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China New Higher Education Group Limited
中國新高教集團有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock code: 2001)

ANNOUNCEMENT OF ANNUAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2017

ANNUAL RESULTS

The Board of Directors of China New Higher Education Group Limited is pleased to announce the annual results and audited consolidated financial statements of the Company and its subsidiaries for the year ended 31 December 2017, together with the comparative figures for the year ended 2016.

Highlight

	Year ended 31 December 2017 <i>(RMB million)</i>	Year ended 31 December 2016 <i>(RMB million)</i>	Change <i>(RMB million)</i>	Percentage Change
Revenue and other income and gains	542.8	401.9	140.9	+35.1%
Profit for the year from continuing operations	233.3	110.5	122.8	+111.1%
Core net profit*	259.4	130.0	129.4	+99.5%

* Core net profit for the year excludes listing fee

	2017/2018 Academic Year*	2016/2017 Academic Year*	Change	Percentage Change
Total Number of students enrolled**	58,036	46,460	+11,576	+24.9%

* An academic year generally starts from September 1 of each calendar year to August 31 of the following calendar year.

** Including the schools to be invested by the Group.

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS
YEAR ENDED 31 DECEMBER 2017

	<i>Notes</i>	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
CONTINUING OPERATIONS			
REVENUE	4	414,405	340,996
Cost of sales		(186,905)	(177,409)
Gross profit		227,500	163,587
Other income and gains	4	128,347	60,859
Selling and distribution expenses		(3,640)	(3,174)
Administrative expenses		(58,117)	(59,929)
Other expenses		(4,580)	(12,365)
Finance costs	5	(39,554)	(36,089)
PROFIT BEFORE TAX	6	249,956	112,889
Income tax expense	7	(16,634)	(2,358)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		233,322	110,531
DISCONTINUED OPERATION			
Profit for the year from discontinued operations		–	1,666
PROFIT FOR THE YEAR		233,322	112,197
Attributable to:			
Owners of the parent		233,368	111,755
Non-controlling interests		(46)	442
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic (<i>RMB</i>)			
– For profit for the year		0.17	0.10
Diluted (<i>RMB</i>)			
– For profit for the year		0.17	0.10

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
YEAR ENDED 31 DECEMBER 2017

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
PROFIT FOR THE YEAR	<u>233,322</u>	<u>112,197</u>
OTHER COMPREHENSIVE LOSS		
OTHER COMPREHENSIVE LOSS NOT TO BE RECLASSIFIED TO PROFIT OR LOSS IN SUBSEQUENT PERIODS		
Exchange differences on translation of foreign operations	<u>(20,384)</u>	<u>(15,594)</u>
Net other comprehensive loss not to be reclassified to profit or loss in subsequent periods	(20,384)	(15,594)
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX	<u>(20,384)</u>	<u>(15,594)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>212,938</u>	<u>96,603</u>
Attributable to:		
Owners of the parent	212,984	96,161
Non-controlling interests	<u>(46)</u>	<u>442</u>

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

31 DECEMBER 2017

	<i>Notes</i>	2017 RMB'000	2016 <i>RMB'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment		985,301	867,240
Investment properties		47,331	31,817
Prepaid land lease payments		96,910	99,173
Other intangible assets		11,127	8,318
Other non-current assets	<i>10</i>	1,185,973	720,585
Total non-current assets		2,326,642	1,727,133
CURRENT ASSETS			
Prepayments, deposits and other receivables	<i>11</i>	88,666	50,516
Pledged deposits		30,000	52,749
Cash and cash equivalents		118,648	178,785
Other current assets		5,947	3,415
Total current assets		243,261	285,465
CURRENT LIABILITIES			
Deferred revenue	<i>12</i>	249,599	217,047
Other payables and accruals	<i>13</i>	192,983	240,262
Interest-bearing bank and other borrowings		207,819	102,500
Deferred income		4,088	2,122
Tax payable		13,507	1,511
Total current liabilities		667,996	563,442
NET CURRENT LIABILITIES		(424,735)	(277,977)
TOTAL ASSETS LESS CURRENT LIABILITIES		1,901,907	1,449,156

	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
NON-CURRENT LIABILITIES		
Interest-bearing bank and other borrowings	144,440	476,128
Deferred income	28,637	30,512
Deferred tax liabilities	3,975	–
	<hr/>	<hr/>
Total non-current liabilities	177,052	506,640
	<hr/>	<hr/>
Net assets	1,724,855	942,516
	<hr/> <hr/>	<hr/> <hr/>
EQUITY		
Equity attributable to owners of the parent		
Share capital	983	–
Reserves	1,723,872	888,169
	<hr/>	<hr/>
	1,724,855	888,169
Non-controlling interests	–	54,347
	<hr/>	<hr/>
Total equity	1,724,855	942,516
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NOTES TO FINANCIAL STATEMENTS

31 DECEMBER 2017

1. CORPORATE INFORMATION

The Company was incorporated as an exempted company with limited liability under the Companies Law of the Cayman Islands on 8 July 2016. The registered office address of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The Company was listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 19 April 2017.

The Company is an investment holding company. During the year, the Company and its subsidiaries (collectively referred to as the “Group”) were principally engaged in rendering private education services in the People’s Republic of China (the “PRC”).

2.1 BASIS OF PREPARATION

The financial statements has been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The financial statements have been prepared under the historical cost convention. These financial statements are presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand except when otherwise indicated.

The Group recorded net current liabilities of RMB424,735,000 as at 31 December 2017 (2016: RMB277,977,000).

In view of the net current liabilities position, the Directors have given careful consideration to the future liquidity and performance of the Group and its available sources of finance in assessing whether the Group will have sufficient financial resources to continue as a going concern.

Having considered the cash inflow from operations, the Directors are satisfied that the Group is able to meet in full its financial obligations as they fall due for the foreseeable future. To mitigate any liquidity issues that might be faced by the Group, the Group has obtained adequate banking facilities from reputable financial institutions to meet its obligations as and when they fall due.

Accordingly, the Directors are of the opinion that it is appropriate to prepare the financial statements on a going concern basis. Should the Group be unable to operate as a going concern, adjustments would have to be made to write down the value of assets to their recoverable amounts, and to provide for any further liabilities which might arise. The effect of these adjustments has not been reflected in the financial statements.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has applied, for the first time, the following amendments to Hong Kong Accounting Standards (“HKASs”) issued by the HKICPA that are relevant for the preparation of the Group’s consolidated financial statements:

Amendments to HKAS 7	<i>Disclosure Initiative</i>
Amendments to HKAS 12	<i>Recognition of Deferred Tax Assets for Unrealised Losses</i>
Amendments to HKFRS 12 included in <i>Annual Improvements to HKFRSs 2014-2016 Cycle</i>	<i>Disclosure of Interests in Other Entities: Clarification of the Scope of HKFRS 12</i>

None of the above amendments to HKFRSs has had a significant financial effect on these financial statements. Disclosure has been made to the financial statements upon the adoption of amendments to HKAS 7, which require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

3. OPERATING SEGMENT INFORMATION

The Group is principally engaged in the provision of education services in the PRC.

HKFRS 8 *Operating Segments* requires operating segments to be identified on the basis of internal reporting about components of the Group that are regularly reviewed by the chief operating decision-maker in order to allocate resources to segments and to assess their performance. The information reported to the directors of the Company, who are the chief operating decision-makers, for the purpose of resource allocation and assessment of performance does not contain discrete operating segment financial information and the directors reviewed the financial results of the Group as a whole. Therefore, no further information about the operating segment is presented.

Geographical information

During the year, the Group operated within one geographical location because all of its revenue was generated in the PRC and all of its long-term assets/capital expenditure were located/incurred in the PRC. Accordingly, no geographical information is presented.

Information about major customers

No revenue from sales to a single customer amounted to 10% or more of the total revenue of the Group during the year.

4. REVENUE, OTHER INCOME AND GAINS

Revenue represents the values of services rendered during the year.

An analysis of revenue, other income and gains from continuing operations is as follows:

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Revenue		
Tuition fees	380,711	310,678
Boarding fees	33,694	30,318
	<u>414,405</u>	<u>340,996</u>
Other income and gains		
Service income*	84,931	45,965
Rental income	10,456	6,436
Foreign exchange gains, net	22,306	–
Government grants	6,595	2,917
Interest income	2,808	1,415
Investment income	–	2,875
Gain on disposal of subsidiaries	–	758
Others	1,251	493
	<u>128,347</u>	<u>60,859</u>

* *Service income for the year ended 31 December 2017 included service fee recognised under the exclusive technical service and management consultancy agreement between the Harbin Huade University (“Northeast School”) and a subsidiary of the Group amounting to RMB30.3 million (2016: RMB13.5 million), and service fee recognised under the exclusive technical service and management consultancy agreement between Science and Technology College of Hubei Minzu University (“Central China School”) and a subsidiary of the Group amounting to RMB13.6 million (2016: Nil).*

5. FINANCE COSTS

An analysis of finance costs from continuing operations is as follows:

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Interest on bank loans	43,197	41,362
Interest on finance lease	–	2,497
	<hr/>	<hr/>
Total interest expense on financial liabilities not at fair value through profit or loss	43,197	43,859
Less: Interest capitalised	(3,643)	(7,770)
	<hr/>	<hr/>
	39,554	36,089
	<hr/> <hr/>	<hr/> <hr/>

6. PROFIT BEFORE TAX

The Group's profit before tax from continuing operations is arrived at after charging/(crediting):

	<i>Note</i>	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Employee benefit expense (excluding directors' and chief executive's remuneration):			
Wages and salaries		129,997	128,177
Pension scheme contributions (defined contribution plan)		15,333	14,866
		<hr/>	<hr/>
		145,330	143,043
		<hr/>	<hr/>
Depreciation of items of property, plant and equipment		32,374	33,259
Depreciation of investment properties		906	904
Amortisation of prepaid land lease payments		2,263	2,251
Amortisation of software*		2,448	1,595
Rental income	4	(10,456)	(6,436)
Minimum lease payments under operating leases		5,075	4,596
Interest income	4	(2,808)	(1,415)
Provision for prepayments, deposits and other receivables		167	496
Gain on disposal of items of property, plant and equipment		–	(125)
		<hr/> <hr/>	<hr/> <hr/>

* The amortisation of software during the year is included in "Cost of sales" in the consolidated statement of profit or loss.

7. INCOME TAX

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

No provision for Hong Kong profits tax has been made as the Group had no assessable profits derived from or earned in Hong Kong during the year.

According to the Implementation Rules for the Law for Promoting Private Education (“Implementation Rules”), private schools, whether requiring reasonable returns or not, may enjoy preferential tax treatment. The Implementing Rules provide that the private schools for which the sponsors do not require reasonable returns are eligible to enjoy the same preferential tax treatment as public schools, and relevant authorities under the State Council may introduce preferential tax treatments and related policies applicable to private schools requiring reasonable returns. To date, however, no separate policies, regulations or rules have been introduced by the authorities in this regard. In accordance with the historical tax returns filed to the relevant tax authorities and the confirmation obtained therefrom, the Guizhou School and the Yunnan School have historically enjoyed preferential tax treatment since their establishment.

Based on the confirmations from the local tax bureaus and the local offices of the State Administration of Taxation, there was no corporate income tax imposed on the income from the provision of formal educational services of the Guizhou School and the Yunnan School. As a result, no income tax expense was recognised for the income from the provision of formal educational services during the year.

The corporate income tax rate for Huihuang Company is 15% based on the relevant tax regulations of Tibet Autonomous Region. The Tibet local government has exempted 40% of corporate income tax payable from enterprises in Tibet Autonomous Region for a period of three years commencing from 1 January 2015 to 31 December 2017. Therefore the effective corporate income tax rate of 9% applicable for Huihuang Company for the last three years will be returned to 15% beginning in 2018 when the three year preferential tax exemption expires.

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

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

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Current income tax – Mainland China	12,659	2,358
Deferred tax	3,975	–
	<hr/>	<hr/>
Total tax charge for the year	16,634	2,358
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8. DIVIDENDS

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Interim – RMB0.021 (2016: Nil) per ordinary share	30,053	–
Proposed final – RMB0.025 (2016: Nil) per ordinary share	35,778	–
	<hr/>	<hr/>
	65,831	–
	<hr/> <hr/>	<hr/> <hr/>

The proposed final dividend for the year is subject to the approval of the Company’s shareholders at the forthcoming annual general meeting.

9. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 1,347,619,167 (2016: 1,144,870,459) in issue during the year.

The calculation of diluted earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

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

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Earnings		
Profit attributable to ordinary equity holders of the parent	<u>233,368</u>	<u>111,755</u>
	2017	2016
Shares		
Weighted average number of ordinary shares in issue during the year	<u>1,347,619,167</u>	<u>1,144,870,459</u>
Earnings per share		
Basic and Diluted (<i>RMB</i>)	<u>0.17</u>	<u>0.10</u>

10. OTHER NON-CURRENT ASSETS

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Prepayment for investments (<i>note (i)</i>)	1,019,667	679,571
Prepayment for land use rights	155,130	40,000
Prepayment for other intangible assets	1,659	797
Prepayment for property, plant and equipment	<u>9,517</u>	<u>217</u>
	<u>1,185,973</u>	<u>720,585</u>

Note (i): The amount represents the down payment for investments and acquisition of new schools, of which RMB331,865,000 is the down payment for acquisition of Northeast School, RMB587,802,000 is the down payment for investment on Central China School and RMB100,000,000 is the down payment for acquisition of Xinjiang Institute of Finance and Economics.

11. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Prepaid rent and other prepaid expenses	2,541	9,442
Advance and other receivables	69,742	24,352
Staff advances	757	755
Deposits and other miscellaneous receivables	15,626	15,967
	<u>88,666</u>	<u>50,516</u>

The amounts are interest-free and are not secured with collateral.

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

12. DEFERRED REVENUE

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Tuition fees	224,629	195,718
Boarding fees	24,970	21,329
	<u>249,599</u>	<u>217,047</u>

The students are entitled to the refund of the payments in relation to the proportionate services not yet provided.

13. OTHER PAYABLES AND ACCRUALS

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Payables for purchase of property, plant and equipment	19,029	32,286
Accrued bonus and social insurance	42,380	46,179
Miscellaneous expenses received from students (<i>Note (i)</i>)	63,016	67,524
Other payables	64,014	86,146
Accrued expenses	4,544	8,127
	<u>192,983</u>	<u>240,262</u>

The above balances are unsecured and non-interest-bearing. The carrying amount of other payables and accruals at the end of the year approximated to their fair value due to their short term maturity.

Note (i): The amount represents the miscellaneous expenses received from students which will be paid out on behalf of students.

14. EVENTS AFTER THE REPORTING PERIOD

- (1) On 27 December 2017, Beijing Daai Consulting, a wholly-owned subsidiary of the Group, agreed to acquire an aggregate equity interest of 56% in Xinjiang Siyuan Education Investment Co., Ltd., sponsor of Xinjiang Institute of Finance and Economics, at a consideration of RMB183,275,680. Beijing Daai Consulting also agreed to grant a loan of RMB40,724,320 to the college to settle its shareholder's loan. As at the date of report, the share transfer of Xinjiang Siyuan Education Investment Co., Ltd. is not yet completed, and board of directors of Xinjiang Institute of Finance and Economics are not yet re-elected.
- (2) On 4 January 2018, Lanbo Company entered into a land use right transfer agreement with the Department of Land and Resources of Lanzhou, pursuant to which Lanbo Company would acquire a state-owned land use right in respect of a piece of land at a consideration of RMB165,670,000 by a successful bidding. The Land covers a total site area of approximately 390,605.60 square metres and is situated within Lanzhou New Development Zone, Gansu Province, PRC. The Group currently plans to construct certain school buildings on the Land for the establishment of Northwest Technology and Business Institute ("Northwest School") and expects the operation of Northwest School to be commenced in the financial year of 2019 including the enrolment of the first batch of students in September 2019.
- (3) On 8 January 2018, Beijing Daai Consulting, a wholly-owned subsidiary of the Group, entered into a cooperation agreement with Mr. Rong, Ms. Kong and Henan Rongyu Education Consulting Co., Ltd. ("Henan Rongyu"). In accordance with the cooperation agreement, upon closing of the transaction, the sponsor interest in Luoyang Science and Technology Vocational College ("Henan School"), a private higher education institution providing junior college education, will be wholly owned by Henan Rongyu. Then Beijing Daai Consulting will acquire 55% equity interest in Henan Rongyu at a consideration of RMB101,500,000. Upon the completion of the transaction, Beijing Daai Consulting shall contribute RMB223,000,000 to Henan Rongyu for the preliminary construction costs for phase two construction of Henan School. Upon the commencement of phase two construction of Henan School, Beijing Daai Consulting shall further contribute RMB71,000,000 to Henan School for its further construction and further development. As at the date of report, the relevant application to transfer the school sponsorship from the current school sponsors to Henan Rongyu is pending the final approval of the provincial department of education and the registration with the provincial civil affairs authorities.
- (4) As previously reported, during the year ended 31 December 2016, through a series of agreements entered into in January, April and July 2016, Haxuan Company, subsidiary of the Group, agreed to acquire the sole sponsorship interest in the Northeast School from the current school sponsors, which are independent third parties, at a total consideration of RMB381.9 million. As of 12 December 2017, the Group has paid RMB331.9 million as down payment as disclosed in the Note 10. As at the date of report, the relevant application to transfer the school sponsorship from the current school sponsors to Haxuan Company is pending the final approval of the provincial department of education and the registration with the provincial civil affairs authorities.
- (5) On 22 February 2018, the Company entered into a loan facility agreement with a consortium of three banks, pursuant to which a 5-year term loan facility in the initial principal amount of HKD500 million with a greenshoe facility amount of up to HKD1,000 million was made available to the Group. The facility agreement contains provisions which require certain specific performance obligations on the controlling shareholder of the Company, including requiring the controlling shareholder of the Company to avoid series of events of default as stated in the facility agreement.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Position

The Group commissioned China Insights Industry Consultancy Limited (“CIC”), an industry consulting company to conduct an industry research, and the results of the research report are as follows:

1. The Group is a listed private higher education services provider with leading employment rate.

The graduate employment rate of the Group for 2017 reached 98.1%, which makes us a leading position among listed peers, based on the information as publicly disclosed by the listed peers.

2. The Group is a listed higher private education services provider with fastest growing number of enrolled students in terms of the CAGR (Compound Annual Growth Rate) of total student enrollment from 2013 to 2017 for the schools of the Group.

As at the end of 2013, the Group had two self-established schools, namely Yunnan School and Guizhou School, with total student enrollment of 18,590. The CAGR for the total student enrollment of the two self-established schools from 31 December 2013 to 31 December 2017 was 20.5%, representing the fastest growing among the listed peers.

By 31 December 2017, we owned and invested in Yunnan School, Guizhou School, Northeast School, Central China School and Xinjiang School, with the total student enrollment of 58,036.

3. The Group is a listed private higher education services provider with highest region penetration rate in recent three years.

From 2015 to 2017, through acquisition and establishment of our own schools, the Group stepped foot into four provinces including Hubei, Heilongjiang, Gansu and Xinjiang Uygur Autonomous Region, which marks the highest region penetration in recent three years among the listed peers. The Group also started to deploy footprint in Henan Province in January 2018 by agreeing to acquire Henan School.

4. A leading position in the private higher education market where the Group has business as measured by number of students enrolled in the relevant provinces.

For 2017/2018 academic year, in terms of number of students enrolled, Yunnan School of the Group occupies top one in private higher education market in Yunnan Province, same as Guizhou School in Guizhou Province.

Features of applied sciences

As a private higher education provider focusing on applied sciences, the Group strives to provide high quality higher education in a wide selection of fields in applied sciences. Our course offerings are designed to equip students with practical experience and readily applicable skills and prepare them for the job market. Meanwhile, the Group will adjust its course offerings from time to time to meet changing market demand. As a result, we outperformed our industry peers in terms of industry-leading graduate employment rates. Each of the Group's schools has gained wide recognition in the region where it is located and continues to attract students and quality teachers.

Market demand for talents with practical experience and readily applicable technical skills will continue to grow. The Group believes there is significant market potential for the growth of private higher education in the PRC. In light of this industry background, as a private provider of higher education focusing on applied sciences, the Group is well-positioned to capture on the growth opportunities in the PRC higher education sector.

Overview

During the year ended 31 December 2017, the Group operated and invested in five higher education institutions in the PRC, including Yunnan School and Guizhou School founded by the Group, and Northeast School, Central China School and Xinjiang School invested by the Group. Further, the Group agreed to acquire Henan School in January 2018. The Group is a leading private higher education group in the PRC in terms of employment rate in 2017 according to the CIC Report. In addition, we are under application to establish the California School in US as at the date of this announcement.

Our schools, schools to be established, schools to be invested in the PRC and educational curriculums

The Group endeavors to help each student maximize his or her potential and live his or her life to the fullest. The Group's fundamental educational philosophy is mainly composed of two integral parts: (i) to nurture the growth of our students, and provide tailor-made education to each student's individual needs and circumstances; and (ii) to equip our students with practical and readily applicable skills that meet market demand.

Our Schools

Yunnan School

Located in Songming County, Kunming City, Yunnan Province, the predecessor of Yunnan School, Software College was established in 2005 and was successfully upgraded in 2011 with qualification to grant bachelor's degrees. It is now a formal higher education institution providing undergraduate education and junior college education focused on applied sciences. Yunnan school has a site area of approximately 535,800 sq.m., including classroom buildings, student dormitory buildings, teacher dormitory building, simulation training building and other facilities such as library and dining halls. Yunnan School currently offers over 50 majors in six colleges with students mostly enrolled from Yunnan Province and other provinces of Southwest China (such as Guizhou, Sichuan and Chongqing).

Guizhou School

Located in Qingzhen City, Guiyang City, Guizhou Province, Guizhou School is a formal higher education institution established in 2012. It provides junior college education focused on applied sciences. The school has a site area of approximately 284,850 sq.m., including classroom buildings, student dormitory buildings, teacher dormitory building, simulation training building and other facilities such as library and dining halls. Guizhou School currently offers approximately 30 majors in six colleges with students mostly enrolled from Guizhou Province and other provinces of Southwest China (such as Yunnan, Sichuan and Chongqing).

Schools to be invested

Northeast School

Located in Harbin, Heilongjiang Province, Northeast School is an independent institute established in 2004 under the laws of the PRC. Northeast School is a private institution of formal higher education focused on applied sciences, providing undergraduate education and junior college education focused on applied sciences. Northeast School has a site area of approximately 623,000 sq.m. and currently offers over 30 undergraduate and junior college majors in ten colleges.

On 20 April 2016, Haxuan Company, one of the Company's subsidiaries, entered into an agreement with the current school sponsors of Northeast School, pursuant to which Haxuan Company agreed to acquire the entire school sponsor's interest of Northeast School. As of 31 December 2017, the application to transfer the school sponsorship from the current school sponsors to Haxuan Company is pending the final approval of MOE and the registration with the provincial civil affairs authorities. Upon the completion of the approval and the entering into of the structured contracts, Northeast School's results of operations will be consolidated into the Group's results of operations. According to the Implemental Rules on Private School Registration (民辦學校分類登記實施細則) promulgated on 30 December 2016, MOE has designated the education bureau at the provincial level to approve the change of the school sponsor of the private schools that provide higher education. The Company will follow up closely with the department of education in Heilongjiang Province in this regard.

On 1 September 2016, Northeast School and Huihuang Company entered into an exclusive technical service and education consultancy service agreement, pursuant to which, Huihuang Company agreed to provide technology and management consulting services to Northeast School prior to the transfer of the school sponsorship from the current school sponsors of Northeast School to Haxuan Company and, in return, Northeast School would pay 73.91% of its surplus from operations on a monthly basis to Huihuang Company as service fees during the term of this agreement.

Central China School

Located in Enshi City, Hubei Province, Central China School is an institution of formal higher education established in 2003 under the laws of the PRC.

Enchang Company, one of the Company's subsidiaries, entered into a cooperation agreement with Minzu College to establish the new campus of Central China School in August 2015. As of 31 December 2017, the application to make Enchang Company as a joint school sponsor of Central China School is pending the final approval of MOE and the registration with the provincial civil affairs authorities. Upon its completion, Enchang Company will become a joint school sponsor of Central China School and the results of the Central China School will then be included into our results. As disclosed above, due to the promulgation of Implemental Rules on Private School Registration (民辦學校分類登記實施細則), the Company will follow up closely with the department of education in Hubei Province in relation to the change of school sponsor of the Central China School.

On 15 May 2017, Huihuang Company and Central China School entered into an exclusive technical service and education consultancy service agreement, pursuant to which, Huihuang Company agreed to provide technology and management consulting services to Central China School prior to the approval of the change to the school sponsorship of Central China School and, in return, starting from 1 January 2017, Central China School would pay 100% of its surplus from operations on a yearly basis to Huihuang Company as service fees.

Xinjiang School

Located in Xinjiang Uygur Autonomous Region, Xinjiang School is a private institution of formal higher education established in 2003 under the laws of the PRC.

The school is principally engaged in private higher education in Xinjiang which offers undergraduate education. The school obtained the approval to grant bachelor's degrees and is allowed to recruit students for 4 academic years, while Xinjiang School only began to recruit students for the 2016/2017 and the 2017/2018 academic years.

On 27 December 2017, Beijing Daai Consulting, a wholly owned subsidiary of Yun Ai Group, agreed to acquire an aggregate of 56% equity interest of Xinjiang School Sponsor. Upon closing of the acquisition, Xinjiang School Sponsor will be held as to 56% by Beijing Daai Consulting and as to 44% by an independent third party. Beijing Daai Consulting, Xinjiang School and Xinjiang Siyuan Education Investment Co., Ltd. (新疆思源教育投资有限公司) will enter into the structured contracts with Huihuang Company, the terms and conditions of which shall be the same as the existing structured contracts in all material aspects, after which each of the Xinjiang School Sponsor and Xinjiang School will be treated as a consolidated affiliated entity of the Company and the Xinjiang School's results of operations will be consolidated into the Group's results of operations. The Company will publish further announcement(s) according to the Listing Rules and HKEx-GL77-14 upon closing of the acquisition.

Henan School

Located in Luoyang, Henan Province, Henan School is a private institution of formal higher education established under the laws of the PRC in 2003.

Henan School has 9 secondary institutions and 21 higher level vocational majors, focusing on electronic commerce, software technology, Internet of things application technology, etc..

On 8 January 2018, Beijing Daai Consulting, a wholly owned subsidiary of Yun Ai Group, agreed to acquire 55% school sponsor interest of Henan School. Upon closing of the acquisition, the sponsor interest of Henan School will be wholly owned by Henan Rongyu and Henan Rongyu will be held as to 55% by Beijing Daai Consulting, as to 45% by Mr. Rong and Ms. Kong. Among others, Henan Rongyu and Henan School will enter into the structured contracts with Huihuang Company, the terms and conditions of which shall be the same as the existing structured contracts in all material aspects, after which each of Henan Rongyu and Henan School will be treated as a consolidated affiliated entity of the Company and Henan School's results of operations will be consolidated into the Group's results of operations. The Company will publish further announcement(s) according to the Listing Rules and HKEx-GL77-14 upon closing of the acquisition.

School to be established

Northwest School

On 4 January 2018, the Group acquired the state-owned land use right in respect of the land situated within the Lanzhou New Development Zone, Gansu Province, the PRC by a successful bidding. The land covers a total site area of approximately 390,605.60 sq.m.

Number of enrolled students

In order to be admitted for higher education, a student must pass and attain certain scores in China's National Higher Education Entrance Examination. Being institutions providing higher education services, the respective education authorities will specify a quota for the number of new students that each of the Group's schools may admit each year.

The Group believes the educational philosophies of its schools and its well-developed curriculums as well as its high graduate employment rates help the Group to attract high-quality students who are seeking a pathway to satisfactory employment. Moreover, the quality faculty team is also a major factor that has played in the past, and will continue to play in the future, an important role in the success of the schools.

Schools	Number of Enrolled Students	
	Academic Year ^{Note (6)}	
	2017/2018	2016/2017
Yunnan School	23,642	19,490
Four-year undergraduate program	8,891	8,568
Three-year junior college program	12,958	10,922
Other programs ^{Note (1)}	1,793	–
Guizhou School	15,584	13,972
Three-year junior college program	15,584	13,972
Northeast School ^{Note (2)}	9,355	9,518
Four-year undergraduate program	9,224	9,232
Three-year junior college program	131	286
Central China School ^{Note (3)}	5,709	3,480
Four-year undergraduate program	4,328	2,308
Three-year junior college program	1,070	506
Pre-undergraduate program	311	666
Xinjiang School ^{Note (4)}	3,746	–
Four-year undergraduate program	3,746	–
Total	58,036	46,460
Henan School (invested in January 2018) ^{Note (5)}	18,243	–
Total	76,279	46,460

Notes:

- (1) Other programs refer to the five-year college programs. Yunnan School developed the five-year college programs in 2017-2018 academic year. Those students will commence their study in partner schools during the first and second academic years and will commence their study in Yunnan School and pay tuition fees to Yunnan School from September 2019 onwards.
- (2) The acquisition of Northeast School by the Group is still pending MOE approval and registration with the provincial civil affairs authorities.
- (3) The investment in Central China School by the Group is still pending MOE approval and registration with the provincial civil affairs authorities.
- (4) The acquisition of Xinjiang School is still pending approval by provincial education authorities and registration with the provincial civil affairs authorities.
- (5) The acquisition of Henan School is still pending approval by provincial education authorities and registration with the provincial civil affairs authorities.
- (6) An academic year generally starts from September 1 of each calendar year to August 31 of the following calendar year.

Graduate employment rate

As a private higher education provider focused on applied sciences, the Group uses graduate employment rate as an important criterion to measure the teaching results. The Group believes that its industry-leading graduate employment rate help to enhance its reputation and attract talented high school graduates, while at the same time facilitate the Group's acquisitions of other schools in the PRC.

Schools	Graduate Employment Rate As of 31 December	
	2017	2016
Yunnan School	98.8%	98.8%
Guizhou School	97.2%	97.6%
Average	98.1%	98.3%

* Graduate employment rate is defined as a rate calculated by dividing the number of students who find employment within six months after their graduation (including students who find employment in business entities, start own businesses or pursue further studies) by the total number of students graduated from the school for the relevant academic year.

* Average employment rate is calculated by dividing the total number of students employed by total number of students graduated.

Revenue

The Group's revenue from continuing operations refers to tuition fees and boarding fees we charge by person. The Group usually requires students to pay tuition fees and boarding fees at the beginning of each new academic year. The tuition fees are mainly determined based on the demand for the educational programs, cost of operations, the geographic markets where the Group operates its schools, the tuition fees charged by same type of schools, the pricing strategy to gain market share and general economic conditions in China and the areas where the Group's schools are located.

Other income and gains includes service income (including service fee recognized under the exclusive technical service and education consultancy service agreement between Northeast School and Huihuang Company and under the exclusive technical service and education consultancy service agreement between Central China School and Huihuang Company, respectively), rental income, government grants and others.

	Revenue (RMB million)		
	Year ended 31 December		
	2017	2016	Change
Tuition fees			
Yunnan School	249.4	201.2	+24.0%
Guizhou School	131.3	109.5	+19.9%
Total tuition fees	<u>380.7</u>	<u>310.7</u>	<u>+22.5%</u>
Boarding fees	<u>33.7</u>	<u>30.3</u>	<u>+11.2%</u>
Other income and gains	<u>128.4</u>	<u>60.9</u>	<u>+110.8%</u>
Total	<u>542.8</u>	<u>401.9</u>	<u>+35.1%</u>

Revenue from management service

The revenue from management service of the Group, which is included in other income and gains, increased by 225.2% from RMB13.5 million for the year ended 31 December 2016 to RMB43.9 million for the year ended 31 December 2017. Such increase was mainly attributable to the increase in management service fees charged by Northeast School by 124.4% to RMB30.3 million for the year ended 31 December 2017, and the management service fees of RMB13.6 million charged by Central China School. Upon the approval by the educational authorities and the completion of registration with the provincial civil affairs authorities, all financials will be consolidated to the Group, including the revenue, and the current management fee arrangement will be terminated.

Teachers

The Group believes the quality of education is largely dependent on the quality of teachers. The Group primarily seeks to recruit (i) high quality experienced teachers who are knowledgeable in both theory and practice; (ii) teachers who have working experience in relevant industries, such as experienced accountants, engineers and managers; and (iii) teachers who hold relevant professional qualifications or credentials. In its recruitment efforts, the Group also places a strong emphasis on strong communication skills and a passion for teaching.

	Number of teachers in Yunnan School and Guizhou School As of 31 December	
	2017	2016
Teachers		
Full-time teachers	1,103	1,093
Part-time teachers	592	403
Total	1,695	1,496

Operation highlights of the Group

The Group has presented some new highlights and features in its operation:

1. In 2017, the Group had five higher education institutions which are self-established and invested with the total number of students exceeding 58,000. As of January 2018, the Group announced to invest in Henan School.
2. Yunnan School was approved to increase its admission quota by double. The education department of Yunnan Province has approved to increase the scale of student enrollment of Yunnan School to 44,000 during the “13th Five-Year Plan” period.
3. Enhancing the experience of enrolled students. We implement transformation and upgrade of the school environment of Yunnan School and Guizhou School. Yunnan School newly constructed the phase III business district, upgraded canteen and dormitory and established various activity space to meet the daily studying and living requirements of students. The school carries out the environment-based education and improves campus green environment. Guizhou School built a fully functional and provincially-advanced nursing simulation training room with an area of more than 5,000 sq.m..

4. Improving teaching quality. The Group has concentrated resources on developing state-level advantageous majors, provincial-level key majors and school-level key majors for Yunnan School and Guizhou School. The Group has also introduced emerging majors such as internet-of-things application technology, internet finance, cloud computing technology etc. The Group has further expanded the application of college of excellence model, increased the number of classes and majors. The Group has also optimized the motivational education as well as the O2O Teaching Mode, such as inviting honored scholar Professor Yu Dan and other renowned lecturers to participate in teaching our courses, with an aim to improve teaching quality and students' learning experience.
5. Brand marketing. Yunnan School successfully held the inaugural meetings of Information Technology Professional Society of National Applied Technology University Association (全國應用技術大學(學院)聯盟資訊技術專業協作會), Non-Government Education Committee of the China Education Development Strategy Association (中國教育發展戰略學會民辦教育專委會) and other important events. The school made its own voice heard in the field of vocational education and private education, which gained recognition and respect from the same industry. At the same time, the Entrepreneurship Development Arena of Yunnan School has officially become a national Entrepreneurship Development Arena. The school was also rated as the only 5A social organization among the private higher education institutions in Yunnan Province.
6. Establishing an intelligent and safe campus. Put online "paperless" examinations, and the development of all functions of the online examination system has been completed, which improved teaching management efficiency. Yunnan School rolled out the first "Safe Campus Intelligent Management Platform" (平安校園智慧管理平臺) in Yunnan Province, aiming to promote campus safety management in an all-round way through intelligent information system.

Improve the Quality of Employment

Apart from employment rate, the Group also focuses on professional counterpart rate, employment rate in renowned enterprises and graduates starting salaries and regards them as the indexes in measuring employment quality. In 2017, Yunnan School and Guizhou School jointly held several campus special recruitment sessions and large-scale campus job fairs for graduates, showing the Group's relentless efforts in promoting high-quality employment of graduates through different channels. The Group keeps close cooperation with various chambers of commerce and industrial associations of different provinces, forming a school-enterprise linkage.

In recent years, the number of graduates from Yunnan School going to Korea and Thailand to take up paid internship and serve as international Chinese teachers is increasing year by year.

For entrepreneurship, Yunnan School has successfully upgraded and revamped the “Entrepreneur Development Arena of Yunnan School” to provide entrepreneurs an arena to start their own business and generate the effect of promoting employment through business startups with the low-cost, convenient and all-important entrepreneurial service platform.

Optimize and Adjust the Structure of Majors

The Group actively adjusts the structures of majors to meet the economic and social development needs. In order to proactively meet the demands of the economic development in the location and economic circle they belong to, we adjust the structure of majors and keep on perfecting the training scheme to actively serve its regional economic development. For instance, Yunnan School has formed the discipline and major structure with economics and management science as the dominant features, engineering and education as the key majors and coordinated development of multidisciplinary.

Guizhou School is determined to apply for teaching the preschool education, urban rail transit engineering technology, big data technology and application, electrical automation technology, new energy vehicle technology and care (such as oral care direction) and other majors in 2018, and restart the teaching of tourism management as a major.

Construction of College of Excellence

The Group established a secondary college, the college of excellence, at both Yunnan School and Guizhou School to provide our students with a full term of modern apprenticeship training during their final academic year. This model is taking reference to the case study method adopted at Harvard University and the dual education system widely adopted in Germany, aiming to equip our students with practical work skills required for specific job positions and help them find satisfactory employment.

As of 31 December 2017, 1,211 students had participated in our apprenticeship training, including 723 students from Yunnan School and 488 students from Guizhou School. As of 31 December 2017, the starting salary of the 2017 fresh graduates from the college of excellence at Yunnan School is RMB5,601 per month, which is way above market standard, and its employment rate is 100%.

Cooperation with Overseas Schools

In order to provide our students with necessary exposure to various cultures and opportunities to seek education overseas, Yunnan School has established academic cooperation with several overseas universities, including University of Worcester in the UK (英國伍斯特大學), University of Northampton in the UK (英國北安普頓大學) and the Dhurakij Pundit University in Thailand (泰國博仁大學). Under the cooperation, these overseas universities will recognize the credits obtained by students for their study at Yunnan School. Upon completing the agreed additional term of study (typically one year) at these overseas universities, these students are able to obtain the degree granted by these overseas universities. The cooperation is confined to students studying for specified majors.

In addition, Yunnan School entered into cooperative arrangements with Nanhua University (台灣南華大學) in Taiwan in 2013 and Overseas Chinese University (台灣僑光科技大學) in Taiwan in 2014 respectively for a term of five years regarding students exchange programs. Yunnan School also entered into a cooperative agreement with the Korea University of Technology and Education in South Korea (韓國技術教育大學) in January 2014 regarding student exchange programs. In 2017, Yunnan School achieved breakthroughs in international cooperation as Panyapiwat Institute of Management, Thailand (泰國正大管理學院) officially set up its graduate office in Yunnan School, which further expand the channels for students to further their studies abroad.

FUTURE PROSPECTS

Development Strategy

Acquisition of Schools

The Group intends to expand its school network and increase its market penetration and its market share in the private higher education sector in the PRC. Specifically, the Group has formed an investment team headed and managed directly by its senior vice president. This investment team is responsible for identifying and evaluating potential acquisition targets across China. The Group has also established an investment and acquisition management committee headed by the chairman of the Board. This committee will periodically review the feasibility of acquisitions and determine which ones to pursue.

The Group intends to expand into western, central and northeastern China where it believes of having significant growth potential because the higher education enrollment rates in these regions are relatively lower than the national average enrollment rates, and, in particular, that of economically more developed regions in the PRC. Following the completion of acquisitions or investments, the Group plans to leverage on its replicable business model to optimize the operations of the acquired or invested schools and rapidly replicate the value-added service revenue model of Yunnan School to increase financial returns.

Increase student enrollments at existing schools

The Group will continue to increase the student enrollments at existing schools. Both Yunnan School and Guizhou School have large areas of reserved land, which could be used for further expansion. Northeast School and Central China School also have large areas of reserved land, in which the Group could develop after both acquisitions are completed.

During the first half of 2017, four blocks of dormitories at Yunnan School were completed and its second simulation training building was also completed in the second half of 2017 to provide students the practical training opportunities. Guizhou School completed the construction of two blocks of dormitories and a simulation training building.

Establish our own schools

The Group will target the areas where the higher education enrollment rates are relatively lower than the national average enrollment rates as the key areas to establish our schools by copying from the successful models of our two self-established schools to our new schools to be established.

Further optimization of sources of revenue and other income

1. Increase in tuition fees and boarding fees

The Group is able to maintain the current tuition rates and raise the tuition rates and recruit more students as its brand awareness and reputation have grown. For instance, with the recognition and support of local education bureau, the number of approved enrolled students of Yunnan School can be increased to 44,000 during the period of the “13th Five-year Plan”.

2. Increase in examination training fees

The Group obtains examination preparation and training fees from the preparation and training courses that it offers for professional qualification examinations and standardized tests. Both of which are expected to increase as the number of students increases.

Strategic plan in respect of talents

The Group will further improve the team building system with an emphasis on pushing ahead with the work in relation to recruitment and training of the teams of management cadres, teachers and students management. The Group has planned and commenced the implementation of projects relating to the introduction of high-end innovative talents and talents specializing in new subjects that are in shortage with a view to facilitating the nurture and development of young talents and enhancing the quality of our talent pool. The Group will adopt long-term incentive schemes such as share option scheme for key personnel of the Group.

The Group intends to continue to attract, incentivize and retain quality teachers and build a first-rate faculty team. To this end, we will step up our efforts in recruiting renowned experts and professors, experienced business administrators and other highly skilled persons. The Group will also provide training to our teachers and staff in various aspects for their improvement.

In addition, the Group plans to continue to offer competitive compensation and benefits to the teachers to attract the most competent talent in the market.

Conclusion

Looking forward, the Group will adhere to the mission of “Promoting Education Development in China Innovatively” and the education tenet of “Nurture the Growth of Our Students, Help Students Become The Best They Can Be”, practice the educational philosophy of “Strengthen Moral Education and Cultivate Talents, Teach Students in Accordance with “Their Aptitude, Apply What One Has Learned”, actively implement the dual drivers in “Talents + Capital” to promote the four strategies of conglomeration, digitization, internationalization and brandization.

FINANCIAL REVIEW

Revenue

The Group’s revenue increased by 21.5% from RMB341.0 million for the year ended 31 December 2016 to RMB414.4 million for the year ended 31 December 2017. This increase was primarily due to (i) increase in tuition fees by 22.5% from RMB310.7 million for the year ended 31 December 2016 to RMB380.7 million for the year ended 31 December 2017, which was attributable to the adjustment of tuition fee rates of newly admitted student by some majors in Guizhou School in 2017 and higher student enrollments in Yunnan School and Guizhou School.

Cost of Sales

Cost of sales of principal business increased by 5.4% from RMB177.4 million for the year ended 31 December 2016 to RMB186.9 million for the year ended 31 December 2017. This increase was relatively primarily due to the Group’s adjustment of compensation system commenced in April 2016 leading to increase in staff costs.

Gross Profit and Gross Profit Margin

Gross profit increased by 39.1% from RMB163.6 million for the year ended 31 December 2016 to RMB227.5 million for the year ended 31 December 2017, which was in line with the growth of the Group's business. The gross profit margin increased to 54.9% for the year ended 31 December 2017 from 48.0% for the year ended 31 December 2016, which was primarily due to the increase in revenue was higher than the increase in costs.

Other Income and Gains

Other income and gains increased by 110.8% from RMB60.9 million for the year ended 31 December 2016 to RMB128.4 million for the year ended 31 December 2017. The increase was primarily due to the increase in management service fees from Northeast School and the commencement of charge management service fees from Central China School in 2017.

Selling and Distribution Expenses

Selling and distribution expenses increased from RMB3.2 million for the year ended 31 December 2016 to RMB3.6 million for the year ended 31 December 2017. This increase was primarily attributable to the Group's intensified promotion for its branding as a listed group and enhanced promotion quality after Listing.

Administrative Expenses

Administrative expenses decreased by 3.0% from RMB59.9 million for the year ended 31 December 2016 to RMB58.1 million for the year ended 31 December 2017, primarily due to the decrease in bank handling fees.

Other Expenses

Other expenses decreased from RMB12.4 million for the year ended 31 December 2016 to RMB4.6 million for the year ended 31 December 2017. The decrease was primarily due to the foreign exchange losses of RMB10.2 million in 2016, as compared to foreign exchange gains recorded in 2017, which was recorded to other income and gains.

Finance Costs

Finance costs increased by 9.7% from RMB36.1 million for the year ended 31 December 2016 to RMB39.6 million for the year ended 31 December 2017, which was mainly due to the increase in interest expenses of the loan granted by the CITIC Bank in the amount of US\$64 million in September 2016. The loan from CITIC Bank was fully repaid on 12 September 2017.

Profit before Tax

As a result of the foregoing, we recognized a profit before income tax of RMB250.0 million for the year ended 31 December 2017, as compared to a profit before income tax of RMB112.9 million for the year ended 31 December 2016, representing an increase of 121.4%.

Income Tax Expense

The Group's income tax expense increased from RMB2.4 million for the year ended 31 December 2016 to RMB16.6 million for the year ended 31 December 2017, which was primarily due to the service fees from Northeast School and Central China School of the Group charged by Huihuang Company, a wholly-owned subsidiary of the Group, the service fees charged from the schools of the Group under the Structured Contracts, and withholding income tax on dividend payout.

Profit From Continuing Operations

As a result of the above factors, the Group recorded a net profit from continuing operations of RMB233.3 million for the year ended 31 December 2017, increased by 111.1% from RMB110.5 million for the year ended 31 December 2016.

Core Net Profit

Core net profit for the year ended 31 December 2017, excluding listing fee, increased by 99.5% to RMB259.4 million as compared with the year ended 31 December 2016.

	Year ended 31 December	
	2017	2016
	<i>RMB million</i>	<i>RMB million</i>
Profit for the year from continuing operations	233.3	110.5
Add:		
Listing expenses	26.1	19.5
Core net profit	259.4	130.0

LIQUIDITY AND CAPITAL RESOURCES

The Group's primary uses of cash are to fund our working capital requirements, purchase of property, plant and equipment and loan repayment and related interest expenses. As at the date of this announcement, the Group has funded its operations principally with the cash generated from our operations, bank borrowings, shareholder contributions and net proceeds from Global Offering. In the future, the Group believes that our liquidity requirements will be satisfied with a combination of cash flows generated from our operating activities, bank loans, other borrowings and other funds raised from the capital markets from time to time. As of 31 December 2017, the Group had cash and cash equivalents of RMB118.6 million.

Cash flow

The following table sets out a summary of our cash flows for the years indicated:

	Year ended 31 December	
	2017	2016
	<i>RMB million</i>	<i>RMB million</i>
Net cash generated from operating activities	287.1	225.1
Net cash used in investing activities	(697.0)	(666.6)
Net cash from financing activities	350.0	537.3
Effect of changes in exchange rate on cash and cash equivalents	(0.3)	–
Cash and cash equivalents at beginning of the year	178.8	83.0
Cash and cash equivalents at the end of the year	118.6	178.8

Cash Flows generated from Operating Activities

The Group generates cash from operating activities primarily from tuition fees and boarding fees. Cash flows from operating activities have reflected (i) profit before tax; (ii) movements in working capital; and (iii) other cash items consisting of income tax paid and interest received.

Cash Flows used in Investing Activities

Investing activities comprise primarily purchases of property, plant and equipment and intangible assets, prepaid land lease payments, proceeds from purchase and disposal of wealth management products, and pledged deposits or withdrawals of pledged time deposits.

Net cash used in investing activities amounted to RMB697.0 million for the year ended 31 December 2017, which had primarily reflected the property, plant and equipment purchased by Yunnan School and Guizhou School, the investment prepayments of Northeast School, and the release of pledged time deposits.

Cash Flows from Financing Activities

Financing activities primarily include borrowing and repaying bank loans, and the fund raised from the Group's listing by way of share offer.

Net cash generated from financing activities amounted to RMB350.0 million for the year ended 31 December 2017, which had primarily reflected the fund being raised from the Group's listing by way of share offer and the net new loans raised.

CAPITAL EXPENDITURES

The Group capital expenditures consisted of purchase or construction costs relating to property, equipment, prepaid land lease payments and other intangible assets. For the year ended 31 December 2017, our capital expenditures were RMB172.1 million. The Group's capital expenditures during the year ended 31 December 2017 were primarily related to the construction of buildings and school facilities at the new campus of Yunnan School, Guizhou School and Central China School, prepaid land lease payments and purchase of equipment and software. The Group financed these capital expenditures primarily using the cash generated from operations and bank loans.

Capital Commitments

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

	As of 31 December 2017 RMB million	As of 31 December 2016 RMB million
Contracted but not provided for:		
Property, plant and equipment	30.9	22.7
Investments	124.0	—
	<u>154.9</u>	<u>22.7</u>

As of 31 December 2017, the Group had no significant capital commitment authorized but not contracted for.

INDEBTEDNESS

Bank Loans and Other Borrowings

The Group's bank loans and other borrowings primarily consisted of short-term working capital loans and long-term project loans for the construction of our school buildings and facilities.

The Group primarily borrows loans from banks to supplement our working capital and finance our expenditure. The bank loans amounted to RMB352.3 million as of 31 December 2017, all denominated in Renminbi. As of 31 December 2017, our bank loans bore effective interest rates ranging from 4.75% to 7.13% per annum.

Contingent Liabilities

As of 31 December 2017, the Group did not have any material contingent liabilities, guarantees or any litigations or claims of material importance, pending or threatened against any member of the Group.

Net Debt to Equity Ratio

Net debt to equity ratio equals total interest-bearing bank loans and other borrowings net of cash and cash equivalents at the end of the year divided by total equity at the end of the year. The Group's net debt to equity ratio decreased from 42.4% as of 31 December 2016 to 13.5% as of 31 December 2017, which was primarily attributable to the cash received from the issue of shares during the Listing.

Gearing Ratio

Gearing ratio equals total debt divided by total equity as of the end of the year. Total debt includes all interest-bearing bank loans and other borrowings. The Group's gearing ratio decreased from 61.4% as of 31 December 2016 to 20.4% as of 31 December 2017, which was primarily due to the Group had applied part of the proceeds from Listing to repay part of the borrowings and the Company's share capital was enlarged as a result of the Listing.

FUTURE PLAN FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

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

SIGNIFICANT INVESTMENTS, ACQUISITIONS AND DISPOSALS

Save as disclosed in this announcement, there were no other significant investments held, no material acquisitions or disposals of subsidiaries, associates and joint ventures during the year, nor was there any plan authorized by the Board for other material investments or additions of capital assets during the year ended 31 December 2017.

FOREIGN EXCHANGE RISK MANAGEMENT

The functional currency of the Group is RMB. The majority of the Group's revenue and expenditures are denominated in RMB. As at 31 December 2017, certain bank balances were denominated in USD and HKD. The Group did not enter into any financial instrument for hedging purpose as it is expected that foreign exchange exposure will not be material.

PLEDGE OF ASSETS

As at 31 December 2017, the Group did not pledge any assets.

HUMAN RESOURCES

As of 31 December 2017, the Group had approximately 2,068 employees (1,824 as of 31 December 2016). As required by the PRC laws and regulations, the Group participates in various employee social security plans for our employees that are administered by local governments, including housing, pension, medical insurance, maternity insurance and unemployment insurance. The Group believe we maintain a good working relationship with our employees, and we have not experienced any material labor disputes during the year ended 31 December 2017.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As of the date of this announcement, the Group had not entered into any off-balance sheet transactions.

PAYMENT OF FINAL DIVIDEND

The Board has resolved to recommend the payment of a final dividend of RMB0.025 per Share for the year ended 31 December 2017. The final dividend will be declared in Renminbi and paid in Hong Kong dollars. The exchange rate adopted for conversion was the average middle exchange rate published by the People's Bank of China of the five business days prior to the declaration of the final dividend (i.e. 14 February 2018 to 27 February 2018) (HK\$1.0 to RMB0.8103). Accordingly, the amount of the final dividend payable in Hong Kong dollars will be approximately HK\$0.0309 per Share.

The final dividend will be paid on or about Thursday, 31 May 2018 to the shareholders whose names appear on the register of members of the Company on Friday, 18 May 2018.

CLOSURE OF THE REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the annual general meeting to be held on Thursday, 10 May 2018, the register of members of the Company will be closed from Monday, 7 May 2018 to Thursday, 10 May 2018, both days inclusive, during which period no transfer of shares will be registered. In order to be qualified for attending and voting at the annual general meeting, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Friday, 4 May 2018.

In order to be qualified for the final dividend, the register of members of the Company will be closed by the Group from Wednesday, 16 May 2018 to Friday, 18 May 2018, both days inclusive, during which period no transfer of shares of the Company will be effected. All share transfer documents accompanied by the relevant share certificates must be lodged with the Group's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Tuesday, 15 May 2018.

CORPORATE GOVERNANCE CODE

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

The Company was listed on 19 April 2017. Since the Listing Date to the date of this announcement, the Company has complied with the Corporate Governance Code.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has also adopted the Model Code set out in Appendix 10 of the Listing Rules as its code of conduct regarding securities transactions by the Directors in March 2017.

Having made specific enquiry with all Directors of the Company, all Directors confirmed that they have complied with the required standard set out in the Model Code regarding directors' securities transactions since the Listing Date and up to the date of this announcement.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2017.

USE OF PROCEEDS

Net proceeds from the Listing (after deducting underwriting fee and relevant expenses) amounted to approximately HK\$733.2 million. As at 31 December 2017, a total amount of HK\$600.1 million out of the net proceeds had been used by the Group according to the allocation set out in the Prospectus.

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

Purpose	Percentage to total amount	Net proceeds HKD (million)	Utilised amount (at 31 December 2017) HKD (million)	Unutilised amount (at 31 December 2017) HKD (million)
Acquiring or establishing schools in 2017	27.7%	203.1	70.0	133.1
Constructing school facilities at the Northwest School	15.9%	116.6	116.6	0
Settling a portion of the outstanding consideration for the investment in the Northeast School	19.4%	142.2	142.2	0
Improving the Group's financing structure and repay a portion of the bank loans	27.0%	198.0	198.0	0
Financing working capital and general corporate use	10.0%	73.3	73.3	0
Total	100.0%	733.2	600.1	133.1

AUDIT COMMITTEE

The audit committee of the Company has reviewed the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters. The audit committee of the Company, together with the Board and external auditors, has reviewed the Group's consolidated financial statements for the year ended 31 December 2017.

SCOPE OF WORK ON THE ANNUAL RESULTS ANNOUNCEMENT BY AUDITORS

The financial information set out in this announcement does not constitute the Group's audited consolidated financial statements for the year ended 31 December 2017, but represents an extract from those financial statements. The work performed by Ernst & Young in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Ernst & Young on the annual results announcement.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This annual results announcement is published on the websites of the Stock Exchange (www.hkex.com.hk) and the Company (<http://www.xingaojiao.com>). The annual report for the year ended 31 December 2017 containing all the information required by Appendix 16 to the Listing Rules will be dispatched to shareholders of the Company and available on the same websites in due course.

DEFINITIONS

In this announcement, the following expressions shall have the following meanings unless the context requires otherwise:

“affiliate(s)”	with respect to any specific person, any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person
“Articles of Association” or “Articles”	the articles of association of the Company conditionally adopted on 20 March 2017 and as amended from time to time
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Bei Ai Company”	Beijing Aiyinsheng Education Investment Co., Ltd.* (北京愛因生教育投資有限責任公司), a limited liability company established under the laws of the PRC on 16 October 2012, and wholly owned by Yun Ai Group. Bei Ai Company will act as the school sponsor of the Northwest School upon the official establishment of the Northwest School
“Beijing Daai Consulting”	Beijing Daai Consulting Education Consulting Co., Ltd.* (北京大愛教育諮詢有限公司), a limited liability company established in the PRC on 26 July 2017. It is wholly owned by Yun Ai Group
“Board” or “Board of Directors”	the board of Directors of the Company
“Business Cooperation Agreement”	the business cooperation agreement entered into by and among Huihuang Company, the PRC Consolidated Affiliated Entities and the Registered Shareholders dated 8 September 2016
“Business Day” or “business day”	a day on which banks in Hong Kong are generally open for business to the public and which is not a Saturday, Sunday or public holiday in Hong Kong

“BVI”	the British Virgin Islands
“California Academy”	California Academy of Business, Inc., a company incorporated in the State of California the United States, with limited liability on 18 July 2016 and a wholly-owned subsidiary of the Company
“California School”	a private higher education institute to be established by the Group in the State of California
“Central China School”	Science and Technology College of Hubei Minzu University* (湖北民族學院科技學院), an institution of higher education established under the laws of the PRC in 2003. The results attributable to students admitted after the completion of the new campus of Central China School will be included in the results of operation of the Group
“Central China School Cooperation Agreement”	the cooperation agreement in respect of the Central China School (關於舉辦湖北民族學院科技學院的合作協議) dated 28 April 2014, entered into between Minzu College and Enhao Company, pursuant to which Enhao Company agreed to become a joint school sponsor of the Central China School
“Central China School Sponsor Right Transfer Agreement”	the school sponsor right transfer agreement dated 26 August 2015, entered into between Enhao Company, Guo Hui (郭輝) and Enchang Company, pursuant to which Enhao Company and Guo Hui (郭輝) agreed to transfer their rights and obligations under the Central China School Cooperation Agreement to Enchang Company
“China” or “PRC”	the People’s Republic of China excluding for the purpose of this report, Hong Kong, the Macau Special Administrative Region and Taiwan
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) as the same may be amended, supplemented or otherwise modified from time to time
“Companies (WUMP) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong) as the same may be amended, supplemented or otherwise modified from time to time
“Company”	China New Higher Education Group Limited (中國新高教集團有限公司), an exempted company incorporated in the Cayman Islands with limited liability on 8 July 2016

“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Controlling Shareholder(s)”	has the meaning ascribed to it under the Listing Rules and unless the context requires otherwise, refers to the controlling shareholders of the Company, namely Aspire Education Technology, Aspire Education Management, Aspire Education Consulting, Aspire Education International and Mr. Li
“Corporate Governance Code”	code on corporate governance practices contained in Appendix 14 to the Listing Rules
“Director(s)”	the directors of the Company
“Directors’ Powers of Attorney”	the school directors’ power of attorney executed by each of the directors of each PRC Operating School dated 8 September 2016
“Enchang Company”	Enshi Autonomous Prefecture Changqing Education Development Co., Ltd.* (恩施自治州常青教育發展有限公司), a limited liability company established under the laws of the PRC on 13 November 2014. It is wholly owned by Yun Ai Group. Enchang Company will be a joint school sponsor of Central China School pending final approval of the MOE and registration with the provincial civil affairs authorities
“Equity Pledge Agreement”	the equity pledge agreement entered into by and among the Registered Shareholders, Yun Ai Group and Huihuang Company dated 8 September 2016
“Exclusive Call Option Agreement”	the exclusive call option agreement entered into by and among Huihuang Company, our PRC Consolidated Affiliated Entities and the Registered Shareholders dated 8 September 2016
“Exclusive Technical Service and Management Consultancy Agreement”	the exclusive technical service and management consultancy agreement entered into by and among Huihuang Company and our PRC Consolidated Affiliated Entities dated 8 September 2016
“Group”, “we” or “us”	the Company, its subsidiaries, our PRC Operating Schools and the consolidated affiliated entities from time to time, or, where the context so requires in respect of the period before the Company became the holding company of our present subsidiaries, the entities which carried on the business of the present Group at the relevant time

“Guizhou School”	Guizhou Technology and Business Institute* (貴州工商職業學院), a private institution of formal higher education established under the laws of the PRC on 3 July 2012, of which the school sponsor’s interest is wholly owned by Yun Ai Group and a consolidated affiliated entity of the Company
“Henan School”	Luoyang Science and Technology Vocational College* (洛陽科技職業學院), a private institution of formal higher education established under the laws of the PRC in June 2013
“HK\$”, “Hong Kong dollar(s)”, “HKD” and “cents”	Hong Kong dollars and cents respectively, the lawful currency for the time being of Hong Kong
“HKFRSs”	the Hong Kong Financial Reporting Standard(s)
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Huihuang Company”	Tibet Daai Huihuang Information and Technology Co., Ltd.* (西藏大愛輝煌信息科技有限公司), a limited liability company established on 5 August 2016 under the laws of the PRC, which is wholly owned by Aspire Education Holding
“Independent Third Party(ies)”	an individual(s) or a company(ies) who or which is/are independent of and not connected with (within the meaning of the Listing Rules) any Director, chief executive or substantial shareholder (within the meaning of the Listing Rules) of the Company, its subsidiaries or any of their respective associates
“Lanbo Company”	Gansu Lanbo Education and Science Co., Ltd.* (甘肅蘭博教育科技有限公司), a limited liability company established in the PRC and wholly owned by Bei Ai Company
“Listing”	the listing of our Shares on the Main Board of the Stock Exchange
“Listing Date”	19 April 2017
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange, as amended from time to time
“Loan Agreement”	a loan agreement entered into by and among Huihuang Company, the PRC Operating Schools, and Yun Ai Group dated 8 September 2016

“Main Board”	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with the Growth Enterprise Market of the Stock Exchange
“Memorandum of Association” or “Memorandum”	the memorandum of association of the Company adopted on 20 March 2017 and as amended from time to time
“Model Code”	the model code for securities transactions by directors of listed issuers as set out in Appendix 10 of the Listing Rules
“MOE”	the Ministry of Education of the PRC
“Mr. Li”	Mr. Li Xiaoxuan (李孝軒), our founder, one of our Controlling Shareholders, chairman of the Board and an executive Director
“Northeast School”	Harbin Huade University* (哈爾濱華德學院), an independent institute established under the laws of the PRC in 2004. Northeast School will be a consolidated affiliated entity of the Company pending final approval of the MOE and registration with the provincial civil affairs authorities and following the execution of the structured contracts with Huihuang Company
“Northwest School”	Northwest Technology and Business Institute* (西北工商職業學院), a private institution of higher education college to be established under the laws of the PRC, of which the school sponsor’s interest will be wholly-owned by Bei Ai Company after the official establishment of the Northwest School
“PRC Consolidated Affiliated Entities”	namely, our School Sponsors and our PRC Operating Schools, each a consolidated affiliated entity of the Company
“PRC Operating Schools”	our consolidated affiliated entities, namely, Yunnan School and Guizhou School
“Prospectus”	the prospectus of the Company dated 5 April 2017
“Registered Shareholders”	the shareholders of Yun Ai Group, namely Mr. Li, Pai Dui Pai, Ba Mu Pu, Daai Partnership, Huihuang Investment, Chengxin Investment, Shanghai Taifu and Zhongyi Company
“RMB” or “Renminbi”	Renminbi, the lawful currency for the time being of the PRC

“School Sponsors”	the current school sponsor, Yun Ai Group, and the future school sponsors, Haxuan Company, Enchang Company and Bei Ai Company
“School Sponsors’ and Directors’ Rights Entrustment Agreement”	the school sponsors’ and directors’ rights entrustment agreement entered into by and among Yun Ai Group, Bei Ai Company, the PRC Operating Schools, the directors of each PRC Operating School and Huihuang Company dated 8 September 2016
“School Sponsors’ Powers of Attorney”	the school sponsors’ power of attorney executed by the School Sponsors in favor of Huihuang Company dated 8 September 2016
“SFO” or “Securities and Futures Ordinance”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended and supplemented from time to time
“Share(s)”	ordinary share(s) of US\$0.0001 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Shareholders’ Powers of Attorney”	the shareholders’ power of attorney executed by the Registered Shareholders and Yun Ai Group in favor of Huihuang Company dated 8 September 2016
“Shareholders’ Rights Entrustment Agreement”	the shareholders’ rights entrustment agreement entered into by and among the Registered Shareholders, the School Sponsors and Huihuang Company dated 8 September 2016
“Southwest China”	comprises Sichuan, Guizhou and Yunnan Provinces and Chongqing Municipality
“Spouse Undertakings”	the spouse undertakings executed by Ms. Yang, the spouse of Mr. Li, dated 8 September 2016
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Structured Contracts”	collectively, the Business Cooperation Agreement, the Exclusive Technical Service and Management Consultancy Agreement, the Exclusive Call Option Agreement, the Equity Pledge Agreement, the Shareholders’ Rights Entrustment Agreement, the School Sponsors’ and Directors’ Rights Entrustment Agreement, the School Sponsors’ Powers of Attorney, the Directors’ Powers of Attorney, the Shareholders’ Powers of Attorney, the Loan Agreement and the Spouse Undertakings

“subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules. For the avoidance of doubt, the Subsidiaries include the PRC Operating Schools and the School Sponsors
“substantial Shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Xinjiang School”	Xinjiang Institute of Finance & Economics* (新疆財經大學商務學院), a private institution of formal higher education established under the laws of the PRC in 2003
“Xinjiang School Sponsor”	Xinjiang Institute of Finance & Economics* (新疆財經大學商務學院), a private insitution of formal higher education established under the laws of the PRC in 2003
“Yun Ai Group”	Yunnan Einsun Education Investment Group Co., Ltd.* (雲南愛因森教育投資集團有限公司) (formerly known as “Yunnan Einsun Investment Co., Ltd.* (雲南愛因森投資有限公司)” and “Yunnan Einsun Investment Group Co., Ltd.* (雲南愛因森投資集團有限公司)”), a limited liability company established under the laws of the PRC on 19 September 2005, which is owned as to 29.8806% by Mr. Li, 20.0568% by Pai Dui Pai, 5.7305% by Ba Mu Pu, 22.8102% by Daai Partnership, 1.2956% by Huihuang Investment, 1.32% by Chengxin Investment, 15.5265% by Shanghai Taifu and 3.3822% by Zhongyi Company. It is the school sponsor of the Yunnan School and the Guizhou School
“Yunnan School”	Yunnan Technology and Business University* (雲南工商學院) (formerly known as Yunnan Einsun Software Vocational College* (雲南愛因森軟件職業學院) (“Software College”)), a private institution of formal higher education established under the laws of the PRC on 29 September 2005, of which the school sponsor’s interest is wholly owned by Yun Ai Group and a consolidated affiliated entity of the Company
“%”	per cent

By order of the board of
China New Higher Education Group Limited
Li Xiaoxuan
Chairman

Hong Kong, 28 February 2018

As at the date of this announcement, our executive Directors are Mr. Li Xiaoxuan, Mr. Zhao Shuai, Mr. Zhang Ke and Mr. Zhu Lidong, our non-executive Director is Mr. Chen Shuo, and our independent non-executive Directors are Mr. Wong Man Chung Francis, Mr. Kwong Wai Sun Wilson and Mr. Hu Jianbo.