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China Education Group Holdings Limited

中國教育集團控股有限公司

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

(Stock Code: 839)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 28 FEBRUARY 2021

The Board is pleased to announce the interim results of the Group for the six months ended 28 February 2021.

HIGHLIGHTS

	Six months ended 28 February 2021 (RMB million, unless specified)	Six months ended 29 February 2020 (RMB million, unless specified)	Change (RMB million, unless specified)	Change (Percentage)
Revenue	1,823.4	1,315.2	508.2	+38.6%
Gross profit	1,077.5	757.3	320.2	+42.3%
Baseline gross profit margin ⁽ⁱ⁾	61.1%	57.6%	+350 basis points	
Operating profit	880.9	562.7	318.2	+56.5%
Net profit attributable to owners of the Company	831.4	497.6	333.8	+67.1%
Adjusted net profit attributable to owners of the Company ⁽ⁱⁱ⁾	737.7	491.0	246.7	+50.2%
Adjusted EBITDA ⁽ⁱⁱ⁾	1,081.8	740.4	341.4	+46.1%
Interim dividend per share	HK19.7 cents	HK13.4 cents	HK6.3 cents	+47.0%

Total bank balances and cash was recorded RMB5,051.6 million as at 28 February 2021.

Notes:

- On a like-for-like basis for institutions excluding any schools newly acquired after the comparative period and after adjusting for the current period expenses related to conversion of independent colleges.
- Please refer to the Financial Review section for methods preparing the adjusted net profit attributable to owners of the Company and adjusted earnings before interest, tax, depreciation and amortisation (“EBITDA”).

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The financial results for the six months ended 28 February 2021 and 29 February 2020 are as follows:

	Six months ended	
	28 February 2021 <i>RMB'000</i>	29 February 2020 <i>RMB'000</i>
Revenue	1,823,438	1,315,222
Cost of revenue	<u>(745,949)</u>	<u>(557,881)</u>
Gross profit	1,077,489	757,341
Other income	97,462	45,475
Selling expenses	(85,683)	(60,952)
Administrative expenses	<u>(208,337)</u>	<u>(179,127)</u>
Operating profit	880,931	562,737
Investment income	28,989	11,781
Other gains and losses	32,240	28,929
Fair value change on convertible bonds	33,726	(2,353)
Finance costs	<u>(93,346)</u>	<u>(51,192)</u>
Profit before taxation	882,540	549,902
Taxation	<u>(30,301)</u>	<u>(8,718)</u>
Net profit	<u>852,239</u>	<u>541,184</u>
Net profit attributable to owners of the Company	<u>831,444</u>	<u>497,625</u>
Adjusted net profit attributable to owners of the Company	<u>737,658</u>	<u>490,986</u>

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

Calculation of Adjusted Net Profit

	Six months ended	
	28 February 2021 RMB'000	29 February 2020 RMB'000
Net profit	852,239	541,184
Adjustments for: Foreign exchange gain	(164,099)	(14,486)
Share-based payments	(30,456)	(8,806)
Imputed interest on deferred cash considerations	6,731	14,300
Fair value change on convertible bonds	(33,726)	2,353
One-off and other current period expenses related to conversion of independent colleges into private universities	127,764	–
Adjusted net profit	<u>758,453</u>	<u>534,545</u>

Calculation of Adjusted Net Profit attributable to owners of the Company

	Six months ended	
	28 February 2021 RMB'000	29 February 2020 RMB'000
Net profit attributable to owners of the Company	831,444	497,625
Adjustments for: Foreign exchange gain	(164,099)	(14,486)
Share-based payments	(30,456)	(8,806)
Imputed interest on deferred cash considerations	6,731	14,300
Fair value change on convertible bonds	(33,726)	2,353
One-off and other current period expenses related to conversion of independent colleges into private universities	127,764	–
Adjusted net profit attributable to owners of the Company	<u>737,658</u>	<u>490,986</u>

Revenue

The Group's revenue reached RMB1,823.4 million for the six months ended 28 February 2021, up 38.6% as compared to RMB1,315.2 million for the six months ended 29 February 2020. The increase reflected students' strong demand for quality higher and vocational education offered by the Group and the effective execution of the Group's expansion strategy.

Higher Education Segment

Revenue from higher education segment increased from RMB872.4 million for the six months ended 29 February 2020 to RMB1,349.7 million for the six months ended 28 February 2021, representing a 54.7% increase. The significant increase in revenue of higher education institutions was mainly driven by the organic growth in student enrollment and tuition fees of existing higher education institutions and the inclusion of the new institution, namely Haikou University of Economics (which became a consolidated affiliated entity of the Group in September 2020), to the Group.

Vocational Education Segment

Revenue from vocational education segment decreased from RMB374.9 million for the six months ended 29 February 2020 to RMB358.6 million for the six months ended 28 February 2021, representing a 4.3% slight decrease. The slight decrease in revenue of vocational education institutions was mainly due to the drop of the new student enrollment as a result of the prevention measures and social restrictions of coronavirus disease 2019 ("COVID-19") outbreak. As these restrictions have been relieved, the new student enrollment for the academic year 2021/2022 is expected to resume. Although there was a slight decrease in revenue, the net profit of vocational education segment was increased from RMB169.8 million for the six months ended 29 February 2020 to RMB177.9 million for the six months ended 28 February 2021 due to the improvement in operation efficiency and synergy among member schools.

Global Education Segment

Revenue from global education segment increased from RMB67.9 million for the six months ended 29 February 2020 to RMB115.1 million for the six months ended 28 February 2021 representing a 69.5% increase. The increase in revenue of global education segment was mainly driven by the inclusion of KOI (which became a subsidiary of the Group in October 2019) to the Group and the organic growth in the student enrollment and tuition fees.

Cost of Revenue

The cost of revenue increased from RMB557.9 million for the six months ended 29 February 2020 to RMB745.9 million for the six months ended 28 February 2021, representing a 33.7% increase. The increase was due to the expansion of the Group and the growth of student number.

The independent colleges, namely Guangzhou College of Applied Science and Technology, Shandong Quancheng University and Chongqing Institute of Foreign Studies, paid a partnership fee to their public school co-sponsors. The partnership fee of RMB39.2 million (for the six months ended 29 February 2020: RMB35.4 million) was recognised as cost of revenue for the six months ended 28 February 2021. Such partnership costs are expected to cease to exist after the independent colleges are converted into full private higher education schools or after all students enrolled by the independent colleges are graduated. Guangzhou College of Applied Science and Technology and Chongqing Institute of Foreign Studies have been converted during the reporting period.

Gross Profit and Gross Profit Margin

The Group's gross profit was RMB1,077.5 million for the six months ended 28 February 2021 as compared to RMB757.3 million for the six months ended 29 February 2020. The gross profit margin was 59.1% for the six months ended 28 February 2021 as compared to 57.6% for the six months ended 29 February 2020. On a like-for-like basis for institutions (excluding the schools newly acquired after the comparative period), the gross profit margin after adjusting for the current period expenses related to conversion of independent colleges into private universities was 61.1% for the six months ended 28 February 2021, up 350 basis points as compared to the same period of last year, which demonstrated the improvement in the schools' operations under the Group's management.

Other Income

Other income primarily included management fee income, academic administration income and government grants. The management fee income was increased from RMB20.6 million during the six months ended 29 February 2020 to RMB33.6 million during the six months ended 28 February 2021.

Selling Expenses

The Group's selling expenses was RMB85.7 million for the six months ended 28 February 2021 as compared to RMB61.0 million for the six months ended 29 February 2020.

Administrative Expenses

The Group's administrative expenses was RMB208.3 million for the six months ended 28 February 2021 as compared to RMB179.1 million for the six months ended 29 February 2020. It represented about 11.4% of the revenue for the six months ended 28 February 2021 and was decreased as compared to that of 13.6% for the six months ended 29 February 2020 which was mainly attributable to the implementation of cost saving measures, improvement in synergies effect and the increase in the net reversal of share-based payments under share option scheme. During the six months ended 28 February 2021, the Group recognised net reversal of share-based payments of RMB30.5 million as compared to RMB8.8 million for the six months ended 29 February 2020.

Operating Profit

The operating profit amounted to RMB880.9 million for the six months ended 28 February 2021, increased by 56.5% as compared to RMB562.7 million for the six months ended 29 February 2020. The increase was mainly due to the organic growth of the existing schools and the inclusion of new schools.

Other Gains and Losses

The other gains and losses were recorded at net gains of RMB32.2 million for the six months ended 28 February 2021 which was mainly attributable to the net foreign exchange gain of RMB164.1 million and the one-off expenses for conversion of independent colleges into private universities of RMB118.9 million.

Fair Value Change on Convertible Bonds

The fair value change on convertible bonds of RMB33.7 million was recognised in profit or loss as a result of the decrease in fair value of convertible bonds during the six months ended 28 February 2021. The convertible bonds are classified as financial liabilities and are measured at fair values, which are determined based on certain inputs, including share price of the Company, using valuation technique.

Finance Costs

The finance costs mainly represented the interest expenses on bank and other financial institutions borrowings and imputed interest on deferred cash considerations. The finance costs was increased from RMB51.2 million for the six months ended 29 February 2020 to RMB93.3 million for the six months ended 28 February 2021.

Net Profit and Net Profit Margin

The adjusted net profit was increased by 41.9% to RMB758.5 million for the six months ended 28 February 2021 from RMB534.5 million for the six months ended 29 February 2020, after adjusting for the foreign exchange gain, share-based payments, imputed interest on deferred cash considerations, fair value change on convertible bonds and the one-off and other current period expenses related to conversion of independent colleges into private universities. The adjusted net profit attributable to owners of the Company was increased by 50.2% to RMB737.7 million for the six months ended 28 February 2021.

The Group's net profit before any adjustment for the above one-off and non-cash items was increased by 57.5% to RMB852.2 million for the six months ended 28 February 2021 from RMB541.2 million for the six months ended 29 February 2020.

The adjusted net profit margin increased from 40.6% for the six months ended 29 February 2020 to 41.6% for the six months ended 28 February 2021. On a like-for-like basis for institutions (excluding the schools newly acquired after the comparative period), the net profit margin after adjusting for the one-off and other current period expenses related to conversion of independent colleges into private universities was 48.9% for the six months ended 28 February 2021 as compared to 43.1% for the six months ended 29 February 2020, up 580 basis points as compared to the same period of last year.

Earnings before interest, tax, depreciation and amortisation (“EBITDA”)

EBITDA is calculated as profit before taxation adding back finance costs, depreciation of property, plant and equipment and right-of-use assets and amortisation of intangible assets. EBITDA was increased to RMB1,182.3 million for the six months ended 28 February 2021 from RMB761.3 million for the six months ended 29 February 2020. Adjusting for the foreign exchange gain, share-based payments, fair value change on convertible bonds and the one-off and other current period expenses related to conversion of independent colleges into private universities, the adjusted EBITDA was increased by 46.1% from RMB740.4 million for the six months ended 29 February 2020 to RMB1,081.8 million for the six months ended 28 February 2021.

Property, Plant and Equipment

Property, plant and equipment as at 28 February 2021 increased by 56.9% to RMB10,740.1 million from RMB6,846.6 million as at 31 August 2020. Increase in property, plant and equipment was mainly due to the construction of Guangdong Baiyun University and Guangzhou College of Applied Science and Technology's new campuses and the acquisition of Haikou University of Economics.

Total Bank Balances and Cash

Including structured deposits and money market funds recognised in financial assets at fair value through profit or loss and restricted bank deposits, the total bank balances and cash amounted to RMB5,051.6 million as at 28 February 2021 (31 August 2020: RMB4,366.6 million). The Group placed 122,000,000 Shares and received total net proceeds of HK\$2,012.6 million (equivalent to RMB1,681.4 million) in January 2021. The net proceeds will be used for the potential acquisitions and expansion and development of the Group's new campuses in the Greater Bay Area.

Capital Expenditures

Our capital expenditures for the six months ended 28 February 2021 were RMB1,611.4 million and were primarily related to construction of new campus of Guangdong Baiyun University and Guangzhou College of Applied Science and Technology and new buildings at existing schools.

Liquidity, Financial Resources and Gearing Ratio

As at 28 February 2021, the Group had total bank balances and cash (including structured deposits and money market funds recognised in financial assets at fair value through profit or loss and restricted bank deposits) of RMB5,051.6 million (31 August 2020: RMB4,366.6 million).

As at 28 February 2021, the Group had bank and other borrowings of RMB4,913.3 million (31 August 2020: RMB2,678.5 million) and convertible bonds of RMB2,236.7 million (31 August 2020: RMB2,428.2 million). Certain bank and other borrowings and proceeds from placement were not yet utilised. In order to have a better use of our financial resources, the Group purchased certain structured deposits and money market funds during the six months ended 28 February 2021. The structured deposits and money market funds were short-term liquidity management products with minimal risk exposure and the Group held these investments for short-term cash management purpose.

As at 28 February 2021, the net gearing ratio (which is calculated on the basis of total amount of bank and other borrowings and convertible bonds, net of total bank balances and cash, to total equity of the Group) was 18.1% (31 August 2020: 8.3%). As at 28 February 2021, the debt to asset ratio (which is calculated on the basis of total amount of bank and other borrowings and convertible bonds to total assets of the Group) was 28.7% (31 August 2020: 28.4%).

Foreign Exchange Risk Management

During the six months ended 28 February 2021, the Group mainly operated in the PRC and Australia. The majority of the Group's revenue and expenditures are denominated in Renminbi and Australian dollars, the functional currencies of the relevant territories, except that certain expenditures are denominated in Hong Kong dollars and US dollars. The Group also has certain foreign currency bank balances, other payables, other borrowings and convertible bonds denominated in Hong Kong dollars and US dollars, which would expose the Group to foreign exchange risk. After assessing the cost and benefit, the Group did not use any financial instruments for hedging purposes. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure when the need arises.

Charges on the Group's Assets

As at 28 February 2021, 50% of the equity interest of Huajiao Education owned by the Group was pledged to International Finance Corporation to secure banking facilities granted to the Group. Details of the banking facilities were set out in the announcement of the Company dated 31 May 2018.

The bank and other borrowings of the Group were mainly unsecured and/or guaranteed by Huajiao Education, a subsidiary of the Group. As at 28 February 2021, the bank and other borrowings of the Group amounting to RMB1,537.5 million were pledged by deposits and tolling right of tuition fee, boarding fee and ancillary income of certain subsidiaries.

Saved as disclosed above, there was no other material charge on the Group's assets as at 28 February 2021.

Contingent Liabilities

As at 28 February 2021, the Group had no significant contingent liability.

BUSINESS OVERVIEW

The Group is a leading global higher and vocational education group with footprints in China, Australia, and the United Kingdom (“UK”), visioning to provide quality education through innovation. As at 28 February 2021, the Group’s school network consists of eleven universities and professional schools in China (including the top ranked and largest private university in the country and four schools in the Guangdong-Hong Kong-Macao Greater Bay Area), an accredited higher education institute in Sydney, Australia, and a US-UK dual degree awarding university in London, UK. The Group is also the largest listed higher and vocational education provider in China in terms of student enrollment; as at 28 February 2021, the Group enrolled approximately 250,300 students. The Group offers a broad range of programmes and curricula. As at 28 February 2021, the Group offered 12 master’s degree programmes, 292 bachelor’s degree programmes, 103 junior college diploma programmes, 168 vocational education programmes and 159 continuing education programmes. The disciplines provided by us covered around 98% of undergraduate students’ choices and 94% of junior college students’ choices in China in 2020/2021 academic year.

Schools Newly-included in the Group’s School Network During the Reporting Period

Haikou University of Economics (Hainan Province, PRC)

In August 2020, the Group announced acquiring Haikou University of Economics and the school became a consolidated affiliated entity of the Company in September 2020.

The university is approved to provide Bachelor’s degree programmes by the MOE of the PRC in 2008 and had a student enrollment of approximately 46,000 in February 2021. Occupying a total campus area of more than 1,400 mu, the university enjoys one of the largest capacities and the most advanced facilities among private universities in China.

Haikou University of Economics has been highly successful in operating high-quality collaboration programmes especially for arts and film-related programmes. It is designated by Hainan government as a model private university of application-oriented education. In the latest “China’s Private University Rankings” published by the Chinese Academy of Management Science, the university ranks first in Hainan and fourth in China in terms of education quality, respectively.

Affiliated Art School of Haikou University of Economics (Hainan Province, PRC)

In August 2020, the Group announced acquiring Affiliated Art School of Haikou University of Economics and the school became a consolidated affiliated entity of the Company in September 2020.

Affiliated Art School of Haikou University of Economics is a vocational school in the Hainan province, the PRC. The school has a student enrollment of approximately 2,500 as in February 2021. Students graduating from the school may choose to continue their Bachelor's and Junior College programmes in Haikou University of Economics.

Student Enrollment

As at 28 February 2021, the Group operated in three business segments and its school network includes eleven universities and professional schools in China, an accredited higher education institute in Sydney, Australia, and a US-UK dual degree awarding university in London, UK, with a total enrollment of approximately 250,300 students, up 37.7% from the enrollment as at 29 February 2020. The rapid increase in student enrollment is attributable to the organic growth in students enrolled in our existing schools and new campus, as well as those from the three new schools included in the Group's school network during the year ended 28 February 2021.

Business Segment	As at	
	28 February 2021	29 February 2020
Higher Education Segment	183,409⁽¹⁾	111,759 ⁽²⁾
Vocational Education Segment	63,686	67,828
Global Education Segment	3,244	2,239
Total	<u>250,339</u>	<u>181,826</u>

Notes:

- (1) Included 55,935 students enrolled in the continuing education programmes as at 28 February 2021. The significant increase in continuing education enrollment is attributable to the organic growth in our existing schools and those from the new member school — Haikou University of Economics.
- (2) Included 23,790 students enrolled in the continuing education programmes as at 29 February 2020.

Tuition Fees and Boarding Fees

In general, we adjust our tuition fees between 0% and 30% among various programmes on an annual basis, subject to government approval where applicable. The tuition fee adjustment is determined by our school management teams subject to the operating costs and market conditions. The following table sets forth the listed tuition fees and boarding fees of our respective schools' as at 28 February 2021 for the 2020/2021 academic year.

A total of RMB65.2 million of boarding fee for the range of 2.5 months to 5 months was refunded to our students during the outbreak of COVID-19 in 2019/2020 academic year as requested by relevant authorities.

	Listed tuition fees ⁽¹⁾		Boarding fees ⁽¹⁾	
	in academic year		in academic year	
	2020/2021	2019/2020	2020/2021	2019/2020
	RMB	RMB	RMB	RMB
Higher Education Segment				
Jiangxi University of Technology				
Bachelor's degree programmes	22,000–29,000	19,000–26,000	1,800–2,700	1,800–2,500
Junior college diploma programmes	15,500–16,500	14,500–17,000	1,800–2,700	1,800–2,500
Continuing education programmes	1,400–5,000	2,500–6,000	N/A	N/A
Guangdong Baiyun University				
Bachelor's degree programmes	26,000–30,000	20,000–30,000	1,500–3,000	1,500–3,000
Junior college diploma programmes	N/A ⁽²⁾	30,000	N/A ⁽²⁾	1,500–3,000
Continuing education programmes	600–6,000	2,500–6,000	N/A	N/A
Haikou University of Economics ⁽³⁾				
Bachelor's degree programmes	23,900–99,900	23,900–49,800	2,200–2,800	2,200
Junior college diploma programmes	13,600–25,900	12,900–25,900	2,200–2,800	2,200
Continuing education programmes	2,200–3,800	2,200–3,800	N/A	N/A
Chongqing Institute of Foreign Studies ⁽⁴⁾				
Bachelor's degree programmes	13,000–18,000	12,000–18,000	1,200–1,300	900–1,300
Guangzhou College of Applied Science and Technology ⁽⁵⁾				
Bachelor's degree programmes	26,000–30,000	26,000–28,000	1,500–3,000	1,500

	Listed tuition fees⁽¹⁾		Boarding fees⁽¹⁾	
	in academic year		in academic year	
	2020/2021	2019/2020	2020/2021	2019/2020
	RMB	RMB	RMB	RMB
Shandong Quancheng University				
Bachelor's degree programmes	15,000–20,000	11,000–17,000	800–1,200	800–1,200
Junior college diploma programmes	9,800–12,000	8,000–12,000	800–1,200	800–1,200
Songtian Polytechnic College				
Junior college diploma programmes	15,000–16,800	13,500–16,500	1,500–3,000	1,500
Vocational Education Segment				
Xi'an Railway College				
Technician diploma programmes	10,800	9,800–10,800	1,500	1,500
Zhengzhou Transit School				
Secondary vocational diploma programmes	8,600	7,900–8,600	1,200	1,200
Affiliated Arts School of Haikou University of Economics ⁽³⁾				
Secondary vocational diploma programmes	8,000–14,880	6,332–11,732	1,467–2,800	1,468–2,800
Baiyun Technician College				
Technician diploma programmes	13,500–15,500	13,500–15,500	1,500	1,500
Post-secondary vocational diploma programmes	12,500–15,000	12,500–15,000	1,500	1,500
Secondary vocational diploma programmes	12,000–14,500	12,000–14,500	1,500	1,500

	Listed tuition fees ⁽¹⁾ in academic year		Boarding fees ⁽¹⁾ in academic year	
	2020/2021	2019/2020	2020/2021	2019/2020
Global Education Segment	<i>AUD</i>	<i>AUD</i>	<i>AUD</i>	<i>AUD</i>
King's Own Institute (Australia) ⁽⁶⁾⁽⁷⁾				
Master's degree programmes	7,750–8,500	7,500–8,500	N/A	N/A
Graduate Certificate Programmes	7,750–8,500	7,500–8,500	N/A	N/A
Graduate Diploma Programmes	7,750–8,500	7,500–8,500	N/A	N/A
Bachelor's degree programmes	6,750–8,000	6,500–7,250	N/A	N/A
Undergraduate diploma programmes	6,750–7,250	6,500–6,750	N/A	N/A
	<i>GBP</i>	<i>GBP</i>	<i>GBP</i>	<i>GBP</i>
Richmond University (UK) ⁽⁸⁾⁽⁹⁾				
Master's degree programmes	8,000–21,000	8,000–21,000	6,600–12,400	6,600–12,400
Bachelor's degree programmes	9,250–30,000	9,250–30,000	6,600–12,400	6,600–12,400

Notes:

- (1) Tuition fees and boarding fees for general programmes. Some special programmes may have different fees. Fees per annum unless otherwise specified.
- (2) The university has ceased offering this programme starting from the 2020/2021 academic year.
- (3) These schools were not yet included in our school network in the 2019/2020 academic year; their tuition fees and boarding fees for the 2019/2020 academic year are listed out for reference only.
- (4) This school has been renamed from “Chongqing Nanfang Translators College of Sichuan International Studies University” after the school obtained approval from MOE for conversion. For details, please refer to the Company’s announcement on 12 January 2021.
- (5) This school has been renamed from “Guangzhou University Songtian College” after the school obtained approval from MOE for conversion. For details, please refer to the Company’s announcement on 13 January 2021.
- (6) Tuition fees are same for both domestic and international students.
- (7) Tuition fees per trimester.
- (8) Tuition fees and boarding fees are different for UK/EU, international, and US students.
- (9) Tuition fees and boarding fees per semester.

Awards and Recognitions Received During the Reporting Period

The Group received numerous awards and recognitions during the reporting period in recognition of the quality of education we provide and the achievements of our operation. For example:

Guangdong Baiyun University: is recognized as the “2020-2023 Demonstrating School in Guangdong University Student Innovation and Entrepreneurship Education (廣東省大學生創新創業教育示範學校 (2020-2023年)”, by Education Department of Guangdong Province (廣東省教育廳). In addition, the university’s Mechanical Manufacturing and Automation programmes received the IEET accreditation (IEET工程教育認證) from the Institute of Engineering Education Taiwan (中華工程教育學會) and Education Department of Guangdong Province (廣東省教育廳).

Haikou University of Economics: Four bachelor’s degree programmes — Economics, Electronic Information Engineering, Human Resources Management and Tourism Management, are approved as the “First-class/exemplar programmes in the Provinces (省級一流專業建設點)” by the MOE, in addition to the four bachelor’s degree programmes the university previously received approval.

Guangzhou College of Applied Science and Technology: received the “First Prize (of University in Guangdong Province) in the 2020 National Undergraduate Electronic Design Contest (2020年全國大學生電子設計競賽廣東省賽區一等獎)” from Education Department of Guangdong Province (廣東省教育廳).

Shandong Quancheng University: The Most Influential University in Shandong Province in 2020 (2020年度山東最具行業影響力本科院校) by Sina, Weibo and Sina Shandong (新浪、微博和新浪山東).

Xi’an Railway College: received the “Second Prize in the 2nd Teaching Achievement Award of Secondary Vocational Education in Shaanxi Province (陝西省第二屆中等職業教育教學成果獎二等獎)” from Education Department of Shaanxi Province (陝西省教育廳) and Human Resources and Social Security Department of Shaanxi Province (陝西省人力資源和社會保障廳).

Baiyun Technician College: Xiao Qi, our student, won the gold medal in the “Fashion Programme of the Vocational Skills Competition of PRC (中華人民共和國第一屆職業技能大賽時裝技術項目金牌)” from the Ministry of Human Resources and Social Security of the PRC (中華人民共和國人力資源和社會保障部). In addition, Xiao Qi won the “First Prize in Fashion Technology in the Beijing Friendship Exchange Contest 2020 (2020時裝技術項目北京友誼交流賽中總成績第一)” from the WorldSkills Competition, Fashion Technology Division, China Training Center (世界技能大賽時裝技術項目中國集訓基地).

OUTLOOK

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

On 10 August 2018, the Ministry of Justice of the PRC issued Draft Amendments on the Implementation Rules for the Law for Promoting Private Education (the "Proposed Implementation") (《中華人民共和國民辦教育促進法實施條例(修訂草案)(送審稿)》) to seek views and comments on the proposed changes. The key objectives of the Proposed Implementation are to foster the steady growth and healthy development of the private education in China. We believe the Proposed Implementation is beneficial and favorable to the development of the private higher and vocational education sector. As an industry leader and drawing on the strategic advantages of our scale and history of operations in the education business, brand reputation, education quality, preparation of students for employment and resources for school-enterprise collaboration, we will strive to integrate private education resources and enlarge our market share as we enhance the quality of education in our schools, and ultimately to provide excellent education services to more students.

Acquisition and Integration

We have formulated our M&A strategy to achieve our growth target taking into account the high entry barrier of the higher education sector. Thus far, our M&A team, strong and with high execution capability, has already reviewed over 500 potential M&A targets since our Listing and some of them are presently in due diligence process. We plan to explore more acquisition opportunities with attractive growth potential and expect more schools to join the Group in the future.

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

Independent College Conversions

Education regulatory authorities in PRC have directed that the conversion of independent colleges into full private universities is a top priority in the establishment of higher education institutions. The Group believes such conversion will present significant opportunities in expanding the enrollment as well as improving the education quality and efficiency of independent colleges, and the Group has strategically acquired three high-quality independent colleges — namely, Chongqing Nanfang Translators College of Sichuan International Studies University, Guangzhou University Songtian College, and Shandong Quancheng University.

As at the date of this announcement, Chongqing Nanfang Translators College of Sichuan International Studies University and Guangzhou University Songtian College have obtained approval from the MOE for conversion and subsequently been renamed as Chongqing Institute of Foreign Studies (重慶外語外事學院) and Guangzhou College of Applied Science and Technology (廣州應用科技學院) respectively; for more details, please refer to the Company's announcements on 12 January 2021 and 13 January 2021. Shandong Quancheng University has received relevant approvals for conversion from its provincial authority. The Company believes conversion will bring major development opportunity and has a positive impact on future development.

Development of New Campuses

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

Guangdong Baiyun University's New Campus

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

Guangzhou College of Applied Science and Technology's New Campus

In response to the increasing demand for admissions, the Group signed an agreement with Zhaoqing New District Government which will supply the Group with a total area of land up to 1,500 mu for the establishment of a new university campus with a capacity of approximately 30,000 students. The new campus in Zhaoqing, Guangdong Province, the PRC, is to be developed in three phases. Phase one with a capacity of 14,000 students are expected to commence operation in Fall 2021.

International Education

With the acceleration of globalisation, China has become the largest international student export country and an important destination for study in the world. The Group acquired King's Own Institute (Australia) in October 2019 and entered into a cooperation agreement with Richmond University (UK) in March 2020, to provide quality global education resources such as bachelor and master's degrees in business, art, IT and TESOL to students. The above two universities are located in Sydney, Australia and London, UK respectively, which are some of the most popular destinations among Chinese students and have propitious market prospects.

The Group has extensive experience in operating international education programmes, including exchange programmes and joint-education programmes in 12 languages and in partnership with 150 overseas institutions in 36 countries (as at 29 February 2020: 11 languages, 78 overseas institutions, 22 countries). The Group has four schools in Guangzhou, the capital city of Guangdong Province, which is an important strategic location of the Group and one of the largest provinces in China in sending student abroad. In addition, the Group operates a school specialising in international education and foreign languages in Chongqing. Both with proven growth track records, the Group, King's Own Institute and Richmond University's synergy are also evident in their well-aligned programme offerings and student-centric education cultures, sharing the same vision and an unwavering belief in offering excellent and innovative education with a prime focus on the student experience. The Group is currently developing tailored international bridging programmes for Chinese students who intend to study abroad at King's Own Institute and Richmond University.

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

China Education Fund

On 29 June 2018, the Group entered into the framework agreement with VP Shenzhen, a subsidiary of Value Partners Group Limited, for the establishment of the China Education Fund, with a targeted asset under management of RMB5 billion. The Group (and/or its affiliates and nominee(s)) and Value Partners Group Limited (and/or its subsidiary(ies)) will make an initial contribution of RMB250 million and RMB370 million, respectively, to the China Education Fund. Huajiao Education Investing Management (Ganzhou) Company Limited and VP Shenzhen are the co-sponsor of the China Education Fund. The Directors believe that the Group's cooperation with Value Partners Group Limited, a leading investment fund house in Asia, will enhance the performance of the China Education Fund by combining the Group's experience in private higher and vocational education in China and the investment expertise of Value Partners Group Limited. As at 28 February 2021, China Education Fund completed registration with relevant authorities and the Group made capital contribution amounting to RMB31,303,000 to the China Education Fund.

Our Effort in Combating COVID-19 and Results Achieved

In view of the outbreak of COVID-19, the Group and its member schools have taken necessary health precaution to safeguard the safety of our employees and students. During the suspension of on-campus classes caused by the COVID-19 epidemic, the Group offers online learning to students and 96% of the programmes offered have been delivered online. Guangdong Baiyun University, a member school of the Group, was selected by the Steering Committee of the Online Open Courses of Undergraduate Universities in Guangdong Province (廣東省本科高校在線開放課程指導委員會) as an outstanding example of online teaching during the epidemic period, and the only private university among the first group of seven selected universities in Guangdong Province. All of our schools have resumed teaching on-site at the commencement of the 2020/2021 school year. The Group will continue to closely monitor to the development of the COVID-19 situation and endeavor to minimise the negative impact on the Group, and in the event of material adverse financial impact, the Group will announce in a timely manner and report it in the Group's upcoming 2020/21 annual financial statements.

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

The Company issued convertible bonds due 2024 bearing interest at the rate of 2.0% per annum in an aggregate principal amount of HK\$2,355 million at initial conversion price of HK\$14.69 per ordinary Share in March 2019 to enhance its working capital for the Group's continual business development. During the six months ended 28 February 2021, the conversion price was adjusted from HK\$14.33 per ordinary Share to HK\$14.18 per ordinary Share. Following such adjustment, the conversion shares to be issued upon full conversion of the convertible bonds were increased to 166,078,984 Shares. The net proceeds (after deducting the issuing expenses) from the subscription amounted to approximately RMB2,105.6 million and have been utilised as the intentions previously disclosed in the Company's announcements. As at 28 February 2021, the Company has fully utilised the net proceeds.

The following sets forth a summary of the utilisation of the net proceeds from the issue of convertible bonds due 2024 during the period ended 28 February 2021:

Purpose	Percentage to total amount	Net proceeds amount	Unutilised amount as at 1 September 2020	Utilised amount during the period	Unutilised amount as at 28 February 2021
		<i>RMB</i> <i>(million)</i>	<i>RMB</i> <i>(million)</i>	<i>RMB</i> <i>(million)</i>	<i>RMB</i> <i>(million)</i>
Construction and development of the Group's schools in the PRC	30%	631.7	–	–	–
Acquisitions of schools in the PRC	45%	947.5	147.1	147.1	–
Group's overseas development	25%	526.4	–	–	–
	<u>100%</u>	<u>2,105.6</u>	<u>147.1</u>	<u>147.1</u>	<u>–</u>

As at 28 February 2021, no conversion of the convertible bonds had been exercised by any holders of the convertible bonds and no redemption of the convertible bonds was made by the Company.

Further details of the convertible bonds are set out in the announcements of the Company dated 22 March 2019 and 28 March 2019.

USE OF NET PROCEEDS FROM TOP-UP PLACING AND SUBSCRIPTION IN AUGUST 2020

As at 28 February 2021, the net proceeds of approximately HK\$2,002.5 million (net of related costs, professional fees and out-of-pocket expenses) brought forward from the subscription completed on 20 August 2020 have been fully utilised for 1) potential as well as announced acquisitions; and 2) expansion and development of the Group’s existing and new campuses, which is consistent with the intentions previously disclosed in the Company’s announcements.

The following sets forth a summary of the utilisation of the net proceeds from the subscription in August 2020 during the period ended 28 February 2021:

Purpose	Percentage to total amount	Net proceeds amount <i>RMB</i> <i>(million)</i>	Unutilised amount as at 1 September 2020 <i>RMB</i> <i>(million)</i>	Utilised amount during the period <i>RMB</i> <i>(million)</i>	Unutilised amount as at 28 February 2021 <i>RMB</i> <i>(million)</i>
Potential as well as announced acquisitions	65%	1,168.9	1,168.9	1,168.9	–
Expansion and development of the Group’s existing and new campuses	35%	629.4	629.4	629.4	–
	100%	1,798.3	1,798.3	1,798.3	–

Further details of the top-up placing and the subscription are set out in the Company’s announcements dated 10 August 2020 and 20 August 2020.

TOP-UP PLACING AND SUBSCRIPTION IN JANUARY 2021

On 26 January 2021, Blue Sky BVI, White Clouds BVI and the Company entered into a placing agreement (the “Placing Agreement”) with UBS AG Hong Kong Branch (the “Placing Agent”) pursuant to which Blue Sky BVI and White Clouds BVI have agreed to appoint the Placing Agent, and the Placing Agent has agreed to procure independent placees (or failing which itself as principal) to purchase a total of 122,000,000 Shares (the “Placing Shares”) at the placing price of HK\$16.60 per Share (the “Placing”).

On the same day, Blue Sky BVI, White Clouds BVI and the Company entered into a subscription agreement (the “Subscription Agreement”), pursuant to which Blue Sky BVI and White Clouds BVI agree to subscribe for, and the Company agrees to issue to Blue Sky BVI and White Clouds BVI 122,000,000 Shares at HK\$16.60 per Share upon the terms and conditions set out in the Subscription Agreement (the “Subscription”).

The Placing and the Subscription were completed on 29 January 2021 and 3 February 2021 respectively. The Placing Shares were issued to more than six independent placees and they are all independent investors. The net proceeds amounted to approximately HK\$2,012.6 million (net of related costs, professional fees and out-of-pocket expenses) and will be utilised for 1) potential acquisitions; and 2) expansion and development of the Group's new campuses in the Greater Bay Area, which is consistent with the intentions previously disclosed in the Company's announcements.

The Directors consider that the Placing and the Subscription will strengthen the capital base of the Company for (amongst others) its potential acquisitions as well as expansion and development of new campuses.

The aggregate nominal value of the Subscription Shares is HK\$1,220 and the net subscription price is approximately HK\$16.50 per share. The Subscription Shares have a market value of approximately HK\$2,205.76 million based on the closing price of HK\$18.08 of the Shares on 26 January 2021, being the date of the Subscription Agreement.

As at 28 February 2021, none of the net proceeds has been utilised. Further details of the Placing and the Subscription are set out in the Company's announcements dated 26 January 2021 and 3 February 2021.

EMPLOYEES AND REMUNERATION POLICIES

Remuneration

As at 28 February 2021, the Group had 10,688 employees (29 February 2020: 8,922), a 19.8% increase mainly due to inclusion of Haikou University of Economics into our school network during the year ended 28 February 2021. The remuneration packages of the employees of the Group are determined with reference to individual qualification, experience, performance, contribution to the Group and prevailing market rate.

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

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

Recruitment

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

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

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

INTERIM DIVIDEND

The Board declared an interim dividend of HK19.7 cents per ordinary Share for the six months ended 28 February 2021 (for the six months ended 29 February 2020: HK13.4 cents) to be paid by cash on Thursday, 27 May 2021, to Shareholders whose names appear on the register of members of the Company on Friday, 14 May 2021.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 12 May 2021 to Friday, 14 May 2021, both days inclusive, during which period no transfer of Shares will be registered. In order to qualify for the interim dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 11 May 2021.

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

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the six months ended 28 February 2021.

CORPORATE GOVERNANCE PRACTICES

During the six months ended 28 February 2021, the Company has complied with all the code provisions set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as the Group's code of conduct to regulate the securities transactions of the Directors. Having made specific enquiries, all Directors confirmed that they have complied with the required standards set out in the Model Code throughout the six months ended 28 February 2021.

AUDIT COMMITTEE

The Audit Committee consists of three independent non-executive Directors and its main duties are to assist the Board in providing an independent review of the completeness, accuracy and fairness of the financial information of the Group, as well as the efficiency and effectiveness of the Group's operations and internal controls. The Audit Committee has reviewed the unaudited consolidated financial statements of the Group for the six months ended 28 February 2021.

Deloitte Touche Tohmatsu, the Company's auditor, had carried out review of the unaudited interim results of the Group for the six months ended 28 February 2021 in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

PUBLICATION OF THE INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.chinaeducation.hk). The interim report of the Company for the six months ended 28 February 2021 will be dispatched to the Shareholders and made available on the same websites in due course.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 28 February 2021

	<i>NOTES</i>	Six months ended	
		28 February 2021	29 February 2020
		RMB'000	RMB'000
		(unaudited)	(unaudited)
Revenue	3	1,823,438	1,315,222
Cost of revenue		(745,949)	(557,881)
Gross profit		1,077,489	757,341
Other income		97,462	45,475
Investment income		28,989	11,781
Other gains and losses		32,240	28,929
Fair value change on convertible bonds		33,726	(2,353)
Selling expenses		(85,683)	(60,952)
Administrative expenses		(208,337)	(179,127)
Finance costs		(93,346)	(51,192)
Profit before taxation		882,540	549,902
Taxation	4	(30,301)	(8,718)
Profit for the period	5	852,239	541,184
Other comprehensive income (expense)			
Item that may be reclassified subsequently to profit or loss:			
Exchange difference arising on translation of foreign operations		3,587	(24,550)
Total comprehensive income for the period		855,826	516,634
Profit for the period attributable to:			
Owners of the Company		831,444	497,625
Non-controlling interests		20,795	43,559
		852,239	541,184
Total comprehensive income attributable to:			
Owners of the Company		835,031	473,075
Non-controlling interests		20,795	43,559
		855,826	516,634
Earnings per share	7		
Basic (RMB cents)		38.37	24.63
Diluted (RMB cents)		28.13	22.27

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 28 February 2021

	At 28 February 2021	At 31 August 2020
<i>NOTE</i>	<i>RMB'000</i> (unaudited)	<i>RMB'000</i> (audited)
NON-CURRENT ASSETS		
Property, plant and equipment	10,740,133	6,846,583
Right-of-use assets	1,494,237	1,510,859
Interest in an associate	408	–
Goodwill	3,304,637	1,792,266
Intangible assets	3,241,253	2,298,834
Contract costs	93,143	108,910
Prepayments for investments	–	262,800
Deposits paid for right-of-use assets	31,181	1,181
Deposits paid for acquisition of property, plant and equipment	18,626	63,129
Other deposits and prepayments	45,903	31,303
Deferred tax asset	5,068	18,158
	18,974,589	12,934,023
CURRENT ASSETS		
Inventories	1,321	1,183
Trade receivables, deposits, prepayments and other receivables	8 797,034	593,655
Financial assets at fair value through profit or loss	2,427,932	823,270
Contract costs	74,496	79,289
Restricted bank deposits	100,300	100,300
Bank balances and cash	2,523,403	3,443,070
	5,924,486	5,040,767

		At 28 February 2021 <i>RMB'000</i> (unaudited)	At 31 August 2020 <i>RMB'000</i> (audited)
CURRENT LIABILITIES			
Deferred income		54,959	56,579
Trade payables	9	22,590	33,374
Other payables and accrued expenses		2,188,521	1,446,899
Provisions		399,713	262,205
Lease liabilities		18,643	29,969
Income tax payable		72,688	19,130
Contract liabilities		1,810,675	1,238,857
Bank and other borrowings		1,235,468	291,662
		<u>5,803,257</u>	<u>3,378,675</u>
NET CURRENT ASSETS		<u>121,229</u>	<u>1,662,092</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>19,095,818</u>	<u>14,596,115</u>
NON-CURRENT LIABILITIES			
Deferred income		22,882	24,911
Other payables		523,881	23,100
Bank and other borrowings		3,677,821	2,386,847
Lease liabilities		81,478	85,965
Deferred tax liability		976,582	739,685
Convertible bonds		2,236,738	2,428,247
		<u>7,519,382</u>	<u>5,688,755</u>
		<u>11,576,436</u>	<u>8,907,360</u>
CAPITAL AND RESERVES			
Share capital		19	18
Reserves		10,752,426	8,573,449
		<u>10,752,445</u>	<u>8,573,467</u>
Equity attributable to owners of the Company		10,752,445	8,573,467
Non-controlling interests		823,991	333,893
		<u>11,576,436</u>	<u>8,907,360</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 28 February 2021

1. BASIS OF PREPARATION

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

2. PRINCIPAL ACCOUNTING POLICIES

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

Other than additional accounting policies resulting from application of amendments to International Financial Reporting Standards (“IFRSs”) and application of certain accounting policies which became relevant to the Group, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 28 February 2021 are the same as those presented in the Group’s annual financial statements for the year ended 31 August 2020.

Application of amendments to IFRSs

In the current interim period, the Group has applied the Amendments to References to the Conceptual Framework in IFRS Standards and the following amendments to IFRSs issued by the International Accounting Standard Board which are mandatory effective for the annual period beginning on or after 1 September 2020 for the preparation of the Group’s condensed consolidated financial statements:

Amendments to IAS 1 and IAS 8	Definition of Material
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform

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

2.1 Impacts on application of Amendments to IAS 1 and IAS 8 “Definition of Material”

The Group has applied the Amendments to IAS 1 and IAS 8 for the first time in the current period. The amendments provide a new definition of material that states “information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.” The amendments also clarify that materiality depends on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements taken as a whole.

The application of the amendments in the current period had no significant impact on the condensed consolidated financial statements.

2.2 *Accounting policies newly applied by the Group*

In addition, the Group has applied the following accounting policies which became relevant to the Group in the current interim period.

Investments in an associate

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associate are incorporated in the condensed consolidated financial statements using the equity method of accounting. The financial statements of associates used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate is initially recognised in the condensed consolidated statements of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate.

When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The Group assesses whether there is an objective evidence that the interest in an associate may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 "Impairment of Assets" ("IAS 36") as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with an associate of the Group, profits and losses resulting from the transactions with the associate are recognised in the Group's condensed consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

3. REVENUE AND SEGMENT INFORMATION

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

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

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

Specifically, the Group's reportable segments under IFRS 8 are as follow:

- i. Higher education segment providing higher education services in the PRC;
- ii. Vocational education segment providing vocational education services in the PRC; and
- iii. Global education segment providing higher education services outside the PRC.

Segment revenues and results

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

	Higher education RMB'000	Vocational education RMB'000	Global education RMB'000	Total RMB'000
<i>For the six months ended</i>				
<i>28 February 2021 (unaudited)</i>				
Revenue	<u>1,349,711</u>	<u>358,610</u>	<u>115,117</u>	<u>1,823,438</u>
Segment results	<u>668,262</u>	<u>183,913</u>	<u>40,993</u>	893,168
Investment income				28,989
Other gains and losses				32,240
Fair value change on convertible bonds				33,726
Finance costs				(93,346)
Unallocated corporate income and expenses				<u>(12,237)</u>
Profit before taxation				<u>882,540</u>

	Higher education <i>RMB'000</i>	Vocational education <i>RMB'000</i>	Global education <i>RMB'000</i>	Total <i>RMB'000</i>
<i>For the six months ended</i>				
<i>29 February 2020 (unaudited)</i>				
Revenue	<u>872,405</u>	<u>374,867</u>	<u>67,950</u>	<u>1,315,222</u>
Segment results	<u>389,076</u>	<u>183,557</u>	<u>16,954</u>	589,587
Investment income				11,781
Other gains and losses				28,929
Fair value change on convertible bonds				(2,353)
Finance costs				(51,192)
Unallocated corporate income and expenses				<u>(26,850)</u>
Profit before taxation				<u>549,902</u>

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

Revenue from major services

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

	Higher education <i>RMB'000</i>	Vocational education <i>RMB'000</i>	Global education <i>RMB'000</i>	Total <i>RMB'000</i>
<i>For the six months ended</i>				
<i>28 February 2021 (unaudited)</i>				
Tuition fees recognised over time	<u>1,232,596</u>	<u>320,185</u>	<u>115,117</u>	<u>1,667,898</u>
Boarding fees recognised over time	<u>104,411</u>	<u>27,323</u>	<u>–</u>	<u>131,734</u>
Ancillary services recognised over time	<u>12,704</u>	<u>11,102</u>	<u>–</u>	<u>23,806</u>
	<u>1,349,711</u>	<u>358,610</u>	<u>115,117</u>	<u>1,823,438</u>

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

Geographical information

The Group operates in the PRC and Australia for the six months ended 28 February 2021 and 29 February 2020.

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

	Revenue from customers		Non-current assets (<i>Note</i>)	
	Six months ended 28 February 2021 <i>RMB'000</i> (unaudited)	29 February 2020 <i>RMB'000</i> (unaudited)	At 28 February 2021 <i>RMB'000</i> (unaudited)	At 31 August 2020 <i>RMB'000</i> (audited)
The PRC	1,708,321	1,247,272	18,058,915	12,004,320
Australia	115,117	67,950	909,747	909,412
Hong Kong	–	–	859	2,133
	<u>1,823,438</u>	<u>1,315,222</u>	<u>18,969,521</u>	<u>12,915,865</u>

Note: Non-current assets excluded deferred tax asset.

4. TAXATION

	Six months ended	
	28 February 2021 RMB'000 (unaudited)	29 February 2020 RMB'000 (unaudited)
Current tax		
— Enterprise Income Tax	(8,351)	(6,602)
— Australian Corporate Income Tax	(12,249)	(6,497)
— Withholding taxes on interest income	(407)	—
	<u>(21,007)</u>	<u>(13,099)</u>
Deferred tax	(9,294)	4,381
	<u><u>(30,301)</u></u>	<u><u>(8,718)</u></u>

5. PROFIT FOR THE PERIOD

	Six months ended	
	28 February 2021 RMB'000 (unaudited)	29 February 2020 RMB'000 (unaudited)
Profit for the period has been arrived at after charging (crediting) the following items:		
Staff costs, including directors' remuneration		
— salaries and other allowances	440,856	329,622
— retirement benefit scheme contributions	67,626	52,153
— net reversal of share-based payments (<i>Note</i>)	(30,456)	(8,806)
	<u>478,026</u>	<u>372,969</u>
Total staff costs		
Depreciation of property, plant and equipment	173,553	126,080
Depreciation of right-of-use assets	25,602	23,517
Amortisation of intangible assets	7,307	10,618
Short term leases expense in respect of rented premises	8,055	7,991
Interest income from banks	(14,445)	(11,781)
Interest income from loan receivables	(14,544)	—
	<u><u>(14,544)</u></u>	<u><u>—</u></u>

Note: The amount for the six months ended 28 February 2021 includes reversal of RMB39,375,000 (for the six months ended 29 February 2020: RMB28,925,000) previously recognised share options expenses due to revision of estimate on the number of share options to be vested.

6. DIVIDENDS

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

	Six months ended	
	28 February	29 February
	2021	2020
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Final dividend for the year ended 31 August 2020 of HK13.9 cents (for the six months ended 29 February 2020: HK9.0 cents final dividend for the year ended 31 August 2019) per ordinary share	263,644	161,080

Subsequent to the end of the current interim period, the directors of the Company have determined that an interim dividend of HK19.7 cents per ordinary share amounting to HK\$447,768,000 in aggregate (for the six months ended 29 February 2020: HK13.4 cents per ordinary share amounting to HK\$270,707,000) will be paid to the owners of the Company whose names appear in the register of members on 14 May 2021.

7. EARNINGS PER SHARE

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

	Six months ended	
	28 February	29 February
	2021	2020
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Earnings:		
Profit for the period attributable to owners of the Company for the purposes of calculating basic earnings per share	831,444	497,625
Effect of dilutive potential ordinary shares:		
Fair value change and exchange difference on convertible bonds	(170,663)	(8,613)
Profit for the period attributable to owners of the Company for the purpose of calculating diluted earnings per share	660,781	489,012

	Six months ended	
	28 February 2021 '000	29 February 2020 '000
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	2,167,150	2,020,202
Effect of dilutive potential ordinary shares:		
Share options granted under pre initial public offering share option scheme	17,715	13,501
Share options granted under post initial public offering share option scheme	78	–
Convertible bonds	164,379	162,190
	<hr/>	<hr/>
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	<u>2,349,322</u>	<u>2,195,893</u>

The computation of diluted earnings per share for the six months ended 29 February 2020 did not assume the exercise of the Company's share options granted under the post initial public offering share option scheme as the exercise price of those options was higher than the average market price for shares for the period.

8. TRADE RECEIVABLES AND RECEIVABLES FROM EDUCATION BUREAUS

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

	At	At
	28 February 2021 RMB'000 (unaudited)	29 February 2020 RMB'000 (audited)
0–90 days	89,565	147
91–120 days	21,436	13,125
121–365 days	15,398	31,203
Over 365 days	5,541	15,055
	<hr/>	<hr/>
	<u>131,940</u>	<u>59,530</u>

9. TRADE PAYABLES

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

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

	At 28 February 2021 RMB'000 (unaudited)	At 29 February 2020 RMB'000 (audited)
0–30 days	7,445	17,313
31–90 days	4,531	7,222
91–365 days	3,682	2,318
Over 365 days	6,932	6,521
	<u>22,590</u>	<u>33,374</u>

10. CAPITAL COMMITMENTS

As at the end of the current interim period, the Group was committed to acquire property, plant and equipment and right-of-use assets mainly for the construction of new campus amounting to RMB1,807,432,000 (31 August 2020: RMB2,975,631,000).

The Group was committed to make an initial contribution of RMB250,000,000 to a fund named 惠理華教(深圳)股權投資合夥企業(有限合夥) (the “China Education Fund”) and as at 28 February 2021, the Group made capital contribution amounting to RMB31,303,000 (31 August 2020: RMB31,303,000) to China Education Fund as committed.

11. ACQUISITION OF A BUSINESS

Acquisition of Hainan Education Group

On 7 August 2020, the Company, China Education Group Holdings (BVI) Limited, a direct wholly owned subsidiary of the Company and Shuzhi Education Consulting (Ganzhou) Co., Ltd, an indirect wholly owned consolidated affiliated entity of the Company (together referred to as the “Purchasers”), entered into the acquisition agreements with certain independent third parties (the “Hainan Vendors”), pursuant to which the Hainan Vendors agreed to transfer an aggregate 60% equity interest in Hainan Cyber Education Group Company Limited (海南賽伯樂教育集團有限公司) (“Hainan Cyber Education”) to the Purchasers at a consideration of RMB1,356,000,000 (the “Hainan Acquisition”). Upon the completion of Hainan Acquisition on 16 September 2020, the Group acquired 45% equity interest in Hainan Cyber Education and the entire equity interest of Hainan Hualian Investment Co., Ltd., a limited liability company established in the PRC, which held 15% equity interests in Hainan Cyber Education. Hainan Cyber Education and its subsidiaries (together referred to as “Hainan Education Group”) became non-wholly consolidated affiliated entities of the Company after the completion of Hainan Acquisition. Furthermore, as part of the Hainan Acquisition, the Group entered into a management agreement with one of the Hainan Vendors which provided for the Group’s entitlement to 100% of the operating results of Hainan Education Group till the end of February 2023.

Details of the acquisition were set out in the announcements of the Company dated 10 August 2020, 13 August 2020 and 17 September 2020.

DEFINITIONS

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

“Director(s)”	the director(s) of the Company
“GBP”	Great Britain Pound, the lawful currency of UK
“Group”, “we”, “us”, or “our”	the Company, its subsidiaries and its consolidated affiliated entities from time to time
“Guangdong Baiyun University”	Guangdong Baiyun University (廣東白雲學院), one of our PRC member schools
“Guangzhou College of Applied Science and Technology”	Guangzhou College of Applied Science and Technology (廣州應用科技學院), formerly known as Guangzhou University Songtian College (廣州大學松田學院), one of our PRC member schools
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Hong Kong dollars” or “HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Huafang Education”	Huafang Education Investment Group (Ganzhou) Company Limited (華方教育投資集團(贛州)有限公司), one of our consolidated affiliated entities
“Huajiao Education”	Huajiao Education Technology (Jiangxi) Company Limited (華教教育科技(江西)有限公司), a company established in the PRC with limited liability and a wholly-owned subsidiary of the Company
“independent third party(ies)”	any entity(ies) or person(s) who is not a connected person of the Company within the meaning ascribed thereto under the Listing Rules
“Jiangxi University of Technology”	Jiangxi University of Technology (江西科技學院), one of our PRC member schools
“King’s Own Institute” or “KOI”	Australian Institute of Business and Management Pty Ltd (trading as King’s Own Institute), a company incorporated in New South Wales, Australia and our member school in Australia
“Listing”	the listing of the Shares on the Main Board of the Stock Exchange on the Listing Date

“Listing Date”	15 December 2017, the date on which the Shares were listed and on which dealings in the Shares were first permitted to take place on the Main Board of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Model Code”	Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules
“MOE”	the Ministry of Education of the PRC (中華人民共和國教育部)
“Mr. Xie”	Mr. Xie Ketao (謝可滔), an executive director, co-chairman and controlling shareholder of the Company
“Mr. Yu”	Mr. Yu Guo (于果), an executive director, co-chairman and controlling shareholder of the Company
“Richmond University”	Richmond, The American International University in London, a university accredited to award both UK and US degrees
“RMB” or “Renminbi”	Renminbi, the lawful currency of China
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shandong Quancheng University”	University of Jinan Quancheng College (濟南大學泉城學院), one of our PRC member schools
“Shareholder(s)”	holder(s) of our Share(s)
“Shares”	ordinary shares in our Company of par value HK\$0.00001 each
“Songtian Polytechnic College”	Guangzhou Songtian Polytechnic College (廣州松田職業學院), one of our PRC member schools
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed thereto in section 15 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong)

“United States” or “US”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
“US dollars”	United States dollars, the lawful currency of the United States
“VP Shenzhen”	Value Partners Private Equity Investment Management (Shen Zhen) Limited (惠理股權投資管理(深圳)有限公司), a company established in the PRC and a wholly-owned subsidiary of Value Partners Group Limited
“White Clouds BVI”	White Clouds Education International Limited (白雲教育國際有限公司), a controlling shareholder of the Company
“Xi’an Railway College”	Xi’an Railway Technician College (西安鐵道技師學院), one of our PRC member schools
“Zhengzhou Transit School”	Zhengzhou Urban Rail Transit School (鄭州城軌交通中等專業學校), one of our PRC member schools
“%”	per cent

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

By order of the Board
China Education Group Holdings Limited
Yu Guo Xie Ketao
Co-Chairmen

Hong Kong, 27 April 2021

As at the date of this announcement, the executive directors of the Company are Mr. Yu Guo, Mr. Xie Ketao, Dr. Yu Kai and Ms. Xie Shaohua, and the independent non-executive directors of the Company are Dr. Gerard A. Postiglione, Dr. Rui Meng and Dr. Wu Kin Bing.