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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 2018

ANNUAL RESULTS

The Board of Directors of China New Higher Education Group Limited is pleased to announce the annual results and the audited consolidated financial statements of the Company and its subsidiaries for the year ended 31 December 2018, together with the comparative figures for the year ended 31 December 2017. These results have been reviewed by the Company's audit committee, comprising solely the independent non-executive Directors of the Company.

HIGHLIGHT

	Year ended 31 December 2018 (RMB million)	Year ended 31 December 2017 (RMB million)	Change (RMB million)	Percentage Change
Total Revenue [^]	727.5	542.8	184.7	+34.0%
EBITDA [#]	439.1	327.2	111.9	+34.2%
Net profit for the year	254.3	233.3	21.0	+9.0%
Adjusted net profit for the year	285.3[#]	237.1 ^{##}	48.2	+20.3%

[^] Revenue derived from the main business of the Group + other income and gains

[#] Excluding the impairment allowance made for prepayment included in other non-current assets

^{##} Excluding listing expenses and foreign exchange gain

	2018/2019 Academic Year*	2017/2018 Academic Year*	Change	Percentage Change
Total Number of students enrolled ^{**}	93,548	54,290 ^{***}	+39,258	+72.3%

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

** Including Central China Schools to be invested by the Group

*** Excluding student number in Xinjiang school

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
YEAR ENDED 31 DECEMBER 2018

	<i>Notes</i>	2018 RMB'000	2017 <i>RMB'000</i>
REVENUE	4	561,450	414,405
Cost of sales		(275,029)	(186,905)
Gross profit		286,421	227,500
Other income and gains	4	166,044	128,347
Selling and distribution expenses		(5,434)	(3,640)
Administrative expenses		(53,701)	(58,117)
Other expenses		(38,567)	(4,580)
Finance costs	5	(77,970)	(39,554)
PROFIT BEFORE TAX	6	276,793	249,956
Income tax expense	7	(22,525)	(16,634)
PROFIT FOR THE YEAR		254,268	233,322
Attributable to:			
Owners of the parent		242,530	233,368
Non-controlling interests		11,738	(46)
		254,268	233,322
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic (<i>RMB</i>)			
– For profit for the year	9	0.17	0.17
Diluted (<i>RMB</i>)			
– For profit for the year	9	0.17	0.17

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
YEAR ENDED 31 DECEMBER 2018

	2018	2017
	RMB'000	RMB'000
PROFIT FOR THE YEAR	<u>254,268</u>	<u>233,322</u>
OTHER COMPREHENSIVE LOSS		
OTHER COMPREHENSIVE LOSS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS IN SUBSEQUENT PERIODS		
Exchange differences on translation of foreign operations	<u>(41,745)</u>	<u>(20,384)</u>
Net other comprehensive loss that will not be reclassified to profit or loss in subsequent periods	(41,745)	(20,384)
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX	<u>(41,745)</u>	<u>(20,384)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>212,523</u>	<u>212,938</u>
Attributable to:		
Owners of the parent	200,785	212,984
Non-controlling interests	<u>11,738</u>	<u>(46)</u>
	<u>212,523</u>	<u>212,938</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 DECEMBER 2018

	<i>Notes</i>	2018 RMB'000	2017 <i>RMB'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment		2,116,119	985,301
Investment properties		161,426	47,331
Prepaid land lease payments		203,930	96,910
Goodwill		196,114	–
Other intangible assets		18,531	11,127
Other non-current assets	<i>10</i>	1,407,690	1,185,973
Total non-current assets		4,103,810	2,326,642
CURRENT ASSETS			
Prepayments, other receivables and other assets	<i>11</i>	131,470	88,666
Pledged deposits		63,534	30,000
Cash and cash equivalents		349,630	118,648
Other current assets		5,065	5,947
Total current assets		549,699	243,261
CURRENT LIABILITIES			
Deferred revenue	<i>12</i>	472,928	249,599
Other payables and accruals	<i>13</i>	488,762	192,983
Interest-bearing bank and other borrowings		625,324	207,819
Deferred income		9,775	4,088
Tax payable		35,566	13,507
Total current liabilities		1,632,355	667,996
NET CURRENT LIABILITIES		(1,082,656)	(424,735)
TOTAL ASSETS LESS CURRENT LIABILITIES		3,021,154	1,901,907
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		661,523	144,440
Deferred income		31,001	28,637
Deferred tax liabilities		49,419	3,975
Total non-current liabilities		741,943	177,052
Net assets		2,279,211	1,724,855

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
EQUITY		
Equity attributable to owners of the parent		
Share capital	983	983
Reserves	1,856,011	1,723,872
	1,856,994	1,724,855
Non-controlling interests	422,217	–
Total equity	<u>2,279,211</u>	<u>1,724,855</u>

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2018

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. BASIS OF PREPARATION

The financial statements have 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”), 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 RMB1,082,656,000 as at 31 December 2018 (2017: RMB424,735,000).

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.

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

An analysis of revenue is as follows:

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Revenue from contracts with customers		
Tuition fees	512,487	380,711
Boarding fees	48,963	33,694
	<u>561,450</u>	<u>414,405</u>

Revenue from contracts with customers

(i) *Disaggregated revenue information*

Segments	2018 <i>RMB'000</i>
Type of goods or services	
Education services	<u>561,450</u>
Geographical markets	
Mainland China	<u>561,450</u>
Timing of revenue recognition	
Services transferred over time	<u>561,450</u>

(ii) **Performance obligations**

Education services

The performance obligation is satisfied over time as services are rendered and tuition and boarding fees are generally paid in advance prior to the beginning of each academic year.

	2018 RMB'000	2017 <i>RMB'000</i>
Other income and gains		
Service income	128,163	84,931
Rental income	14,086	10,456
Interest income	8,187	2,808
Government grants	12,515	6,595
Canteen income	1,158	–
Foreign exchange gains, net	–	22,306
Others	1,935	1,251
	<hr/> 166,044 <hr/>	<hr/> 128,347 <hr/>

5. FINANCE COSTS

An analysis of finance costs is as follows:

	2018 RMB'000	2017 <i>RMB'000</i>
Interest on bank loans and other loans	73,469	43,197
Interest on finance leases	14,883	–
	<hr/>	<hr/>
Total interest expense on financial liabilities not at fair value through profit or loss	88,352	43,197
Less: Interest capitalised	(10,382)	(3,643)
	<hr/> 77,970 <hr/>	<hr/> 39,554 <hr/>

6. PROFIT BEFORE TAX

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

	<i>Note</i>	2018 RMB'000	2017 <i>RMB'000</i>
Employee benefit expense (excluding directors' and chief executive's remuneration):			
Wages and salaries		179,036	129,997
Equity-settled share option expense		5,772	–
Pension scheme contributions (defined contribution plan)		15,919	15,333
		<hr/> 200,727	<hr/> 145,330
Depreciation of items of property, plant and equipment		44,804	32,374
Depreciation of investment properties		1,435	906
Amortisation of prepaid land lease payments		2,824	2,263
Amortisation of other intangible assets *		4,349	2,448
Rental income	4	(14,086)	(10,456)
Minimum lease payments under operating leases		5,387	5,075
Interest income	4	(8,187)	(2,808)
Impairment of prepayments, other receivables and other assets		1,023	167
Impairment of prepayment included in other non-current assets		30,975	–
Loss on disposal of items of property, plant and equipment		27	–
		<hr/> 27	<hr/> –

* The amortisation of other intangible assets 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 previously, schools of the Group have historically enjoyed preferential tax treatment since their establishment. There was no corporate income tax imposed on the income from the provision of formal educational services of schools of the Group. 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. The effective corporate income tax rate increased to 15% beginning in 2018 since the three year preferential tax exemption expired.

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:

	2018 RMB'000	2017 <i>RMB'000</i>
Current – Mainland China		
Charge for the year	23,479	12,659
Deferred	(954)	3,975
	<hr/>	<hr/>
Total tax charge for the year	<u>22,525</u>	<u>16,634</u>

8. DIVIDENDS

	2018 RMB'000	2017 <i>RMB'000</i>
Interim – RMB0.027 (2017: RMB0.021) per ordinary share	38,640	30,053
Proposed final – RMB0.019 (2017: RMB0.025) per ordinary share	27,191	35,778
	<hr/>	<hr/>
	<u>65,831</u>	<u>65,831</u>

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 1,431,100,000 (2017: 1,347,619,167) in issue during the year.

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

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Earnings		
Profit attributable to ordinary equity holders of the parent used in the basic and diluted earnings per share calculation	<u>242,530</u>	<u>233,368</u>
	2018	2017
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	1,431,100,000	1,347,619,167
Effect of dilution – weighted average number of ordinary shares:		
Share options	<u>1,508,235</u>	–
	<u>1,432,608,235</u>	<u>1,347,619,167</u>

10. OTHER NON-CURRENT ASSETS

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Prepayment for investments (<i>note (i)</i>)	1,314,442	1,019,667
Prepayment for land use rights	67,083	155,130
Prepayment for other intangible assets	735	1,659
Prepayment for property, plant and equipment	<u>56,405</u>	<u>9,517</u>
	1,438,665	1,185,973
Impairment allowance	<u>(30,975)</u>	–
Total	<u>1,407,690</u>	<u>1,185,973</u>

Prepayments mainly represent down payments for investments and acquisition of new schools.

Note (i): Included in prepayment for investments is the down payment of RMB147,993,000 for acquisition of Xinjiang Institute of Finance and Economics (“Xinjiang School”).

During the financial year ended 31 December 2018, in relation to the proposed acquisition of Xinjiang School, the Group announced that, in view of certain closing conditions under the equity transfer agreements not satisfied by the counterparties, and continuing to pursue the proposed acquisition may not be in the best interest of the Group and the shareholders, the Directors of the Company decided to terminate the proposed acquisition in October 2018.

The Company engaged an external independent legal counsel to provide professional advice to the Board in relation to the termination of Xinjiang School matter, and to take appropriate actions, including but not limited to, in following up with the counterparties for settlement of the prepayment amount. The Company performed an impairment analysis assessment, as supported by the legal opinion, by considering the probability of default and estimated an expected credit loss by applying a loss rate approach with reference to the current conditions and forecasts of future economic conditions, as appropriate. The management estimates the impairment allowance amounted to RMB30,975,000 as at 31 December 2018, with appropriate legal action to recover the down payment from the counterparties, and subsequent to the balance sheet date, the process of negotiation with the counterparties is still in progress. Should there be any development progress on this matter, the Company will release further announcement as and when appropriate.

11. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
Prepaid rent and other prepaid expenses	2,008	2,541
Advance and other receivables	101,443	69,742
Staff advances	2,487	757
Deposits and other miscellaneous receivables	25,532	15,626
	131,470	88,666

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

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Contract liabilities (<i>Note (i)</i>)	472,928	–
Tuition fees	–	224,629
Boarding fees	–	24,970
	<u>472,928</u>	<u>249,599</u>

Note (i): Details of contract liabilities as at 31 December 2018 and 1 January 2018 are as follows:

	31 December 2018 <i>RMB'000</i>	1 January 2018 <i>RMB'000</i>
Tuition fees	417,108	224,629
Boarding fees	55,820	24,970
	<u>472,928</u>	<u>249,599</u>

Contract liabilities are tuition fees and boarding fees.

13. OTHER PAYABLES AND ACCRUALS

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Payables for purchase of property, plant and equipment	70,677	19,029
Accrued bonus and social insurance	44,833	42,380
Miscellaneous expenses received from students (<i>Note (i)</i>)	83,530	63,016
Other payables (<i>Note (ii)</i>)	289,121	64,014
Accrued expenses	601	4,544
	<u>488,762</u>	<u>192,983</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.

Note (ii): Included in other payables was the unsettled consideration for business combination as described in note 14, which is to be settled by way of cash payment amounting to RMB80 million to the Schools sponsors, and in the form of capital injection amounting to RMB80 million into Henan School, respectively.

14. BUSINESS COMBINATION

During the financial year ended 31 December 2018, the Group completed acquisitions of Henan School and Northeast School. These acquisitions were part of the Group's strategy to expand school network in capital cities in the northwestern, central and northeastern of the PRC. The Henan School is a private higher education institution established in the PRC providing junior college education, and the Northeast School is a private institution of formal higher education established in the PRC focusing on applied sciences. These acquisitions have been accounted for using the acquisition method.

As detailed in the Company announcement, on 8 October 2018, the Group completed the acquisition of 55% school sponsor's interest in Henan School from two individuals and Henan Rongyu, independent third parties and sponsors of Henan School, at a consideration of RMB395,500,000. The purchase consideration for the acquisition comprises RMB101,500,000 payable to Mr. Rong and Ms. Kong for their 55% equity interest in Henan Rongyu, and the remaining of RMB294,000,000 was in the form of capital injection into Henan School. As at 31 December 2018, RMB285,500,000 out of the total consideration was paid, and the remaining of RMB110,000,000 is to be settled within the next twelve months of the balance sheet date.

As detailed in the Company announcement, on 10 December 2018, the Group completed the acquisition of 73.91% school sponsor's interest in Northeast School from five individuals, independent third parties and sponsors of Northeast School, at a consideration of RMB381,865,000. As at 31 December 2018, RMB331,865,000 out of the total consideration was paid, and the remaining of RMB50,000,000 is to be settled within the next twelve months of the balance sheet date.

The Group engaged an external independent appraiser to perform the valuation with the identification and determination of fair values to be assigned to the acquirees' assets and liabilities as at acquisition date.

Henan School

The fair values of the identifiable assets and liabilities of Henan School as at the date of acquisition were as follows:

	<i>Note</i>	Fair value recognised on acquisition <i>RMB'000</i>
Property, plant and equipment		378,185
Investment properties		68,500
Prepaid land lease payments		39,043
Other intangible assets		1,593
Other non-current assets		53,257
Cash and bank balances		3,402
Prepayments, other receivables and other assets		220,474
Receivables for tuition and boarding fee		6,347
Deferred revenue		(132,728)
Other payables and accruals		(225,227)
Interest-bearing bank and other borrowings – current		(2,917)
Deferred income – current		(2,076)
Tax payable		(30)
Interest-bearing bank and other borrowings – non-current		(11,530)
Deferred income – non-current		(5,060)
Deferred tax liabilities		(27,350)
		<hr/>
Total identifiable net assets at fair value		363,883
Non-controlling interests		(163,747)
		<hr/>
Goodwill on acquisition		195,364
		<hr/>
Satisfied by cash		285,500
Consideration payable	<i>13</i>	110,000
		<hr/>
		<u>395,500</u>

Northeast School

The fair values of the identifiable assets and liabilities of Northeast School as at the date of acquisition were as follows:

	<i>Note</i>	Fair value recognised on acquisition <i>RMB'000</i>
Property, plant and equipment		394,483
Investment properties		46,000
Prepaid land lease payments		70,801
Other intangible assets		477
Cash and bank balances		91,400
Prepayments, other receivables and other assets		160,192
Receivables for tuition and boarding fee		52
Deferred revenue		(95,697)
Other payables and accruals		(126,389)
Deferred income – current		(1,583)
Deferred income – non-current		(5,039)
Deferred tax liabilities		(19,049)
		<hr/>
Total identifiable net assets at fair value		515,648
Non-controlling interests		(134,533)
		<hr/>
Goodwill on acquisition		750
		<hr/>
Satisfied by cash		331,865
Consideration payable	<i>13</i>	50,000
		<hr/>
		<u>381,865</u>

The goodwill recognised is primarily attributed to the expected business synergies arising from the acquisitions, which is not separately recognised. None of the goodwill recognised is expected to be deductible for income tax purposes.

The Group has elected to measure the non-controlling interests in two schools set out above at the non-controlling interests' proportionate share of the identifiable net assets.

An analysis of the cash flows in respect of the acquisition of subsidiaries is as follows:

	<i>RMB'000</i>
Cash consideration paid in 2018	(285,500)
Cash and bank balances acquired	<u>94,802</u>
Net outflow of cash and cash equivalents included in cash flows used in investing activities	<u><u>(190,698)</u></u>

In accordance with HKFRS 3 (Revised) Business Combinations, the amounts recorded for the acquisition are provisional and are subject to adjustments during the measurement period of not exceeding one year from the acquisition date if new information is obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognised as of that date.

Since the acquisition, Henan School and Northeast School contributed RMB47,565,000 and RMB19,623,000 respectively to the Group's revenue; and contributed RMB22,781,000 and RMB3,852,000 respectively to the Group's consolidated profit for the year ended 31 December 2018.

Had the combination of Henan School and Northeast School taken place at the beginning of the year, the revenue of the Group for the year would have been RMB635,938,000 and RMB683,267,000 respectively, and the profit of the Group for the year would have been RMB251,754,000 and RMB284,259,000 respectively.

15. EVENTS AFTER THE REPORTING PERIOD

As detailed in the Company announcement, on 14 September 2018, the Group entered into Shareholders' Agreement (the "Agreement") in relation to the school sponsor's interest in Guangxi Schools, and Guangxi Schools cover undergraduate education in various disciplines such as economics and management, information technology, construction engineering, humanities and arts.

Pursuant to the Agreement, the Group would acquire 51% school sponsor's interest of Guangxi Schools for total purchase consideration of RMB146,721,000, of which the completion was subject to closing conditions of the Agreement and applicable approvals from the relevant authorities. Upon fulfillment of the conditions stipulated in the Agreement, Guangxi Schools will become an indirect non wholly-owned subsidiaries of the Group.

The acquisition was completed in January 2019, and the Group is in the process of assessing the initial accounting for the acquisition and will incorporate the relevant financial information in FY2019 interim and annual financial statements.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Overview

The Group is a leading higher education group with leading graduation employment rate in China. As of 31 December 2018, the Group operated and invested six higher education institutes in six provinces in mainland China with nationwide student enrollment coverage. As at 31 December 2018, our students attended 84 general undergraduate majors and 76 general junior college majors. Furthermore, the Group has applied to be a joint school sponsor of Gansu College and is expected to complete its new campus relocation in September 2019.

For 2018/2019 academic year, total student enrollment increased to 93,548 (excluding student enrollment in Gansu College), representing an increase of 72.3% as compared with last academic year, the details of which are set out in following student enrollment table. For 2018/2019 academic year, Gansu College student enrollment was about 8,200 and will relocate to the new school in September 2019.

Features of applied sciences

The Group strives to help average students to become excellent talents through our high-quality employment, as we combine our training model with local development and demands in order to offer students high-quality higher education focused on applied science in all sectors.

Our course offerings are designed to equip students with practical experience and readily applicable skills and prepare them for the job market. At the same time, the Group implements the “three integrations” strategy, namely integrating into national strategy, regional development and industrial progress. Meanwhile, the Group will adjust its course offerings from time to time to satisfy changing market demand. As a result, we outperformed industry peers in terms of industry-leading graduate employment rates.

Our Schools

Schools	Status	
Yunnan School	Self-founded	<p>The first private undergraduate school in Yunnan Province</p> <p>A typical model school for national graduate employment by MOE and also the top 50 universities in terms of employment, received first prize of targeted responsibility assessment for employment awarded by Yunnan Education Department for 9 consecutive years</p> <p>Provincial advanced unit and civilized campus</p>
Guizhou School	Self-founded	<p>Established in 2012, for the 2018/2019 academic year, the number of student enrollment had exceeded 16,000, which is the private higher vocational education college with largest number of student enrollment in Guizhou Province in Guizhou Province in 2018</p> <p>Awarded the prize of higher vocational education category's "E-Commerce Skills" competition and the second prize of "Nursing Skills" in the 2018 National Skills Competition of vocational colleges</p>
Northeast School	Investment (completed in December 2018)	<p>To pursue the teaching tradition of "Strict criterion, Solid basic skills" in Harbin Institute of Technology</p> <p>The School successfully passed the assessment of the undergraduate teaching evaluation by MOE in 2018</p> <p>A leading college in terms of employment rate in Heilongjiang Province</p>
Henan School	Investment (completed in October 2018)	<p>Henan School is the only private institution of higher vocational education</p> <p>First batch of pilot schools of national vocational electronic commerce skills in joint examination</p> <p>Henan School completed the construction of a new campus within one year after the investment, so as to satisfy the enrollment demand in the new academic year, and the number of student enrollment has reached new high</p>

Schools	Status	
Guangxi School	Investment (completed in January 2019)	<p>Guangxi School is the only private institution of higher vocational education in Qinzhou, Guangxi Province</p> <p>Located in Beibu Gulf Economic Zone, it is a key development region in Guangxi Zhuang Autonomous Region under the strategy of the “Belt and Road”, with radiating regional advantage to the ASEAN</p> <p>The promotion plan of the schools has been included in the “13th Five-Year Plan” for universities in Guangxi Zhuang Autonomous Region and has been filed with the MOE</p>
Central China School	Investment	<p>Having been established for three years, the number of student enrollment in the new campus has exceeded 8,500 in the academic year of 2018/19</p> <p>Central China School is a higher education college supported by Enshi People’s Government of Hubei Province which targeted at poverty alleviation and training medical interns</p> <p>The School possesses the qualifications to grant bachelor’s degree in medicine</p> <p>The School is entitled as the advanced unit of students’ ideological and political work in Hubei Province, advanced unit of college enrollment in Hubei Province</p>
Gansu College	Investment	<p>Currently, the number of student enrollment in Gansu College is about 8,200</p> <p>In June 2018, the School commenced its new campus construction and it will start in September 2019</p>

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 of 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.

For the academic year of 2018/2019, many institutes under the Group had reached new record high in terms of the number of students enrolled. The new student registration and planned utilization are inspiring, which shows their strengths and reputations as well as more competitive advanced majors in the local region.

Schools	Number of Enrolled Students	
	Academic Year ^{Note (5)}	
	2018/2019	2017/2018
Yunnan School	25,957	21,849
Five-year college programs of Yunnan School ^{Note (1)}	1,798	1,793
Guizhou School	16,828	15,584
Northeast School	9,261	9,355
Henan School	21,167	–
Central China School ^{Note (2)}	8,584	5,709
Guangxi Schools ^{Note (3)}	9,953	–
Total	93,548	54,290
Gansu College ^{Note (4)}	8,218	–
Total	101,766	54,290

Notes:

- (1) Five-year college programs refer to Yunnan School has developed the five-year college programs since 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 and 2020 onwards.
- (2) The investment in Central China School by the Group is still pending registration with the provincial civil affairs authorities.
- (3) The Group has obtained all necessary approvals and completed the acquisition of the Guangxi Schools on 11 January 2019.
- (4) The acquisition of Gansu College is still pending approval for change of school sponsor of Gansu College by the MOE.
- (5) An academic year generally starts from September 1 of each calendar year to August 31 of the following year.

Tuition fee and accommodation fees

In terms of industry practice, we will adjust tuition fees of different majors each year according to their demand. The overall average tuition fee increased by 3%-8% annually. The ranges of tuition fee in schools are as follow:

	Range of Tuition fee		Range of Accommodation fee	
	2018/2019 (RMB)	2017/2018 (RMB)	2018/2019 (RMB)	2017/2018 (RMB)
Yunnan School	11,000-22,000	11,000-20,000	750-2,800	750-1,200
Guizhou School	8,000-9,380	8,000-9,380	1,200-2,200	1,200
Northeast School	17,000-19,000	14,500-16,500	1,100-2,000	800-1,200
Henan School	4,600-7,800	2,600-7,800	900-1,600	900-1,400
Guangxi School	7,000-8,500	6,000-7,500	880-1,350	880-1,350
Central China School	8,500-19,000	7,500-18,000	1,200	1,200

Employment Status

As a private higher education institute focused on applied sciences, the Group uses graduate employment rate as an important criterion to measure the teaching results. The Group adheres to its core strategy of “promoting development by employment”. Through the measures of internship practice, connection between internship and employment as well as cooperation between universities and enterprises, the Group assures graduates to master necessary employability. The Group sets up employment offices in Beijing, optimizes the employment service system in colleges and helps them to develop employment competitiveness, so as to achieve high-quality employment and sustainable development.

Schools	Graduate Employment Rate As of 31 December	
	2018	2017
Yunnan School	98.2%	98.8%
Guizhou School	97.3%	97.2%
Northeast School	93.5%	—
Henan School (higher vocational school)	97.2%	—

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

Integration of Industry and Education, Cooperation between Schools and Enterprises

For the schools under the Group, they established a profound school-corporate cooperation with many well-known companies including Microsoft, Huawei, Alibaba, Lenovo, Jingdong, Midea, Gree, Geely, 360, Tedu, iFlytek, China Union, Chinasoft International, Newland Group and Travelsky Group. They jointly carry out talents training through many cooperative models such as teacher sharing, course resources sharing, construction of experimental training bases, joint formulation of majors as well as college co-found.

Poverty Alleviation

The institutions of the Group have established various subsidy systems for poverty-stricken students. The “Not One Less (一個都不能少)” policy was successfully implemented, which enabled poverty-stricken students to study and work during schoolings without any worry. Yunnan School has also set up a special class for supporting the development of ethnic minorities. In 2018, the school enrolled 35 students who are ethnic minorities in Yunnan Nujiang. The school will bear the tuition, teaching materials and accommodation fees for all students during their college education. The schools under the Group undertook the project of young innovative talents training in western Yunnan, which nurtured some villagers in the poverty villages of the rural region to become rich first, and in turn they can lead the poverty alleviation works.

The Group made donations in public student aid, disaster relief and online education. Various schools under the Group also made prominent contributions to educational poverty alleviation. In 2018, chairman of the Group was awarded the “National Poverty Alleviation Dedication Award (全國脫貧攻堅獎奉獻獎)”.

In the 2018/2019 academic year, Mr. Wong Man Chung Francis, the Group’s independent non-executive director, continued donating its director fees as scholarship to encourage outstanding students of the college and support students with financial difficulties.

College of Excellence

The College of Excellence aims at providing students with modern apprenticeship training. Within the four to six months during their final academic year, depending on corporate demands and targeted employment position, the program enabled students to master equivalent to two years of working experience and abilities in a company before graduation. Our schools further expanded the scale of the College of Excellence. For example, in 2018, Yunnan School set up undergraduate excellent classes covered the majors from construction costing, civil engineering, computer science and technology, visual communication and marketing. Meanwhile, Henan School introduced the College of Excellence model into its E-Commerce Institute and Art Institute.

As of 31 December 2018, 1,211 students had participated in the Group's excellent apprenticeship training, including 723 students from Yunnan School and 488 students from Guizhou School. As of 31 December 2018, 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%.

Education Policy Trend

Recently, the PRC government promulgated the "National Vocational Education Reform Implementation Plan" (國家職業教育改革實施方案), which places vocational education on the equal position as general education on the top-level design. It also clarifies the direction of social diversified school establishment, and once again strengthens the policy of encouraging private education. The plan has opened up more development potential for private vocational education, especially for those higher education groups (such as China New Higher Education) which have both undergraduate colleges focusing on applied sciences as well as vocational colleges. The plan not only demonstrates the correctness of the strategic choice of applied education, it also provides guidance for future development of school establishment.

The promulgation of a series of policies and documents such as "China Education Modernization 2035" (《中國教育現代化2035》) and "Accelerating the Implementation Plan of Education Modernization (2018-2022)" (《加快推進教育現代化實施方案(2018-2022年)》) shows that private higher vocational education has become an important part of the national education strategy. Relying on encouragement, guidance and standardized supervision of the PRC government, more development opportunities will emerge in the private education sector, but also face more demands and expectations from the national and public levels in improving their own development standards. In addition, in the government work report, it is mentioned that it will further reform and improve the examination and enrollment methods for higher vocational colleges and expand additional one million students enrollment this year, which reflect the determination of the State to promote the development of vocational education. All higher vocational colleges will directly benefit therefrom, in particular schools with brand and competitive advantages will have greater development opportunities.

FUTURE PROSPECTS

The Group will put into play its advantages and strive to explore the three major markets that it is facing currently as well as in the future. The markets include:(1) higher education market focused on applied science. For this, we plan to establish universities in every province nationwide; (2) the surrounding markets of universities. The main direction is promoting the integration of industry and education that are propelling currently; (3) markets of providing service to other universities or educational institutions. The Group will offer services including professional construction, ancillary support, management and information to other educational institutes.

Development strategy of “Improvement, Enlargement, Light Assets”

It is our primary task to improve quality, including improving talent training capability focused on applied science and driving the overall quality improvement. Secondly, we will enlarge income base and enhance the utilization rate of schools under the Group, focus on traditional principal business, expand the sectors for external income and enlarge the income from our principal and secondary businesses, as well as optimize expenditure structure to cut down operating costs. Thirdly, we will adopt light assets approach, adjust and optimize its structure and integrate resources comprehensively, and at the same time, reduce capital expenditure and improve the capability of light assets and strong management.

Investment Strategy

The Group intends to expand its school network and increase market penetration and market share in the higher vocational education sector. The Group’s investment team has rich investment experience and has identified certain targets for potential quality acquisitions. The Group gives priority to invest in those provinces with lower gross higher education enrollment rates and gradually penetrates into education developed regions. In terms of education level, the Group focuses on undergraduate school especially independent colleges as our main target and vocational colleges with potential expansion as the support. The Group plans to use reproducible teaching models to optimize operation management of schools that we newly invested, so as to enhance educational level and financial returns.

FINANCIAL REVIEW

Revenue

The Group’s revenue increased by 35.5% from RMB414.4 million for the year ended 31 December 2017 to RMB561.5 million for the year ended 31 December 2018. This increase was primarily due to (i) the increase in student enrollments in Yunnan School and Guizhou School by 13.7%; (ii) the increase in average accommodation fee for student by 9.9%; and (iii) the consolidation of Henan School and Northeast School’s results of operation after completion of acquisition.

Cost of Sales

Cost of sales of principal business increased by 47.1% from RMB186.9 million for the year ended 31 December 2017 to RMB275.0 million for the year ended 31 December 2018. This increase was primarily due to the increase in the Group’s teaching investment in Yunnan School and Guizhou School and consolidation of results from Henan School and Northeast School.

Gross Profit and Gross Profit Margin

Gross profit increased by 25.9% from RMB227.5 million for the year ended 31 December 2017 to RMB286.4 million for the year ended 31 December 2018. The gross profit margin decreased to 51.0% for the year ended 31 December 2018 from 54.9% for the year ended 31 December 2017, which was primarily due to the Group's increase in teaching investment, improve student's experience and the consolidation results from new schools.

Other Income and Gains

Other income and gains increased by 29.4% from RMB128.3 million for the year ended 31 December 2017 to RMB166.0 million for the year ended 31 December 2018. The increase was primarily due to the increase in income from college examination training services and management service fee income.

Selling and Distribution Expenses

Selling and distribution expenses increased by 49.3% from RMB3.6 million for the year ended 31 December 2017 to RMB5.4 million for the year ended 31 December 2018. This increase was primarily attributable to the consolidation of the results of newly acquired schools.

Administrative Expenses

Administrative expenses decreased from RMB58.1 million for the year ended 31 December 2017 to RMB53.7 million for the year ended 31 December 2018. In 2018, there was no listing expense, but the employee option incentive costs increased.

Other Expenses

Other expenses increased from RMB4.6 million for the year ended 31 December 2017 to RMB38.6 million for the year ended 31 December 2018. The increase was primarily due to the impairment allowance made for prepayment included in other non-current assets.

Finance Costs

Finance costs increased by 97.1% from RMB39.6 million for the year ended 31 December 2017 to RMB78.0 million for the year ended 31 December 2018, which was mainly due to the increase of RMB934.6 million in total financing, resulting in an increase in financing costs.

Profit before Tax

As a result of the foregoing, we recognized a profit before income tax of RMB276.8 million for the year ended 31 December 2018, as compared to a profit before income tax of RMB250.0 million for the year ended 31 December 2017, representing an increase of 10.7%.

Income Tax Expense

The Group's income tax expense increased by 35.4% from RMB16.6 million for the year ended 31 December 2017 to RMB22.5 million for the year ended 31 December 2018, which was primarily due to (1) the service fees from other income derived from the exclusive technical service and education consultancy service agreements charged by Huihuang Company, entered into with the schools invested by the Group, (2) service fees under the Structured Contracts, and (3) withholding income tax on dividend payout.

Profit for the Period

As a result of the above factors, the net profit of the Group was RMB254.3 million for the year ended 31 December 2018, an increase of 9.0% as compared with RMB233.3 million for the year ended 31 December 2017.

Adjusted Net Profit

Adjusted net profit for the year ended 31 December 2018, increased by 20.3% to RMB285.3 million as compared with the year ended 31 December 2017.

	Year ended 31 December	
	2018	2017
	<i>RMB million</i>	<i>RMB million</i>
Profit for the year from continuing operations	254.3	233.3
Add: Listing expenses	–	26.1
Add: Impairment allowance for prepayment included in other non-current assets	31.0	–
Less: Exchange gains	–	(22.3)
	285.3	237.1

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 2018, the Group had cash and cash equivalents of RMB349.6 million.

Cash flow

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

	Year ended 31 December	
	2018	2017
	<i>RMB million</i>	<i>RMB million</i>
Net cash generated from operating activities	456.7	287.1
Net cash used in investing activities	(1,080.6)	(697.0)
Net cash from financing activities	854.5	350.0
Effect of changes in exchange rate on cash and cash equivalents	0.4	(0.3)
Cash and cash equivalents at beginning of the year	118.6	178.8
Cash and cash equivalents at the end of the year	349.6	118.6

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 RMB1,080.6 million for the year ended 31 December 2018, which had primarily reflected the property, plant and equipment purchased by Yunnan School and Guizhou School, the investment prepayments for the acquisition of Henan School and Xinjiang School, and prepaid rental for the land lease.

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 RMB854.5 million for the year ended 31 December 2018, which had primarily reflected the net new loans raised by the Group.

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 2018, our capital expenditures were RMB414.7 million. The Group's capital expenditures during the year ended 31 December 2018 were primarily related to the construction of buildings and school facilities at the new campus, prepaid rental for the land lease and purchase of equipment and software by the schools of the Group. 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 2018 RMB million	As of 31 December 2017 RMB million
Contracted but not provided for: Property, plant and equipment	72.3	30.9
Investments	123.0	124.0
	195.3	154.9

As of 31 December 2018, 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 RMB1,286.8 million as of 31 December 2018, among which HK\$650 million denominated in Hong Kong Dollar, while the remaining denominated in Renminbi.

Contingent Liabilities

As of 31 December 2018, 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 increased from 13.5% as of 31 December 2017 to 41.1% as of 31 December 2018, which was primarily attributable to the increase in interest bearing debts.

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 increased from 20.4% as of 31 December 2017 to 56.5% as of 31 December 2018, which was primarily due to the increase in interest bearing debts.

FUTURE PLAN FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

Save as disclosed in this announcement, for the year ended 31 December 2018, 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 2018.

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 2018, 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 2018, the Group's assets pledged are as follow:

- (i) the Group's buildings, furniture and fixtures and electronic devices with an aggregate net carrying amount of approximately RMB219,024,000 as at 31 December 2018;
- (ii) all shares of Yunnan Daai Fangzhou Information Consultancy Co., Ltd., Enchang Company, Huihuang Company, Aspire Education Holding Co., Ltd. and Aspire Education Information Co., Ltd.;
- (iii) 73.91% equity interest of Haxuan Company;
- (iv) deposits of the Group with an amount of RMB40,000,000 at as 31 December 2018 (2017: RMB30,000,000).

HUMAN RESOURCES

As of 31 December 2018, the Group had approximately 4,610 employees (2,068 as of 31 December 2017). 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 2018.

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 RMB0.019 per Share for the year ended 31 December 2018. 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. 22 March 2019 to 28 March 2019) (HK\$1.0 to RMB0.8557). Accordingly, the amount of the final dividend payable in Hong Kong dollars will be HK\$0.0222 per Share.

The final dividend will be paid on or about Friday, 21 June 2019 to the shareholders whose names appear on the register of members of the Company on Tuesday, 11 June 2019.

CLOSURE OF THE REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the annual general meeting to be held on Friday, 31 May 2019, the register of members of the Company will be closed from Tuesday, 28 May 2019 to Friday, 31 May 2019, 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 Monday, 27 May 2019.

In order to be qualified for the final dividend, the register of members of the Company will be closed by the Group from Thursday, 6 June 2019 to Tuesday, 11 June 2019, 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 Wednesday, 5 June 2019.

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.

During the year ended 31 December 2018, 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 during the year ended 31 December 2018.

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 2018.

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 2018, a total amount of HK\$733.2 million out of the net proceeds had been used by the Group according to the allocation set out in the Prospectus and announcement published on 9 July 2018.

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

Purpose	Percentage to total amount	Net proceeds RMB (million)	Utilised amount (at 31 December 2018) RMB (million)	Unutilised amount (at 31 December 2018) RMB (million)
Acquiring or establishing schools in 2018	27.7%	203.1	319.7	0
Constructing school facilities at the Northwest School ⁽¹⁾	15.9%	116.6	0	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	733.2	0

Note:

- (1) Upon consideration and assessment, the Company decided to suspend the establishment of Northwest School and focus the Group's resources to the Gansu College. Please refer to the announcement of the Company dated 9 July 2018 for details.

AUDIT COMMITTEE AND REVIEW OF ANNUAL FINANCIAL INFORMATION

The audit committee of the Board has reviewed together with the management the accounting principles and policies adopted by the Group and the audited annual consolidated financial statements and the annual report of the Group for the year ended 31 December 2018.

SCOPE OF WORK FOR ANNUAL RESULTS ANNOUNCEMENT BY AUDITORS

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2018 as set out in this preliminary announcement have been agreed by the Group's independent auditor, Ernst & Young ("Auditor"), to the amounts set out in the Group's consolidated financial statements for the Reporting Period. The work performed by the Auditor 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 the Auditor on this preliminary announcement.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This final 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 2018 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 Gansu College upon the official establishment of the Gansu College
“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, 8 October 2018, 10 December 2018 and 11 January 2019
“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 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 announcement, Hong Kong, the Macau Special Administrative Region and Taiwan
“close associate(s)”	has the meaning ascribed to it under the Listing Rules
“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

“core connected person(s)”	has the meaning ascribed to it under 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, 8 October 2018, 10 December 2018 and 11 January 2019
“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, 8 October 2018, 10 December 2018 and 11 January 2019
“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, 8 October 2018, 10 December 2018 and 11 January 2019
“Fangzhou Company”	Yunnan Daai Fangzhou Information Consultancy Co., Ltd.* (雲南大愛方舟信息諮詢有限公司), a wholly foreign owned enterprise established under the laws of the PRC on 16 March 2016, and a wholly owned subsidiary of the Group
“Gansu College”	College of Technology and Engineering* (蘭州理工大學技術工程學院), an independent institution of higher education established under the laws of the PRC in 2004

“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
“Guangxi Schools”	together, Guangxi Yinghua International Occupation College* (廣西英華國際職業學院), Guangxi Yinghua International Occupation and Technology School* (廣西英華國際職業技術學校) and Guangxi Yinghua International Occupation Middle School* (廣西英華國際職業學院附屬中學)
“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 Rongyu” or “School Sponsor”	Henann Rongyu Education Consulting Co., Ltd.* (河南榮豫教育諮詢有限公司), a limited liability company established in the PRC on 2 March 2017
“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” or “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

“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 GEM 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
“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 is a consolidated affiliated entity of the Company
“Northwest School”	Northwest Technology and Business Institute* (西北工商職業學院)
“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, Guizhou School, Henan School, Northeast School and Guangxi Schools
“Prospectus”	the prospectus of the Company dated 5 April 2017
“Qinzhou Yinghua”	Qinzhou Yinghua Datang Education Investment Company Limited (欽州英華大唐教育投資有限公司), a limited liability company established under the laws of the PRC on 25 August 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 sponsors, Yun Ai Group, Henan Rongyu, Haxuan Company, Qinzhou Yinghua and the future school sponsor, 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, 8 October 2018, 10 December 2018 and 11 January 2019
“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, 8 October 2018 and 11 January 2019
“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, 8 October 2018 and 11 January 2019

“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 University of Finance and Economics Business School (新疆財經大學商務學院), a private higher education institution established in 2003 under the PRC law
“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 September 19, 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 September 29, 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, 29 March 2019

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