,096
Liabilities			
Non-current liabilities			
Borrowings	28	90,988	—
Deferred tax liabilities	16	246,870	—
Deferred income		375	—
Total non-current liabilities		338,233	—
Current liabilities			
Accruals and other payables	26	633,050	265,713
Deferred revenue	27	956,541	631,711
Borrowings	28	438,464	—
Provisions	29	6,589	—
Total current liabilities		2,034,644	897,424
Total liabilities		2,372,877	897,424
Total equity and liabilities		6,132,060	3,374,520

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

		Attributable to owners of the Company									
		Share capital	Share premium	Capital reserve	Statutory surplus reserve	Share-based payments reserve	Treasury shares	Translation reserve	Retained earnings	Non-controlling interests	Total
Note		(Note 23)	(Note 23)	(Note 24)	(Note 24)	(Note 24)	(Note 24)	(Note 24)			
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 September 2016		65	—	150,000	236,557	—	—	—	523,026	—	909,648
Comprehensive income											
Profit for the year		—	—	—	—	—	—	—	313,801	—	313,801
Other comprehensive income											
Currency translation differences		—	—	—	—	—	—	(59,213)	—	—	(59,213)
Transactions with equity holders											
Capital contribution from the Controlling Shareholder		19	—	—	—	—	—	—	—	—	19
Repurchase of shares		(65)	—	46	—	—	—	—	—	—	(19)
Profit appropriation to statutory surplus reserves		—	—	—	97,596	—	—	—	(97,596)	—	—
Issuance of ordinary shares relating to initial public offering, net of underwriting commissions and other issuance costs		7	1,318,313	—	—	—	—	—	—	—	1,318,320
Dividends relating to the year		39	—	—	—	—	—	—	(97,038)	—	(97,038)
Share-based compensation		25	—	—	—	91,578	—	—	—	—	91,578
Total transactions with equity holders		(39)	1,318,313	46	97,596	91,578	—	—	(194,634)	—	1,312,860
At 31 August 2017		26	1,318,313	150,046	334,153	91,578	—	(59,213)	642,193	—	2,477,096
At 1 September 2017		26	1,318,313	150,046	334,153	91,578	—	(59,213)	642,193	—	2,477,096
Comprehensive income											
Profit for the year		—	—	—	—	—	—	—	530,812	57,422	588,234
Other comprehensive income											
Currency translation differences		—	—	—	—	—	—	(7,247)	—	—	(7,247)
Transactions with equity holders											
Acquisition of subsidiaries		34	—	—	—	—	—	—	—	226,357	226,357
Placing of new shares		23(f)	2	785,948	—	—	—	—	—	—	785,950
Purchase of treasury shares		25(a)	—	—	—	—	(134,721)	—	—	—	(134,721)
Profit appropriation to statutory surplus reserves		—	—	—	171,841	—	—	—	(171,841)	—	—
Exercise of Share-based payment		—	26,196	—	—	(26,196)	—	—	—	—	—
Dividends distribution		39	—	—	—	—	—	—	(239,024)	—	(239,024)
Share-based compensation		25	—	—	—	62,538	—	—	—	—	62,538
Total transactions with equity holders		2	812,144	—	171,841	36,342	(134,721)	—	(410,865)	226,357	701,100
At 31 August 2018		28	2,130,457	150,046	505,994	127,920	(134,721)	(66,460)	762,140	283,779	3,759,183

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Note	Year ended 31 August 2018 RMB'000	2017 RMB'000
Cash flows from operating activities			
Cash generated from operations	30	767,925	526,460
Interest paid		(12,259)	(10,654)
Income tax paid		(5,884)	—
Net cash generated from operating activities		749,782	515,806
Cash flows from investing activities			
Refund of prepaid land lease payments		—	48,472
Purchases of property, plant and equipment		(58,154)	(87,941)
Payment of prepaid land lease payments		(40,048)	(16,821)
Proceeds from disposal of property, plant and equipment	30	459	835
Prepayment of the acquisition of a high school	17(a)	(21,420)	—
Compensation for the realisation of security interests	7(b)	134,797	—
Purchases of intangible assets		(1,661)	(177)
Purchases of financial assets at fair value through profit or loss		(873,800)	(328,000)
Disposal of financial assets at fair value through profit or loss		1,033,491	176,292
Payments for the assignment of creditor's rights	34(c)	(214,841)	—
Acquisition of LEI Lie Ying Limited, net of cash acquired	34	(685,866)	—
Purchases of term deposits with initial term of over three months		(383,236)	(869,616)
Disposal of term deposits with initial term of over three months		799,648	—
Changes in restricted cash		(272,452)	(587)
Interest received		20,819	1,116
Net cash used in investing activities		(562,264)	(1,076,427)
Cash flows from financing activities			
Proceeds from issuance of shares upon the initial public offering		—	1,361,918
Payment of front-end fee of loan	28(a)	(5,158)	—
Payment of share issuance cost		(13,841)	(36,513)
Placing of new shares	23(f)	794,777	—
Purchase of treasury stock	25(a)	(134,721)	—
Proceeds from borrowings		400,000	30,000
Repayments of borrowings		(35,000)	(345,000)
Borrowings from related parties	35(a)	—	6,864
Repayments of borrowings to related parties	35(a)	—	(6,864)
Finance lease payments		(3,464)	—
Dividends paid to shareholders of the Company		(239,024)	(97,038)
Net cash generated from financing activities		763,569	913,367
Net increase in cash and cash equivalents		951,087	352,746
Cash and cash equivalents at the beginning of year		642,506	304,986
Exchange losses on cash and cash equivalents		(416)	(15,226)
Cash and cash equivalents at the end of year		1,593,177	642,506

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 August	
	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
Profit for the year	588,234	313,801
Other comprehensive loss		
<i>Items that may not be reclassified to profit or loss:</i>		
Currency translation differences	(7,247)	(59,213)
Other comprehensive loss for the year, net of tax	(7,247)	(59,213)
Total comprehensive income for the year	580,987	254,588
Total comprehensive income for the year attributable to:		
Owners of the Company	523,565	254,588
Non-controlling interests	57,422	—
	580,987	254,588

1 General information

China YuHua Education Corporation Limited (“**the Company**”) was incorporated in the Cayman Islands on 25 April 2016 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of the Company’s registered office is at the offices of Maples Corporate Services Limited at PO Box 309, Ugland House, Grand Cayman, KY1-1104, the Cayman Islands. The Company is an investment holding company and its subsidiaries (collectively referred to as the “**Group**”) provide private formal full-coverage education services in the People’s Republic of China (the “**PRC**”).

The ultimate holding company of the Company is GuangYu Investment Holdings Limited (“**GuangYu Investment**”). The ultimate controlling party of the Group is Mr. Li Guangyu, who is also the executive Director and chairman of the Board of the Company (the “**Mr. Li**” or the “**Controlling Shareholder**”).

The shares of the Company have been listed on the Main Board of The Stock Exchange of Hong Kong Limited since 28 February 2017 (the “**Listing**”) by way of its initial public offering (the “**IPO**”).

The financial statements are presented in Renminbi (“**RMB**”) and rounded to nearest thousand yuan, unless otherwise stated.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of the consolidated financial statements are set out below. These policies have been consistently applied to the years presented, unless otherwise stated.

The consolidated financial statements of the Company have been prepared in accordance with all applicable International Financial Reporting Standards (“**IFRS**”) and requirements of the Hong Kong Companies ordinance (Cap. 622 of the Laws of Hong Kong). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss, which are carried at fair value.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

2.1 Basis of preparation

2.1.1 Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 September 2017:

- *Amendments to IAS 7 — Disclosure initiative*
- *Amendments to IAS 12 — Recognition of Deferred Tax Assets for Unrealised Losses*

The adoption of these amendments did not have any impact on the amounts recognised in prior periods, and the current or future periods either.

The amendments to IAS 7 require disclosure of changes in liabilities arising from financing activities, see note 30(b).

(b) New standards and interpretations not yet adopted

		Effective for accounting periods beginning on or after
IFRS 9	Financial Instruments	1 January 2018
IFRS 15	Revenue from Contracts with Customers	1 January 2018
IFRS 16	Leases	1 January 2019
IFRS 17	Insurance Contracts	1 January 2021
IFRIC 22	Foreign Currency Transactions and Advance Consideration	1 January 2018
IFRIC 23	Uncertainty over Income Tax Treatments	1 January 2019
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions	1 January 2018
Amendments to IFRS 4	Insurance Contracts	1 January 2018 or when the entity first applies IFRS 9
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined
Amendments to IAS 40	Transfers of Investment Property	1 January 2018

The Group has not early adopted the abovementioned new or amended standards and interpretations in this consolidated financial statements and will apply these new or amended standards and interpretations in accordance with their respective effective dates. The Group has already commenced an assessment of the related impact to the Group of these standards and interpretation, in particular IFRS 9, IFRS 15 and IFRS 16 as follows:

(i) *IFRS 9 Financial instruments*

Nature of change

IFRS 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

Impact

The Group has reviewed its financial assets and liabilities and is expecting the following impact from the adoption of the new standard on 1 September 2018:

The Group does not expect the new guidance to have a significant impact on the classification and measurement of its financial assets because the investments currently measured at fair value through profit or loss (FVPL) will likely continue to be measured on the same basis under IFRS 9.

There will be no impact on the Group's accounting for financial liabilities. Convertible bonds will likely be measured on the same basis under IFRS 9. The derecognition rules have been transferred from IAS 39 "Financial Instruments: Recognition and Measurement" and have not been changed.

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at fair value through other comprehensive income (FVOCI), contract assets under IFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts. The management does not expect the adoption of the new impairment model will have a material impact on the Group.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

Date of adoption by the Group

Must be applied for financial years commencing on or after 1 January 2018. The Group will apply the new rules retrospectively from 1 September 2018, with the practical expedients permitted under the standard. Comparatives for the year ended 31 August 2018 will not be restated.

(ii) IFRS 15 Revenue from contracts with customers

Nature of change

The International Accounting Standards Board has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers revenue arising from the sale of goods and the rendering of services and IAS 11 which covers construction contracts and the related literature.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer.

The standard permits either a full retrospective or a modified retrospective approach for the adoption.

Impact

Based on the assessment up to this stage, management does not expect the adoption of the new standard will have a material impact on the Group.

Date of adoption by the Group

Mandatory for financial years commencing on or after 1 January 2018. The Group intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in retained earnings as of 1 September 2018 and that comparatives will not be restated.

(iii) IFRS 16 Leases

Nature of change

IFRS 16 was issued in January 2016. It will results in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases which will be recognised on a straight-line basis as an expense in profit or loss.

The accounting for lessors will not significantly change.

Impact

The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of RMB43,136,000 (Note 31). Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under IFRS 16.

However, the Group has not yet assessed what other adjustments, if any, are necessary for example because of the change in the definition of the lease term and the different treatment of variable lease payments and of extension and termination options. It is therefore not yet possible to estimate the amount of right-of-use assets and lease liabilities that will have to be recognised on adoption of the new standard and how this may affect the Group's profit or loss and classification of cash flows going forward.

Mandatory application date

Mandatory for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

2.2 Subsidiaries

2.2.1 Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

(a) *Business combination*

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by IFRS.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 in profit or loss. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated statement of profit or loss.

Intra-group transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

(b) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions — that is, as transactions with the owner in their capacity as owner. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(c) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities or transferred to another category of equity as specified/permitted by applicable IFRS. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

2.2.2 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the senior executive management team, including the Controlling Shareholder and other Directors that make strategic decisions.

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("**the functional currency**"). Since the majority of the assets and operations of the Group are located in the PRC, the consolidated financial statements is presented in RMB, which is the functional currency of the subsidiaries carrying out the principle activities of the Group in the mainland of the PRC. The functional currency of the Company and subsidiaries outside mainland of the PRC is HK Dollar ("**HKD**").

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of comprehensive income, except when deferred in other comprehensive income as qualifying cash flow hedges or qualifying net investment hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated statement of profit or loss within 'finance income or expenses'. All other foreign exchange gains and losses are presented in the consolidated statement of profit or loss within 'Other gains — net'.

Changes in the fair value of debt securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available for sale, are included in other comprehensive income.

(c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- (iii) all resulting currency translation differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Currency translation differences arising are recognised in other comprehensive income.

2.5 Property, plant and equipment

Property, plant and equipment comprise mainly buildings, leasehold improvements, motor vehicles, electronic equipment, furniture and fixtures are stated at historical cost less accumulated depreciation and accumulated impairment losses (if any). Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the consolidated statement of profit or loss during the financial period in which they are incurred.

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

— Buildings	25–50 years
— Leasehold improvements	Shorter of lease terms and estimated useful lives
— Motor vehicles	5–6 years
— Electronic equipment	4–6 years
— Furniture and fixture	5–6 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.8).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Other gains — net' in the consolidated statement of profit or loss.

Construction-in-progress ("CIP") represents buildings, plant and machinery under construction or pending installation and is stated at cost less accumulated impairment losses (if any). Cost includes the costs of construction and acquisition and capitalised borrowing costs. No provision for depreciation is made on CIP until such time as the relevant assets are completed and ready for intended use. When the assets concerned are available for use, the costs are transferred to the respective categories of property, plant and equipment and depreciated in accordance with the policy as stated above.

2.6 Prepaid land lease payments

Prepaid land lease payments are up-front payments to acquire long-term interest in the usage of land, which are stated at cost less accumulated amortisation and accumulated impairment losses. Cost represents consideration paid for the rights to use the land and other direct related costs from the date when the respective rights were granted. Amortisation of prepaid land lease payments is calculated on a straight-line basis over the lease terms as stated in the relevant land use right certificates granted for usage by the Group in the PRC or the best estimate based on the normal terms in the PRC and is recognised in the consolidated statement of profit or loss.

2.7 Intangible assets

(a) Goodwill

Goodwill arises on the acquisition of subsidiaries represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identified net assets acquired.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying amount of goodwill is compared to the recoverable amount, which is the higher of value in use ("VIU") and the fair value less costs of disposal ("FVLCD"). Any impairment is recognised immediately as an expense and is not subsequently reversed.

(b) Trademarks

Separately acquired trademarks are shown at historical cost. Trademarks acquired in a business combination are recognised at fair value at the acquisition date. They have indefinite useful life.

Trademarks impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of trademarks is compared to the recoverable amount, which is the higher of VIU and FVLCD.

(c) Software

Acquired software licences are capitalised on the basis of the costs incurred to acquire and bring the specific software into usage. These costs are amortised using the straight-line method over their estimated useful lives varying from 5 to 10 years. Costs associated with maintaining software programmes are recognised as an expense as incurred.

2.8 Impairment of non-financial assets

Goodwill and intangible assets that have an indefinite useful life or intangible assets not ready to use are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's FVLCD and VIU. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (CGUs). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.9 Financial assets

2.9.1 Classification

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current assets.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables', 'cash and cash equivalents', 'restricted cash' and 'term deposits with initial term of over three months' in the balance sheet (Notes 2.12 and 2.13).

2.9.2 Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade date — the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the consolidated statement of profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the ‘financial assets at fair value through profit or loss’ category are presented in the consolidated statement of profit or loss within ‘Other gains — net’ in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the consolidated statement of profit or loss as part of other income when the Group’s right to receive payments is established.

2.10 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

2.11 Impairment of financial assets

Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a ‘**loss event**’) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated statement of profit or loss. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. For practical experience, the Group may measure impairment on the basis of an instrument’s fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor’s credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated statement of profit or loss.

2.12 Trade and other receivables

Trade receivables are amounts due from students of university for services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. See Note 2.9.2 for further information about the Group's accounting for trade receivables and Note 2.11 for a description of the Group's impairment policies.

2.13 Cash and cash equivalents

In the consolidated statements of cash flows, cash and cash equivalents include cash at bank and on hand and short-term bank deposits with original maturities of three months or less.

2.14 Share capital and shares held for employee share scheme

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where the Company's shares are acquired from the market by the China Yuhua Employees Benefit Trust (Note 25(a)) under the employee share scheme, the total consideration of shares acquired from the market (including any directly attributable incremental costs) is presented as shares held for employee share scheme and deducted from total equity. Upon vesting, the related costs of the vested shares for employee share scheme purchased from the market are credited to shares held for employee share scheme, with a corresponding decrease in employee share-based compensation reserve for employee share scheme.

2.15 Accruals and other payables

Accruals and other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accruals and other payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Accruals and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.16 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated statement of profit or loss over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2.17 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

2.18 Convertible bonds

Convertible bonds issued by the Company can be converted into the share capital of the Company at the option of the investor.

The Group designates convertible bonds denominated in a currency other than the functional currency of the Company as financial liabilities at fair value through profit or loss. They are initially recognised at fair value. Subsequent to initial recognition, the convertible bonds are carried at fair value with changes in fair value recognised in profit or loss.

The convertible bonds are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liabilities for at least 12 months after the balance sheet date.

2.19 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated statement of profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the Group is unable to control the reversal of the temporary difference for associates. Only when there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference in the foreseeable future, deferred tax liability in relation to taxable temporary differences arising from the associate's undistributed profits is not recognised.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

Current and deferred tax is recognised in the consolidated statements of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity.

(c) *Offsetting*

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.20 Employee benefits

(a) *Pension obligations*

The entities within the Group registered in the PRC make employee benefit contributions based on certain percentage of the salaries of the employees to a defined contribution retirement benefit plan and medical benefit plan organised by relevant government authorities in the PRC on a monthly basis. The government authorities undertake to assume the retirement benefit obligations payable to the existing and future retired employees under these plans and the Group has no further obligation for post-retirement benefits beyond the contributions made. Contributions to these plans are expensed as incurred. Assets of the plans are held and managed by government authorities and are separate from those of the Group.

(b) *Housing funds*

The PRC employees of the Group are also entitled to participate in various government-sponsored housing funds. The Group contributes on a monthly basis to those funds based on a certain percentage of the employee's salaries. The Group's liabilities in respect of these funds is limited to the contributions payable in each period. The non-PRC employees are not covered by the housing funds.

2.21 Share-based payments

(a) *Equity-settled share-based payment transactions*

The Group operates a number of equity-settled, share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and

- including the impact of any non-vesting conditions (for example, the requirement for employees to save or holding shares for a specified period of time).

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision to original estimates, if any, in the statement of profit or loss, with a corresponding adjustment to equity.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital.

(b) *Share-settled share-based payment transactions*

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the parent entity accounts.

2.22 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.23 Revenue recognition

Revenue is measured at the fair value of the amounts received or receivable for the services provided in the normal course of business, net of cash discounts, financial assistance and refunded tuitions.

Service income includes tuition fees and boarding fees from university, high schools, middle schools, primary schools and kindergartens of the Group and property management service fee.

Tuition and boarding fees received from university, high schools, middle schools, primary schools and kindergartens are generally received in advance prior to the beginning of each school year, and are initially recorded as deferred revenue. Tuition and boarding fees are recognised proportionately over the relevant period of the applicable programme. The portion of tuition and boarding payments received from students but not earned is recorded as deferred revenue. Amounts which will be earned within one year is reflected as a current liability, and which will be earned beyond one year is reflected as a non-current liability.

Property management service fee is recognised in the accounting period in which the services are rendered.

2.24 Interest income

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans and receivables is recognised using the original effective interest rate.

2.25 Rental income

Rental income on operating leases where the Group is a lessor is recognised on a straight-line basis over the term of the lease.

2.26 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the consolidated statement of profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the consolidated statement of profit or loss on a straight-line basis over the expected lives of the related assets.

2.27 Leases

Leases of property, plant and equipment where the Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated statement of profit or loss on a straight-line basis over the period of the lease.

Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease term. The respective leased assets are included in the balance sheet based on their nature.

2.28 Dividend distribution

Dividend distribution to the Company's Shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's Shareholders or Directors, where appropriate.

3 Financial risk management

This note explains the Group's exposure to financial risks and how these risks could affect the Group's future financial performance. Current year profit and loss information has been included where relevant to add further context.

Risk	Exposure arising from	Measurement
Market risk — foreign exchange	Recognised financial assets and liabilities not denominated in RMB	Sensitivity analysis
Market risk — interest rate	Borrowings carried at floating rates	Sensitivity analysis
Credit risk	Cash and cash equivalents, restricted cash, term deposits with initial term of over three months, and trade and other receivables	Aging analysis
Liquidity risk	Borrowings and other liabilities	Maturity analysis

The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group regularly monitors its exposure and currently has not used any derivative financial instruments to hedge any of these financial risks.

3.1 Financial risk factors

(a) Market risk

(i) Foreign exchange risk

The Group mainly operates in the PRC with most of the transaction settled in RMB. The functional currency of the subsidiaries in mainland of the PRC is RMB, while the functional currency of the Company and subsidiaries outside mainland of the PRC is HK Dollar. Both the entities in and outside mainland of the PRC have assets and liabilities like cash at bank and on hand, short-term bank deposits, term deposits with initial term of over three months, interest receivables and other payables denominated in USD or HKD. Foreign exchange risk arises from the fluctuation in exchange.

The Group has continued to closely track and manage its exposure to fluctuation in foreign exchange rates confronted by the majority of the Group's deposits and term deposits with initial term of over three months denominated in foreign currencies during the year. The Group did not enter into any forward contract to manage its exposure to foreign exchange risk for the year.

As at 31 August 2018, the carrying amounts of the Group's monetary assets and liabilities that are denominated in currency other than functional currency of the respective group entities are as follows:

	As at 31 August 2018			As at 31 August 2017	
	MYR (functional currency — RMB) RMB'000	USD (functional currency — HKD) RMB'000	USD (functional currency — RMB) RMB'000	USD (functional currency — HKD) RMB'000	USD (functional currency — RMB) RMB'000
Cash at bank and on hand	—	3,266	1,171	3,075	1,723
Short-term bank deposits	—	52,208	—	170,842	—
Cash and cash equivalents	—	55,474	1,171	173,917	1,723
Term deposits with initial term of over three months	—	414,680	—	832,237	—
Interest receivables	—	5,108	—	6,943	—
Accruals and other payables	267	1,426	1,068	4,219	—

As shown in the table above, the Group is primarily exposed to changes in USD/RMB exchange rates. The sensitivity of profit or loss to changes in the exchange rates arises mainly from USD denominated financial instruments.

	Year ended 31 August	
	2018 RMB'000	2017 RMB'000
Impact on post tax profit		
USD/RMB exchange rate — weaken 5%	(112)	(599)
USD/RMB exchange rate — strengthen 5%	112	599

(ii) *Interest rate risk*

The Group's income and operating cash flows are substantially independent from changes in market interest rate. Borrowings carried at floating rates expose the Group to cash flow interest-rate risk, which is partially offset by cash held at variable rates, whereas borrowings carried at fixed rates expose the Group to fair value interest-rate risk.

The exposure of the Group's borrowings to interest rate changes at the end of the reporting period is as follows:

	As at 31 August 2018		As at 31 August 2017	
	RMB'000	% of total borrowings	RMB'000	% of total borrowings
Variable rate borrowings	105,000	19.83%	—	—

An analysis by maturities is provided in Note 3.1(c). The percentage of total loans shows the proportion of borrowings that are currently at variable rates in relation to the total amount of borrowings. At 31 August 2018, if the interest rates on bank borrowings and cash and cash equivalents had been 50 basis points higher/lower than the prevailing rate announced by People's Bank of China, with all other variables held constant, the Group's profit for the year would have been RMB525,000 (2017: nil) lower/higher.

The Group's borrowings carried at fixed rates are all repayable within one year and hence the Group is not subject to any significant fair value interest rate risk.

(b) Credit risk

Credit risk is managed on a group basis. The Group's maximum exposure to credit risk is the carrying amounts of cash and cash equivalents, restricted cash, term deposits with initial term of over three months, and trade and other receivables shown on consolidated balance sheets.

As at 31 August 2018, 26% (2017: 19%) of the Group's cash and cash equivalents, restricted cash, term deposits with initial term of over three months were held in state-owned financial institutions, which management believes are of high credit quality. The rest are deposited in local banks with good reputation. Management does not expect any losses from non-performance by these counterparties.

The carrying amounts of trade and other receivables included in the consolidated balance sheets represent the Group's maximum exposure to credit risk in relation to these financial assets. The Group evaluates the collectability and analyses the aging of the accounts. For the year ended 31 August 2018, the management of the Group determined an impairment provision for trade and other receivables of RMB1,160,000 (2017: RMB483,000) (Note 18). If the financial conditions of debtors of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

(c) Liquidity risk

To manage the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The Group expects to fund its future cash flow needs through internally generated cash flows from operations and bank borrowings.

The maturity analysis of borrowings that shows the remaining contractual maturities is disclosed in Note 28. Generally there is no specific credit period granted by the suppliers but the related payables are normally expected to be settled within three months after receipt of goods or services.

As at 31 August 2018, the Group has cash and cash equivalents of approximately RMB1,593,177,000 (2017: RMB642,506,000) (Note 20), term deposits with initial term of over three months of approximately RMB414,680,000 (2017: RMB832,237,000) (Note 21) and trade receivables of approximately RMB3,871,000 (2017: RMB201,000) (Note 18) that are expected to readily generate cash inflows for managing liquidity risk.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over five years RMB'000	Total RMB'000
As at 31 August 2018					
Borrowings (principal plus interests, excluding finance leases)	450,021	73,413	—	—	523,434
Finance Leases	3,464	3,464	10,392	10,392	27,712
Accruals and other payables (excluding non-financial liabilities)	568,850	—	—	—	568,850
	1,022,335	76,877	10,392	10,392	1,119,996
As at 31 August 2017					
Accruals and other payables (excluding non-financial liabilities)	214,032	—	—	—	214,032

3.2 Capital management

The Group's objectives when managing capital are to

- safeguard their ability to continue as a going concern, so that they can continue to provide returns for shareholders and benefits for other stakeholders, and
- maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the following ratio:

Total liability (as shown in the balance sheet)
divided by
Total asset (as shown in the balance sheet)

The liability-to-asset ratios of the Group as at 31 August 2018 and 2017 were as follows:

	As at 31 August	
	2018	2017
	RMB'000	RMB'000
Total liabilities	2,372,877	897,424
Total assets	6,132,060	3,374,520
The liability-to-asset ratio	38.7%	26.6%

3.3 Fair value estimation

(a) Fair value hierarchy

This section explains the judgements and estimates made in determining the fair values of the financial instruments that are recognised and measured at fair value in the financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the Group has classified its financial instruments into the three levels prescribed under the accounting standards. An explanation of each level follows underneath the table.

	Level 3	Total
	RMB'000	RMB'000
Recurring fair value measurements		
At 31 August 2018		
Assets		
Financial instruments at fair value through profit or loss	—	—
At 31 August 2017		
Assets		
Financial instruments at fair value through profit or loss	153,114	153,114

Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

Level 2: The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

(b) Fair value measurements using significant unobservable inputs (level 3)

The following table presents the changes in level 3 items for the years ended 31 August 2018 and 31 August 2017:

	Year ended 31 August	
	2018	2017
	RMB'000	RMB'000
Balance at 1 September	153,114	—
Additions	873,800	328,000
Settlements	(1,033,491)	(176,292)
Gains and losses recognised in profit or loss (Note 7)	6,577	1,406
Balance at 31 August	—	153,114
Changes in unrealised gains or losses for the year included in profit or loss at the end of the year (Note 7)	—	1,114

The fair value of the financial assets at fair value through profit or loss is estimated by discounting the future cash flows at the current market interest rate available for similar financial instruments.

(c) Group's valuation processes

For the financial assets, including level 3 fair values, the Group's finance department performs the valuations. The finance department reports directly to the chief financial officer (CFO). Discussions of valuation processes and results are held between the CFO and finance department semi-annually, in line with the Group's semi-annual reporting dates.

The valuation technique is discounted cash flows. Future cash flows are estimated and discounted using the expected yield rate with reference to the benchmark yield rate of the financial investment products of banks.

4 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and judgements concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Contractual Arrangements

The Group conducts a substantial portion of the business through YuHua Investment Management Co., Ltd, Zhengzhou YuHua Education Investments Co., Ltd, Zhengzhou Zhongmei Education Investments Co., Ltd, (collectively the “**PRC Investment Holding Companies**”) and their wholly owned subsidiaries (collectively the “**Consolidated Affiliated Entities**”) in the PRC due to regulatory restrictions on the foreign ownership in the Group’s schools in the PRC. The Group does not have any equity interest in the Consolidated Affiliated Entities. The Directors assessed whether or not the Group has control over the Consolidated Affiliated Entities, has rights to variable returns from its involvement with the Consolidated Affiliated Entities and has the ability to affect those returns through its power over the Consolidated Affiliated Entities. After assessment, the Directors concluded that the Group has control over the Consolidated Affiliated Entities as a result of the contractual agreements and accordingly the financial position and their operating results of the Consolidated Affiliated Entities are included in the Group’s consolidated financial statements throughout the year.

Nevertheless, the contractual agreements may not be as effective as direct legal ownership in providing the Group with direct control over the Consolidated Affiliated Entities and uncertainties presented by the PRC legal system could impede the Group’s beneficiary rights of the results, assets and liabilities of the Consolidated Affiliated Entities. The Directors, based on the advice of its other legal counsel, consider that the contractual agreements among the Consolidated Affiliated Entities and their equity shareholders are in compliance with the relevant PRC laws and regulations and are legally enforceable.

(b) Current and Deferred Income taxes

Significant judgement is required in interpreting the relevant tax rules and regulation so as to determine whether the Group is subject to corporate income tax. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Group to change its judgement regarding the adequacy of the tax liabilities. Such changes to tax liabilities will impact tax expense in the period that such determination is made.

The Group recognises deferred tax assets based on estimates that it is probable to generate sufficient taxable profits in the foreseeable future against which the deductible losses will be utilised. The recognition of deferred tax assets mainly involved management’s judgements and estimations about the timing and the amount of taxable profits of the companies who had tax losses.

The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

(c) Useful life and recoverability of prepaid land lease payments

The Group's management determines the estimated useful lives and amortisation method in determining the related amortisation charges for its prepaid land lease payments. This estimate is based on the management's experience of the actual practice of similar nature and functions and normal terms in the PRC. In addition, management assesses impairment whenever events or changes in circumstances indicate that the carrying amount of an item of prepaid land lease payments may not be recoverable. Management will increase the amortisation charge where useful lives are estimated to be shorter than previously estimated, or will write off or write down obsolete assets that have been abandoned or impaired. As at 31 August 2018, the carrying amount of prepaid land lease payments are RMB793,175,000 (2017: RMB236,322,000) (Note 13). Any change in these estimates may have a material impact on the results of the Group.

(d) Estimation of goodwill impairment and trademark impairment

The goodwill and the trademark arose from the acquisition of subsidiaries. Trademark is typically not a CGU and should not normally be tested alone. The Group tests whether goodwill and trademark have suffered any impairment on an annual basis in accordance with the accounting policy stated in Note 2.8. The recoverable amount of a CGU is determined based on the higher of FVLCD and VIU which requires the use of estimates and valuation techniques. When applying valuation technique, the Group relies on a number of factors and judgements, including, among others, historical results, business plans, forecasts and market data.

Details of key assumptions are disclosed in Note 15.

(e) Provisions for legal claim

Provisions for legal claims are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation discounted at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

The management of the Group do not recognise but disclose a contingent liability unless the possibility of an outflow of resources embodying economic benefits is remote, if it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability.

5 Segment information

The Group is principally engaged in the provision of private formal education service from kindergarten to university in the PRC.

The Controlling Shareholder and other Directors are identified as the chief operating decision-maker (the "CODM") of the Group. Management has determined the operating segments based on the information reviewed by the CODM for the purposes of allocating resources and assessing performance.

The CODM considers the business from the service perspective. When the Group companies have similar economic characteristics, and the segments are similar in each of the following respects: (i) the nature of the services; (ii) the type or class of students for their services; (iii) the methods used to provide their services; and (iv) if applicable, the nature of the regulatory environment, the Group's operating segments are aggregated. In the view of CODM, the Group is principally engaged in three different segments which are subject to different business risks and different economic characteristics and the Group's operating and reportable segments for segment reporting purpose are Kindergartens, Grade 1-12 and University respectively.

The accounting policies of the operating segments are described in Note 2.3.

For the purposes of monitoring segment performances and allocating resources between segments, segment results represent the profit before tax earned by each segment. This is the measure reported to the CODM for the purposes of resource allocation and assessment of segment performance.

Assets and liabilities dedicated to a particular segment's operations are included in that segment's total assets and liabilities.

The Group's principal market is Henan province and Hunan Province of the PRC, all of the Group's revenue and operating profit are derived within Henan province and Hunan Province of the PRC, and all of the Group's operations and non-current assets are located in Henan province and Hunan Province of the PRC.

The Group has a large number of customers, no single customer accounted for more than 10% of the Group's total revenue for the year ended 31 August 2018.

The segment information provided to the CODM for the reportable segments for the year ended 31 August 2018 are as follows:

	Kindergartens RMB'000	Grade 1–12 RMB'000	University RMB'000	Unallocated RMB'000	Inter-segment elimination RMB'000	Total RMB'000
For the year ended 31 August 2018						
Revenue	62,328	525,650	607,132	2,697	(2,697)	1,195,110
Cost of revenue	(30,170)	(222,830)	(271,387)	—	—	(524,387)
Gross profit	32,158	302,820	335,745	2,697	(2,697)	670,723
Selling expenses	(4)	(1,079)	(5,277)	(162)	—	(6,522)
Administrative expenses	(6,315)	(26,485)	(40,671)	(61,857)	2,697	(132,631)
Other income	—	12,949	3,127	5	—	16,081
Other gains/(losses) — net	351	3,534	135,388	(107,559)	—	31,714
Operating profit	26,190	291,739	428,312	(166,876)	—	579,365
Finance (expenses)/income — net	(439)	(797)	(7,760)	21,591	—	12,595
Profit before income tax	25,751	290,942	420,552	(145,285)	—	591,960
Income tax expense	—	—	(3,726)	—	—	(3,726)
Profit for the year	25,751	290,942	416,826	(145,285)	—	588,234
As at 31 August 2018						
Total assets	178,724	2,065,802	4,349,497	4,705,264	(5,167,227)	6,132,060
Total liabilities	85,586	1,116,241	1,463,826	2,725,361	(3,018,137)	2,372,877
Other segment information						
Additions to non-current assets due to the acquisition of subsidiaries	—	597	2,053,844	68,090	—	2,122,531
Additions to non-current assets	940	3,880	77,619	21,936	—	104,375
Depreciation and amortisation (Note 8)	(3,804)	(40,227)	(77,073)	(1,345)	—	(122,449)
Losses on disposal of property, plant and equipment (Note 7)	(10)	(488)	(72)	—	—	(570)

The segment information provided to the CODM for the reportable segments for the year ended 31 August 2017 are as follows:

	Kindergartens <i>RMB'000</i>	Grade 1–12 <i>RMB'000</i>	University <i>RMB'000</i>	Unallocated <i>RMB'000</i>	Inter-segment elimination <i>RMB'000</i>	Total <i>RMB'000</i>
For the year ended 31 August 2017						
Revenue	57,371	468,627	320,224	2,416	(2,416)	846,222
Cost of revenue	(30,891)	(254,197)	(125,376)	—	—	(410,464)
Gross profit	26,480	214,430	194,848	2,416	(2,416)	435,758
Selling expenses	—	(368)	(3,387)	—	—	(3,755)
Administrative expenses	(8,446)	(32,783)	(11,628)	(96,762)	2,416	(147,203)
Other income	66	17,948	4,856	—	—	22,870
Other gains/(losses) — net	43	1,538	(414)	(107)	—	1,060
Operating profit	18,143	200,765	184,275	(94,453)	—	308,730
Finance income/(expenses) — net	169	(3,065)	(6,293)	14,260	—	5,071
Profit before income tax	18,312	197,700	177,982	(80,193)	—	313,801
Income tax expense	—	—	—	—	—	—
Profit for the year	18,312	197,700	177,982	(80,193)	—	313,801
As at 31 August 2017						
Total assets	149,950	1,708,285	1,260,580	2,361,077	(2,105,372)	3,374,520
Total liabilities	85,811	1,078,866	427,517	1,192,245	(1,887,015)	897,424
Other segment information						
Additions to non-current assets	2,779	47,526	46,649	544	—	97,498
Depreciation and amortisation (Note 8)	(4,095)	(42,043)	(27,194)	(2,051)	—	(75,383)
(Losses)/gains on disposal of property, plant and equipment (Note 7)	(6)	181	(414)	(7)	—	(246)

6 Other income

	Year ended 31 August	
	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
Government grants and subsidies	13,442	21,230
Others	2,639	1,640
	16,081	22,870

7 Other gains — net

	Year ended 31 August	
	2018	2017
	RMB'000	RMB'000
Losses on disposal of property, plant and equipment	(570)	(246)
Donation	(358)	(100)
Provision for legal claims (a)	(457)	—
Gains on disposal of investment in wealth management products	6,577	292
Compensation for the realisation of security interests (b)	134,797	—
Waiver of payable by the selling shareholder (c)	(108,275)	—
Fair value gains on financial instruments:		
— Investments in wealth management products	—	1,114
	<u>31,714</u>	<u>1,060</u>

- (a) On 27 December 2017, the Group completed the acquisition of LEI Lie Ying Limited (“**LEI Lie Ying**”) which owns 70% equity interests of Hunan International Economics University (“**HIEU**”) (湖南涉外經濟學院) from Lei China Limited. For the details, please refer to note 34. On 27 July 2016, a legal claim was filed against HIEU by a bank to claim for the joint liability of an overdue loan with a principal amount of RMB12,000,000 owed by a former employee of LEI Lie Ying as the loan was pledged by a land use right owned by HIEU with a carrying amount of RMB16,563,000 (Note 32) as at 31 August 2018. On 27 February 2018, a verdict was given by the People’s Court of Hunan Yuelu District that HIEU should bear 40% of the loan and interests which the former employee cannot repay. Therefore, a provision of RMB6,132,000 was recognised by HIEU at the acquisition date and the Group recognised provisions for the legal claim amounting to RMB457,000 in relation to the increment of interest for the year ended 31 August 2018. As at 31 August 2018, the total amount of provisions is RMB6,589,000 (Note 29).
- (b) In order to guarantee the transfer of the titles of certain land use rights and buildings to HIEU, 30% equity interest of Lie Ying Industry held by Mr. Zhang Jianbo and his family members had been pledged to Laureate Investment Consulting (Shanghai) Co., Ltd. (“**LIC**”) on behalf of HIEU since 24 December 2013. In September 2017, 22.8% out of the 30% pledged equity interest were transferred to Guangdong Nanbo Education Investment Pte Ltd. (“**Nanbo**”) through a judicial auction at a consideration of RMB508 million. The related pledge over the transferred equity interest was released accordingly.

On 12 June 2018, Changsha Tianxin District People’s Court (長沙市天心區人民法院) issued a verdict to grant LIC the priority right to the amounts of RMB134,797,000. In July and August of 2018, HIEU received a total of RMB134,797,000 of compensation from the court, which was included in ‘Other gains — net’.

- (c) Pursuant to the acquisition agreement of LEI Lie Ying, the Group is contractually obligated to get paid by the selling shareholder when the net asset value of LEI Lie Ying indicated by the selling shareholder is 3% or more larger than that indicated by the Group (“**NAV Consideration Adjustment**”). The amount of RMB108,275,000 was calculated based on the formula stipulated in the acquisition agreement, which was deducted from the total consideration on the acquisition date. Taken into account of the abovementioned compensation of RMB134,797,000 received by HIEU, the selling shareholder and the Group subsequently agreed to waive the payable by the selling shareholder in relation to the NAV Consideration Adjustment. The waiver of the payable by the selling shareholder was accounted for as other loss for the year ended 31 August 2018.

8 Expenses by nature

	Year ended 31 August	
	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
Employee benefit expenses (Note 9)	325,794	232,472
Depreciation of property, plant and equipment (Note 14)	102,253	69,911
Share-based payment expenses (Note 25)	62,538	91,578
Amortisation of prepaid land lease payments (Note 13)	17,843	5,192
Amortisation of intangible assets (Note 15)	2,353	280
Canteen expenditure	23,099	26,089
Students training and scholarship expenses	18,124	13,620
School consumables	25,334	28,283
Utilities expenses	28,778	22,970
Marketing expenses	5,021	3,365
Operating lease payments	6,224	4,458
Expenses in relation to the Listing (Note 23(e))	—	24,503
Office expenses	13,490	12,086
Travel and entertainment expenses	2,033	6,272
Expense in relation to the acquisition of LEI Lie Ying Limited (Note 34)	7,136	—
Auditors' remuneration		
— Audit services	3,400	2,400
Consultancy and professional fee	3,797	2,345
Other expenses	16,323	15,598
	663,540	561,422

9 Employee benefit expenses

	Year ended 31 August	
	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
Wages, salaries and bonuses	271,569	201,033
Contributions to pension plan (a)	26,562	18,423
Welfare and other expenses	27,663	13,016
	325,794	232,472

Employee benefit expenses were charged in the following categories in the consolidated statement of profit or loss:

	Year ended 31 August	
	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
Cost of revenue	272,598	197,429
Administrative expenses	52,760	34,653
Selling expenses	436	390
	325,794	232,472

(a) Contributions to pension plan

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due.

(b) Five highest paid individuals

The five individuals whose remunerations were the highest in the Group for the year include three Directors (2017: three), whose remuneration are included in the analysis presented in Note 38. Details of the remunerations of the highest paid non-director individuals during the year are set out as below:

	Year ended 31 August	
	2018	2017
	RMB'000	RMB'000
Wages and salaries	171	200
Share-based payments	4,022	16,384
Contributions to pension plan	14	8
Welfare and other expenses	10	5
	<u>4,217</u>	<u>16,597</u>

The remunerations fell within the following band:

	Year ended 31 August	
	2018	2017
	RMB'000	RMB'000
Emolument band		
HK\$10,000,000 to HK\$20,000,000	—	1
HK\$1,000,000 to HK\$10,000,000	1	1
Nil to HK\$1,000,000	1	—
	<u>1</u>	<u>—</u>

During the year, none of the five highest paid individuals waived or has agreed to waive any emoluments, and none of the five highest paid individuals received emoluments from the Group as inducement to join or upon joining the Group, or as compensation for loss of office.

10 Finance expenses — net

	Year ended 31 August	
	2018	2017
	RMB'000	RMB'000
Finance income:		
Interest income from deposits	18,532	8,318
Net foreign exchange gains	5,281	7,209
	<u>23,813</u>	<u>15,527</u>
Finance expenses:		
Interest expenses	(12,993)	(10,456)
Less: interests capitalised on qualifying assets (Note 14(d))	1,775	—
	<u>(11,218)</u>	<u>(10,456)</u>
Finance expenses — net	<u>12,595</u>	<u>5,071</u>

11 Income tax expense

	Year ended 31 August	
	2018	2017
	RMB'000	RMB'000
Current tax		
Current tax on profits before income tax for the year	(185)	—
Deferred tax		
Decrease in deferred tax assets (d)	9,018	—
Decrease in deferred tax liabilities (Note 16)	(5,107)	—
Deferred tax expense for the period	3,911	—
Income tax expense	3,726	—

The current tax on the Group's profit before income tax differs from the theoretical amount that would arise using the taxation rate of PRC, the principal place of the Group's operations, as follows:

	Year ended 31 August	
	2018	2017
	RMB'000	RMB'000
Profit before income tax	591,960	313,801
Tax calculated at a taxation rate of 25% or relevant domestic tax rate applicable to profits in the respective countries	147,990	78,450
Tuition profit not subject to tax (d)	(153,097)	(78,450)
Derecognition of deferred tax assets (d)	9,018	—
Prior year adjustment	(185)	—
	3,726	—

(a) The Cayman Islands profits tax

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands and accordingly, is exempted from the Cayman Islands income tax.

(b) British Virgin Islands profit tax

The Company's direct subsidiary in the British Virgin Islands was incorporated under the BVI Companies Act, 2004 and accordingly, is exempted from British Virgin Islands income tax.

(c) Hong Kong profit tax

No provision for Hong Kong profit tax was provided as the Company and the Group did not have assessable profits in Hong Kong during the year.

(d) **PRC corporate income tax (“CIT”)**

CIT is provided on assessable profits of entities incorporated in the PRC. Pursuant to the Corporate Income Tax Law of the PRC (the “**CIT Law**”), which was effective from 1 January 2008, the CIT was 25% during the year.

According to the Implementation Rules for the Law for Promoting Private Education, private schools for which the sponsors do not require reasonable returns are eligible to enjoy the same preferential tax treatment as public schools. As a result, private schools providing academic qualification education are eligible to enjoy income tax exemption treatment if the sponsors of such schools do not require reasonable returns. All schools of the Group are elected to be schools that do not require reasonable returns.

Subsequent to the acquisition of LEI Lie Ying (Note 34), China YuHua Education Investment Limited, a subsidiary of the Company and the sponsor of HIEU decided not to require reasonable returns from HIEU, and the articles of HIEU has been changed from requiring reasonable returns to not requiring reasonable returns accordingly. The directors believed that HIEU is eligible to enjoy the corporate income tax exemption for the tuition and boarding income beginning from 1 January 2018 from local tax authority. Therefore, the deferred tax assets arising from the tax losses carried forward and other timing differences of HIEU as at 31 December 2017 were derecognised in this period.

The corporate income tax rate for Xizang Yuanpei Information Technology Management Company Limited (“**Xizang Yuanpei**”), a wholly-owned subsidiary of the Company, is 15% based on the relevant tax regulations of Tibet Autonomous Region. The Tibet local government has exempted 40% corporate income tax payable by enterprises in Tibet Autonomous Region for a period of three years commencing from 1 January 2015 to 31 December 2017. Therefore, the effective corporate income tax rate initially applicable for Xizang Yuanpei is 9%, which increased to 15% beginning from 1 January 2018 when the three-year preferential tax exemption expired.

12 Earnings per share

(a) **Basic**

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year excluding ordinary shares purchased by the Company.

	For the year ended 31 August	
	2018	2017
Profit attributable to owners of the Company (RMB'000)	530,812	313,801
Weighted average number of ordinary shares in issue (Thousand)	3,200,258	2,593,151
Basic earnings per share (RMB Yuan)	0.17	0.12

(b) **Diluted**

Diluted earnings per share is calculated based on the profit attributable to owners of the Company after adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares during the year.

	For the year ended 31 August	
	2018	2017
Earnings		
Profit attributable to owners of the Company (RMB'000)	530,812	313,801
Weighted average number of ordinary shares in issue (Thousand)	3,200,258	2,593,151
Adjustments for:		
— Share options (Thousand)	98,869	52,995
Weighted average number of ordinary shares for diluted earnings per share (Thousand)	3,299,127	2,646,146
Diluted earnings per share (RMB Yuan)	0.16	0.12

13 Prepaid land lease payments

	As at 31 August	
	2018	2017
	RMB'000	RMB'000
At beginning of the year		
Cost	270,822	254,001
Accumulated amortisation	(34,500)	(29,308)
Net book amount	236,322	224,693
Opening net book amount	236,322	224,693
Additions	—	16,821
Acquisition of subsidiaries (Note 34)	583,120	—
Amortisation charge (Note 8)	(17,843)	(5,192)
Disposals	(8,424)	—
Closing net book amount	793,175	236,322
At end of the year		
Cost	845,518	270,822
Accumulated amortisation	(52,343)	(34,500)
Net book amount	793,175	236,322

(a) The Group's land use rights are either purchased from or allocated by the government.

(b) Amortisation was charged to cost of revenue in the consolidated statement of profit or loss. For the years ended 31 August 2017 and 2018, the amortisation of prepaid land lease payments charged to cost of revenue was RMB5,192,000 and RMB17,843,000.

- (c) The carrying value of the land use right allocated by the government of RMB447,121,867 (2017: RMB199,970,803) as at 31 August 2018, has no definite life of use stated in the relevant land use right certificates. The estimated useful lives is 50 years which is the best estimate based on the normal terms in the PRC. However, without the relevant administrative authorities' permission, the Group cannot transfer, lease or mortgage such land use right allocated by the government.
- (d) As at 31 August 2018, the carrying amount of prepaid land lease payments without land use right certificates was RMB46,835,000 (2017: RMB73,920,000). The Group is in the process to obtain the certificates.
- (e) Prepaid land lease payments pledged as security by the Group is set out in Note 32.

14 Property, plant and equipment

	Buildings RMB'000	Leasehold Improvements RMB'000	Motor vehicles RMB'000	Electronic equipment RMB'000	Furniture and fixtures RMB'000	Construction in progress RMB'000	Total RMB'000
Year ended 31 August 2017							
Opening net book amount	1,353,350	12,677	5,968	48,338	40,576	4,117	1,465,026
Additions	1,479	118	853	7,040	7,472	66,438	83,400
Transfer upon completion	70,180	—	—	—	—	(70,180)	—
Disposals	(157)	—	(183)	(536)	(205)	—	(1,081)
Depreciation charge (Note 8)	(40,691)	(4,611)	(2,077)	(10,665)	(11,867)	—	(69,911)
Closing net book amount	1,384,161	8,184	4,561	44,177	35,976	375	1,477,434
At 31 August 2017							
Cost	1,602,662	21,869	18,719	105,550	104,044	375	1,853,219
Accumulated depreciation	(218,501)	(13,685)	(14,158)	(61,373)	(68,068)	—	(375,785)
Net book amount	1,384,161	8,184	4,561	44,177	35,976	375	1,477,434
Year ended 31 August 2018							
Opening net book amount	1,384,161	8,184	4,561	44,177	35,976	375	1,477,434
Acquisition of subsidiaries (Note 34)	656,475	3,111	1,331	15,385	33,714	74,391	784,407
Additions	1,456	1,063	865	8,475	6,407	63,028	81,294
Transfer upon completion	19,027	280	—	1,579	194	(21,080)	—
Disposals	(390)	—	(54)	(280)	(305)	—	(1,029)
Depreciation charge (Note 8)	(64,779)	(5,398)	(2,056)	(12,566)	(17,454)	—	(102,253)
Closing net book amount	1,995,950	7,240	4,647	56,770	58,532	116,714	2,239,853
At 31 August 2018							
Cost	2,279,133	26,323	19,832	145,134	125,845	116,714	2,712,981
Accumulated depreciation	(283,183)	(19,083)	(15,185)	(88,364)	(67,313)	—	(473,128)
Net book amount	1,995,950	7,240	4,647	56,770	58,532	116,714	2,239,853

- (a) Depreciation charges were charged to the consolidated statement of profit or loss as follows:

	Year ended 31 August	
	2018	2017
	RMB'000	RMB'000
Cost of revenue	90,733	65,359
Administrative expenses	11,520	4,552
	<u>102,253</u>	<u>69,911</u>

- (b) Construction-in-progress as at 31 August 2017 and 2018 mainly comprise buildings being constructed in the PRC.

- (c) Leased assets

Buildings include the following amounts where the Group is a lessee under a finance lease (Note 28(b)):

	Year ended 31 August	
	2018	2017
	RMB'000	RMB'000
Leased buildings		
Cost	66,983	—
Accumulated depreciation	(29,400)	—
	<u>37,583</u>	<u>—</u>

- (d) The Group has capitalised borrowing costs amounting to RMB1,775,000 on qualifying assets (Note 10), and the borrowing costs were capitalised at the weighted average rate of its general borrowings of 4.89% for the year ended 31 August 2018. For the year ended 31 August 2017, the Group did not capitalise any borrowing cost.
- (e) As at 31 August 2018, the carrying amount of buildings without building ownership certificates was RMB1,418,246,000 (2017: RMB1,056,915,000). The Group is in the process to obtain the certificates.
- (f) Property, plant and equipment pledged as security by the Group is set out in Note 32.

15 Intangible assets

	Trademark <i>RMB'000</i>	Goodwill <i>RMB'000</i>	Software <i>RMB'000</i>	Total <i>RMB'000</i>
Year ended 31 August 2017				
Opening net book amount	—	—	1,792	1,792
Additions	—	—	177	177
Amortisation (Note 8)	—	—	(280)	(280)
Closing net book amount	—	—	1,689	1,689
At 31 August 2017				
Cost	—	—	2,891	2,891
Accumulated depreciation	—	—	(1,202)	(1,202)
Net book amount	—	—	1,689	1,689
Year ended 31 August 2018				
Opening net book amount	—	—	1,689	1,689
Acquisition of subsidiaries (Note 34)	219,000	528,703	7,301	755,004
Additions	—	—	1,661	1,661
Amortisation (Note 8)	—	—	(2,353)	(2,353)
Closing net book amount	219,000	528,703	8,298	756,001
At 31 August 2018				
Cost	219,000	528,703	11,853	759,556
Accumulated depreciation	—	—	(3,555)	(3,555)
Net book amount	219,000	528,703	8,298	756,001

- (a) Amortisation of the Group's intangible assets were charged in the following categories in the consolidated statement of profit or loss as follows:

	As at 31 August	
	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
Cost of revenue	2,226	155
Administrative expenses	127	125
	2,353	280

(b) Impairment of goodwill and trademark

The goodwill and trademark arising from the acquisition of HIEU amounted to RMB528,703,000 and RMB219,000,000, respectively. Management considered that HIEU is a separate CGU within Lie Ying Industry, and all the goodwill is allocated to this CGU. The trademark is used to support the operation of the CGU, and the revenue from providing the branded service are not capable of being split between revenue for the brand and revenue derived from the education service. Therefore, trademark is not a CGU, and it should be tested with HIEU, the associated operating CGU.

Goodwill and trademark impairment reviews are undertaken by the management annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying amount of goodwill and trademark is compared to the recoverable amount, which is the higher of VIU and FVLCD. The recoverable amount of the CGU is determined based on VIU. The VIU calculation is based on certain key assumptions, which use cash flow projections based on financial forecast prepared by management covering a five-year period.

The key assumptions, revenue growth rate, earnings before interest and tax margin ("**EBIT margin**"), long-term growth rate, and discount rate used in the VIU calculations as at 31 August 2018, are as follows:

	Year ended 31 August 2018 RMB'000
Revenue growth rates (Compound)	5.7%–13.5%
EBIT margin (% of revenue)	35.0%–39.6%
Long-term growth rate	3.0%
Discount rate	12.7%

Revenue growth rate is for the five-year forecast period. It is based on past performance and management's expectations of market development.

The percentage of EBIT of revenue is the average percentages over the five-year forecast period. It is based on the current margin levels, with adjustments made to reflect the expected future market conditions.

The discount rate used reflects specific risks relating to the CGU.

The following changes in assumptions would cause the recoverable amount to fall below the carrying value:

- A reduction in the sales growth rate from the 5.7%–13.5% assumption applied to a revised assumption of 1.2%–9.0% or less.
- A reduction in the EBIT margin from the 35.0%–39.6% assumption applied to a revised assumption of 28.2%–32.8% or less.
- An increase in the discount rate from the 12.7% assumption applied to a revised assumption of 14.8% or more.

16 Deferred tax assets and liabilities

	Year ended 31 August	
	2018	2017
	RMB'000	RMB'000
Deferred tax assets:		
— Deferred income tax assets	—	—
Deferred tax liabilities:		
— Deferred income tax liabilities to be recovered within 12 months	(7,659)	—
— Deferred income tax liabilities to be recovered after 12 months	(239,211)	—
	(246,870)	—

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

(a) Deferred tax assets

	As at 31 August 2018 RMB'000	As at 31 August 2017 RMB'000
Opening amount	—	—
Acquisition of subsidiaries	9,018	—
Charged to profit or loss (Note 11)	(9,018)	—
Closing amount	—	—

(b) Deferred tax liabilities

	Prepaid land lease payment RMB'000	Trademark RMB'000	Software RMB'000	Property, plant and equipment appreciation RMB'000	Total RMB'000
Balance at 1 September 2017	—	—	—	—	—
Acquisition of subsidiaries	(116,193)	(54,750)	(292)	(80,742)	(251,977)
Credited to profit or loss	2,252	—	131	2,724	5,107
Balance at 31 August 2018	(113,941)	(54,750)	(161)	(78,018)	(246,870)

- (i) The deferred tax liabilities arise from fair value adjustment of prepaid land lease payments, recognition of trademark and fair value adjustment of buildings and other fixed assets upon the acquisition of LEI Lie Ying (Note 34).

- (ii) Under the CIT Law, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to undistributed earnings of the Group's PRC subsidiaries as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

At 31 August 2017 and 2018, no deferred tax has been recognised for withholding taxes payable on the unremitted earnings of the Group's subsidiaries established in mainland China that are subject to withholding taxes. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future.

17 Other non-current assets

	As at 31 August	
	2018	2017
	RMB'000	RMB'000
Prepayments of rental expenses	8,916	10,866
Prepayments for prepaid land lease payment	6,571	6,571
Prepayments of the acquisition of a high school (a)	21,420	—
Rental deposits	200	250
	37,107	17,687

- (a) On 18 April 2018, the Group and Kaifeng City Huibo Education Information Consulting Co., Ltd (“**Huibo Education**”) entered into an investment agreement, pursuant to which the Group has conditionally agreed to purchase and Huibo Education has conditionally agreed to sell a 70% equity interest in Kaifeng City Yubohui Education Information Consulting Co., Ltd. (“**Yubohui Education**”), a subsidiary of Huibo Education, for a cash consideration of RMB107,100,000. Kaifeng City Xiangfu District Bowang High School is wholly-owned by Yubohui Education, which has over 4,000 students.

The acquisition was set out in the Company's announcement dated 18 April 2018. The acquisition is subject to fulfilment of certain conditions by Huibo Education or the Group. On 27 April 2018, the Group paid prepayment of the acquisition amounting to RMB21,420,000 according to the payment schedule.

On 1 September 2018, Yubohui Education convened a shareholder meeting and board of directors meeting and passed the resolution of change of members of Directors and key management, the acquisition was thus completed.

18 Trade and other receivables

	As at 31 August	
	2018	2017
	RMB'000	RMB'000
Trade receivables		
Due from students (a)	4,066	201
Provision for impairment (b)	(195)	—
	<u>3,871</u>	<u>201</u>
Other receivables		
Amounts due from related parties (Note 35(b))	104	—
Deposits	1,359	1,359
Staff advance	1,070	—
Interest receivables	5,108	7,152
Others	1,474	325
Provision for impairment (b)	(135)	—
	<u>8,980</u>	<u>8,836</u>
Prepayments		
Prepaid expenses	14,253	3,798
Prepayments to suppliers	—	109
	<u>14,253</u>	<u>3,907</u>
	<u>27,104</u>	<u>12,944</u>

- (a) The Group's students are required to pay tuition fees and boarding fees in advance for upcoming school years, which normally commence in September. The outstanding receivables represent amounts related to students who have applied for the delayed payment of tuition fees and boarding fees with no fixed credit item.

The aging analysis of the trade receivables based on the recognition date is set as followings:

	As at 31 August	
	2018	2017
	RMB'000	RMB'000
Less than 1 year	4,054	201
Over 1 year	12	—
	<u>4,066</u>	<u>201</u>

(b) Impaired trade and other receivables

The individually impaired trade receivables relate to students that were in financial difficulties or default in payments.

The aging of impaired trade receivables based on the recognition date is as follows:

	As at 31 August	
	2018	2017
	RMB'000	RMB'000
Less than 1 year	183	—
Over 1 year	12	—
	195	—

Movements in the provision for impairment of trade and other receivables that are assessed for impairment collectively are as follows:

	As at 31 August	
	2018	2017
	RMB'000	RMB'000
At beginning of the year	—	—
Provision for impairment recognised during the year	1,160	483
Receivables written off during the year as uncollectible	(830)	(483)
At end of the year	330	—

(c) Past due but not impaired trade receivables

Receivables that were past due but not impaired relate to a number of students who are in temporary financial difficulties. Based on the experience, the directors believe that they are collectable because the aging is not long.

The aging analysis of past due but not impaired trade receivables based on the recognition date is as follows:

	As at 31 August	
	2018	2017
	RMB'000	RMB'000
Less than 1 year	3,871	201

- (d) As at 31 August 2018 and 2017, all trade and other receivables were denominated in RMB except that the interest receivables amounting to approximately RMB5,108,000 and RMB6,943,000 were denominated in USD, further details were set out in Note 3.1(a)(i).

The carrying amounts of the Group's trade and other receivables were denominated in the following currencies:

	As at 31 August	
	2018	2017
	RMB'000	RMB'000
USD	5,108	6,943
RMB	21,996	6,001
	27,104	12,944

- (e) As at 31 August 2018 and 2017, the fair values of trade and other receivables, except the prepayments which are not financial assets of the Group, approximated their carrying amounts.

19 Financial assets at fair value through profit or loss

	As at 31 August	
	2018	2017
	RMB'000	RMB'000
Investments in wealth management products (a)	<u>—</u>	<u>153,114</u>

- (a) For the year ended 31 August 2018, the gains on settlements and fair value gains of financial assets at fair value through profit or loss amounted to approximately RMB6,577,000 and nil, respectively (2017: RMB292,000 and RMB1,114,000, respectively), which have been recognised as 'Other gains — net' (Note 7) in the consolidated statement of profit or loss.

As at 31 August 2018 and 31 August 2017, all investments in wealth management products were dominated in RMB.

The fair value of the financial assets at fair value through profit or loss is determined by using the valuation technique of discounting the future cash flows at the expected yield rate with reference to the benchmark yield rates of the similar financial investment products of banks.

20 Cash and cash equivalents and restricted cash

(a) Cash and cash equivalents

	As at 31 August	
	2018	2017
	RMB'000	RMB'000
Cash at bank and on hand		
— CNY	1,464,785	303,175
— HKD	3,693	7,191
— USD	4,437	4,798
Short-term bank deposits		
— HKD	—	156,500
— USD	52,208	170,842
Cash at financial institutions other than bank (Note 25(a))		
— HKD	<u>68,054</u>	<u>—</u>
Cash and cash equivalents	<u>1,593,177</u>	<u>642,506</u>

(b) Restricted Cash

	As at 31 August	
	2018	2017
	RMB'000	RMB'000
Restricted Cash	270,963	587

As at 31 August, 2018, the restricted cash comprises of the deposit in the escrow account opened subject to the joint escrow of China Yuhua Education Investment Limited, one of the Company's wholly owned subsidiaries, and LEI China Limited for the acquisition of LEI Lie Ying (Note 34) in the amount of HKD310,499,000 (RMB269,979,000 equivalent) and the deposit of education reserve required by local authority of RMB984,000. As at 31 August 2017, the restricted cash is the deposit of education reserve required by local authority of RMB587,000.

21 Term deposits with initial term of over three months

	As at 31 August	
	2018	2017
	RMB'000	RMB'000
Term deposits with initial term of over three months	414,680	832,237

The carrying amounts of term deposits with initial term of over three months approximated their fair values due to the nature and short maturities of the related assets.

The term deposits with initial term of over three months were denominated in USD.

22 Financial instruments by category

	Loans and receivables RMB'000	Total RMB'000
At 31 August 2018		
Assets as per consolidated balance sheets		
Trade and other receivables excluding prepayments	12,851	12,851
Cash and cash equivalents	1,593,177	1,593,177
Restricted Cash	270,963	270,963
Term deposits with initial term of over three months	414,680	414,680
	2,291,671	2,291,671
Financial liabilities at amortised cost		
	RMB'000	Total RMB'000
At 31 August 2018		
Liabilities as per consolidated balance sheet		
Borrowings	529,452	529,452
Accruals and other payables excluding non-financial liabilities	568,850	568,850
	1,098,302	1,098,302

	Loans and receivables <i>RMB'000</i>	Assets at fair value through profit & loss <i>RMB'000</i>	Total <i>RMB'000</i>
At 31 August 2017			
Assets as per consolidated balance sheets			
Trade and other receivables excluding prepayments	9,037	—	9,037
Financial assets at fair value through profit or loss	—	153,114	153,114
Cash and cash equivalents	642,506	—	642,506
Restricted Cash	587	—	587
Term deposits with initial term of over three months	832,237	—	832,237
	<u>1,484,367</u>	<u>153,114</u>	<u>1,637,481</u>

	Financial liabilities at amortised cost <i>RMB'000</i>	Total <i>RMB'000</i>
At 31 August 2017		
Liabilities as per consolidated balance sheet		
Accruals and other payables excluding non-financial liabilities	<u>214,032</u>	<u>214,032</u>

23 Share capital and share premium

	Number of ordinary shares	Nominal value of ordinary shares
Authorised:		
As at 1 September 2016	50,000	US\$50,000
Increase of shares	50,000,000,000	HK\$500,000
Cancellation of shares	<u>(50,000)</u>	<u>(US\$50,000)</u>
As at 31 August 2017	<u>50,000,000,000</u>	<u>HK\$500,000</u>
As at 1 September 2017 and 31 August 2018	<u>50,000,000,000</u>	<u>HK\$500,000</u>

	Number of ordinary shares	Nominal value of ordinary shares	Equivalent nominal value of ordinary shares RMB'000	Share premium RMB'000	Total share capital and share premium RMB'000
Issued and paid:					
Balance at 1 September 2016	10,000	US\$10,000	65	—	65
Capital contribution from the Controlling Shareholder (b)	2,250,000,000	HK\$22,500	19	—	19
Repurchase of shares (c)	(10,000)	(US\$10,000)	(65)	—	(65)
Issuance of shares relating to IPO (e)	750,000,000	HK\$7,500	7	1,318,313	1,318,320
Balance at 31 August 2017	<u>3,000,000,000</u>	<u>HK\$30,000</u>	<u>26</u>	<u>1,318,313</u>	<u>1,318,339</u>
Balance at 1 September 2017	3,000,000,000	HK\$30,000	26	1,318,313	1,318,339
Placing of new shares (f)	253,150,000	HK\$2,532	2	785,948	785,950
Share issued upon exercise of share-based compensation (Note 25)	<u>11,788,460</u>	<u>HK\$118</u>	<u>—</u>	<u>26,196</u>	<u>26,196</u>
Balance at 31 August 2018	<u>3,264,938,460</u>	<u>HK\$32,650</u>	<u>28</u>	<u>2,130,457</u>	<u>2,130,485</u>

- (a) The Company was incorporated in the Cayman Islands under the Companies Law of the Cayman Islands as an exempted company with limited liability on 25 April 2016 with an authorised share capital of US\$50,000 divided into 50,000 shares of a nominal or par value of US\$1.00 each, of which 10,000 shares were issued and paid.
- (b) On 7 September 2016, the authorised share capital of the Company was increased by HK\$500,000 divided into 50,000,000,000 shares. On the same day, the Company allotted and issued 2,250,000,000 shares to GuangYu Investment, a company incorporated in the BVI with limited liability on 21 March 2016 and a Controlling Shareholder of the Company, for a subscription price of HK\$22,500.
- (c) Immediately following the allotment and issue of the 2,250,000,000 shares, the Company repurchased 10,000 shares of par value US\$1.00 each from GuangYu Investment at an aggregate consideration of HK\$22,500 which was paid out of the proceeds of the aforesaid subscription.
- (d) Immediately following the repurchase, the authorised share capital of the Company was reduced by the cancellation of 50,000 shares of par value of US\$1.00 each and became HK\$500,000 divided into 50,000,000,000 Shares of par value of HK\$0.00001 each.
- (e) On 28 February 2017, the Company completed its IPO by issuing 750,000,000 new shares with nominal value of HK\$0.00001 each at a price of HK\$2.05 per share. The gross proceeds raised was approximately HK\$1,537,500,000 (equivalent to RMB1,361,918,000), with which share capital was increased by approximately RMB7,000 and share premium was increased by approximately RMB1,318,313,000. The share issuance costs paid and payable mainly include share underwriting commissions, lawyers' fees, reporting accountant's fee and other related costs, of which, the share issuance costs directly attributable to the issuance of the new shares amounting to RMB43,598,000 were charged to share premium, and the share issuance costs attributable to the listing of the old shares amounting to RMB24,503,000 were charged to the consolidated statement of profit or loss for the year ended 31 August 2017 (2018: nil).

- (f) On 2 November 2017, the Company, GuangYu Investment Holding Limited (“**GuangYu Investment**”), CITIC CLSA Limited (the placing agent) and Mr. Li GuangYu entered into the Placing and Subscription Agreement, pursuant to which (a) the placing agent has agreed to place 253,150,000 shares at a price of HK\$3.70 per share on behalf of GuangYu Investment to independent third parties and (b) GuangYu Investment has agreed to subscribe for, and the Company has conditionally agreed to allot and issue to GuangYu Investment, up to 253,150,000 new shares at the same price. The number of the subscription shares represents: (a) approximately 8.44% of the total number of shares of the Company in issue as at 2 November 2017; and (b) approximately 7.78% of the enlarged total number of shares of the Company in issue upon the completion of the subscription.

The net proceeds from the subscription are HK\$925,500,000 (RMB equivalent 794,777,000), which will be applied to enhance the capital base of the Company and the aforementioned acquisition. Details of the placing and subscription were set out in the Company’s announcement dated 3 November 2017.

24 Reserves

	Capital reserve (a) RMB’000	Statutory surplus reserves (b) RMB’000	Share-based payments reserve RMB’000	Treasury shares RMB’000	Translation reserve RMB’000	Total RMB’000
At 1 September 2016	150,000	236,557	—	—	—	386,557
Profit appropriation to statutory surplus reserves	—	97,596	—	—	—	97,596
Repurchase of shares	46	—	—	—	—	46
Share-based compensation	—	—	91,578	—	—	91,578
Currency translation differences	—	—	—	—	(59,213)	(59,213)
At 31 August 2017	<u>150,046</u>	<u>334,153</u>	<u>91,578</u>	<u>—</u>	<u>(59,213)</u>	<u>516,564</u>
At 1 September 2017	150,046	334,153	91,578	—	(59,213)	516,564
Profit appropriation to statutory surplus reserves	—	171,841	—	—	—	171,841
Purchase of treasury shares (Note 25(a))	—	—	—	(134,721)	—	(134,721)
Share-based compensation	—	—	62,538	—	—	62,538
Share issued upon exercise of share-based compensation	—	—	(26,196)	—	—	(26,196)
Currency translation differences	—	—	—	—	(7,247)	(7,247)
At 31 August 2018	<u>150,046</u>	<u>505,994</u>	<u>127,920</u>	<u>(134,721)</u>	<u>(66,460)</u>	<u>582,779</u>

(a) Capital reserve

Capital reserve of the Group represented the capital contribution premium of the Consolidated Affiliated Entities from its then shareholders.

(b) Statutory surplus reserves

Pursuant to the relevant laws and regulations in 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 boards of directors of the relevant PRC subsidiaries. These reserves include (i) statutory reserve fund of the limited liability companies, (ii) general reserve fund of foreign invested enterprise and (iii) the development fund of schools.

- (i) In accordance with the relevant laws and regulations in the PRC and Articles of Association of the companies incorporated in the PRC now comprising the Group (the “**PRC Subsidiaries**”), it is required to appropriate 10% of the annual statutory net profits of the PRC Subsidiaries, after offsetting any prior years’ losses as determined under the PRC accounting standards, to the statutory reserves fund before distributing the net profit. When the balance of the statutory reserves fund reaches 50% of the registered capital of the PRC Subsidiaries, any further appropriation is at the discretion of shareholders. The statutory reserves fund can be used to offset prior years’ losses, if any, and may be converted into share capital by issuing new shares to shareholders in proportion to their existing shareholding, provided that the remaining balance of the statutory reserves fund after such issue is not less than 25% of registered capital.

Pursuant to the laws applicable to China’s Foreign Investment Enterprises, the Company’s subsidiary that is a foreign investment enterprise in China has to make appropriations from its after-tax profit (as determined under PRC GAAP) to reserve funds including (i) general reserve fund, (ii) enterprise expansion fund and (iii) staff bonus and welfare fund. The appropriation to the general reserve fund must be at least 10% of the after tax profits calculated in accordance with PRC GAAP. Appropriation is not required if the reserve fund has reached 50% of the registered capital of the respective company. Appropriations to the other two reserve funds are at the respective companies’ discretion.

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

25 Share-based payments

Movements in the number of share options outstanding under the Pre-IPO Share Option Scheme and their weighted average exercise prices are as follows:

	31 August 2018	
	Average exercise price in HK\$ per share option	Number of share options
Opening balance	0.00001	180,000,000
Share options exercised	0.00001	(11,788,460)
Closing balance	0.00001	168,211,540
Exercisable at period end	0.00001	1,280,040

Options exercised for the year ended 31 August 2018 resulted in 11,788,460 shares being issued at a weighted average price of HK\$4.16 each. There were no options exercised for the year ended 31 August 2017.

Share options outstanding as at 31 August 2018 have the following expiry date and exercise prices:

	31 August 2018	
	Exercise price in HK\$ per share option	Number of share options
Expiry date		
1 September 2036	0.00001	168,211,540

102,621,000 share options granted under the Pre-IPO Share Option Scheme on 1 September 2016 have a vesting period of 20 years. Commencing from the first, second to sixth, seventh to eleventh, twelfth to sixteenth and seventeenth to twentieth anniversaries, the relevant grantees may exercise up to 5%, 20%, 30%, 50% and 100% of the shares comprised in his or her option.

15,658,000 share options granted under the Pre-IPO Share Option Scheme on 1 September 2016 have a vesting period of 20 years. Upon the Listing and commencing from the second to sixth, seventh to eleventh, twelfth to sixteenth and seventeenth to twentieth anniversaries, the relevant grantees may exercise up to 5%, 20%, 30%, 50% and 100% of the shares comprised in his or her option. As at 31 August 2018, 782,900 share options have been vested but not yet exercised.

4,402,000 share options granted under the Pre-IPO Share Option Scheme on 1 September 2016 have a vesting period of 15 years. Commencing from the first, second to sixth, seventh to eleventh and twelfth to fifteenth anniversaries, the relevant grantees may exercise up to 5%, 25%, 45% and 100% of the shares comprised in his or her option.

1,636,000 share options granted under the Pre-IPO Share Option Scheme on 1 September 2016 have a vesting period of 15 years. Upon the Listing and commencing from the second to sixth, seventh to eleventh and twelfth to fifteenth anniversaries, the relevant grantees may exercise up to 5%, 25%, 45% and 100% of the shares comprised in his or her option. As at 31 August 2018, 81,800 share options have been vested but not yet exercised.

2,608,000 share options granted under the Pre-IPO Share Option Scheme on 1 September 2016 have a vesting period of 10 years. Upon the Listing and commencing from the second to sixth and seventh to tenth anniversaries, the relevant grantees may exercise up to 5%, 40% and 100% of the shares comprised in his or her option. As at 31 August 2018, 130,400 share options have been vested but not yet exercised.

44,075,000 share options granted under the Pre-IPO Share Option Scheme on 1 September 2016 have a vesting period of 5 years. Upon the Listing and commencing from the second to fifth anniversaries, the relevant grantees may exercise up to 3% and 100% of the shares comprised in his or her option. As at 31 August 2018, 1,322,250 share options have been vested but not yet exercised.

9,000,000 share options granted under the Pre-IPO Share Option Scheme on 1 September 2016 have a vesting period of 3 years. Upon the Listing and commencing from the first and second to third anniversary, the relevant grantees may exercise up to 40%, 60% and 100% of the shares comprised in his or her option. As at 31 August 2018, 3,600,000 share options have been vested but not yet exercised.

The fair value of the options granted under the Pre-IPO Share Option Scheme as determined using the Binominal model was HK\$464,583,000. Significant inputs into the model were as follows:

Spot price (HK\$)	2.58
Exercise price (HK\$)	0.00001
Expected volatility	62.0%
Time to maturity	Based on the terms of the options
Weighted average annual risk free interest rate	1.1%
Expected dividend yield	0.0%

The fair value of the Pre-IPO Share Option Scheme is charged to the consolidated statement of profit or loss over the vesting period of the options. Total share option expenses charged to the consolidated statement of profit or loss for the year ended 31 August 2018 amounted to HK\$72,637,000 (equivalent to RMB62,538,000) (2017: HK\$106,366,000, equivalent to RMB91,578,000).

(a) Purchase of treasury shares

In order to establish and enhance future share award schemes in the medium and long run, the Company has appointed a trust, China Yuhua Employees Benefit Trust, in Hong Kong for administration of share award schemes. The principal activity of the trust is administrating and holding the Company's shares for the share award scheme for the benefit of the Company's eligible persons. The Company's shares will be purchased by the trust through Haitong International Securities Co., Ltd. ("**Haitong Securities**") in the market out of cash contributed by the Company and held in the trust for the Company until such shares are awarded and vested in the relevant beneficiary in accordance with the provisions of the share award scheme.

As the Company has the power to govern the financial and operating policies of the trust and can derive benefits from the contributions of the employees who have been awarded the shares of the Company through their continued employment with the Group, the Group controls and thus consolidates the trust.

During January and February 2018, the Group entrusted and paid an aggregate of HK\$242,000,000 (equivalent to RMB204,585,000) to Haitong Securities through the trust to purchase shares of the Company from the market as an incentive subject. During this year, Haitong Securities purchased 38,456,000 shares of the Company in total amounting to HK\$163,733,000 (equivalent to RMB134,721,000), which was deducted from “treasury shares” under reserves. The remaining amount of HK\$78,267,000 (equivalent to RMB68,054,000) is disclosed in cash and cash equivalents (Note 20).

26 Accruals and other payables

	As at 31 August	
	2018	2017
	RMB'000	RMB'000
Amount due to related parties (Note 35(b))	4,844	1,122
Payables in relation to the acquisition of LEI Lie Ying Limited (Note 34)	320,000	—
Payable for the prepaid land lease payments	—	48,472
Payables for purchases of property, plant and equipment	126,601	91,514
Salary and welfare payables	61,403	51,681
Deposits received from teachers and students	14,333	19,322
Miscellaneous expenses received from students (a)	33,647	12,353
Payables for teaching materials and other operating expenditure (c)	25,214	14,082
Payables for contracting canteens (b)(c)	534	2,408
Government subsidies payable to students and teachers	25,049	1,604
Payables in relation to the IPO listing	—	14,874
Audit and consulting fees	3,632	—
Interest payables	145	—
Taxes payable	2,797	—
Others	14,851	8,281
	633,050	265,713

- (a) The amounts represent the miscellaneous expenses received from students which will be paid out on behalf of students.
- (b) A few of third party canteens were contracted by the Group to provide catering service to schools.
- (c) As of 31 August 2018 and 2017, the aging of payables for teaching materials and other operating expenditure and payables for contracting canteens were less than 1 year.
- (d) The carrying amounts of the Group's accruals and other payables were denominated in the following currencies:

	As at 31 August	
	2018	2017
	RMB'000	RMB'000
USD	2,494	4,219
HKD	1,957	—
MYR	267	—
RMB	628,332	261,494
	633,050	265,713

27 Deferred revenue

	As at 31 August	
	2018	2017
	RMB'000	RMB'000
Tuition and boarding fees	953,837	631,711
Rental received	2,704	—
	<u>956,541</u>	<u>631,711</u>

28 Borrowings

	As at 31 August	
	2018	2017
	RMB'000	RMB'000
Non-current		
Secured		
Bank loans	70,000	—
Finance lease liabilities	20,988	—
	<u>90,988</u>	<u>—</u>
Current		
Secured		
Bank loans	235,000	—
Finance lease liabilities	3,464	—
Unsecured		
Bank loans	200,000	—
	<u>438,464</u>	<u>—</u>
Total borrowings	<u>529,452</u>	<u>—</u>

(a) Bank Borrowings

- (i) The weighted average effective interest rates at the balance sheet dates are set out as follows:

	As at 31 August	
	2018	2017
Bank borrowings	4.98%	—

- (ii) Bank borrowings of the Group which were guaranteed and pledged by certain prepaid land lease payments of a subsidiary of the Company and which were pledged by right over the tuition fee and accommodation fee are shown below:

	As at 31 August	
	2018	2017
	RMB'000	RMB'000
Guaranteed and pledged by subsidiaries of the Group	105,000	—
Pledged by right over the tuition fee and accommodation fee	200,000	—
	<u>305,000</u>	<u>—</u>

The carrying amounts of assets pledged as security for borrowings are disclosed in Note 32.

- (iii) The maturity date of the borrowing was analysed as follows:

	As at 31 August	
	2018	2017
	RMB'000	RMB'000
Within 1 year	438,464	—
Between 1 and 2 years	72,678	—
Between 2 and 5 years	8,651	—
Over 5 years	9,659	—
	<u>529,452</u>	<u>—</u>

- (iv) The fair values of the Group's borrowings are not materially different to their carrying amounts, since the interest payable on those borrowings is either close to current market rates or the borrowings are of a short-term nature.
- (v) The Group's borrowings were denominated in RMB.
- (vi) Financial arrangements

The Group had access to the following undrawn borrowing facilities from International Finance Corporation at the end of the reporting period:

	As at 31 August	
	2018	2017
	RMB'000	RMB'000
Floating rate		
— Expiring within one year	341,230	—
— Expiring beyond one year	170,615	—
	<u>511,845</u>	<u>—</u>

On 31 May 2018, the Company, China YuHua Education Investment Limited and China HongKong Yuhua Education Limited (“**YuHua HK**”) entered into a loan agreement with International Finance Corporation (“**IFC**”), pursuant to which IFC agreed to lend and the Company agreed to borrow up to the principal amount of US\$75 million, comprised of an initial US\$50 million tranche (the “**Initial Tranche**”) and a US\$25 million tranche (the “**Convertible Tranche**”) which shall, at the option of IFC, be convertible into the ordinary share of the Company at a conversion price of HK\$5.75 per Share (subject to the adjustments as set out in the loan agreement) within the conversion period. The Initial Tranche is repayable in eleven equal semiannual instalments commencing from 15 June 2020 and the Convertible Tranche is repayable in seven equal semi-annual instalments commencing from the same date (unless converted prior), subject to customary early prepayment conditions.

The proceeds of the loan will primarily be utilised to finance potential acquisitions.

As a condition to disbursement of the Loan, the chairman and ultimate controlling shareholder, Mr. Li Guangyu, and the chief executive officer Ms. Li Hua, have entered into the Share Retention Agreement pursuant to which they will, among other things, be required to retain control over GuangYu Investment and, through GuangYu Investment, the Company, for so long as any indebtedness under the Loan remains outstanding. An equity pledge agreement was also entered into pursuant to which YuHua HK will grant IFC a pledge over an equity interest representing 40% of the registered capital of Xizang Yuanpei Information Technology Management Company Limited (西藏元培信息科技管理有限公司).

The Loan provides for an additional tranche of US\$75 million to be drawn down by the Company, subject to the entry into of a supplemental agreement with IFC (the “**Additional Tranche**”).

For the year ended 31 August 2018, the Company paid front-end fee in the amount of US\$500,000 (RMB3,435,000 equivalent) for the Initial Tranche and front-end fee in the amount of US\$250,000 (RMB1,738,000 equivalent) for the Convertible Tranche.

The Company has not drawn down the loan as at the date of this announcement.

(b) Finance leases

As at 31 August 2018, the Group leases buildings with a carrying amount of RMB37,583,000, under a finance lease expiring within twenty years.

	As at 31 August	
	2018	2017
	RMB'000	RMB'000
Commitments in relation to finance leases are payable as follows:		
Within one year	3,464	—
Later than one year but not later than five years	13,856	—
Later than five years	10,392	—
Minimum lease payments	27,712	—
Future finance charges recognised as a liability	(3,260)	—
Total lease liabilities	24,452	—

The present value of finance lease liabilities is as follows:

Within one year	3,464	—
Later than one year but not later than five years	11,329	—
Later than five years	9,659	—
Minimum lease payments	24,452	—

29 Provisions

	As at 31 August	
	2018	2017
	RMB'000	RMB'000
Legal Claim		
At beginning of the year	—	—
Acquisition of subsidiaries (Note 34)	6,132	—
Addition in provision (Note 7)	457	—
At end of the year	6,589	—

30 Cash flow information

(a) Cash generated from operations

	Year ended 31 August	
	2018	2017
	RMB'000	RMB'000
Profit before income tax	591,960	313,801
Adjustments for:		
— Amortisation of prepaid land lease payments (Note 13)	17,843	5,192
— Depreciation of property, plant and equipment (Note 14)	102,253	69,911
— Amortisation of intangible assets (Note 15)	2,353	280
— Provision for impairment of trade and other receivables (Note 18(b))	1,160	—
— Losses on disposal of property, plant and equipment (Note 7)	570	246
— Front end fee recognised in profit or loss	1,738	—
— Fair value gains on financial assets at fair value through profit or loss (Note 7)	—	(1,114)
— Gains on disposal of financial assets at fair value through profit or loss (Note 7)	(6,577)	(292)
— Share-based payments (Note 8)	62,538	91,578
— Compensation for the realisation of security interests (Note 7)	(134,797)	—
— Finance expenses — net (Note 10)	(12,595)	(5,071)
— Provision for legal claims (Note 7)	457	—
— Waiver of payable by the selling shareholder (Note 7)	108,275	—
Changes in working capital:		
— Trade and other receivables	(7,887)	2,104
— Other non-current assets	2,000	2,900
— Deferred revenue	80,045	22,518
— Accruals and other payables	(41,786)	24,407
— Deferred income	375	—
Cash generated from operations	767,925	526,460

In the consolidated statement of cash flows, proceeds from sale of property, plant and equipment comprise:

	Year ended 31 August	
	2018	2017
	RMB'000	RMB'000
Net book amount (Note 14)	1,029	1,081
Losses on disposal of property, plant and equipment (Note 7)	(570)	(246)
Proceeds from disposal of property, plant and equipment	459	835

(b) Net debt reconciliation

This section sets out an analysis of net debt and the movements in net debt for each of the periods presented.

Net debt

	As at 31 August	
	2018	2017
	RMB'000	RMB'000
Cash and cash equivalents	1,593,177	642,506
Borrowings — repayable within one year (Note 28(a))	(438,464)	—
Borrowings — repayable after one year (Note 28(a))	(90,988)	—
Net debt	1,063,725	642,506
Cash and cash equivalents	1,593,177	642,506
Gross debt — fixed interest rates	(424,452)	—
Gross debt — variable interest rates	(105,000)	—
Net debt	1,063,725	642,506

	Assets		Liabilities from financing activities			
	Cash and cash equivalents	Finance leases due within 1 year	Finance leases due after 1 year	Borrowings due within 1 year	Borrowings due after 1 year	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Net debt as at 31 August 2016	304,986	—	—	(120,000)	(195,000)	(10,014)
Cash flows	352,746	—	—	120,000	195,000	667,746
Foreign exchange adjustments	(15,226)	—	—	—	—	(15,226)
Net debt as at 31 August 2017	642,506	—	—	—	—	642,506
Cash flows	791,794	3,464	—	(365,000)	—	430,258
Foreign exchange adjustments	(416)	—	—	—	—	(416)
Acquisition of subsidiaries	159,293	(6,077)	(21,250)	(60,000)	(80,000)	(8,034)
Other non-cash movements	—	(851)	262	(10,000)	10,000	(589)
Net debt as at 31 August 2018	1,593,177	(3,464)	(20,988)	(435,000)	(70,000)	1,063,725

31 Commitments

(a) Capital commitments

The following is the details of capital expenditure contracted but not provided for in the consolidated financial statements.

	As at 31 August	
	2018	2017
	RMB'000	RMB'000
Property, plant and equipment	<u>4,157</u>	<u>—</u>

(b) Operating lease commitments

The Group leases certain buildings under non-cancellable operating lease agreements. The Group had future aggregate minimum lease payments in respect of land and buildings under non-cancellable operating leases are as follows:

	As at 31 August	
	2018	2017
	RMB'000	RMB'000
No later than 1 year	3,723	3,704
Later than 1 year and no later than 5 years	13,029	12,085
Later than 5 years	26,384	29,617
	<u>43,136</u>	<u>45,406</u>

32 Assets pledged as security

The carrying amounts of assets pledged as security for borrowings are:

	As at 31 August	
	2018	2017
	RMB'000	RMB'000
Bank borrowings		
Prepaid land lease payments	262,250	—
Bank loan owed by a former employee (Note 7 (a))		
Prepaid land lease payments	<u>16,563</u>	<u>—</u>
	<u>278,813</u>	<u>—</u>

33 Contingencies

Contingent liabilities

As at 31 August 2018, the Group had main contingent liabilities in respect of:

(a) *Dispute with Ms. Li Shihong and Hunan Lie Ying Education Investment Management Co., Ltd.*

In June 2016, Ms. Li Shihong (李世紅), a third party, and Hunan Lie Ying Education Investment Management Co., Ltd. (湖南獵鷹教育投資管理有限公司), a company formerly controlled by Mr. Zhang Jianbo (張劍波), commenced civil proceedings in the Changsha Intermediary Court in the PRC against Mr. Zhang Jianbo, Mr. Zhang Jiangbo, Ms. Chen Zhengxian, Lie Ying Science and Education (湖南新獵鷹科教有限公司) and HIEU, claiming an amount of RMB170,000,000 pursuant to a debt repayment document executed in 2014 (and any interest and litigation expenses).

The document was signed by Mr. Zhang Jiangbo, Ms. Chen Zhengxian, Lie Ying Science and Education and Mr. Zhang Jianbo, allegedly on behalf of HIEU, in effect as a guarantor and a seal was affixed, allegedly being that of HIEU. HIEU's defence contended that Mr. Zhang Jianbo was not authorised to execute the document on behalf of HIEU, nor to affix any HIEU's seal, and that in any event an education institution is not permitted to guarantee a loan for non-educational purposes. Mr. Zhang Jianbo has admitted to the court that he lacked such authorisation. On 4 November 2017, HIEU was informed by the court that the case against it would be dismissed. On 25 November 2017, Ms. Li Shihong and Hunan Lie Ying Education Investment Management Co., Ltd. filed an appeal against the court's decision. On 19 April 2018, the first hearing of the appeal was convened in the Higher People's Court of Hunan in the PRC and the court made a decision to send the case back to the Changsha Intermediate People's Court due to the procedural issues of the first instance. On 20 September 2018, Lie Ying Science and Education and Ms. Li Shihong applied to the Changsha Intermediate People's Court for the change of the defendants to Mr. Zheng Ziben (鄭子犇) (the heir of Ms. Chen Zhengxian according to her last will) and Ms. Wang Min (王敏), (the legal heir of Mr. Zhang Jiangbo) as Ms. Chen Zhengxian and Mr. Zhang Jiangbo passed away. On 26 September 2018, the Changsha Intermediate People's Court transferred the case to the Higher People's Court of Hunan Province on the grounds that the jurisdiction level should belong to the Higher People's Court of Hunan. The case has not been heard in court. The directors of the Company consider that although there is still uncertainty until the final court decision has made, it is not probable that the court will be in favour to the claims from Ms. Li Shihong and Hunan Lie Ying Education Investment Management Co., Ltd. (湖南獵鷹教育投資管理有限公司).

(b) *Dispute with Nanbo*

In December 2017, Nanbo commenced civil proceedings in the Higher People's Court of Hunan against the Company and LIC, with HIEU and Lie Ying Industry joined as third parties and sought an order that: (i) the Company and LIC shall compensate HIEU for a total amount of RMB265,000,000 for impairment of HIEU's interests; (ii) the exclusive technical support and consultation service agreement (獨家技術支持與諮詢服務協議) entered into between HIEU and LIC be declared void and invalid; and (iii) the Company and LIC shall bear all the costs and legal fees for the proceedings. On 12 December 2017, the Higher People's Court of Hunan granted an order that the equity interests in Lie Ying Industry held by the Company and Nanbo shall be frozen to preserve the relevant assets before proceedings. On 15 October 2018, the case was heard in the Higher People's court of Hunan in the PRC. On 30 October 2018, a verdict was issued by the court that rejected the claims from Nanbo. As of the reporting date, Nanbo has not filed an appeal against the court's decision. The directors of the Company consider that although there is still uncertainty that an appeal would be filed by Nanbo, it is not probable that the court will be in favour to the claims from Nanbo.

(c) *Dispute with Ms. Chen Zhengxian*

On 28 November 2017, Ms. Chen Zhengxian commenced civil proceedings in the Hunan Provincial Higher Court against the Company and Mr. Lin Zhiwen (林至文), a former director of Lie Ying Industry, HIEU and Hunan Lie Ying Property Management Co., Ltd., with HIEU, Lie Ying Industry, LIC, Mr. Zhang Jianbo and Mr. Zhang Jiangbo listed as third parties. Ms. Chen Zhengxian sought an order that: (i) the Company shall return the capital withdrawn of RMB172,019,779 and shall pay a total amount of RMB28,000,000 as compensation for interests; (ii) the aforesaid amounts shall be distributed to Ms. Chen Zhengxian, Mr. Zhang Jianbo and Mr. Zhang Jiangbo in the same proportion as their previous shareholding proportion in Lie Ying Industry; and (iii) Mr. Lin Zhiwen shall be held jointly liable. On 22 December 2017, the court granted an interim order that the Company's bank deposits of RMB200,019,700 or equivalent assets shall be frozen to preserve the relevant assets before proceedings. On 15 May 2018, a verdict was issued by the Higher People's Court of Hunan province to approve the change of plaintiff from Ms. Chen Zhengxian to Mr. Zheng Ziben according to Ms. Chen Zhengxian's last will as she has passed away on 5 May 2018. On 29 May 2018, the hearing of the appeal was convened in the Higher People's Court of Hunan in the PRC. On 29 October 2018, a verdict was issued by the court that rejected the claims from Mr. Zheng Ziben. As of the reporting date, Mr. Zheng Ziben has not filed an appeal against the court's decision. The directors of the Company consider that although there is still uncertainty that an appeal would be filed by Mr. Zheng Ziben, it is not probable that the court will be in favour to the claims from Mr. Zheng Ziben.

34 Business combinations

On 27 December 2017, one of the Company's wholly owned subsidiaries, China YuHua Education Investment Limited, a company incorporated in the British Virgin Islands with limited liability (the "**Purchaser**"), and LEI China Limited, an indirect subsidiary of Wengen Alberta LP incorporated in Hong Kong with limited liability, entered into an acquisition agreement, pursuant to which the Purchaser has conditionally agreed to purchase the entire issued share capital of LEI Lie Ying (the "**Acquisition**") with the consideration amounting to RMB1,165,159,000. Upon completion of the Acquisition, GuangYu Investment became the ultimate holding company of LEI Lie Ying. On 27 December 2017, the Acquisition was completed and Mr. Li became the ultimate controlling party of LEI Lie Ying and its subsidiaries (collectively referred to as "**LEI Lie Ying Group**").

LEI Lie Ying was incorporated in Hong Kong on 26 March 2009 as a limited liability company. LEI Lie Ying Group provides private university and vocational education services in Hunan Province of the PRC.

The goodwill of RMB528,703,000 arises from a number of factors including expected synergies through combining a highly skilled workforce and obtaining greater operations efficiencies through knowledge and industry experiences transfer; obtaining economies of scale by cost reductions from purchasing efficiencies.

The following table summarises the purchase consideration for LEI Lie Ying Group, and the fair value of the amounts of the assets acquired and liabilities recognised at the acquisition date.

	As at 27 December 2017 (RMB'000)
Acquisition consideration	1,165,159
NAV Consideration Adjustment (Note 7)	(108,275)
Total consideration	1,056,884
Less:	
Cash and cash equivalents	159,293
Prepaid land lease payments	583,120
Property, plant and equipment	784,407
Intangible assets	226,301
Deferred tax assets	9,018
Trade and other receivables	6,057
Accruals and other payables	(337,368)
Current income tax liabilities	(6,069)
Deferred revenue	(244,785)
Borrowings	(167,327)
Deferred tax liabilities	(251,977)
Provisions (Note 7)	(6,132)
Non-controlling interests	(226,357)
Goodwill	528,703
Acquisition-related costs (included in administrative expenses in the consolidated statement of profit and loss) (Note 8)	7,136
Outflow of cash to acquire business, net of cash acquired	
Acquisition consideration	1,165,159
Payables for acquisition consideration (Note 26)	(320,000)
Cash paid	845,159
Cash and cash equivalents in subsidiaries acquired	(159,293)
Cash outflow on acquisition	685,866

(a) Acquired receivables

The fair value of trade and other receivables is RMB6,057,000 and includes that of trade receivables of RMB471,000. The gross contractual amount for trade receivables past due is RMB1,534,000, of which RMB1,063,000 is expected to be uncollectible and thus impaired.

(b) Revenue and profit contribution

The revenue and net profit included in the consolidated statement of profit or loss contributed by LEI Lie Ying Group since 27 December 2017 was RMB248,773,000 and RMB201,012,000, respectively. If the Acquisition had occurred on 1 September 2017, consolidated revenue and consolidated profit for the year ended 31 August 2018 would have been RMB1,341,181,000 and RMB723,170,000 respectively.

(c) Assignment of creditor's rights

Pursuant to an agreement among HIEU, YuHua Investment Management Co., Ltd. and LIC dated 27 December 2017, LIC assigned its right in the balance due from HIEU amounting to RMB214,841,000 to YuHua Investment Management Co., Ltd. at a consideration of RMB214,841,000.

(d) Non-controlling interest

The Group has chosen to recognise the non-controlling interest at the proportion of net assets acquired shared by the non-controlling interests.

35 Significant related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or joint control.

The Controlling Shareholder, members of key management and their close family members of the Group are also considered as related parties. In the opinion of the Directors, the related party transactions were carried out in the normal course of business and at terms negotiated between the Group and the respective related parties.

Name and relationship with related parties:

Names of the related parties	Nature of relationship
Mr. Li Guangyu	The Controlling Shareholder
Ms. Qiu Hongjun	Executive Director
Zhengzhou Corn Culture Communication Co. Ltd.	A company controlled by the Controlling Shareholder
Hunan New Lie Ying Science and Education Co., Ltd.	A company controlled by a shareholder with significant influence of subsidiaries of the Company
Hunan Lie Ying Real Estate Company Limited	A company controlled by a shareholder with significant influence of subsidiaries of the Company

(a) Transactions with related parties

	Year ended 31 August	
	2018	2017
	RMB'000	RMB'000
Purchases of services from the Controlling Shareholder	—	739
Borrowings from related parties		
— Qiu Hongjun	—	6,864
Repayments of borrowings to related parties		
— Qiu Hongjun	—	(6,864)
Purchases of services from related parties	1,122	383
Others	59	—

(b) **Balance with related parties**

	As at 31 August	
	2018	2017
	RMB'000	RMB'000
Amounts due to related parties		
— The Controlling Shareholder	1,077	739
— Zhengzhou Corn Culture Communication Co., Ltd.	766	383
— Hunan Lie Ying Real Estate Company Limited	2,971	—
— Others	30	—
	4,844	1,122
Amounts due from related parties		
— Hunan New Lie Ying Science and Education Co., Ltd.	22	—
— Others	82	—
	104	—

As at 31 August 2018, all balances with the Controlling Shareholder and related companies are non-interest bearing. All balances due from and due to the Controlling Shareholder and related parties are unsecured and repayable on demand.

(c) **Key management compensation**

Key management includes directors and senior managements. The compensation paid or payable to key management for employee services is shown below:

	Year ended 31 August	
	2018	2017
	RMB'000	RMB'000
Wages, salaries and bonuses	3,449	1,384
Share-based payments	37,408	53,469
Contributions to pension plans	188	124
Welfare and other expenses	183	95
	41,228	55,072

36 Balance sheet and reserve movement of the Company

Balance Sheet of the Company

		Year ended 31 August	
	Note	2018	2017
		RMB'000	RMB'000
Non-current assets			
Investments in subsidiaries		269,667	40,316
Total non-current assets		269,667	40,316
Current assets			
Trade and other receivables		1,070,325	7,218
Cash and cash equivalents		55,951	334,495
Term deposits with initial term of over three months		414,680	832,237
Total current assets		1,540,956	1,173,950
Total assets		1,810,623	1,214,266
Equity and liabilities			
Equity attributable to equity holders of the Company			
Share capital		28	26
Share premium	(a)	2,130,457	1,318,313
Reserves	(a)	98,969	32,230
Retained earnings	(a)	(437,766)	(168,509)
Total equity		1,791,688	1,182,060
Liabilities			
Current liabilities			
Accruals and other payables		18,935	32,206
Total current liabilities		18,935	32,206
Total liabilities		18,935	32,206
Total equity and liabilities		1,810,623	1,214,266

(a) Reserve movement of the Company

	Attributable to owners of the Company					
	Share premium	Capital reserve	Share-based payments reserve	Translation reserve	Retained earnings	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 September 2016	—	—	—	—	(6,943)	(6,943)
Comprehensive income						
Profit for the year	—	—	—	—	(64,528)	(64,528)
Total comprehensive income	—	—	—	—	(64,528)	(64,528)
Other comprehensive income	—	—	—	—	—	—
<i>Items that may not be reclassified to profit or loss</i>						
Currency translation differences	—	—	—	(59,394)	—	(59,394)
Total other comprehensive income	—	—	—	(59,394)	—	(59,394)
Transactions with equity holders						
Repurchase of shares	—	46	—	—	—	46
Issuance of ordinary shares relating to initial public offering, net of underwriting commissions and other issuance costs	1,318,313	—	—	—	—	1,318,313
Dividends relating to the year	—	—	—	—	(97,038)	(97,038)
Share-based compensation	—	—	91,578	—	—	91,578
Total transactions with equity holders	1,318,313	46	91,578	—	(97,038)	1,312,899
At 31 August 2017	<u>1,318,313</u>	<u>46</u>	<u>91,578</u>	<u>(59,394)</u>	<u>(168,509)</u>	<u>1,182,034</u>

	Attributable to owners of the Company					
	Share premium	Capital reserve	Share-based payments reserve	Translation reserve	Retained earnings	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 September 2017	1,318,313	46	91,578	(59,394)	(168,509)	1,182,034
Comprehensive income						
Profit for the year					(30,233)	(30,233)
Total comprehensive income	—	—	—	—	(30,233)	(30,233)
Other comprehensive income						
<i>Items that may not be reclassified to profit or loss</i>						
Currency translation differences	—	—	—	30,397	—	30,397
Total other comprehensive income	—	—	—	30,397	—	30,397
Transactions with equity holders						
Placing of new shares	785,948	—	—	—	—	785,948
Dividends distribution	—	—	—	—	(239,024)	(239,024)
Share-based payment expense	—	—	62,538	—	—	62,538
Exercise of Share-based payment	26,196	—	(26,196)	—	—	—
Total transactions with equity holders	812,144	—	36,342	—	(239,024)	609,462
At 31 August 2018	2,130,457	46	127,920	(28,997)	(437,766)	1,791,660

37 Subsidiaries

The following is a list of the principal subsidiaries at 31 August 2018:

Name of subsidiaries	Country/ Place and date of incorporation/ establishment	Particulars of issued share capital	Percentage of equity interests held by the Group	Percentage of equity interests directly held by the Company	Principal activities	Places of operation
Directly held:						
China YuHua Education Investment Limited (中國宇華教育投資有限公司)	BVI/ 28 April 2016	US\$1.00	100%	100%	Holding company	BVI
LEI Lie Ying Limited	Hong Kong/ 26 March 2009	HK\$1	100%	100%	Holding company	Hong Kong
Indirectly held:						
China HongKong Yuhua Education Limited (中國香港宇華教育有限公司)	Hong Kong/ 12 May 2016	HK\$1,000.00	100%	—	Holding company	Hong Kong
Xizang Yuanpei Information Technology Management Company Limited (西藏元培信息科技管理有限公司)	PRC/ 22 July 2016	US\$500,000.00	100%	—	Holding company	PRC
Zhengzhou YuHua Education Investments Co., Ltd. (鄭州宇華教育投資有限公司)	PRC/ 9 April 2004	RMB50,000,000	100%	—	Holding company	PRC
Zhengzhou YuHua Elite School (鄭州市宇華實驗學校) Formerly known as “the Affiliated High School of Peking University, Henan Branch” (北京大學附屬中學河南分校)	PRC/ 1 September 2001	RMB20,000,000	100%	—	High school and middle school	PRC
Zhengzhou YuHua Elite Primary School (鄭州市宇華實驗小學) Formerly known as “the Foreign Language Primary School of the Affiliated High School of Peking University, Henan Branch” (北京大學附屬中學河南分校外國語小學)	PRC/ 1 September 2005	RMB10,000,000	100%	—	Primary school	PRC
Zhengzhou YuHua Elite Bilingual Kindergarten (鄭州市宇華實驗雙語幼兒園) Formerly known as “the Bilingual Kindergarten of the Affiliated High School of Peking University, Henan Branch” (北京大學附屬中學河南分校雙語幼兒園)	PRC/ 1 September 2005	RMB5,000,000	100%	—	Kindergarten	PRC
Zhengzhou Technology and Business University (鄭州工商學院) Formerly known as “Wanfang College of Science & Technology Henan Polytechnic University” (河南理工大學萬方科技學院鄭州校區)	PRC/ 9 April 2013	RMB100,000,000	100%	—	University	PRC

Name of subsidiaries	Country/ Place and date of incorporation/ establishment	Particulars of issued share capital	Percentage of equity interests attributable to the Group	Percentage of equity interests directly held by the Company	Principal activities	Places of operation
Indirectly held: (Continued)						
Jiaozuo YuHua Elite School (焦作市宇華實驗學校) Formerly known as “the Affiliated High School of Peking University, Henan Branch, Jiaozuo Campus (北京大學附屬中學河南分校焦作校區)	PRC/ 18 July 2011	RMB10,000,000	100%	—	High school Middle school Primary school	PRC
Xingyang YuHua Shengshi Elite School (滎陽宇華盛世實驗學校) Formerly known as “Zhengzhou Yizhong Middle School”(鄭州壹中實驗初中)	PRC/ 15 June 2015	RMB1,000,000	100%	—	Middle school	PRC
Kaifeng YuHua Elite School (開封市宇華實驗學校) Formerly known as “the Affiliated High School of Peking University, Henan Branch, Kaifeng Campus” (北京大學附屬中學河南分校開封校區)	PRC/ 7 September 2012	RMB3,000,000	100%	—	Middle school Primary school	PRC
Luohe YuHua Elite School (漯河市宇華實驗學校) Formerly known as “the Affiliated High School of Peking University, Henan Branch, Luohe Campus (北京大學附屬中學河南分校漯河校區)	PRC/ 23 August 2013	RMB10,000,000	100%	—	High school Middle school Primary school	PRC
Xuchang YuHua Elite School (許昌宇華實驗學校) Formerly known as “the Affiliated High School of Peking University, Henan Branch, Xuchang Campus” (北京大學附屬中學河南分校許昌校區)	PRC/ 1 November 2014	RMB3,000,000	100%	—	Middle school Primary school	PRC
Jiyuan YuHua Elite School (濟源市宇華實驗學校) Formerly known as “the Affiliated High School of Peking University, Henan Branch, Jiyuan Campus” (北京大學附屬中學河南分校濟源校區)	PRC/ 1 November 2014	RMB1,000,000	100%	—	Middle school Primary school	PRC
Hunan Lie Ying Industry Co., Ltd. (湖南獵鷹實業有限公司)	PRC/ 17 December 1996	RMB113,333,334	70%*	—	Holding company	PRC
Hunan International Economics University (“HIEU”) (湖南涉外經濟學院)	PRC/ 13 May 1997	RMB10,000,000	70%	—	University	PRC
Hunan Lie Ying Property Management Co., Ltd. (湖南獵鷹物業管理有限公司)	PRC/ 29 July 2002	RMB2,000,000	70%	—	Property management	PRC
Hunan Lie Ying Mechanic School (湖南獵鷹技工學校)	PRC/ 10 September 2007	RMB500,000	70%	—	Vocational school	PRC

* Due to the civil proceedings with Nanbo, 22.8% of the equity interests of Hunan Lie Ying Industry Co., Ltd held by LEI Lie Ying was frozen by an order of the Higher People’s Court of Hunan, the PRC on 12 December 2017. For the details, please refer to Note 33(b).

38 Benefits and interests of Directors

(a) Directors' emoluments

The remuneration of each Director for the years ended 31 August 2018 and 2017 are set out below:

For the year ended 31 August 2018	Salary RMB'000	Contribution to pension plan, welfare and other expenses RMB'000	Share-based compensation RMB'000	Total RMB'000
Name of executive director				
Mr. Li Guangyu	120	13	14,263	14,396
Ms. Li Hua	248	33	17,568	17,849
Ms. Qiu Hongjun	68	11	798	877
Name of independent non-executive director				
Mr. Chen Lei	180	—	—	180
Mr. Xia Zuoquan	180	—	—	180
Mr. Zhang Zhixue	180	—	—	180
	<u>976</u>	<u>57</u>	<u>32,629</u>	<u>33,662</u>
For the year ended 31 August 2017	Salary RMB'000	Contribution to pension plan, welfare and other expenses RMB'000	Share-based compensation RMB'000	Total RMB'000
Name of executive director				
Mr. Li Guangyu	121	11	15,579	15,711
Ms. Li Hua	305	37	19,190	19,532
Ms. Qiu Hongjun	68	11	1,160	1,239
Name of independent non-executive director				
Mr. Chen Lei	90	—	—	90
Mr. Xia Zuoquan	90	—	—	90
Mr. Zhang Zhixue	90	—	—	90
	<u>764</u>	<u>59</u>	<u>35,929</u>	<u>36,752</u>

Note:

Mr. Chen Lei, Mr. Xia Zuoquan and Mr. Zhang Zhixue were appointed as the Company's independent non-executive Directors on 16 February 2017. No emoluments have been paid by the Group to the Directors as an inducement to join or upon joining the Group or as compensation for loss of office. No Director waived or has agreed to waive any emoluments.

(b) Directors' retirement benefits

During the year ended 31 August 2018, no retirement benefits were paid or receivable by any directors in respect of their services in connection with the management of the affairs of the Company or its subsidiary undertaking (2017: nil).

(c) Directors' termination benefits

During the year ended 31 August 2018, no payments was made to directors as compensation for early termination of the appointment (2017: nil).

(d) Consideration provided to third parties for making available directors' service

During the year ended 31 August 2018, no payment was made to the former employer of directors or third parties for making available the services as a director of the Company (2017: nil).

(e) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors

During the year ended 31 August 2018, there are no loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors (2017: nil).

(f) Directors' material interests in transactions, arrangements or contracts

During the year ended 31 August 2018, no significant transaction, arrangement and contract in relation to the Group's business to which the Group companies were parties and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time of the years except for the transactions disclosed in Note 35(a) (2017: nil).

39 Dividends

The dividends paid in 2018 and 2017 were RMB239,024,000 (HKD0.09 per share) and RMB97,038,000 (HKD0.037 per share) respectively. A dividend in respect of the year ended 31 August 2018 of HKD0.064 per share, amounting to a total dividend of RMB180,436,000, is to be proposed at the annual general meeting to be held on 31 January 2019. These financial statements do not reflect this dividend payable.

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Dividend declared for the prior year of HKD0.043 per ordinary share	113,730	—
Interim dividend paid of HKD0.047 (2017: HKD0.037) per ordinary share	125,294	97,038
Proposed final dividend of HKD0.064 (2017: HKD0.043) per ordinary share	<u>180,436</u>	<u>117,903</u>

40 Subsequent events

- (a) On 19 October 2018, the Company and China CITIC Bank Co., Ltd. (Zhengzhou Branch) (中信銀行股份有限公司 鄭州分行) entered into the Bank-Enterprise Cooperation Agreement (銀企合作協議) (“**Cooperation Agreement**”), pursuant to which the parties agreed to form a comprehensive alliance in respect of financial services. The Cooperation Agreement includes a credit facility of not less than RMB14,000,000,000 or equivalent US dollars over the next two years. For further details, please refer to the Company's announcement dated 19 October 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

With over 17 years of operating private schools in Henan province, the Group is one of the largest private school operators in China in terms of student enrolment.

The Group's K-12 schools provide education from kindergarten to high school, allowing the Group to attract students at an early age and create a stable and sustainable student pipeline. The Group emphasises the well-rounded development of the Group's students and have structured the curriculum to ensure the high quality of the Group's education and inspire and encourage the Group's students to explore their individual interests. The Group's K-12 schools are also committed to maximising their students' opportunities to enter top-tier universities in China and reputable colleges and universities abroad.

The Group's fundamental educational objectives are to foster modern talent with leadership and lifelong learning capabilities and nurture great minds to contribute to the future development of the Chinese nation (“培養具有領導才能和自主學習能力的現代化人才，為中華民族的偉大復興貢獻力量”). As an educational service provider, the Group believes it is entrusted to nurture the future of society, and aims to provide educational services in a manner consistent with the values and attitudes of the Group. The curriculums for the Group's university and K-12 schools not only accommodate the students' eagerness to achieve academic excellence, but also emphasise well-rounded development.

The business of the Group remained relatively stable for the year ended 31 August 2018. The Group intends to continue to expand its school network and ensure delivery of high-quality education to its students by making continuous improvements to the educational infrastructure available.

The Group's Schools

As at 31 August 2018, the Group had 26 schools located in Henan province of China and one school located in Hunan province of China, respectively. In the past fiscal year: (i) the Group's new high school on Xuchang Yuhua Elite School campus commenced operation on 1 September 2017; (ii) the Group acquired Hunan International Economics University, Hunan Lie Ying Mechanic School and Hunan International Economics University Vocational Skills Training Centre (altogether, the “**HIEU Schools**”) through acquiring LEI Lie Ying Limited in December 2017; and (iii) the Group had entered into an investment agreement to purchase a 70% equity interest in Kaifeng City Yubohui Education Information Consulting Co., Ltd. of which Kaifeng City Xiangfu District Bowang High School is a wholly-owned subsidiary.

The private school operating licence (the “**PSO Licence**”) for Zhengzhou Technology and Business University expired in May 2016; the PSO Licence has been renewed and is due to expire in 2019. The PSO Licence for Xuchang Weidu District YuHua Elite Bilingual Kindergarten expired in March 2018; it has been renewed and will expire in April 2020. The PSO Licence for Jiyuan YuHua Elite Bilingual Kindergarten expired in July 2018; it was renewed and will expire in June 2022.

The following table sets out a summary of the Group's schools by category as at the end of August 2018 and 2017:

	As at 31 August 2018	As at 31 August 2017
The Group's schools		
University	2 ^(note 1)	1
High schools	4 ^(note 2)	4 ^(note 3)
Middle schools	7	7
Primary schools	6	6
Kindergartens	8	8
Total	27	26

Notes:

- (1) LEI Lie Ying Limited owns 70% of the equity interest in Hunan Lie Ying Industry Co., Ltd. (湖南獵鷹實業有限公司) which in turn owns the entire sponsorship interests of Hunan International Economics University (湖南涉外經濟學院), Hunan Lie Ying Mechanic School (湖南獵鷹技工學校) and Hunan International Economics University Vocational Skills Training Centre (湖南涉外經濟學院職業技能培訓中心), and the entire equity interests of Hunan Lie Ying Property Management Co., Ltd. (湖南獵鷹物業管理有限公司).
- (2) It does not include Kaifeng City Xiangfu District Bowang High School (開封市祥符區博望高中) which was only consolidated into the Group's accounts on 1 September 2018. On 18 April 2018, Zhengzhou YuHua Education Investments Co., Ltd. (鄭州宇華教育投資有限公司), a member of our Group, entered into an investment agreement to purchase a 70% equity interest in Kaifeng City Yubohui Education Information Consulting Co., Ltd. (開封市宇博慧教育資訊諮詢有限公司). Kaifeng City Xiangfu District Bowang High School is a wholly-owned subsidiary of Kaifeng City Yubohui Education Information Consulting Co., Ltd.
- (3) Includes the high school on the Xuchang YuHua Elite School campus, which had been established but was not yet put into operation as of 31 August 2017. It commenced operation in September 2017.

Business Outlook

1. Events during the Reporting Period

On 2 November 2017, the Company, GuangYu Investment Holdings Limited, CLSA Limited, and Mr. Li Guangyu entered into a placing and subscription agreement pursuant to which GuangYu Investment Holdings Limited agreed to appoint CLSA Limited and CLSA Limited agreed to use its best effort to procure placees who and whose ultimate beneficial owners shall be independent third parties to subscribe for up to 253,150,000 shares at the aggregate price of HK\$3.70 per share (the “**Top-up Placing and Subscription**”). GuangYu Investment Holdings Limited also agreed to subscribe for, and the Company conditionally agreed to allot and issue to CLSA Limited, up to 253,150,000 new shares at an aggregate price of HK\$3.70 per share. The subscription took place on 7 November 2017. For further details, please refer to the Company's announcement dated 2 November 2017.

On 10 November 2017, the Board announced the completion of the Top-up Placing and Subscription. The 253,150,000 shares were successfully placed to 53 placees whose ultimate beneficial owners are independent third parties at a price of HK\$3.70 per share. For further details, please refer to the Company's announcement dated 10 November 2017.

On 27 December 2017, China YuHua Education Investment Limited (the “**Purchaser**”), a wholly-owned subsidiary of the Company, and LEI China Limited (the “**Seller**”) entered into an acquisition agreement pursuant to which the Purchaser conditionally agreed to purchase and the Seller conditionally agreed to sell the entire issued share capital of LEI Lie Ying Limited for a total consideration of RMB1,430 million. The acquisition was completed on 27 December 2017. The financial results of LEI Lie Ying Limited and its subsidiaries (including the HIEU Schools) have been consolidated into the Group's starting from 1 January 2018. For further details, please refer to the Company's announcements dated 28 December 2017, 18 January 2018 and 29 March 2018, and the Company's circular dated 29 June 2018.

On 2 February 2018, the Henan Municipal Government promulgated the Implementation Opinions of Henan Government on Encouraging the Operation of Education by Social Forces and Promoting the Healthy Development of Private Education (《河南省人民政府關於鼓勵社會力量興辦教育進一步促進民辦教育健康發展的實施意見》) (the “**Henan Opinions**”). The Board will closely monitor the implementation of the Henan Opinions and will seek the PRC Legal Adviser's further opinion concerning compliance with the Henan Opinions as and when appropriate. The Board will choose to register its kindergartens as for-profit or non-profit schools in accordance with the applicable laws and regulations and in the best interests of the Company and its shareholders.

On 18 April 2018, Zhengzhou YuHua Education Investments Co., Ltd. (鄭州宇華教育投資有限公司), a member of the Group (as purchaser) (“**Zhengzhou YuHua**”), and Kaifeng City Huibo Education Information Consulting Co., Ltd. (開封市慧博教育資訊諮詢有限公司) (as seller) (“**Huibo Education**”) entered into an investment agreement pursuant to which Zhengzhou YuHua conditionally agreed to purchase and Huibo Education conditionally agreed to sell a 70% equity interest in Kaifeng City Yubohui Education Information Consulting Co., Ltd. (開封市宇博慧教育資訊諮詢有限公司) for a cash consideration of RMB107.1 million. Kaifeng City Xiangfu District Bowang High School is a wholly-owned subsidiary of Kaifeng City Yubohui Education Information Consulting Co., Ltd. For further details, please refer to the Company's announcement dated 18 April 2018.

On 31 May 2018, the Company, China YuHua Education Investment Limited and China Hong Kong YuHua Education Limited entered into a loan agreement with International Finance Corporation, pursuant to which International Finance Corporation agreed to lend and the Company agreed to borrow up to the principal amount of US\$75 million, comprised of an initial US\$50 million tranche and a US\$25 million tranche which shall, at the option of International Finance Corporation, be convertible into the conversion shares at a conversion price of HK\$5.75 per share. For further details, please refer to the Company's announcement dated 31 May 2018.

On 10 August 2018, the Ministry of Justice of the PRC issued the “Implementation Regulations of the People’s Republic of China on the Law Regarding the Promotion of Private Education (Revised Draft) (Draft Submitted for Approval)” (《中華人民共和國民辦教育促進法實施條例(修訂草案)(送審稿)》) (the “**Draft Law**”). The Board notes that the Draft Law remains in draft form and is yet to be promulgated. The Board will continue to monitor developments with respect to the Draft Law together with the Company’s legal advisers.

2. Events after the Reporting Period

On 19 October 2018, the Company and China CITIC Bank Co., Ltd. (Zhengzhou Branch) (中信銀行股份有限公司鄭州分行) entered into the Bank-Enterprise Cooperation Agreement (銀企合作協議) (the “**Cooperation Agreement**”), pursuant to which the parties agreed to form a comprehensive alliance in respect of financial services. The Cooperation Agreement includes a credit facility of not less than RMB14,000,000,000 or equivalent US dollars over the next two years. For further details, please refer to the Company’s announcement dated 19 October 2018.

On 15 November 2018, the Central Committee of the Communist Party of China and the State Council of the PRC issued the “Certain Opinions on Deepening the Reform and Regulating Development of Pre-school Education” (《關於學前教育深化改革規範發展的若干意見》) (the “**Pre-School Opinions**”). The Board will closely monitor the implementation of the Pre-school Opinions and will seek PRC legal advisers’ further opinion on compliance with the Pre-school Opinions and the related implementation regulations as and when appropriate.

3. Future Development

The Group has a strong pipeline for opening new schools in Henan province. The Group will also continue to explore other potential acquisition targets or cooperation opportunities to supplement our school network.

Financial Review

1. Overview

For the year ended 31 August 2018, we recorded a revenue of RMB1,195.1 million, an Adjusted Gross Profit of RMB700.3 million and a gross profit of RMB670.7 million. The Adjusted Gross Profit Margin¹ of the Group was 58.6% for the year ended 31 August 2018 as compared with 54.5% for the corresponding period in 2017. The gross profit margin was 56.1% for the year ended 31 August 2018 as compared with 51.5% for the corresponding period in 2017.

¹ The Adjusted Gross Profit Margin is calculated as the gross profit margin for the period, excluding the impact from certain non-cash or non-recurring expenses including share-based compensation.

The Adjusted Net Profit attributable to owners of the Company for the year ended 31 August 2018 was RMB609.1 million, representing an increase of RMB200.4 million or a 49% increase from the corresponding period in 2017. The Adjusted Net Profit Margin² of the Group was 51.0% and 48.3% for the years ended 31 August 2018 and 31 August 2017, respectively. The increase in the Adjusted Net Profit was mainly due to the increase in student enrolment and tuition fees for several schools and consolidation of the HIEU Schools starting from 1 January 2018.

The net profit attributable to owners of the Company amounted to RMB530.8 million and RMB313.8 million for the years ended 31 August 2018 and 31 August 2017, respectively. The net profit margin attributable to owners of the Company amounted to 44.4% and 37.1% for the years ended 31 August 2018 and 31 August 2017, respectively.

2. Revenue

For the year ended 31 August 2018, revenue of the Group amounted to RMB1,195.1 million, representing an increase of RMB348.9 million or 41.2% as compared with RMB846.2 million for the corresponding period of 2017. The increase was primarily the result of an increase in student enrolment and tuition fees for several schools and consolidation of the HIEU Schools starting from 1 January 2018.

3. Cost of Revenue

For the year ended 31 August 2018, the Adjusted Cost of Revenue³ of the Group amounted to RMB494.8 million, representing an increase of RMB110.0 million or 28.6% as compared with RMB384.8 million for the corresponding period of 2017. The increase was primarily the result of the increase in the number of teachers and some teachers' salaries, and consolidation of the HIEU Schools starting from 1 January 2018.

The cost of revenue of the Group amounted to RMB524.4 million and RMB410.5 million for the years ended 31 August 2018 and 31 August 2017, respectively. The increase was primarily the result of the increase in the number of teachers and some teachers' salaries, and consolidation of the HIEU Schools starting from 1 January 2018.

4. Gross Profit and Gross Margin

For the year ended 31 August 2018, the Adjusted Gross Profit of the Group amounted to RMB700.3 million, representing an increase of RMB238.9 million or 51.8% as compared with RMB461.4 million for the corresponding period in 2017, primarily due to the increase in student enrolment and tuition fees for several schools and consolidation of the HIEU Schools starting from 1 January 2018. The Adjusted Gross Profit Margin of the Group for the year ended 31 August 2018 was 58.6%, compared with and 54.5% for the corresponding period in 2017.

² The Adjusted Net Profit Margin is calculated based on the Adjusted Net Profit attributable to owners of the Company.

³ The Adjusted Cost of Revenue is calculated as cost of revenue for the period, excluding the impact from the non-cash expenses of share-based compensation and additional depreciation and amortisation due to the fair value adjustments to the acquired identifiable assets of LEI Lie Ying Limited.

The Group's gross profit amounted to RMB670.7 million and RMB435.8 million for the years ended 31 August 2018 and 31 August 2017, respectively. The Group's gross profit margin amounted to 56.1% and 51.5% for the years ended 31 August 2018 and 31 August 2017, respectively.

5. *Selling Expenses*

For the year ended 31 August 2018, selling expenses of the Group amounted to RMB6.52 million, representing an increase of RMB2.76 million or 73.4% from RMB3.76 million during the corresponding period in 2017. There were no material changes to selling and marketing activities for the year ended 31 August 2018.

6. *Administrative Expenses*

For the year ended 31 August 2018, the Adjusted Administrative Expenses⁴ of the Group amounted to RMB86.9 million, representing an increase of RMB30.1 million or 53.0% as compared with RMB56.8 million for the corresponding period in 2017. The increase in the Adjusted Administrative Expenses for the year ended 31 August 2018 was primarily due to consolidation of the HIEU Schools starting from 1 January 2018.

The administrative expenses of the Group amounted to RMB132.6 million and RMB147.2 million for the years ended 31 August 2018 and 31 August 2017, respectively. The decrease was primarily due to the decrease in the administrative expenses related to share-based compensation.

7. *Other Income*

For the year ended 31 August 2018, the other income of the Group amounted to RMB16.1 million, representing a decrease of RMB6.8 million or 29.7% as compared with RMB22.9 million for the corresponding period in 2017. This decrease was primarily due to a decrease in government grants and subsidies obtained.

8. *Other Gains and Losses*

For the year ended 31 August 2018, the other gains and losses of the Group amounted to a gain of RMB31.7 million as compared with a gain of RMB1.1 million for the corresponding period in 2017. This increase was primarily due to the compensation for the realisation of security interests amounting to RMB134.8 million and waiver of payable by the selling shareholder amounting to RMB108.3 million.

⁴ The Adjusted Administrative Expenses is calculated as administrative expense for the period, excluding the impact from certain non-cash or non-recurring expenses including: (i) share-based compensation and (ii) one-off listing expenses incurred in connection with the initial public offering and the Listing in February 2017.

9. Operating Profit

The operating profits of the Group amounted to RMB579.4 million and RMB308.7 million for the years ended 31 August 2018 and 31 August 2017, respectively. The increase was primarily due to an increase in student enrolment and tuition fees for several schools and consolidation of the HIEU Schools starting from 1 January 2018.

10. Finance Income

Finance income increased by 53.5% from RMB15.5 million for the year ended 31 August 2017 to RMB23.8 million for the corresponding period in 2018 due to an increase in cash deposits from the net proceeds of the initial public offering.

11. Finance Expenses

Finance expenses increased by 6.7% from RMB10.5 million for the year ended 31 August 2017 to RMB11.2 million for the corresponding period in 2018 due to an increase in bank borrowings.

12. Profit for the Reporting Period

As a result of the above factors, the Adjusted Net Profit attributable to owners of the Company was RMB609.1 million for the year ended 31 August 2018, representing an increase of RMB200.4 million or 49.0% as compared with RMB408.7 million for the corresponding period in 2017. In addition, the Adjusted Net Profit Margin of the Group amounted to 51.0% and 48.3% for the years ended 31 August 2018 and 31 August 2017, respectively. The increase in the Adjusted Net Profit was mainly due to an increase in student enrolment and tuition fees for several schools and consolidation of the HIEU Schools starting from 1 January 2018.

The Group recorded a net profit attributable to owners of the Company of RMB530.8 million for the year ended 31 August 2018, representing an increase of RMB217.0 million or 69.2% as compared with RMB313.8 million for the corresponding period in 2017. The net profit margin attributable to owners of the Company for the year ended 31 August 2018 was 44.4%, compared to 37.1% for the corresponding period in 2017.

13. Liquidity and Source of Funding and Borrowing

As at 31 August 2018, the Group's cash and cash equivalents increased by 148.0% from RMB642.5 million as at 31 August 2017 to RMB1,593.2 million. The significant increase of cash and cash equivalents for the year ended 31 August 2018 primarily resulted from an increase in tuition revenue and bank borrowings.

As at 31 August 2018, the current assets of the Group amounted to RMB2,305.9 million, including RMB1,593.2 million in bank balances and cash and other current assets of RMB712.7 million. The current liabilities of the Group amounted to RMB2,034.6 million, of which RMB956.5 million was deferred revenue, RMB633.0 million was accruals and other payables, RMB438.5 million was borrowings, and RMB6.6 million was provisions. As at 31 August 2018, the current ratio of the Group, which is equivalent to the current assets divided by the current liabilities, was 1.13 as compared with 1.83 as at 31 August 2017.

14. Gearing Ratio

As at 31 August 2018, the gearing ratio of the Group, which was calculated as total interest-bearing bank loans divided by total equity, was approximately 13.4%, representing an increase of 13.4 percentage points compared with nil as at 31 August 2017. The increase was due to the interest-bearing borrowings amounting to RMB505.0 million as at 31 August 2018.

15. Material Investments

The Group did not make any material investments during the year ended 31 August 2018.

16. Material Acquisitions and Disposals

On 27 December 2017, China YuHua Education Investment Limited (the “**Purchaser**”), a wholly-owned subsidiary of the Company, and LEI China Limited (the “**Seller**”) entered into an acquisition agreement pursuant to which the Purchaser conditionally agreed to purchase and the Seller conditionally agreed to sell the entire issued share capital of LEI Lie Ying Limited for a total consideration of RMB1,430 million. The acquisition was completed on 27 December 2017. The financial results of LEI Lie Ying Limited and its subsidiaries (including the HIEU Schools) have been consolidated into the Group’s starting from 1 January 2018. For further details, please refer to the Company’s announcements dated 28 December 2017, 18 January 2018 and 29 March 2018, and the Company’s circular dated 29 June 2018.

On 18 April 2018, Zhengzhou YuHua Education Investments Co., Ltd. (鄭州宇華教育投資有限公司), a member of the Group (as purchaser) (“**Zhengzhou YuHua**”), and Kaifeng City Huibo Education Information Consulting Co., Ltd. (開封市慧博教育資訊諮詢有限公司) (as seller) (“**Huibo Education**”) entered into an investment agreement pursuant to which Zhengzhou YuHua conditionally agreed to purchase and Huibo Education conditionally agreed to sell a 70% equity interest in Kaifeng City Yubohui Education Information Consulting Co., Ltd. (開封市宇博慧教育資訊諮詢有限公司) for a cash consideration of RMB107.1 million. Kaifeng City Xiangfu District Bowang High School is a wholly-owned subsidiary of Kaifeng City Yubohui Education Information Consulting Co., Ltd. For further details, please refer to the Company’s announcement dated 18 April 2018.

Save as disclosed above, the Group did not have any material acquisitions or disposals of subsidiaries, consolidated affiliated entities or associated companies during the year ended 31 August 2018.

17. Pledge of Assets

As at 31 August 2018, the bank borrowings of the Group amounting to RMB105.0 million were secured by certain prepaid land lease payments of the Group and guaranteed by the Company's consolidated affiliated entities.

18. Contingent Liabilities

Details of contingent liabilities as at 31 August 2018 are set out in note 33 of the consolidated financial statements.

19. Foreign Exchange Exposure

During the year ended 31 August 2018, the Group mainly operated in China and a majority of its transactions were settled in Renminbi (“**RMB**”), the Company's primary consolidated affiliated entities' functional currency. As at 31 August 2018, except for the bank deposits denominated in foreign currencies, the Group did not have significant foreign currency exposure from its operations.

20. Employee and Remuneration Policy

As of 31 August 2018 and 2017, we had 6,063 and 4,086 employees, respectively. The number of employees employed by the Group varies from time to time depending on need. Employees' remuneration is determined in accordance with prevailing industry practice and employees' educational backgrounds, experiences and performance. The remuneration policy and package of the Group's employees are periodically reviewed. As required by the PRC laws and regulations, the Company participates in various employee social security plans for its employees that are administered by local governments, including among others, housing provident funds, pensions, medical insurance, social insurance and unemployment insurance.

Compensation of key executives of the Group is determined by the Company's remuneration committee which reviews and recommends to the Board the executives' compensation based on the Group's performance and the executives' respective contributions to the Group.

The Company also has a Pre-IPO Share Option Scheme and a Share Award Scheme. Please refer to the section headed “Statutory and General Information — D. Pre-IPO Share Option Scheme and Share Award Scheme” in Appendix V to the Prospectus for further details.

The total remuneration cost incurred by the Group for the year ended 31 August 2018 was RMB325.8 million (for the year ended 31 August 2017: RMB232.5 million).

The following table sets forth the total number of employees by function as of 31 August 2018:

Function	Number of employees	% of total
Teachers	3,966	65.4
Administrative staff	356	5.9
Other staff	1,741	28.7
Total	6,063	100.0

FINAL DIVIDEND

The Board has resolved to recommend for the approval of the shareholders of the Company (the “**Shareholders**”) at the forthcoming annual general meeting of the Company (the “**AGM**”) the payment of a final dividend of HK\$0.064 (equivalent to approximately RMB0.055) per share of the Company (the “**Share**”) totaling HK\$207,517,000 (equivalent to RMB180,436,000) for the year (the “**Proposed Final Dividend**”) (2017: HK\$0.043) to the Shareholders whose names appear on the register of members of the Company at the close of business on 13 February 2019. Subject to the Shareholders’ approval of the Proposed Final Dividend at the forthcoming annual general meeting of the Company, the relevant dividend is expected to be paid on or before 17 April 2019.

CLOSURE OF THE REGISTER OF MEMBERS

The AGM will be held on 31 January 2019. The register of members of the Company will be closed from 28 January 2019 to 31 January 2019, both days inclusive, in order to determine the identity of the Shareholders who are entitled to attend the AGM, during which period no share transfers will be registered. To be eligible to attend the AGM, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company’s branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 25 January 2019.

In case a final dividend is declared, the register of members of the Company will also be closed from 11 February 2019 to 13 February 2019, both days inclusive, in order to determine the entitlement of the Shareholders to receive the final dividend, during which period no share transfers will be registered. To qualify for the final dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company’s branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 8 February 2019.

CORPORATE GOVERNANCE AND OTHER INFORMATION

The Company was incorporated in the Cayman Islands on 25 April 2016 with limited liability, and the shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 28 February 2017.

The Board is committed to achieving high corporate governance standards. The Board believes that high corporate governance standards are essential in providing a framework for the Group to safeguard the interests of shareholders and to enhance corporate value and accountability.

1. Compliance with the Code on Corporate Governance Practices

For the year ended 31 August 2018, the Company has complied with all applicable code provisions set out in the Corporate Governance Code and Corporate Governance Report (the “**CG Code**”) contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).

Further information concerning the corporate governance practices of the Company will be set out in the corporate governance report in the annual report of the Company for the year ended 31 August 2018.

The Company will continue to regularly review and monitor its corporate governance practices to ensure compliance with the CG Code, and maintain a high standard of corporate governance practices of the Company.

2. Compliance with the Model Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 to the Listing Rules as its own securities dealing code to regulate all dealings by Directors and relevant employees of securities in the Company and other matters covered by the Model Code.

Specific enquiry has been made of all the Directors and the relevant employees and they have confirmed that they have complied with the Model Code during the year ended 31 August 2018.

3. Scope of Work of the Company's Auditors

The figures contained in this announcement of the Group's consolidated results for the year ended 31 August 2018 have been agreed by the Company's auditor (the "**Auditors**"), to the figures set out in the audited consolidated financial statements of the Group for the year ended 31 August 2018. The Auditors performed this work in accordance with Hong Kong Standard on Related Services 4400 "Engagements to Perform Agreed-upon Procedures Regarding Financial Information" and with reference to Practice Note 730 (Revised) "Guidance for Auditors Regarding Preliminary Announcements of Annual Results" issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**"). The work performed by the Auditors in this respect does not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements, or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by the Auditors on this announcement.

4. Audit Committee

The Company has established an audit committee with written terms of reference in accordance with the Listing Rules. The audit committee comprises three independent non-executive Directors, namely, Mr. Chen Lei, Mr. Xia Zuoquan and Mr. Zhang Zhixue. Mr. Chen Lei is the chairman of the audit committee.

The audit committee has reviewed the audited consolidated financial statements of the Group for the year ended 31 August 2018 and has met with the independent auditor, PricewaterhouseCoopers. The audit committee has also discussed matters with respect to the accounting policies and practices adopted by the Company and internal control with senior management members of the Company.

5. Other Board Committees

In addition to the audit committee, the Company has also established a nomination committee and a remuneration committee.

6. Changes to Directors' Information

The Directors confirm that no information is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

7. Purchase, Sale or Redemption of the Company's Listed Securities

On 10 November 2017, the Company completed the Top-up Placing and Subscription of an aggregate of 253,150,000 new shares at a placing price of HK\$3.70 per share. The net proceeds from the Top-up Placing and Subscription of new shares amounted to HK\$925.5 million, which has been fully utilized to acquire the HIEU Schools.

Save as disclosed above, neither the Company nor any of its subsidiaries or consolidated affiliated entities purchased, sold or redeemed any listed securities of the Company during the year ended 31 August 2018.

8. Material Litigation

Save for those described in the Company's circular dated 29 June 2018 in relation to the acquisition of LEI Lie Ying Limited, the Company was not involved in any material litigation or arbitration during the year ended 31 August 2018. Save for those described in the Company's circular dated 29 June 2018 in relation to the acquisition of LEI Lie Ying Limited, the Directors are also not aware of any material litigation or claims that are pending or threatened against the Group during the year ended 31 August 2018.

9. Land Use Right Certificates

As at 31 August 2018, the Group had not obtained the land use right certificates for (i) part of the land used by the University ("**Land I**"), which was due to an adjustment to the administrative territory between Zhongmu County and Zhengdong New District by the PRC government; and (ii) land used by Xuchang YuHua Elite School campus ("**Land II**"), which was due to adjustments to the land use right transfer procedures by the local land administration authority. The Group is in the process of obtaining the land use right certificates for Land I and Land II. Please also refer to the section headed "Business — Properties — Owned Properties — Land" in the Company's prospectus dated 16 February 2017 (the "**Prospectus**") for further details. There have been no updates in this regard since the publication of the Prospectus on 16 February 2017.

10. Building Certificates and Permits

As at 31 August 2018, the Group had not obtained proper building ownership certificates or other requisite certificates or permits for 11 of the 32 owned buildings or groups of buildings (the "**Relevant Owned Buildings**"), due in part to changes to the urban planning in the cities which the Group operates, administrative oversight by the Group's management and their unfamiliarity with the relevant regulatory requirements. The Group is in the process of applying to relevant government authorities for the relevant outstanding certificates and permits and are closely following up with the government authorities with respect to the applications. Please also refer to the section headed "Business — Properties — Owned Properties — Buildings or Groups of Buildings" in the Prospectus for further details. There have been no updates in this regard since the publication of the Prospectus on 16 February 2017.

11. Use of Proceeds

(a) Use of Net Proceeds from Global Offering

On 28 February 2017, the shares of the Company were listed on the Main Board of the Stock Exchange. The net proceeds from the global offering were approximately HK\$1,488.3 million, which are intended to be applied in the manner set out in the Company's Prospectus. As at 31 August 2018, (i) approximately HK\$102.6 million of the proceeds had been applied towards facilities upgrade and capacity expansion of the Company's existing schools; (ii) approximately HK\$112.6 million had been applied to repay bank loans; and (iii) approximately HK\$450.4 million had been fully utilized for the acquisition of LEI Lie Ying Limited and its subsidiaries (including the HIEU Schools).

(b) Use of Net Proceeds from the Top-up Placing and Subscription

On 2 November 2017, the Company, GuangYu Investment Holdings Limited, CLSA Limited, and Mr. Li Guangyu entered into a placing and subscription agreement pursuant to which GuangYu Investment Holdings Limited agreed to appoint CLSA Limited and CLSA Limited agreed to use its best effort to procure placees who and whose ultimate beneficial owners shall be independent third parties to subscribe for up to 253,150,000 shares at the aggregate price of HK\$3.70. GuangYu Investment Holdings Limited also agreed to subscribe for, and the Company conditionally agreed to allot and issue to CLSA Limited, up to 253,150,000 new shares at an aggregate price of HK\$3.70 per share. On 10 November 2017, the Board announced the completion of the Top-up Placing and Subscription. The 253,150,000 shares were successfully placed to 53 placees whose ultimate beneficial owners are independent third parties at a price of HK\$3.70 per share. The net proceeds from the Top-up Placing and Subscription were approximately HK\$925.5 million, which would be applied to enhance the capital base of the Company and to prepare for any potential acquisition in the education sector. As at 31 August 2018, the proceeds of the Top-Up Placing and Subscription had been fully utilized in the acquisition of the HIEU Schools.

(c) Use of Proceeds from the International Financial Corporation Loan

On 31 May 2018, the Company, China YuHua Education Investment Limited and China Hong Kong YuHua Education Limited entered into a loan agreement with International Finance Corporation, pursuant to which International Finance Corporation agreed to lend and the Company agreed to borrow up to the principal amount of US\$75 million, comprised of an initial US\$50 million tranche and a US\$25 million tranche which shall, at the option of International Finance Corporation, be convertible into conversion shares at a conversion price of HK\$5.75 per share. For further details, please refer to the Company's announcement dated 31 May 2018. As at 31 August 2018, the Company had not drawn down any amount from the loan facility.

PUBLICATION OF THE ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This annual results announcement is published on the website of the Stock Exchange at www.hkexnews.hk and the website of the Company at www.yuhuaeducation.com. The annual report of the Group for the year ended 31 August 2018 will be published on the aforesaid websites of the Stock Exchange and the Company and will be dispatched to the Company's shareholders in due course.

By order of the Board
China YuHua Education Corporation Limited
Li Guangyu
Chairman and Executive Director

Hong Kong, 27 November 2018

As at the date of this announcement, the Board comprises Mr. Li Guangyu, Ms. Li Hua and Ms. Qiu Hongjun as executive Directors; and Mr. Chen Lei, Mr. Xia Zuoquan and Mr. Zhang Zhixue as independent non-executive Directors.