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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)

(Stock Code: 839)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 29 FEBRUARY 2024

The Board is pleased to announce the interim results of the Group for the six months ended 29 February 2024.

HIGHLIGHTS

	Six months ended 29 February 2024 RMB million	Six months ended 28 February 2023 RMB million	Change RMB million	Change Percentage
Revenue	3,284	2,775	509	+18.3%
Gross profit	1,839	1,593	246	+15.4%
Adjusted net profit ⁽ⁱ⁾	1,217	1,104	113	+10.2%
Adjusted net profit attributable to owners of the Company ⁽ⁱ⁾	1,092	1,045	47	+4.5%
Adjusted EBITDA ⁽ⁱ⁾	1,956	1,676	280	+16.7%

Cash reserve was recorded RMB4,531 million as at 29 February 2024. The Board recommended the payment of interim dividend of RMB18.77 cents per share.

Note:

- i. Please refer to the Financial Review section for methods preparing the adjusted net profit, 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 29 February 2024 and 28 February 2023 are as follows:

	Six months ended	
	29 February 2024 <i>RMB million</i>	28 February 2023 <i>RMB million</i>
Revenue	3,284	2,775
Cost of revenue	<u>(1,445)</u>	<u>(1,182)</u>
Gross profit	1,839	1,593
Other income	201	138
Selling expenses	(89)	(87)
Administrative expenses	<u>(476)</u>	<u>(387)</u>
Operating profit	1,475	1,257
Investment income	54	43
Other gains and losses	(21)	(41)
Finance costs	<u>(225)</u>	<u>(190)</u>
Profit before taxation	1,283	1,069
Taxation	<u>(95)</u>	<u>(33)</u>
Net profit	<u>1,188</u>	<u>1,036</u>
Net profit attributable to owners of the Company	<u>1,071</u>	<u>977</u>
Adjusted net profit attributable to owners of the Company	<u>1,092</u>	<u>1,045</u>

Non-IFRS Measures

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

We present these financial measures because they are used by our management to evaluate our financial performance by eliminating the impact of items that we do not consider indicative of the performance of our business. We also believe that these non-IFRS measures provide additional information to investors and others in understanding and evaluating our consolidated results of operations in the same manner as they help our management and in comparing financial results across accounting periods and to those of our peer companies. The use of non-IFRS measures has limitations as an analytical tool, as they do not include all items that impact on our results for the relevant periods. In light of the foregoing limitations for non-IFRS measures, when assessing our operating and financial performance, readers should not view the non-IFRS measures in isolation or as a substitute for our profit for the period or any other operating performance measure that is calculated in accordance with IFRS. In addition, because these non-IFRS measures may not be calculated in the same manner by all companies, they may not be comparable to other similarly titled measures used by other companies.

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

Calculation of Adjusted Net Profit

	Six months ended	
	29 February 2024	28 February 2023
	<i>RMB million</i>	<i>RMB million</i>
Net profit	1,188	1,036
Adjustments for: Foreign exchange gain/loss	5	21
Share-based payments ⁽ⁱ⁾	–	17
Current period expenses related to conversion of independent colleges into private universities ⁽ⁱⁱ⁾	4	10
Fair value change on construction cost payables for school premises ⁽ⁱⁱⁱ⁾	20	20
	<u>1,217</u>	<u>1,104</u>
Adjusted net profit	<u>1,217</u>	<u>1,104</u>

Calculation of Adjusted Net Profit Attributable to Owners of the Company

	Six months ended	
	29 February 2024	28 February 2023
	<i>RMB million</i>	<i>RMB million</i>
Net profit attributable to owners of the Company	1,071	977
Adjustments for: Foreign exchange gain/loss	5	21
Share-based payments ⁽ⁱ⁾	–	17
Current period expenses related to conversion of independent colleges into private universities ⁽ⁱⁱ⁾	4	10
Fair value change on construction cost payables for school premises ⁽ⁱⁱⁱ⁾	12	20
	<u>1,092</u>	<u>1,045</u>
Adjusted net profit attributable to owners of the Company	<u>1,092</u>	<u>1,045</u>

Calculation of Adjusted EBITDA

		Six months ended	
		29 February 2024	28 February 2023
		<i>RMB million</i>	<i>RMB million</i>
Profit for the period		1,188	1,036
Add:	Finance costs	225	190
	Taxation	95	33
	Depreciation of property, plant and equipment	380	317
	Depreciation of right-of-use assets	39	29
	Amortisation of intangible assets	–	3
EBITDA		1,927	1,608
Adjustments for:	Foreign exchange gain/loss	5	21
	Share-based payments ⁽ⁱ⁾	–	17
	Current period expenses related to conversion of independent colleges into private universities ⁽ⁱⁱ⁾	4	10
	Fair value change on construction cost payables for school premises ⁽ⁱⁱⁱ⁾	20	20
Adjusted EBITDA		1,956	1,676

Notes:

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

Revenue

The Group's revenue reached RMB3,284 million for the six months ended 29 February 2024, up 18.3% as compared to RMB2,775 million for the six months ended 28 February 2023.

Domestic Market Segment

Revenue from domestic market segment increased from RMB2,668 million for the six months ended 28 February 2023 to RMB3,179 million for the six months ended 29 February 2024, representing a 19.2% increase. The significant increase in revenue was mainly driven by the growth in student enrollment and revenue per student of domestic market.

International Market Segment

Revenue from international market segment amounted to RMB105 million for the six months ended 29 February 2024, which is comparable to the RMB107 million generated in the six months ended 28 February 2023.

Cost of Revenue

The cost of revenue increased from RMB1,182 million for the six months ended 28 February 2023 to RMB1,445 million for the six months ended 29 February 2024, representing a 22.3% increase. The increase was mainly due to the growth of student number. Furthermore, with the expansion of the campus and the increase in curriculum, the investment in teachers and teaching were increased.

Gross Profit

The Group's gross profit was RMB1,839 million for the six months ended 29 February 2024, up 15.4% as compared to RMB1,593 million for the six months ended 28 February 2023.

Other Income

Other income mainly included income from on-campus management and service to vendors and government grants. The income from on-campus management and service to vendors and government grants were RMB61 million and RMB63 million, respectively, for the six months ended 29 February 2024 as compared to RMB59 million and RMB26 million, respectively, for the six months ended 28 February 2023.

Selling Expenses

The Group's selling expenses were RMB89 million for the six months ended 29 February 2024 as compared to RMB87 million for six months ended 28 February 2023. The selling expenses represented about 2.7% of revenue for the six months ended 29 February 2024 and was decreased as compared to that of 3.1% for the six months ended 28 February 2023.

Administrative Expenses

The Group's administrative expenses were RMB476 million for the six months ended 29 February 2024 as compared to RMB387 million for the six months ended 28 February 2023. The increase was mainly attributable to the increase of student enrollment and the new campuses and buildings commencing to use and starting to recognise depreciation.

Operating Profit

The operating profit amounted to RMB1,475 million for the six months ended 29 February 2024, increased by 17.3% as compared to RMB1,257 million for the six months ended 28 February 2023.

Finance Costs

The finance costs were increased from RMB190 million for the six months ended 28 February 2023 to RMB225 million for the six months ended 29 February 2024. For the six months ended 29 February 2024, the finance costs mainly represented i) the interest expenses on bank and other borrowings and bonds of RMB257 million (the six months ended 28 February 2023: RMB231 million) and ii) deduction of interest expenses capitalised in the cost of property, plant and equipment of RMB35 million (the six months ended 28 February 2023: RMB46 million).

Net Profit and Return on Equity

The Group's net profit was increased by 14.7% to RMB1,188 million for the six months ended 29 February 2024 from RMB1,036 million for the six months ended 28 February 2023. The adjusted net profit was increased by 10.2% to RMB1,217 million for the six months ended 29 February 2024 from RMB1,104 million for the six months ended 28 February 2023, after adjusting for the foreign exchange gain/loss, share-based payments, current period expenses related to conversion of independent colleges into private universities and fair value change on construction cost payables for school premises. The adjusted net profit attributable to owners of the Company was increased by 4.5% to RMB1,092 million for the six months ended 29 February 2024.

The adjusted return on equity (which is calculated on the basis of annualised adjusted net profit attributable to owners of the Company to the average of the beginning and ending balance of equity attributable to owners of the Company) of the Group was 13.7% for the six months ended 29 February 2024 and remained sound and fair.

EBITDA

EBITDA was increased by 19.8% to RMB1,927 million for the six months ended 29 February 2024 from RMB1,608 million for the six months ended 28 February 2023. Adjusting for the foreign exchange gain/loss, share-based payments, current period expenses related to conversion of independent colleges into private universities and fair value change on construction cost payables for school premises, the adjusted EBITDA was increased by 16.7% from RMB1,676 million for the six months ended 28 February 2023 to RMB1,956 million for the six months ended 29 February 2024.

Property, Plant and Equipment

Property, plant and equipment as at 29 February 2024 increased by 9.3% to RMB19,316 million from RMB17,668 million as at 31 August 2023. Increase in property, plant and equipment was mainly due to the construction of new buildings of existing campuses and the expansion capacity in Shandong Province and Guangdong Province.

Capital Expenditures

Our capital expenditures for the six months ended 29 February 2024 were RMB2,032 million (the six months ended 28 February 2023: RMB1,220 million) and were primarily related to the construction of new buildings of existing campuses and the expansion capacity in Shandong Province and Guangdong Province.

Cash Reserve

Including cash and cash equivalents, restricted bank deposits and structured deposits and money market funds recognised in financial assets at fair value through profit or loss, the cash reserve amounted to RMB4,531 million as at 29 February 2024 (31 August 2023: RMB5,802 million).

Liquidity, Financial Resources and Gearing Ratio

As at 29 February 2024, the Group had bank and other borrowings and bonds of RMB8,933 million (31 August 2023: RMB8,603 million) and convertible bonds of RMB3 million (31 August 2023: RMB3 million).

As at 29 February 2024, the net gearing ratio (which is calculated on the basis of total amount of bank and other borrowings and bonds and convertible bonds, net of cash reserve, to total equity of the Group) was 23.0% (31 August 2023: 15.3%). As at 29 February 2024, the debt to asset ratio (which is calculated on the basis of total amount of bank and other borrowings and bonds and convertible bonds to total assets of the Group) was 24.7% (31 August 2023: 24.1%). Certain bank and other borrowings and proceeds from placement and bonds issue were not yet fully utilised. In order to have a better use of our financial resources, the Group placed certain structured deposits and money market funds during the six months ended 29 February 2024. The structured deposits and money market funds were short-term liquidity management products with minimal risk exposure and the Group held these investments for short-term cash management purpose.

Treasury Policy

During the six months ended 29 February 2024, the Group has adopted a prudent treasury policy and maintained a robust liquidity structure. In the management of the liquidity risk, the Group monitors and maintains appropriate levels of financial resources to meet its funding needs.

Foreign Exchange Risk Management

The primary functional currency of the Group is RMB. For the Group's operation in the PRC, the major revenue and expenditures are denominated in RMB. For the Group's operations outside the PRC, the major revenue and expenditures are denominated in functional currencies of the relevant territories. The Group also has certain foreign currency bank balances, money market funds, other borrowings and convertible bonds denominated in Hong Kong dollars and US dollars, which would expose the Group to foreign exchange risk. After assessing the cost and benefit, the Group did not use any financial instruments for hedging purposes. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure when the need arises.

Contingent Liabilities

As at 29 February 2024, the Group had no significant contingent liability.

Charges on the Group's Assets

As at 29 February 2024, the bank and other borrowings of the Group amounting to RMB6,303 million (31 August 2023: RMB6,138 million) were secured by tolling right of tuition fee, boarding fee and ancillary income, deposits, fixed assets under sale and leaseback arrangements and equity interest of certain subsidiaries of the Group.

Saved as disclosed above, there was no other material charge on the Group's assets as at 29 February 2024.

BUSINESS OVERVIEW

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

EVENT AFTER THE REPORTING PERIOD

Full Redemption of Convertible Bonds due 2024

The Company has redeemed the outstanding convertible bonds in whole pursuant to the respective terms and conditions of the convertible bonds on 28 March 2024, the maturity date (the “Full Redemption”). The Company believes that there is no material impact on the financial position of the Group as a result of the Full Redemption. The convertible bonds have been delisted from the Stock Exchange on the maturity date.

Further details of the Full Redemption are set out in the Company’s announcement dated 28 March 2024.

TOP-UP PLACING AND SUBSCRIPTION

January 2021

The net proceeds amounted to approximately HK\$2,012.6 million (net of related costs, professional fees and out-of-pocket expenses) from the subscription completed on 3 February 2021 have been partly utilised, and will be fully utilised in next twelve months for (1) potential acquisitions; and (2) expansion and development of the Group’s new campuses in the Greater Bay Area. The Group did not have material acquisition during the six months ended 29 February 2024, and therefore results in delay in the use of proceeds. The purposes for the use of proceeds are consistent with the intentions previously disclosed in the Company’s announcements.

The following sets forth a summary of the utilisation of the net proceeds during the six months ended 29 February 2024:

Purpose	Percentage to total amount	Net proceeds amount	Unutilised amount as at 1 September 2023	Utilised amount during the period	Unutilised amount as at 29 February 2024
		<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
Expansion and development of the Group's new campuses in the Greater Bay Area	70%	1,177.0	–	–	–
Potential acquisitions	30%	504.4	93.3	–	93.3
	<u>100%</u>	<u>1,681.4</u>	<u>93.3</u>	<u>–</u>	<u>93.3</u>

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

October 2021

The net proceeds amounted to approximately HK\$1,170.0 million (net of related costs, professional fees and out-of-pocket expenses) from the subscription completed on 27 October 2021 will be fully utilised in next twelve months for potential acquisitions in the modern-vocational education space. The Group did not have material acquisition during the six months ended 29 February 2024, and therefore results in delay in the use of proceeds. The purposes for the use of proceeds are consistent with the intentions previously disclosed in the Company's announcements. As at 29 February 2024, none of the net proceeds has been utilised.

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

January 2023

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

On the same day, Blue Sky, White Clouds and the Company entered into a subscription agreement (the “Subscription Agreement”), pursuant to which Blue Sky and White Clouds agree to subscribe for, and the Company agrees to issue to Blue Sky and White Clouds the subscription shares equivalent to the number of placing shares at HK\$10.94 per Share upon the terms and conditions set out in the Subscription Agreement (the “Subscription”).

The Placing and the Subscription were completed on 12 January 2023 and 17 January 2023 respectively. The placing shares were issued to more than six independent placees and they are all independent investors. The net proceeds amounted to approximately HK\$1,598 million (equivalent to RMB1,406 million) (net of related costs, professional fees and out-of pocket expenses) have been fully utilised as at 29 February 2024 for the expansion of school network (including campus development and potential mergers and acquisitions) and working capital purposes as previously disclosed in the Company’s announcements.

The following sets forth a summary of the utilisation of the net proceeds during the six months ended 29 February 2024:

Purpose	Percentage to total amount	Net proceeds amount <i>RMB million</i>	Unutilised	Utilised	Unutilised
			amount as at 1 September 2023 <i>RMB million</i>	amount during the period <i>RMB million</i>	amount as at 29 February 2024 <i>RMB million</i>
Expansion of school network (including campus development and potential mergers and acquisitions)	90%	1,265	604	604	–
General working capital	10%	141	–	–	–
	<u>100%</u>	<u>1,406</u>	<u>604</u>	<u>604</u>	<u>–</u>

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

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

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

EMPLOYEES AND REMUNERATION POLICIES

Remuneration

As at 29 February 2024, the Group had 17,810 employees (28 February 2023: 14,925), a 19% increase from 2023's due to organic growth in employees in our existing schools and new campuses.

The remuneration packages of the employees of the Group are determined with reference to individual qualification, experience, performance, 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 schools determine their respective compensation standards based on the employment by function and by position. Schools participate in social insurance plans under the guidance of relevant policies and provide a variety of benefits for employees. Our employees are also members of retirement benefits schemes administrated by their respective jurisdictions.

Recruitment

The Group follows the Labour Law, Labour Contract Law, Employment Promotion Law, Labour Dispute Mediation and Arbitration Law as well as other relevant laws and regulations of its 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 candidate's academic qualification, relevant work experience, past performance and professionalism, but also on candidate's morality, professional ethics and discipline.

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 RMB18.77 cents (equivalent to HK20.68 cents, according to the central parity rate of Renminbi to Hong Kong dollars as announced by the People's Bank of China on Friday, 26 April 2024, i.e. RMB0.90777 equivalent to HKD1.00) per ordinary Share for the six months ended 29 February 2024 (the six months ended 28 February 2023: RMB16.38 cents) to be paid on Thursday, 18 July 2024, to Shareholders whose names appear on the register of members of the Company on Monday, 17 June 2024. The distribution equals to approximately 45% of the adjusted net profit attributable to owners of the Company.

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

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 12 June 2024 to Monday, 17 June 2024, 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 June 2024.

CONVERTIBLE BONDS DUE 2024

The Company completed the issue of convertible bonds due 2024 bearing interest at the rate of 2.0% per annum in an aggregate principal amount of HK\$2,355,000,000 on 28 March 2019 to enhance its working capital for the Group's continual business development. The convertible bonds were formally listed on the Stock Exchange on 29 March 2019 with stock code number 5926. During the reporting period, the conversion price of the convertible bonds was adjusted from HK\$12.65 per Share to HK\$12.35 per Share due to the payment of final dividend for the year ended 31 August 2023.

During the reporting period, no conversion of the convertible bonds had been exercised by any holders of the convertible bonds and no redemption or purchase or cancellation was made by the Company. As at 29 February 2024, the aggregate principal amount of the convertible bonds that remains outstanding was HK\$4,000,000. Upon full conversion of the outstanding convertible bonds, the Company may issue 323,886 Shares (based on the conversion price of HK\$12.35 per Share), which represent approximately 0.0127% of the total number of Shares in issue as at 29 February 2024 and approximately 0.0127% of the total number of Shares in issue as enlarged by the number of new Shares issued upon full conversion of the outstanding convertible bonds. Set out below is the dilution effect on equity interest of the substantial

Shareholders:

Name of Substantial Shareholders	As at 29 February 2024		Upon full conversion of the outstanding convertible bonds as of 29 February 2024 at the conversion price of HK\$12.35 per Share	
	Number of Shares	Approximate % of all Shares in issue	Number of Shares	Approximate % of all Shares in issue
Blue Sky	772,184,000	30.26%	772,184,000	30.26%
White Clouds	772,184,000	30.26%	772,184,000	30.26%

On 29 February 2024, the Group recorded net assets of approximately RMB19,148 million and cash reserve of approximately RMB4,531 million. Based on the financial positions of the Group, the Company was able to meet its redemption obligations under the convertible bonds.

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

After the reporting period, the Company has redeemed the outstanding convertible bonds in whole pursuant to the respective terms and conditions of the convertible bonds on 28 March 2024, the convertible bonds maturity date (the “Full Redemption”). The Company believes that there is no material impact on the financial position of the Group as a result of the Full Redemption. The convertible bonds have been delisted from the Stock Exchange on the maturity date.

For details, please refer to the Company’s announcements dated 22 and 28 March 2019, 14 and 16 February 2022, 9 and 28 March 2022, 29 August 2022 and 28 March 2024.

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

During the six months ended 29 February 2024, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company.

CORPORATE GOVERNANCE PRACTICES

During the six months ended 29 February 2024, the Company has complied with all the code provisions set out in the Corporate Governance Code contained in Appendix C1 to the Listing Rules.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as the Group's code of conduct to regulate the securities transactions of the Directors. Having made specific enquiries, all Directors confirmed that they have complied with the required standards set out in the Model Code throughout the six months ended 29 February 2024.

AUDIT COMMITTEE

The Audit Committee consists of three independent non-executive Directors and its main duties are to assist the Board in providing an independent review of the completeness, accuracy and fairness of the financial information of the Group, as well as the efficiency and effectiveness of the Group's operations and internal controls. The Audit Committee has reviewed the unaudited consolidated financial statements of the Group for the six months ended 29 February 2024.

Deloitte Touche Tohmatsu, the Company's auditor, had carried out review of the unaudited interim results of the Group for the six months ended 29 February 2024 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 29 February 2024 will be dispatched to the shareholders by post or by electronic means and published on the same websites in due course.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 29 February 2024

	NOTES	Six months ended	
		29 February 2024 RMB million (unaudited)	28 February 2023 RMB million (unaudited)
Revenue	3	3,284	2,775
Cost of revenue		<u>(1,445)</u>	<u>(1,182)</u>
Gross profit		1,839	1,593
Investment income		54	43
Other income	4	201	138
Other gains and losses		(21)	(41)
Selling expenses		(89)	(87)
Administrative expenses		(476)	(387)
Finance costs		<u>(225)</u>	<u>(190)</u>
Profit before taxation		1,283	1,069
Taxation	5	<u>(95)</u>	<u>(33)</u>
Profit for the period	6	<u><u>1,188</u></u>	<u><u>1,036</u></u>
Other comprehensive expenses			
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange difference arising on translation of foreign operations		<u>(2)</u>	<u>(1)</u>
Total comprehensive income for the period		<u><u>1,186</u></u>	<u><u>1,035</u></u>
Profit for the period attributable to:			
Owners of the Company		1,071	977
Non-controlling interests		<u>117</u>	<u>59</u>
		<u><u>1,188</u></u>	<u><u>1,036</u></u>
Total comprehensive income attributable to:			
Owners of the Company		1,069	976
Non-controlling interests		<u>117</u>	<u>59</u>
		<u><u>1,186</u></u>	<u><u>1,035</u></u>
Earnings per share	8		
Basic (RMB cents)		<u>41.97</u>	<u>40.06</u>
Diluted (RMB cents)		<u>41.97</u>	<u>40.06</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 29 February 2024

		29 February 2024	31 August 2023
	<i>NOTES</i>	<i>RMB million</i> (unaudited)	<i>RMB million</i> (audited)
NON-CURRENT ASSETS			
Property, plant and equipment		19,316	17,668
Right-of-use assets		2,431	2,334
Goodwill		3,624	3,627
Other intangible assets		4,832	4,840
Deposits paid for acquisition of property, plant and equipment/ right-of-use assets		179	188
Contract costs		67	61
Other prepayment and deposits		2	25
Deferred tax asset		19	27
Restricted bank deposits		11	11
		<u>30,481</u>	<u>28,781</u>
CURRENT ASSETS			
Trade receivables, deposits, prepayments and other receivables	9	1,153	1,123
Financial assets at fair value through profit or loss		426	570
Contract costs		63	59
Restricted bank deposits		46	44
Cash and cash equivalents		4,048	5,177
		<u>5,736</u>	<u>6,973</u>
CURRENT LIABILITIES			
Trade payables	10	48	52
Contract liabilities		3,287	3,821
Other payables and accrued expenses		2,171	2,269
Deferred income		42	58
Provisions		326	325
Lease liabilities		23	27
Income tax payable		78	96
Bank and other borrowings		1,508	1,581
Convertible bonds		3	3
		<u>7,486</u>	<u>8,232</u>
NET CURRENT LIABILITIES		<u>(1,750)</u>	<u>(1,259)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>28,731</u>	<u>27,522</u>

	29 February 2024	31 August 2023
	<i>RMB million</i>	<i>RMB million</i>
	(unaudited)	(audited)
NON-CURRENT LIABILITIES		
Other payables	483	514
Deferred income	71	64
Lease liabilities	36	46
Deferred tax liability	1,568	1,572
Bank and other borrowings and bonds	7,425	7,022
	<u>9,583</u>	<u>9,218</u>
	<u>19,148</u>	<u>18,304</u>
CAPITAL AND RESERVES		
Share capital	—*	—*
Reserves	16,301	15,574
	<u>16,301</u>	<u>15,574</u>
Equity attributable to owners of the Company	16,301	15,574
Non-controlling interests	2,847	2,730
	<u>19,148</u>	<u>18,304</u>

* Less than RMB1 million

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 29 February 2024

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 D2 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

In preparing the condensed consolidated financial statements, the directors of the Company have given careful consideration of the future liquidity of the Group in light of the fact that the Group had net current liabilities of RMB1,750 million as at 29 February 2024, which included contract liabilities of RMB3,287 million. The directors of the Company have, at the time of approving the condensed consolidated financial statements, a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The directors of the Company consider that after taking into account the internal fund resources, the Group will have sufficient working capital to satisfy its present requirements for at least twelve months from the date of approval of the condensed consolidated financial statements. Accordingly, the condensed consolidated financial statements have been prepared on a going concern basis.

2. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 29 February 2024 are the same as those presented in the Group’s annual financial statements for the year ended 31 August 2023.

In the current interim period, the Group has applied the following new and amendments to International Financial Reporting Standards (“IFRSs”) issued by the International Accounting Standard Board which are mandatory effective for the annual period beginning on or after 1 September 2023 for the preparation of the Group’s condensed consolidated financial statements:

IFRS 17 (including the June 2020 and December 2021 Amendments to IFRS 17)	Insurance Contracts
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies
Amendments to IAS 8	Definition of Accounting Estimates
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction
Amendments to IAS 12	International Tax Reform — Pillar Two model Rules

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

3. REVENUE AND SEGMENT INFORMATION

The Group is mainly engaged in the provision of vocational education services.

Revenue represents services income from education and ancillary services in the domestic and international markets.

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 geographical locations of the customers.

Specifically, the Group's reportable segments under IFRS 8 "Operating Segments" in the current period are as follows:

- Domestic market segment focuses in the domestic People's Republic of China ("PRC") market, comprising education services (including tuition fees and boarding fees) delivered by higher vocational education institutions and secondary vocational education institutions as well as ancillary services; and
- International market segment focuses in the international market, comprising education services (including tuition fees and boarding fees) delivered by institutions outside of the PRC.

Segment revenues and results

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

	Domestic Market RMB million	International Market RMB million	Total RMB million
<i>For the six months ended 29 February 2024 (unaudited)</i>			
Revenue	<u>3,179</u>	<u>105</u>	<u>3,284</u>
Segment results	<u>1,455</u>	<u>15</u>	1,470
Investment income			54
Other gains and losses			(21)
Finance costs			(225)
Unallocated corporate income and expenses			<u>5</u>
Profit before taxation			<u>1,283</u>

	Domestic Market <i>RMB million</i>	International Market <i>RMB million</i>	Total <i>RMB million</i>
<i>For the six months ended 28 February 2023 (unaudited and restated)</i>			
Revenue	<u>2,668</u>	<u>107</u>	<u>2,775</u>
Segment results	<u>1,257</u>	<u>17</u>	1,274
Investment income			43
Other gains and losses			(41)
Finance costs			(190)
Unallocated corporate income and expenses			<u>(17)</u>
Profit before taxation			<u>1,069</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, finance costs, unallocated corporate income and expenses (including central administrative expenses). This is the measure reported to the CODM of the Group for the purpose of resource allocation and performance assessment. No analysis of segment assets or segment liabilities is presented as they are not regularly provided to the CODM.

Revenue from major services

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

	Six months ended	
	29 February 2024	28 February 2023
	<i>RMB million</i>	<i>RMB million</i>
	(unaudited)	(unaudited)
Education services recognised over time	3,263	2,753
Ancillary services recognised over time	<u>21</u>	<u>22</u>
	<u>3,284</u>	<u>2,775</u>

Geographical information

The Group operates in the PRC and Australia.

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

	Revenue from customers		Non-current assets	
	Six months ended		At	At
	29 February 2024	28 February 2023	29 February 2024	31 August 2023
	<i>RMB million</i> (unaudited)	<i>RMB million</i> (unaudited)	<i>RMB million</i> (unaudited)	<i>RMB million</i> (audited)
Mainland China	3,179	2,668	29,622	27,868
Australia	105	107	826	849
Hong Kong, China	—	—	1	1
	<u>3,284</u>	<u>2,775</u>	<u>30,449</u>	<u>28,718</u>

4. OTHER INCOME

	Six months ended	
	29 February 2024	28 February 2023
	<i>RMB million</i> (unaudited)	<i>RMB million</i> (unaudited)
Government grants (<i>Note</i>)	63	26
Income from on-campus management and service to vendors	61	59
Other service income	21	14
Others	56	39
	<u>201</u>	<u>138</u>

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

5. TAXATION

	Six months ended	
	29 February 2024	28 February 2023
	<i>RMB million</i>	<i>RMB million</i>
	(unaudited)	(unaudited)
Income tax charge (credit):		
Current tax		
— Enterprise Income Tax	91	31
— Australian Corporate Income Tax	1	4
Deferred tax	3	(2)
	<hr/>	<hr/>
	95	33
	<hr/> <hr/>	<hr/> <hr/>

6. PROFIT FOR THE PERIOD

	Six months ended	
	29 February 2024	28 February 2023
	<i>RMB million</i>	<i>RMB million</i>
	(unaudited)	(unaudited)
Profit for the period has been arrived at after charging:		
Staff costs, including directors' remuneration		
— salaries and other allowances	879	708
— retirement benefit scheme contributions	141	114
— share-based payments	—*	17
	<hr/>	<hr/>
Total staff costs	1,020	839
	<hr/>	<hr/>
Depreciation of property, plant and equipment	380	317
Depreciation of right-of-use assets (net of capitalised as cost of construction in progress)	39	29
Amortisation of intangible assets (included in cost of revenue)	—	3
	<hr/> <hr/>	<hr/> <hr/>

* Less than RMB1 million

7. DIVIDENDS

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

	Six months ended	
	29 February 2024	28 February 2023
	<i>RMB million</i>	<i>RMB million</i>
	(unaudited)	(unaudited)
Final dividend for the year ended 31 August 2023 of RMB13.53 cents (the six months ended 28 February 2023: RMB33.57 cents final dividend for the year ended 31 August 2022) per ordinary share	342	806

The 2023 final dividend was settled in cash, with an alternative to receive the dividend (or part thereof) in form of scrip shares. Subsequent to 29 February 2024, the 2023 final dividend has been settled by cash of HK\$110 million (equivalent to RMB100 million) and the issue of 66,772,281 ordinary shares of the Company.

Subsequent to the end of the current interim period, the directors of the Company have determined that an interim dividend of RMB18.77 cents per ordinary share (the six months ended 28 February 2023: RMB16.38 cents) will be paid to the owners of the Company whose names appear in the register of members on 17 June 2024.

8. EARNINGS PER SHARE

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

	Six months ended	
	29 February 2024	28 February 2023
	<i>RMB million</i>	<i>RMB million</i>
	(unaudited)	(unaudited)
Earnings:		
Profit for the period attributable to owners of the Company for the purposes of calculating basic earnings per share	1,071	977
Effect of dilutive potential ordinary shares:		
Fair value change on convertible bonds	_*	_*
	<u>1,071</u>	<u>977</u>
Profit for the period attributable to owners of the Company for the purpose of calculating diluted earnings per share	<u>1,071</u>	<u>977</u>
	<i>million</i>	<i>million</i>
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	2,552	2,439
Effect of dilutive potential ordinary shares:		
— convertible bonds	_*	_*
	<u>2,552</u>	<u>2,439</u>
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	<u>2,552</u>	<u>2,439</u>

* Less than RMB1 million/1 million shares

The weighted average number of ordinary shares for purpose of calculating basic earnings per share for the six months ended 28 February 2023 has included the deferred consideration shares of the Company in relation to the acquisition of certain subsidiaries in the prior years.

The computation of diluted earnings per share for each of the six months ended 29 February 2024 and 28 February 2023 did not assume the exercise of the Company's share options granted under the Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme as the adjusted exercise prices of those share options were higher than the average market prices of the shares of the Company for these periods.

9. 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 29 February 2024 <i>RMB million</i> (unaudited)	At 31 August 2023 <i>RMB million</i> (audited)
0–90 days	41	26
91–120 days	12	3
Over 120 days	72	42
	<u>125</u>	<u>71</u>

10. 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 29 February 2024 <i>RMB million</i> (unaudited)	At 31 August 2023 <i>RMB million</i> (audited)
0–30 days	4	6
31–90 days	39	44
Over 90 days	5	2
	<u>48</u>	<u>52</u>

11. CAPITAL COMMITMENTS

	At 29 February 2024 <i>RMB million</i> (unaudited)	At 31 August 2023 <i>RMB million</i> (audited)
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of the acquisition of property, plant and equipment and right-of-use assets	<u><u>1,521</u></u>	<u><u>986</u></u>

12. EVENT AFTER REPORTING PERIOD

Subsequent to the end of the current interim period, the Company has redeemed the outstanding convertible bonds in whole on the maturity date.

DEFINITIONS

“Blue Sky”	Blue Sky Education International Limited (藍天教育國際有限公司), a controlling shareholder of the Company
“Board”	the board of directors of the Company
“China” or “PRC”	the People’s Republic of China and for the purposes of this document only, except where the context requires otherwise, references to China or the PRC exclude Hong Kong, Macau and Taiwan
“Company”	China Education Group Holdings Limited (中國教育集團控股有限公司), an exempted company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange
“controlling shareholders”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“Group”, “we”, “us”, or “our”	the Company, its subsidiaries and its consolidated affiliated entities from time to time
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Hong Kong dollars” or “HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“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 C3 to the Listing Rules
“RMB” or “Renminbi”	Renminbi, the lawful currency of China

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

The English names of the PRC entities, PRC laws or regulations, PRC awards/accreditations, and the PRC governmental authorities referred to in this 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
Chan Yuen Fung
Company Secretary

Hong Kong, 26 April 2024

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