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 2019

ANNUAL RESULTS

The Board of Directors of China New Higher Education Group Limited is pleased to announce the annual results of the Group for the year ended 31 December 2019 together with the comparative figures for the year ended 31 December 2018. 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 2019 ***(RMB100 million)***	Year ended 31 December 2018 *(RMB100 million)*	**Change** ***(RMB100 million)***	**Percentage Change**
Total revenue^	**12.52**	7.27	+5.25	+72.2%
Revenue	**10.89**	5.61	+5.28	+94.1%
Net profit	**4.30**	2.54	+1.76	+69.3%
Net profit for owners of the parent	**3.86**	2.43	+1.43	+58.8%
Final dividend	**RMB0.032**	RMB0.019	+RMB0.013	+68.4%

^ *Total revenue derived from the main business of the Group as well as other income and gains*

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The financial results for the year ended 31 December 2019 and those for the year ended 31 December 2018 are as follows:

	Year ended		
	31 December 2019 *RMB'000*	31 December 2018 *RMB'000*	**Change**
Revenue	**1,089,221**	561,450	+94.0%
Cost of sales	**(546,582)**	(275,029)	+98.7%
Gross profit	**542,639**	286,421	+89.5%
Other income and gains	**163,090**	166,044	-1.8%
Selling and distribution expenses	**(13,957)**	(5,434)	+156.8%
Administrative expenses	**(84,891)**	(53,701)	+58.1%
Other expenses	**(27,208)**	(38,567)	-29.5%
Finance costs	**(93,806)**	(77,970)	+20.3%
Adjusted EBITDA*	**716,878**	439,150*	+63.2%
PROFIT BEFORE TAX	**485,867**	276,793	+75.5%
Income tax expense	**(55,513)**	(22,525)	+146.5%
Net profit for the year	**430,354**	254,268	+69.3%
Net profit attributable to owners of the parent	**386,446**	242,530	+59.3%
Earnings per share *(RMB)*	**0.26**	0.17	+52.9%

* *Excluding the impairment allowance made for prepayment included in other non-current assets.*

Revenue

The Group's revenue increased by 94.0% from RMB561.5 million for the year ended 31 December 2018 to RMB1,089.2 million for the year ended 31 December 2019. This increase was primarily due to (i) the completion of new acquisitions of Central China School, Guangxi Schools, (2) and that the results of Henan School and Northeast School which were consolidated in 2018 covered the full year of 2019, and (3) that teaching quality and boarding experience have been enhanced. Both of the student enrollments and tuition and boarding fees have increased.

Cost of Sales

Cost of sales of the Group increased by 98.8% from RMB275.0 million for the year ended 31 December 2018 to RMB546.6 million for the year ended 31 December 2019. The increase was primarily due to (1) increase in student enrollments, (2) the completion of new acquisitions of Central China School and Guangxi Schools in 2019, (3) the results of Henan School and Northeast School which were consolidated in late 2018, covered the whole year of 2019 and (4) the increased inputs to teaching.

Gross Profit and Gross Profit Margin

Gross profit increased by 89.5% from RMB286.4 million for the year ended 31 December 2018 to RMB542.6 million for the year ended 31 December 2019, consistent with the growth of the Group's business. The gross profit margin decreased to 49.8% for the year ended 31 December 2019 from 51.0% for the year ended 31 December 2018, mainly resulting from the relatively lower gross profit margin of the newly acquired schools, which can be improved year-by-year through collectivized management in the future.

Other Income and Gains

Other income and gains of the Group decreased by 1.7% from RMB166.0 million for the year ended 31 December 2018 to RMB163.1 million for the year ended 31 December 2019. The decrease of such service fee income was primarily due to the decrease in service fees charged by Huihuang Company under the exclusive technical service and education consultancy service agreements. These agreements were previously entered into by the schools invested by the Group and Huihuang Company prior to the completion of acquisitions, therefore, the service fees incurred by it shall be included in other income of the Group. Upon completion of new acquisitions of Central China School and Guangxi Schools, the exclusive technical service and education consultancy agreements were automatically terminated, resulting in the decrease in other income and gains of the Group. Without taking into account such impact of income from service fees charged by Huihuang Company, other income and gains increased by 59.0% compared with last year, mainly due to the expansion of service categories and the introduction of high-quality service providers.

Selling and Distribution Expenses

Selling and distribution expenses of the Group increased by 159.3% from RMB5.4 million for the year ended 31 December 2018 to RMB14.0 million for the year ended 31 December 2019. This increase was primarily attributable to (1) the completion of new acquisitions of Central China School and Guangxi Schools, (2) that the results of Henan School and Northeast School, which were consolidated in late 2018, covered the whole year of 2019. The expenses remains as approximiately 1% of the total revenue, which is generally consistent with historical levels.

Administrative Expenses

Administrative expenses of the Group increased by 58.1% from RMB53.7 million for the year ended 31 December 2018 to RMB84.9 million for the year ended 31 December 2019, which was primarily attributable to the increase of newly acquired schools and the increase of the investment costs in employing professional parties to provide strategic studies and internal training to the Group and staff, and the increased investment in information management services.

Other Expenses

Other expenses of the Group decreased from RMB38.6 million for the year ended 31 December 2018 to RMB27.2 million for the year ended 31 December 2019, which was primarily because the Group obtained the positive judgement from Xinjiang High Court in favour of the Company's claims for the prepayments, and therefore did not make additinoal provisions. Excluding such impact, other expenses growth was attributable to the acquired schools, and the increased costs arising from other gains and revenue growth.

Finance Costs

Finance costs of the Group increased by 20.3% from RMB78.0 million for the year ended 31 December 2018 to RMB93.8 million for the year ended 31 December 2019, which was mainly due to the increase in the scale of financing, while the finance rate decreased significantly.

Profit before Tax

As a result of the foregoing, we recognized a profit before income tax of RMB485.9 million for the year ended 31 December 2019, as compared to a profit before income tax of RMB276.8 million for the year ended 31 December 2018, representing an increase of 75.5%.

Income Tax Expense

The Group's income tax expense increased by 146.7% from RMB22.5 million for the year ended 31 December 2018 to RMB55.5 million for the year ended 31 December 2019, 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 Central China School invested by the Group prior to the completion of acquisition, (2) the increase of service fee income under the Structured Contracts, and (3) the increase of withholding income tax on dividend payout.

Net Profit

As a result of the combined effect of income, costs and expenses above, the net profit of the Group was RMB430.4 million for the year ended 31 December 2019, an increase of 69.2% as compared with RMB254.3 million for the year ended 31 December 2018.

LIQUIDITY AND CAPITAL RESOURCES

The total capital of the Group, which equals to the aggregate of cash and cash equivalents plus time deposits and pledged deposits, increased by 153.5% from RMB413.2 million as of 31 December 2018 to RMB1047.3 million as of 31 December 2019. The capital reserves was obviously increased. The total capital coverage of short-term interest-bearing liabilities rose from 0.7 to 1.5.

CASH FLOW

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

	Year ended 31 December	
	2019	2018
	RMB million	*RMB million*
Net cash generated from operating activities	**830.9**	456.7
Net cash used in investing activities	**(603.6)**	(1,080.6)
Net cash (used in)/from financing activities	**(18.0)**	854.5
Effect of changes in exchange rate on cash and cash equivalents	**0.1**	0.4
Cash and cash equivalents at beginning of the year	**349.6**	118.6
Cash and cash equivalents at the end of the year	**559.0**	349.6

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.

Net cash from operating activities amounted to RMB830.9 million for the year ended 31 December 2019, increased by 81.9% for the year ended 31 December 2018.

Cash Flows used in Investing Activities

Investing activities inflows comprise primarily acquisition of subsidiaries and sales of property, plant and equipment and intangible assets. Investing activities outflows comprise primarily purchases of property, plant and equipment and intangible assets, prepaid land lease payments, and an increase in time deposits of RMB107.5 million. The time deposits is RMB107.5 million as of 31 December 2019.

Net cash outflows from investing activities amounted to RMB603.6 million for the year ended 31 December 2019, which had primarily reflected the property, plant and equipment purchased by Yunnan School, Guizhou School, Henan School, Northeast School, the investment in the construction of schools in Lanzhou, and prepaid land lease payments.

Cash Flows (used in)/from Financing Activities

Financing activities inflows primarily include borrowing bank loans and other loans, and the fund raised from the Group's listing by way of top-up placing. Financing activities outflows primarily include repaying bank loans and other loans, paying interest and dividends, and increasing in pledged time deposits of RMB317.3 million. The time deposits amounted to RMB380.8 million as of 31 December 2019.

Net cash outflows from financing activities amounted to RMB18.0 million for the year ended 31 December 2019.

CAPITAL EXPENDITURES

For the year ended 31 December 2019, the Group's capital expenditures were RMB439.2 million, which was primarily used for the construction of our school buildings and facilities at the new campus, prepaid land lease and purchase of equipment and software.

Capital Commitments

The Group's capital commitments were primarily related to the balance payment for the construction of school building, purchase of facilities and investment in Gansu College. The following table sets out a summary of our capital commitments as of the dates indicated:

	As of 31 December 2019	As of 31 December 2018
	RMB million	*RMB million*
Contracted but not provided for:		
Property, plant and equipment	**140.0**	72.3
Investments	**43.0**	123.0
	183.0	195.3

As of 31 December 2019, 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 bank loans and other borrowings amounted to RMB1,486.8 million as of 31 December 2019, among which HK$569.5 million was denominated in Hong Kong Dollar, while the remaining was denominated in Renminbi.

Contingent Liabilities

As of 31 December 2019, 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.

Ratio of Interest-Bearing Debt/Total Assets

Ratio of interest-bearing debt/total assets equals to the total amount of interest-bearing bank loans and other borrowings as of 31 December 2019 divided by the total assets. The Group's interest-bearing debt/total assets ratio decreased from 27.7% as of 31 December 2018 to 24.8% as of 31 December 2019, mainly due to the completion of consolidation of newly invested schools. With the simultaneous enhancement of the Group's total assets, the scale of interest-bearing debt is effectively controlled.

Net Ratio of Interest-Bearing Debt to Equity Ratio

Net ratio of interest-bearing debt to equity ratio equals total interest-bearing bank loans and other borrowings net of total capital divided by total equity as of 31 December 2019. The Group's net ratio of interest-bearing debt to equity ratio decreased from 38.3% as of 31 December 2018 to 14.9% as of 31 December 2019, which was primarily attributable to the increased capital reserves of the Group and the decreased net ratio of interest-bearing debt.

Gearing Ratio

Gearing ratio equals ratio of interest-bearing debt divided by total equity as of 31 December 2019. Ratio of interest-bearing debt includes all interest-bearing bank loans and other borrowings. The Group's gearing ratio decreased from 56.5% as of 31 December 2018 to 50.4% as of 31 December 2019. The Group's solvency has continued to improve.

FUTURE PLAN FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

Save as disclosed in this announcement, the Group did not have other plans for material investments and capital assets for the year ended 31 December 2019.

SIGNIFICANT INVESTMENTS, ACQUISITIONS AND DISPOSALS

The acquisitions of Guangxi Schools and Central China School were completed in 2019. Each of the schools entered into the structured contracts with Huihuang Company. Accordingly, Guangxi Schools and Central China School were treated as a consolidated affiliated entities of the Company. Please refer to the announcements dated 14 January 2019 and 26 August 2019 for details.

Save as disclosed, there were no other significant investments held by the Group, no material acquisitions or disposals of subsidiaries, associates or joint ventures during the period, nor was there any plan authorized by the Board for other material investments or additions of capital assets during the year ended 31 December 2019.

FOREIGN EXCHANGE RISK MANAGEMENT

The functional currency of the Group is RMB and HKD. The majority of the Group's revenue and expenditures are denominated in RMB. As at 31 December 2019, certain bank loan and bank balances were denominated in USD and HKD. The Group currently does not have any foreign currency hedging policies. The management will continue to monitor the Group's foreign exchange risk exposure and consider adopting prudent measures as appropriate.

PLEDGE OF ASSETS

The pledged assets of the Group as at 31 December 2019 are as follows:

(i) the Group's buildings, furniture and fixtures and electronic devices with an aggregate net carrying amount of approximately RMB250,178,000 as at 31 December 2019 (2018: RMB219,024,000);

(ii) the pledge of shares of the Group's certain subsidiaries;

(iii) personal guarantees executed by Mr. Li and Ms. Yang Xuqing (spouse of Mr. Li), Mr. Rong Hua and Ms. Kong Ailan, non-controlling shareholders of the sponsor of Henan School, and Ms. Rong Yu (vice-president of Henan School);

(iv) corporate guarantees executed by the Group and subsidiaries of the Group, which are controlled by Mr. Li;

(v) deposits of the Group with an amount of RMB343,000,000 at as 31 December 2019 (2018: RMB40,000,000);

(vi) a letter of guarantee issued by certain bank;

(vii) Guizhou School's charging right of tuition and boarding fees; and

(viii) Guangxi Yinghua International Occupation Middle School's charging right of tuition and boarding fees.

HUMAN RESOURCES

As of 31 December 2019, the Group had 7,147 employees (4,610 as of 31 December 2018). 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 maintains a good working relationship with employees, and the Group has not experienced any material labor disputes during the year ended 31 December 2019.

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 RMB0.032 per Share for the year ended 31 December 2019. 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. 16 March 2020 to 20 March 2020) (HK$1.0 to RMB0.90676). Accordingly, the amount of the final dividend payable in Hong Kong dollars will be HK$0.0353 per Share.

The final dividend will be paid on or about Friday, 5 June 2020 to the shareholders whose names appear on the register of members of the Company on or about Wednesday, 27 May 2020.

CLOSURE OF THE REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the annual general meeting to be held on Tuesday, 19 May 2020, the register of members of the Company will be closed from Thursday, 14 May 2020 to Tuesday, 19 May 2020, 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 Wednesday, 13 May 2020.

The register of members of the Company will be closed by the Group from Monday, 25 May 2020 to Wednesday, 27 May 2020, both days inclusive, during which period no transfer of shares of the Company will be effected. In order to be qualified for the final dividend, all share transfer documents accompanied by the relevant share certificates must be lodged with the Hong Kong Share Register, 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 Friday, 22 May 2020.

BUSINESS REVIEW

Positioning

1. ***Collectivized School Operation Practitioner***

   Established in 2005 and relocating its headquarters to Beijing in 2012, the Group has now formed a replicable collectivized school operation model that empowers the growth value of the Group and its Group members.

2. *Propeller of Application-oriented universities*

The Group is the initiator and Vice Chairman Unit of the Association of Universities (Colleges) of Applied Science of the MOE.

3. *Leader of High-quality Employment*

The schools of the Group have won the title of the Top 50 National Employment of the MOE（教育部全國就業工作50強）, with average employment rate remaining at above 97%. Its high-quality employment has been recognized by students and the society.

4. *Pioneer of Cross-regional Layout*

Since entering different provinces to operate schools in 2009, the Group has built up its business in seven provinces in China, including: Yunnan, Guizhou, Hubei, Heilongjiang, Henan, Guangxi and Gansu.

5. *Forerunner of Organic Growth*

The total student enrollment and tuitions fees in the seven schools which were self-founded and invested by the Group, keeping continued increase.

Group Strength

As a leading private higher education group in China, it is the mission of the Group to "Help Students Become The Best They Can Be". The Group has 15 years of experience in private universities and has 5 successful acquisition cases. For 2019/2020 academic year, the total student enrollment in the 7 self-founded and invested schools exceeds 113,500. The Group has over 300 undergraduate and junior college majors, providing more than 3,200 online and offline quality courses. As the leader of high-quality employment, there are more than 1,000 on-campus and off-campus experimental training bases and over 10,000 premium employment cooperation companies in the schools of the Group.

Highlights in 2019

- For 2019/20 academic year, total student enrollment exceeded 113,500.

- The Group successfully completed integration of the invested schools. Consolidation of financial results of Guangxi School and Central China School were completed in 2019. A new campus with an area of about 500 mu was built for Henan School which has a current enrolment of over 27,000 students, and it took only one year to complete the construction and relocation of Gansu College.

- As of December 31, 2019, the average employment rate of graduates of the Group was 97.35%, and the high-quality employment* rate reached 38.48%.

- In 2019, the Group newly added 164 internal and external experimental training bases, including 40 internal experimental training rooms and 124 external practice bases.

- Around 1,700 students have won close to 500 awards in subject competitions. The awards include special prize in the national finals of the 9th China National College Student "Innovation, Originality and Entrepreneurship" Challenge national finals grand prize.

* *"High-quality employment" represents students working for the world's top 500 companies, Chinese top 500 companies, listed companies (including overseas main boards, domestic main boards, small and medium-sized boards, GEM and NEEQ) companies, central SOEs and provincial state-owned enterprises, also includes students pursue further education, work as civil servants.*

Two-wheel Driven Growth Strategy

The Group maintains an "Organic Growth + Value Investment" two-wheel driven growth strategy to build internal and external growth engines, and continues to drive high-speed growth. The emphasis will be put on organic growth, supplemented by external investment extension.

Organic Growth

The Group promotes organic growth by implementing the "Quality, Grow and Light" strategy of "Quality improvement, revenue growth and light assets".

"Quality improvement" represents that the Group will continue to improve the quality in teaching, employment, management and services.

The Group diversifies revenue to achieve the sustainable performance growth of "Revenue growth".

1. Increase revenue in principal businesses: raise the revenue from tuition fees and boarding fees by focusing on raising tuition fees of outstanding majors and boarding fees.

2. Increase revenue in non-principal businesses: expand value-added services to targeted students or specified groups, give priority to exploit potential resources in campuses to expand revenue from logistics commerce, training, and integration of industry and teaching.

The Group is also carrying out "Light assets" mode aiming for asset inventories and scientific classification, to perfect management of demand, use, input and income of each type of assets through exploring innovative business models, reduce required investment and improving return on assets.

The Group will carry out the strategy of "Quality, Grow and Light" through "Six Excellences", including excellent teaching quality, excellent students' experience, excellent social reputation, excellent schooling benefit, excellent technological support and excellent management.

Value Investment

As a practitioner in cross-region operation, the Group commenced running schools in various provinces in 2009 and the network of school has covered seven provinces with over 15 years of experience in self-operation and acquisitions of schools.

Precision

- Find premium schools located in areas with low gross enrollment rate, scarce educational resources but huge growth potential in the future

- Focus on higher education

Stability

- Improve post-investment management capabilities

- Strengthen financial foundation

- Planned self establishment or acquisition of universities

Collectivization Operation

- Resource sharing in the Group

- Collaborative innovation in multiple fields

- Supported by digitalized platform

IMPROVE TEACHING QUALITY

Holding as its mission "Help Students Become The Best They Can Be", the Group provides high-quality teaching resources to promote the comprehensive development of students, improve their ability to study and work, thus secure them satisfactory jobs after graduation.

- ***New-added popular majors***

  To answer the calling of MOE, the Group focused on the establishment of new arts, new engineering and new medicines, and added 24 new majors in the 2019/2020 Academic Year.

- ***Focused on education quality***

  Based on the education mode for Outcomes-Based Education, the Group pays attention to curriculum research and formulation and builds the teachers team with "double qualifications", organized more than 100 training sessions for teachers, and won the two first-prize awards and seven second-prize awards in the provincial teaching competition.

- ***Innovation talents training***

  Gradually promote the talent training mode of high-paying pilot classes (Talent Class, College of Excellence, etc.), the employment rate of graduates is nearly 100%, and the annual salary is more than RMB75,000, which is much higher than the industry average level.

- ***Deepened the integration of production and education***

  The school members under the Group cooperate with more than 10,000 employment cooperation units including Huawei, Alibaba Group, State Grid and China State Construction, etc.

- ***Expanded international cooperation***

  The Group has signed cooperation agreements with 17 overseas schools or institutions in countries such as the United States, United Kingdom, Germany, and Canada, with international students from 34 countries studying and exchanging at the schools.

- ***Won more awards***

  In 2019, around 1,700 students have won close to 500 awards in subject competitions. The awards include: the special prize and the Best Innovation prize (Yunnan School) in 9th China National College Student "Innovation, Originality and Entrepreneurship" Challenge national finals grand prize and the first prize in National 3D Digital Innovation Design Competition (Elite League), etc.

- ***Significant improvement in employment quality***

  As a promoter of universities of applied science, the Group takes high-quality employment as guidelines and uses graduate employment rate as an important criterion to measure the teaching results. Over the past few years, the employment track record of our industry-leading graduates and the continuous improvement of the starting salary of graduates are sufficient evidence of the Group's teaching quality and the effectiveness of the education model. The average employment rate of graduates is 97.35%, and the high-quality employment rate reaches 38.48% (meaning entering famous enterprises, involving in further education, or being civil servants).

	Graduate Employment Rate As of 31 December	
Schools	**2019**	2018
Yunnan School	**98.2%**	98.2%
Northeast School	**93.3%**	93.5%
Central China School	**95.1%**	–
Gansu School**	**95.0%**	–
Guizhou School (higher vocational school)	**97.5%**	97.3%
Henan School (higher vocational school)	**96.3%**	97.2%
Guangxi School (higher vocational school)	**96.1%**	–

* *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.*

** *The acquisition of Gansu College is still pending approval for change of school sponsor of Gansu College by the MOE.*

IMPROVE DIGITALIZATION

- ***Teaching digitalization***

  Combining cloud technology, the Group developed the TronClass, an integrated online teaching platform combined teaching, learning, management, and evaluation, which played an important role during the outbreak of Novel Coronavirus Disease (COVID-19), met online teaching needs, and had more than 40 million visits.

- ***Management digitalization***

  The platform relies on Aliyun to establish a computing center, a data center, and a security center, and applied the products of a renowned management software provider, Yonyou to upgrade the ERP management system.

- ***Service digitalization***

  The Group uses micro-front end, big data, and cloud computing to independently develop a comprehensive digital service platform for teacher and student. In 2019, it had provided teachers and students with comprehensive services including academic record, registration for examinations, payment of fees, evaluation of teaching, apartment maintenance and suggestions more than 15 million times.

- ***Security digitalization***

  The Group cooperates with Hikvision to apply emerging technologies such as face recognition, big data, and behavior recognition to implement comprehensive safety management on campus personnel safety, fire safety, food safety, and intra-school traffic safety to achieve zero major safety accidents. Yunnan schools and Gansu School are highly recognized by the government and the technology was approved to promote in schools across the two provinces.

MANAGEMENT IMPROVEMENT

The Group has continuously been improving its management in the establishment of the Group, risk control, internal control and compliance, financial control and assets management.

Organizational Upgrading

- Set up operating analysis department and assets management department to improve the operational capabilities of the Group.
- Create the corporate culture of "Student-oriented, Contribution first"
- Conduct appraisal transformation to activate the vigor in the Group

Risk control, internal control and compliance

- Set up compliance team;
- Optimize compliance system and approval procedures;
- Regularly preview legal risks and monitor compliance;
- Organize training on the knowledge of risk control and compliance

Financial control

- Identify the best practices and strengthen input-output
- Optimize financial analysis and strengthen budget management
- Upgrade the financial system and strengthen the quality of accounting

Assets Management

- Standardized assets management through informatization and digitalization
- Introduced more than RMB40 million social funds in logistics support, student services, etc., to reduce capital investment and create lighter assets
- Improved the efficiency of assets management and the assets turnover ratio increased by 16.7%, a significant improvement over the same period

Number of Enrolled Students

For the academic year of 2019/2020, school members under the Group had reached new record high in terms of the number of students enrolled, representing the strength and reputation of each school which is highly competitive in the local region.

The Group owns Yunnan School and Guizhou School, and acquired Northeast School, Henan School, Guangxi Schools and Central China School (the "Schools"), all of which have been completed as at the end of 2019. The Group newly invested in Gansu College which is pending closing. (For the purpose of this paragraph, together with the "Schools", the "All Schools"). (Since Gansu College completed the campus construction and relocation of students in September 2019, the student enrollment number was not included in the cardinal number of 2018/19 academic year).

The total number of enrolled students of the All Schools increased to 113,507 in the 2019/2020 academic year, representing an increase of approximately 21% as compared to 93,548 in the 2018/2019 academic year.

The total number of enrolled students of the Schools increased to 105,269 in the 2019/2020 academic year, representing an increase of approximately 13% as compared to 93,548 in the 2018/2019 academic year.

	Number of Enrolled Students Academic Year *Note (4)*	
Schools	**2019/2020**	2018/2019
Yunnan School	**30,658**	27,755
Guizhou School	**17,308**	16,828
Northeast School	**9,258**	9,261
Henan School	**27,008**	21,167
Central China School *Note (1)*	**10,764**	8,584
Guangxi Schools *Note (2)*	**10,273**	9,953
Total	**105,269**	93,548
Gansu College *Note (3)*	**8,238**	8,218
Total	**113,507**	101,766

Notes:

(1) The Group has obtained all necessary approvals and completed the acquisition of the Central China School on 26 August 2019.

(2) The Group has obtained all necessary approvals and completed the acquisition of the Guangxi Schools on 11 January 2019.

(3) Gansu College completed the campus construction and relocation of students in September 2019. The acquisition of Gansu College is still pending approval for change of school sponsor of Gansu College by the MOE.

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

Our Schools

Schools	Status	
Yunnan School	Self-founded	• Founded in 2005, provides undergraduate education and junior college education • The first private undergraduate school in Yunnan Province • Top 50 National Graduate Employment of the MOE（教育部全國畢業生就業工作50強） • Approved as applied talents training model institute in Yunnan Province in 2019 • The first applied undergraduate university in Yunnan founding University Edge Computing Network Engineering Research Center School performance: • The number of students enrolled in the 2019/2020 academic year increased by 11% • The graduate employment rate in 2019 continued staying above 98% • The average annual salary of the 2019 Excellence Class graduates exceeds RMB75,000 • Won the first award of the Yunnan Duty Appraisal of Employment Target for 10 consecutive years • In 2019, teachers and students of the school won 286 awards in a number of national and provincial competitions, including 42 national awards and 244 provincial awards

Schools	Status	
Guizhou School	Self-founded	• Founded in 2012, provides junior college education • The largest full-time vocational college by enrollment in Guizhou Province • The only private college in Guiyang awarded the "Advanced Educational Institution in Guiyang" in 2019 School performance: • The average annual salary of the 2019 Excellence Class graduates exceeds RMB80,000, far exceeding the average market level • In 2019, teachers and students won 92 national and provincial awards, of which 22 were national awards Major settings: • Focus on providing three major streams i.e. big health, big data and big finance • Accounting major is on the list of key majors developed by Education Office of Guizhou province • The pass rate of nurse qualification examinations for four consecutive years is higher than the national average level of higher vocational education, and ranking the top in Guizhou • 4 first prizes of the Guizhou Nursing Skills Competition • 1 first prize of Guizhou Teachers' Teaching Ability Contest • 1 second prize of National Nursing Skills Competition

Schools	Status	
Northeast School	Investment (completed in December 2018)	• First built in 1992, then established as an independent institute, provides undergraduate education • The earliest private undergraduate university in Heilongjiang Province • The only national key construction base for the training of qualifications of higher– and middle-level professional teachers in private universities • Heilongjiang Top 100 Quality Institution School performance: • Automobile service engineering major was recommended to participate in the construction of national first-class majors • Cooperated with Siemens (China) Co., Ltd. (西門子(中國)有限公司) in 2019 to launch the only intelligent manufacturing engineering major in Heilongjiang Province • Strengthen cooperation with Geely, Midea, FAW and other well-known enterprises • Graduate employment rate in the world's top 500 companies in 2019 reached 10.60%, and the professional counterpart rate is 85.72% Post-investment management: • Based on the construction of Talent Class for outstanding majors, more than 1,000 students have been trained. In 2019, there are 8 Talent Class for majors such as smart manufacturing engineering. The average annual salary of the graduates of the Talent Class in 2019 exceeds RMB80,000, and the employment rate is nearly 100% • For school-enterprise cooperation, there are 13 large scale practical teaching centers (including 197 on-campus laboratories and 97 off-campus internship bases) on campus, 12 newly added school-enterprise cooperation projects were recorded in 2019

Schools	Status	
Henan School	Investment (completed in October 2018)	• Established in 2013, provides junior college and vocational education • Excellent private school in Henan Province • The National Top 10 E-commerce Educational Institutions • The first batch of pilot colleges to hold the National E-commerce Skills Examination School performance: • The number of students enrolled in the 2019/2020 academic year increased by 27.6% • E-commerce major was selected as provincial brand major construction site • E-Commerce Institute is recognized by the Electronic Commerce Industry Steering Committee as a "characteristic college focusing on modern apprenticeship training established jointly by schools and enterprises" • Automobile testing and maintenance major was rated as a national key major by the MOE Post-investment management: • Expansion of campus: built a new campus of about 500 mu, increased investment in books and facilities, greatly improved hardware conditions, and met the need of school development • Strengthen management: send key management teams to integrate schools into the collectivization system, increase the construction of information systems, deploy collaborative office, financial management, and teaching service information systems to improve management and the quality of education and teaching. Implement comprehensive budget management to achieve effective control of school operating costs • Optimize the structure: increase the introduction of highly-educated and highly-skilled talents, improve the quality and standards of talent training, increase the vocational admissions plan, and optimize the structure of students

Schools	Status	
Guangxi Schools	Investment (completed in January 2019)	• Established in 2005, provides junior college and vocational education • Located in the port city of Beibu Gulf Economic Zone • The only private college in the local • The most international college in the local School performance: • Carry out student internship employment cooperation with 76 high-quality units such as SAIC GM Group and JD Group • Conduct "order class" cooperate with five companies including Beijing Hoing Education and TCL • Signed cooperation agreements with 11 undergraduate colleges, such as Guilin University of Technology, Guilin University of Electronic Technology, Beibu Gulf University, and Guangxi Normal University for Nationalities, in relation to excellent graduates exempted from college entrance examination Post-investment management: • Improve campus: invest to improve campus environment, experimental training equipment, classrooms, dormitories and other hardware conditions, further improve the quality of education and teaching, and improve students' satisfaction • Talent incentive: change the performance evaluation system, generously reward those who have contributed, and promptly promote young capable people, which will significantly increase the employment rate • Enhance teaching: integrate group education resources, optimize professional settings, innovate working mechanisms, strengthen cooperation with Guangxi undergraduate schools, provide undergraduate courses for college graduates, and training revenue increased rapidly

Schools	Status	
Central China School	Investment (completed in August 2019)	• Established in 2003, provides undergraduate and junior college education in medicine, arts and other subject • National Advanced Independent College • Obtained the qualification to grant Bachelor of Medicine • In 2019, it was named the advanced collective of college admissions team in Hubei Province • Awarded "Excellent Project of National College Student Volunteer Service in Western China in 2019 (2019年全國大學生志願服務西部就業計劃優秀項目)" School performance: • Ranked first in the province in terms of job satisfaction • Government entrusted targeted training unit for medical students • Financial management and nursing science won provincial first-class professional construction site • Received 83 provincial and above discipline competition awards, including 9 national awards Post-investment management: • Improve management: strengthen team construction, increase campus information construction efforts, upgrade collaborative office, financial management, teaching service information systems, and improve management and education and teaching quality • Improving efficiency: Tuition fees for medical, art (music, dance), and economic management majors have been significantly increased; comprehensive budget management has been implemented, asset utilization has been strengthened; and the cost of running schools has been effectively controlled, and the efficiency of running schools has increased significantly per capita • Expansion of campus: increased capital to expand the campus, investment in experimental teaching equipment and continuous improvement of school conditions, the number of students increased rapidly to 12,000

Schools	Status	
Gansu College	Investment (pending closing)	• Established in 2004, provides undergraduate education • Ranked No. 1 in employment rate of Gansu Independent College in 2019 • Excellent Engineering Training Platform in Northwest of China • The first batch of pilot universities for transformation and development of applied technology universities in Gansu Province • Advanced Unit of Employment in Ordinary Colleges and Universities in Gansu Province • Ranked No. 1 in patents in independent colleges in the province School performance: • The average employment salary in 2019 is 30% higher than that of college students in Gansu Province • There are 1 provincial key laboratory, 2 provincial experimental teaching demonstration centers, 7 school-enterprise collaborative engineering technology research and development centers, and more than 30 professional laboratories • In the past three years, students have won more than 50 national awards and more than 200 provincial awards in scientific and technological innovation competitions • Undertake provincial and ministerial key scientific and technological research and development projects and more than 30 Ministry of Education industry-academia collaboration education programs • Established off-campus training and employment bases with more than 200 companies, including Fortune 500 companies such as State Grid, CSCEC, China Railway Group, and Zhejiang Geely Group • Reputable in the field of domestic truss robots, and graduates have established 2 national high-tech enterprises, and more than 100 graduates have been in many robot companies

Schools	Status
	Post-investment management: • Has completed the construction of the new campus, the construction of new campus is the fastest in the field of education in Gansu Province and more than 8,000 students relocated to new campus in September 2019

Prospects

The Company will continue to give full play to the advantages of collectivized operation of schools and continue to implement the two-wheels driven development strategy. In terms of Organic Growth, the Group will further improve the quality of teaching, employment, management and services, as well as expand income. To make assets lighter, the Group will study demand more scientifically, use more efficiently, input more reasonably and generate income more efficiently. In terms of Value Investment, the Group will adhere to the principle of "Precision, Stability and Collectivized Operation", continue to focus on higher education, and identify premium targets in areas with low gross enrollment rates, huge amount of students, and great potential for future development. Newly acquired schools will take advantage of collectivized resource sharing, collaborative innovation in various fields through digitalized platform and other supports, to further consolidate the financial foundation, and to significantly improve the integration effect of post-investment.

The Group proactively invested in 5 colleges and universities before and after the listing, the acquisition cost is far lower than the current market price, and the first-mover advantage is obvious. Through efficient collectivized management, the Group gained prominent integration effect after the acquisition of schools. Currently, the Group has more than 113,500 students, ranking third among the PRC higher education sector in the Hong Kong stock market. Significant improvements have taken place in teaching and employment quality of invested schools, and the net profit of acquired schools has grown significantly after investment. The Group's development strategy with organic growth as the mainstay and investment as the supplement has been verified. Benefiting from the recent continuation of favorable policies for higher education, the Group's schools located in areas with low gross enrollment rates, underdeveloped educational resources are of huge growth potential in the future. Future growth can be expected and sustained with strong local government support. The future performance will continue to improve with high quality, and there is huge room for valuation improvement.

The Group’s Joint Efforts to Fight The Outbreak of Novel Coronavirus Disease (COVID-19) and The Group's Measures in Response to The Epidemic

Due to the outbreak of Novel Coronavirus Disease (COVID-19) in the early of 2020, the nation/regions carried out and continue to carry out a series of prevention and control measures. To ensure teachers’ and students’ safety and health, the Group organized online teaching and learning on the online education platform, which has always being applied by the Group, for teachers and students according to the principle of “Delay backing to school, no delay in teaching and learning” for spring academic year, to realize the migration of teaching from offline to online and the integration of both. The Group orderly organized online teaching and learning for teachers and students to minimize the impact of the epidemic on teaching.

Meanwhile, representatives of medical graduates went to the anti-epidemic front line in Wuhan, and five outstanding nursing graduates from the Guizhou School joined the Aid-Hubei medical team to go to the anti-epidemic front line in Wuhan. Teachers and students from several schools have taken the initiative to participate in epidemic prevention and control work, raised and donated medical and living supplies. The faculty and students of the Group also voluntarily donated to support the prevention and control work on COVID-19 epidemic. At present, we have received donations of about RMB1.40 million and a large amount of supplies.

The management has assessed and preliminarily concluded that there was no significant impact on the financial position of the Group from the outbreak of COVID-19 for the year ended 31 December 2019 and up to the date of this announcement. The Group will keep continuous attention on the situation of the COVID-19 and react actively to any possible impacts on the operation and financial position of the Group, and in the event that if there is any significant financial impacts, the Company will announce in a timely manner and reflect it in the Group’s 2020 interim and annual financial statements.

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 2019, the Company has complied with the Corporate Governance Code as set out in Appendix 14 of the Listing Rules.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has also adopted the Model Code for Securities Transactions by Directors of Listed Issuers (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 for the year ended 31 December 2019.

FUND RAISING ACTIVITIES FOR THE PAST 12 MONTHS

On 9 April 2019, the Company, Aspire Education Technology, as the vendor, Mr. Li and CLSA Limited, as the placing agent entered into a placing and subscription agreement, pursuant to which, the placing agent agreed to place a total of 110,000,000 placing shares at a price of HK$3.57 per Share owned by Aspire Education Technology to not less than six independent placees and Aspire Education Technology agreed to subscribe for, and the Company agreed to issue, the 110,000,000 subscription shares at HK$3.57 per Share to the vendor under the general mandate. The net subscription price, after deducting such fees, costs and expenses, was therefore approximately HK$3.539 per subscription share. The placing shares represented approximately 7.69% of the then issued share capital of the Company and approximately 7.14% of the issued share capital of the Company as enlarged by the subscription. The net proceeds from the subscription were HK$389.3 million. The Company intended to use the estimated net proceeds of the subscription primarily for debt repayment and general corporate purposes. Such top-up placing was completed and accordingly 110,000,000 subscription shares were issued by the Company to Aspire Education Technology on 17 April 2019. Details of the top-up placing are set out in the Company's announcements dated 10 April 2019 and 17 April 2019 respectively. As at the date of this announcement, the use of proceeds was consistent with that as disclosed in the announcements, and further details will be disclosed in the annual report of the Company.

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

Save as disclosed in the paragraph headed "Fund Raising Activities for the Past 12 Months" above, 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 2019.

AUDIT COMMITTEE

The audit committee of the Company (the "**Audit Committee**") has reviewed and discussed with the management in relation to the accounting principles and practices adopted by the Company, the internal controls and financial report matters, and the Company's policies and practices on corporate governance. The annual results has been reviewed by the Audit Committee.

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 2019 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.

EDUCATION POLICY TREND

In the first half of this year, 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 the Group) 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. 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 enrolment by recruiting additional one million students this year, which reflected 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.

In July 2019, the MOE announced an increase in the quota of national scholarships for higher vocational colleges and the expansion of national scholarships coverage to facilitate a more healthy development of the higher education industry in the PRC. The Group will continue to shoulder its social responsibility to relieve poverty through education.

In December 2019, the Ministry of Education of the PRC released the Draft Amendment on the Vocational Education Law of the People's Republic of China (Draft for Comments) to solicit public opinion. Such draft clarifies the equal status between vocational education and general education, defines a clear development direction for the vocational education in various aspects namely, the mechanism of running a school, management system, systematic framework, system support, teacher and education system, quality evaluation mechanism, autonomy to run a school and investment mechanism of operating funds, specifically demonstrates the Implementation Plan for the National Vocational Education Reform from the perspective of legislation, and will provide a strong guarantee for China to accelerate the vocational education reform.

Recent developments of regulatory framework

(I) Classified Registration

According to the Several Opinions of the State Council on Encouraging Social Power to Set up Education to Promote the Healthy Development of Private Education (29 December 2016), a classification registration and management system shall be applicable to private schools, and private school sponsors can choose to run non-profit or for-profit private schools. The revised Laws for Promoting Private Education of the PRC (implemented on 1 September 2017) also promulgated the same provisions.

According to the Implemental Rules on Private School Registration (30 December 2016), if an existing private school chooses to register as a non-profit private school, it should modify its article of association, continue to run the school and complete new registration procedures in accordance with relevant laws. If it chooses to register as a for-profit private school, it should conduct financial settlement, clarify the ownership of school land, school premises, school accumulation, and pay related taxes and fees, obtain a new permit in running a school, re-register and continue the operations for education.

In order to further implement the above requirements, government and relevant competent departments in region where the Group runs schools have successively issued supporting measures, including (1) Notice of the Five Departments including Education Department of Yunnan Province on Steady and Orderly Promotion of Classified Registration and Management of Private Schools (12 June 2019); (2) Implementation Opinions issued by the People's Government of Guizhou Province on Supporting and Regulating Social Forces to Set up Education to Promote the Healthy Development of Private Education (3 August 2018), Measures for the Implementation of Classified Examination and Approval of Registration and Supervision and Management of Private Schools in Guizhou Province (Trial) (11 June 2019); (3) Implementation Opinions issued by Heilongjiang Province on Encouraging Social Powers to Set up Education to Promote the Healthy Development of Private Education, Measures for the Implementation of Classified Registration of Private Schools in Heilongjiang Province, and Measures for the Supervision and Administration of for-profit Private Schools in Heilongjiang Province (26 February 2019); (4) Implementation Opinions of the People's Government of Gansu Province on Further Promoting the Healthy Development of Private Education (8 November 2017), Measures for the Implementation of Classified Registration of Private Schools in Gansu Province (15 November 2018); (5) Implementation Opinions issued by the People's Government of Guangxi Zhuang Autonomous Region on Encouraging Social Powers to Set up Education to Promote the Healthy Development of Private Education (2 July 2018), Measures for the Implementation of Classified Registration of Private Schools in Guangxi Zhuang Autonomous Region (10 October 2018), Measures for the Implementation of Supervision and Administration of for-profit Private Schools in Guangxi Zhuang Autonomous Region (16 October 2018); (6) Implementation Opinions issued by the People's Government of Hubei Province on Encouraging Social Powers to Set up Education to Promote the Healthy Development of Private Education (20 December 2017); (7) Implementation Opinions issued by the People's Government of Henan Province on Encouraging Social Powers to Set up Education to Promote the Healthy Development of Private Education (2 February 2018).

The above local regulations provide a framework procedure for the classification and registration of existing private schools in relevant provinces as for-profit private schools or non-profit private schools, but do not further specify the process of classification and registration, for example, (1) the specific procedures for a school to be registered as a for-profit or non-profit school, and (2) the various preferential taxes and land use policies that can be enjoyed by for-profit and non-profit schools. As of the date of this announcement, the Company has not commenced the process of classification and registration for schools under the Group. Since there are certain uncertainties in the interpretation and application of the above requirements, the uncertainties are in respect of when the private schools under the Group can complete the classified registration, whether the relevant taxes and fees will need to be paid in accordance with local supporting rules in the process of classified registration in the future, and what supporting policies provided by government regarding tax and land use they will enjoy.

(II) The MOJ Draft for Comments

On 10 August 2018, the Ministry of Justice issued the Regulations for the Implementation of the Law on the Promotion of Private Education of the People's Republic of China (Revised Draft) (the Draft for Examination and Approval) (the "**MOJ Draft for Comments**"), to solicit public opinions.

If the MOJ Draft for Comments is approved in the current manner and takes effect, and if our mode of running a school is identified as centralized school management mode and our Structured Contracts is identified as "contractual agreements" according to Article 12 of the MOJ Draft for Comments, we may need to register the subordinate private colleges and universities as for-profit private schools. In addition, as we can no longer acquire or control non-profit private schools by means of franchising or contractual agreements, our acquisition scope may be limited, this provision may have an impact on our expansion strategy. In addition, our Structured Contracts may be treated as connected transactions.

However, there are still uncertainties as to whether the MOJ Draft for Comments will be adopted in its current form and how it will be interpreted and implemented. We cannot predict with confidence the impact of the laws or regulations related to the implementation of the Private Education Promotion Law of the PRC on our business, financial condition and results of operations (if any) in the future at this stage.

As confirmed by our PRC legal advisors, the Company hereby informs shareholders and investors that the MOJ Draft for Comments is still in the negotiation stage and has not been issued or implemented in China. The Company will continue to follow up the development of the MOJ Draft for Comments and relevant laws and regulations.

(III) Foreign Investment Law

The Foreign Investment Law of the PRC ("**Foreign Investment Law**") approved by the National People's Congress on 15 March 2019 has been implemented since 1 January 2020, and has become the basic law for foreign investment in China. According to this law, existing foreign-invested enterprises may maintain their existing organization structure within five years from the effective date of the Foreign Investment Law. On 26 December 2019, the State Council issued the Implementation Regulations of the Foreign Investment Law of the PRC ("**Implementation Regulations**"), which also came into effect on 1 January 2020, aiming to implement the legislative principles and purposes of the Foreign Investment Law.

The Foreign Investment Law clearly specifies three forms of foreign investment, but neither the Foreign Investment Law nor the Implementing Regulations explicitly stipulate contractual agreements as a form of foreign investment. As confirmed by our PRC legal advisors, as the Foreign Investment Law and Implementation Regulations do not define contractual agreements as a form of foreign investment, if future laws, administrative regulations, and regulations of the State Council do not include contractual agreements as a form of foreign investment, the Structured Contracts as a whole and the agreements constituting the Structured Contracts will not be affected, and will continue to be legally valid, effective and binding on the parties. However, if future laws, administrative regulations, and regulations of the State Council stipulate contractual agreements as one of the ways of foreign investment, the Group may need to take relevant measures in accordance with the requirements of the laws, regulations and regulations of the State Council at that time. There will be uncertainty as to whether we can complete these measures in a timely manner or at all. Failure to take appropriate measures in a timely manner to address any of the compliance requirements in the above provisions may have a significant effect on our current group structure, corporate governance and business operations.

As of the date of this announcement, the Company's operations have not been affected by the Foreign Investment Law.

The Board will continue to monitor any updates regarding the foreign investment and seek guidance from our PRC legal advisors to ensure that the Company meets all relevant laws and regulations in China.

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 reporting period 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.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
YEAR ENDED 31 DECEMBER 2019

	Notes	2019 RMB'000	2018 RMB'000
REVENUE	4	**1,089,221**	561,450
Cost of sales		**(546,582)**	(275,029)
Gross profit		**542,639**	286,421
Other income and gains	4	**163,090**	166,044
Selling and distribution expenses		**(13,957)**	(5,434)
Administrative expenses		**(84,891)**	(53,701)
Other expenses		**(27,208)**	(38,567)
Finance costs	5	**(93,806)**	(77,970)
PROFIT BEFORE TAX	6	**485,867**	276,793
Income tax expense	7	**(55,513)**	(22,525)
PROFIT FOR THE YEAR		**430,354**	254,268
Attributable to:			
Owners of the parent		**386,446**	242,530
Non-controlling interests		**43,908**	11,738
		430,354	254,268
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	9		
Basic *(RMB)*			
– For profit for the year		**0.26**	0.17
Diluted *(RMB)*			
– For profit for the year		**0.26**	0.17

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
YEAR ENDED 31 DECEMBER 2019

	2019	2018
	RMB'000	*RMB'000*
PROFIT FOR THE YEAR	**430,354**	254,268
OTHER COMPREHENSIVE LOSS		
OTHER COMPREHENSIVE LOSS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS IN SUBSEQUENT PERIODS		
Exchange differences on translation of financial statements	**(12,403)**	(41,745)
Net other comprehensive loss that will not be reclassified to profit or loss in subsequent periods	**(12,403)**	(41,745)
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX	**(12,403)**	(41,745)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**417,951**	212,523
Attributable to:		
Owners of the parent	**374,043**	200,785
Non-controlling interests	**43,908**	11,738
	417,951	212,523

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
31 DECEMBER 2019

	Notes	2019 RMB'000	2018 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**3,089,932**	2,116,119
Investment properties		**210,292**	161,426
Right-of-use assets		**477,036**	–
Prepaid land lease payments		**–**	203,930
Goodwill		**225,379**	196,114
Other intangible assets		**21,223**	18,531
Other non-current assets	*10*	**825,766**	1,407,690
Total non-current assets		**4,849,628**	4,103,810
CURRENT ASSETS			
Prepayments, other receivables and other assets	*11*	**104,004**	131,470
Pledged deposits		**380,832**	63,534
Time deposits		**107,500**	55,000
Cash and cash equivalents		**559,007**	294,630
Other current assets		**394**	5,065
Total current assets		**1,151,737**	549,699
CURRENT LIABILITIES			
Deferred revenue	*12*	**725,363**	472,928
Other payables and accruals	*13*	**645,379**	488,762
Interest-bearing bank and other borrowings		**698,877**	625,324
Deferred income		**10,622**	9,775
Tax payable		**44,259**	35,566
Total current liabilities		**2,124,500**	1,632,355
NET CURRENT LIABILITIES		**(972,763)**	(1,082,656)
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,876,865**	3,021,154
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		**787,952**	661,523
Deferred income		**35,698**	31,001
Deferred tax liabilities		**101,559**	49,419
Total non-current liabilities		**925,209**	741,943
Net assets		**2,951,656**	2,279,211

	2019	2018
	RMB'000	*RMB'000*
EQUITY		
Equity attributable to owners of the parent		
Share capital	**1,056**	983
Reserves	**2,484,475**	1,856,011
	2,485,531	1,856,994
Non-controlling interests	**466,125**	422,217
Total equity	**2,951,656**	2,279,211

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

These 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, except for wealth management products which has been measured at fair value. These financial statements are presented in RMB and all values are rounded to the nearest thousand except when otherwise indicated.

The Group recorded net current liabilities of RMB972,763,000 as at 31 December 2019 (2018: RMB1,082,656,000).

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 adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*
HKFRS 16	*Leases*
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

Except for the amendments to HKFRS 9, HKAS 19 and HKAS 28, and *Annual Improvements to HKFRSs 2015-2017 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised HKFRSs are described below:

(a) HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors continue to classify leases as either operating or finance leases using similar principles as in HKAS 17. For a sublease arrangement, the classification of the sublease is made by reference to the right-of-use asset arising from the head lease, instead of by reference to the underlying asset. Therefore, HKFRS 16 did not have any financial impact on leases where the Group is the lessor.

The Group has adopted HKFRS 16 using the modified retrospective method with the date of initial application of 1 January 2019. Under this method, the standard has been applied retrospectively with the cumulative effect of initial adoption recognised as an adjustment to the opening balance of retained profits at 1 January 2019, and the comparative information for 2018 was not restated and continued to be reported under HKAS 17 and related interpretations.

New definition of a lease

Under HKFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

The Group has lease contracts for various items of office premises and land. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under HKFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low-value assets (elected on a lease-by-lease basis) and leases with a lease term of 12 months or less ("short-term leases") (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 January 2019, the Group recognises depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

Impact on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and included in interest-bearing bank and other borrowings. The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019.

All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position.

For the leasehold land and buildings (that were held to earn rental income) previously included in investment properties, the Group has continued to include them as investment properties at 1 January 2019. They continue to be measured under HKAS 40. For the lease previously accounted for as operating lease and entered into for earning sublease rental income, the related right-of-use asset of the head lease amounting to RMB1,130,000 was measured at cost at 1 January 2019, and have been accounted for and classified as investment properties applying HKAS 40 from that date.

The Group has used the following elective practical expedients when applying HKFRS 16 at 1 January 2019:

- Applying the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application

- Using hindsight in determining the lease term where the contract contains options to extend/terminate the lease

Financial impact at 1 January 2019

The impact arising from the adoption of HKFRS 16 as at 1 January 2019 was as follows:

	Increase
	RMB'000
Assets	
Increase in right-of-use assets	205,750
Decrease in prepaid land lease payment	(203,930)
Increase in total assets	1,820
Liabilities	
Increase in interest-bearing bank and other borrowings	1,820

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 are as follows:

	RMB'000
Operating lease commitments as at 31 December 2018	27,366
Incremental borrowing rate as at 1 January 2019	3.82%-4.26%
Discounted operating lease commitments as at 1 January 2019	25,723
Less: Commitments relating to short-term leases and those leases with a remaining lease term ended on or before 31 December 2019	(1,283)
Leases not yet commenced to which the Group is committed	(22,620)
Lease liabilities as at 1 January 2019	1,820

(b) HK(IFRIC)-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. Upon adoption of the interpretation, the Group considered whether it has any uncertain tax positions arising from the transfer pricing on its intergroup services. Based on the Group's tax compliance and transfer pricing study, the Group determined that it is probable that its transfer pricing policy will be accepted by the tax authorities. Accordingly, the interpretation did not have any impact on the financial position or performance of the Group.

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 expenditures were located/incurred in the PRC. Accordingly, no geographical segment 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:

	2019	2018
	RMB'000	*RMB'000*
Revenue from contracts with customers		
Tuition fees	**984,266**	512,487
Boarding fees	**104,955**	48,963
	1,089,221	561,450

Revenue from contracts with customers

(i) Disaggregated revenue information

Segments	**2019**	2018
	RMB'000	*RMB'000*
Type of services		
Education services	**1,089,221**	561,450
Geographical markets		
Mainland China	**1,089,221**	561,450
Timing of revenue recognition		
Services transferred over time	**1,089,221**	561,450

The following table shows the amounts of revenue recognised in the current reporting period that were included in the deferred revenue at the beginning of the reporting period and recognised from performance obligations satisfied in previous periods:

	2019	2018
	RMB'000	*RMB'000*
Revenue recognised that was included in deferred revenue at the beginning of the reporting period:		
Education services	**472,928**	249,599

(ii) Performance obligations

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.

	2019	2018
	RMB'000	*RMB'000*
Other income and gains		
Service income	**70,936**	113,390
Bank interest income	**10,169**	8,187
Other interest income from financial assets at fair value through profit or loss	**1,582**	–
Gross rental income from investment property operating leases:		
Other lease payments, including fixed payments	**47,008**	28,859
Government grants	**18,467**	12,515
Canteen income	**12,715**	1,158
Others	**2,213**	1,935
	163,090	166,044

The amounts of transaction process allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December are as follows:

	2019	2018
	RMB'000	*RMB'000*
Amounts expected to be recognised as revenue:		
Within one year	**725,363**	472,928

5. FINANCE COSTS

An analysis of finance costs is as follows:

	2019	2018
	RMB'000	*RMB'000*
Interest on bank loans and other loans	**106,313**	88,352
Interest on lease liabilities	**575**	–
Total interest expense on financial liabilities not at fair value through profit or loss	**106,888**	88,352
Less: Interest capitalised	**(13,082)**	(10,382)
	93,806	77,970

6. PROFIT BEFORE TAX

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

		2019	2018
	Notes	***RMB'000***	*RMB'000*
Employee benefit expense (excluding directors' and chief executive's remuneration):			
Wages and salaries		**326,606**	179,036
Equity-settled share option expense		**2,855**	5,772
Pension scheme contributions (defined contribution plan)		**22,432**	15,919
		351,893	200,727
Depreciation of property, plant and equipment		**111,991**	44,804
Depreciation of investment properties		**4,365**	1,435
Depreciation of right-of-use assets (2018: Amortisation of land lease payments)		**13,957**	2,824
Amortisation of other intangible assets		**6,892**	4,349
Rental income	*4*	**(47,008)**	(28,859)
Government grants released		**(18,467)**	(12,515)
Minimum lease payments under operating leases		**–**	5,387
Lease payments not included in the measurement of lease liabilities		**1,766**	–
Auditor's remuneration		**4,500**	3,600
Bank interest income	*4*	**(10,169)**	(8,187)
Foreign exchange differences, net		**2,377**	791
Impairment of prepayments, other receivables and other assets		**2,171**	1,023
Impairment of a prepayment included in other non-current assets	*10*	**–**	30,975
Loss on disposal of items of property, plant and equipment		**581**	27

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 relevant provisions of Implementation Rules for the Law for Promoting Private Education (the "Implementation Rules"), private schools, whether requiring reasonable returns or not, may enjoy a preferential tax treatment. The Implementation Rules provide that the private schools for which the sponsors do not require reasonable returns/schools are elected as to be not-for-profit schools 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, the Yunan School, Guizhou School, Northeast School, Guangxi Schools and Central China School (the "PRC Private Schools") have historically enjoyed the preferential tax treatment since their establishment. There was no corporate income tax imposed on the income from the provision of formal educational services of the schools of the Group. As a result, no income tax expense was recognised for the income from the provision of formal educational services by the PRC Private Schools during the year. The PRC Private Schools have not yet elected to be for-profit or not-for-profit schools. According to the relevant in-charge tax bureau, since the relevant tax policy for schools that have not yet elected to be for-profit or not-for-profit is not yet announced and if the school nature has not yet been changed, the schools could follow previous corporate income tax exemption treatment for income from provision of formal educational services.

The non-academic education services provided by the schools are subject to corporate income tax at a rate of 25%.

The corporate income tax rate for Huihuang Company in 2019 and 2018 is 15% based on the relevant tax regulations of Tibet Autonomous Region. Other entities of the Group established in mainland China are subject to corporate income tax at a rate of 25% on their respective taxable income.

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:

	2019 ***RMB'000***	2018 *RMB'000*
Current		
Charge for the year	**44,922**	23,479
Deferred	**10,591**	(954)
Total tax charge for the year	**55,513**	22,525

8. DIVIDENDS

	2019 ***RMB'000***	2018 *RMB'000*
Interim – RMB0.036 (2018: RMB0.027) per ordinary share	**55,480**	38,640
Proposed final – RMB0.032 (2018: RMB0.019) per ordinary share	**49,315**	27,191
	104,795	65,831

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 1,509,016,667 (2018: 1,431,100,000) 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:

	2019	2018
	RMB'000	*RMB'000*
Earnings		
Profit attributable to ordinary equity holders of the parent used in the basic and diluted earnings per share calculation	**386,446**	242,530

	2019	2018
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**1,509,016,667**	1,431,100,000
Effect of dilution – weighted average number of ordinary shares:		
Share options	**–***	1,508,235
	1,509,016,667	1,432,608,235

* No adjustment has been made to the basic earnings per share amounts presented for the year ended 31 December 2019 in respect of a dilution as the exercise prices of the Company's outstanding share options were higher than the average market prices for the Company's shares during the current year.

10. OTHER NON-CURRENT ASSETS

	2019	2018
	RMB'000	*RMB'000*
Prepayment for investments *(Note (i))*	**696,006**	1,314,442
Prepayment for land use rights	**129,177**	67,083
Prepayment for other intangible assets	**647**	735
Prepayment for property, plant and equipment	**30,911**	56,405
	856,741	1,438,665
Impairment allowance	**(30,975)**	(30,975)
	825,766	1,407,690

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

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

As previously disclosed that with regards to the proposed acquisition of Xinjiang School, in view of certain closing conditions under the equity transfer agreements not satisfied by the counterparties, and the fact that 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 proposed acquisition matter, and to take appropriate legal actions, including but not limited to, filing of civil litigation against the counterparties of proposed acquisition and claiming for 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.

In December 2019, the Company obtained a positive judgement from the Xinjiang High Court in favour of the Company's claims. Subsequent to the end of the reporting date, the counterparties of proposed acquisition lodged an appeal over the above judgement and the outcome is yet to be known at the date of this announcement. 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

	2019	2018
	RMB'000	*RMB'000*
Prepaid expenses	**8,779**	2,008
Advance and other receivables	**46,078**	89,857
Receivables from educational bureaus	**–**	11,586
Staff advances	**3,073**	2,487
Deposits and other miscellaneous receivables	**46,074**	25,532
	104,004	131,470

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

The financial assets included in the above balances relate to receivables for which there was no recent history of default and past due amounts. As at 31 December 2019 and 2018, the loss allowance was assessed to be minimal.

12. DEFERRED REVENUE

Details of contract liabilities are as follows:

	31 December 2019 *RMB'000*	31 December 2018 *RMB'000*
Tuition fees	**646,353**	417,108
Boarding fees	**79,010**	55,820
Total contract liabilities	**725,363**	472,928

Contract liabilities include short-term advances received from students in relation to the proportionate service not yet provided. The Group receives tuition and boarding fees from students in advance prior to the beginning of each academic year. Tuition and boarding fees are recognised proportionately over the relevant period of the applicable program. Students are entitled to refund of the payment in relation to the proportionate service not yet provided.

The increase in contract liabilities in 2019 and 2018 was mainly due to the acquisitions of businesses, as detailed in note 14 to the financial statements.

13. OTHER PAYABLES AND ACCRUALS

	31 December 2019 *RMB'000*	31 December 2018 *RMB'000*
Payables for purchase of property, plant and equipment	**127,143**	70,677
Accrued bonuses and social insurance	**107,888**	44,833
Miscellaneous expenses received from students *(Note (i))*	**114,713**	83,530
Deposits	**25,024**	18,440
Payables to cooperative schools	**28,384**	13,319
Advance from lessee	**44,768**	31,740
Receipt on behalf of lessee	**11,182**	8,960
Government subsidies payable to students and teachers	**14,504**	10,642
Payables for investment	**80,000**	80,000
Other payables	**79,362**	122,152
Accrued expenses	**12,411**	4,469
	645,379	488,762

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. BUSINESS COMBINATIONS

During the year ended 31 December 2019, the Group completed acquisitions of Guangxi Schools and Central China School. These acquisitions were part of the Group's strategy to expand school network in regions with significant growth potential in the private higher education sector. The Guangxi Schools include a private higher education institution established in the PRC providing junior college education, and a private education institution established in the PRC providing high school education. Central China School is a private institution of formal higher education established in the PRC. These acquisitions have been accounted for using the acquisition method.

As detailed in announcements of the Company, the Group held 51% shares of Songming Xinju Enterprise Management Co,. Ltd. ("Songming Xinju") and Songming Xinju completed the acquisition of 100% school sponsor's interest in Guangxi Schools from an independent third party at a consideration of RMB258,920,000 on 11 January 2019. The consideration was in the form of cash and was paid in 2018.

On 26 August 2019, the Group completed the acquisition of 100% school sponsor's interest in Central China School from an independent third party at a consideration of RMB603,830,000. The consideration was paid in the form of cash.

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

Guangxi Schools

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

	Fair value recognised on acquisition *RMB'000*
Property, plant and equipment	148,793
Investment properties	32,200
Right-of-use assets	50,761
Other intangible assets	59
Cash and bank balances	4,829
Prepayments, other receivables and other assets	105,781
Receivables for tuition and boarding fees	2,075
Deferred revenue	(37,358)
Other payables and accruals	(37,119)
Deferred income	(12,599)
Deferred tax liabilities	(27,484)
Total identifiable net assets at fair value	229,938
Goodwill on acquisition	28,982
Satisfied by cash	258,920

Central China School

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

	Fair value recognised on acquisition
	RMB'000
Property, plant and equipment	505,347
Investment properties	48,800
Right-of-use assets	187,165
Other intangible assets	663
Cash and bank balances	85,332
Prepayments, other receivables and other assets	2,704
Receivables for tuition and boarding fees	826
Other current assets	51,179
Other non-current assets	570
Deferred revenue	(67,166)
Other payables and accruals	(188,045)
Deferred income	(970)
Interest-bearing bank and other borrowings	(8,793)
Deferred tax liabilities	(14,065)
Total identifiable net assets at fair value	603,547
Goodwill on acquisition	283
Satisfied by cash	603,830

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.

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

	RMB'000
Cash consideration paid	(862,750)
Less: Cash consideration paid in previous years	(855,173)
Cash consideration paid in 2019	(7,577)
Cash and bank balances acquired	90,161
Net inflow of cash and cash equivalents included in cash flows used in investing activities	82,584

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, Guangxi Schools and Central China School contributed RMB83,184,000 and RMB72,213,000 respectively to the Group's revenue; and contributed RMB22,333,000 and RMB18,604,000 respectively to the Group's consolidated profit for the year ended 31 December 2019.

Had the combination of Guangxi Schools and Central China School taken place at the beginning of the year, the revenue of the Group for the year would have been RMB1,089,221,000 and RMB1,159,908,000 respectively, and the profit of the Group for the year would have been RMB430,355,000 and RMB427,922,000 respectively.

15. EVENTS AFTER THE REPORTING PERIOD

In early 2020, the outbreak of novel coronavirus (COVID-19) has certain impact on the education business of the Group, mainly due to domestic travel restrictions and various precaution measurements undertaken by respective local authorities which inter alia, include closure of schools and delays in classroom commencement during the outbreak period. The Group has put in place certain alternative action plans for the students during the schools closure period, which include implementation of on-line modules and website distance learning activities.

In view of the implementation of the above mentioned action plans, the management has assessed and preliminarily concluded that at this stage, there was no significant impact on the financial position of the Group subsequent to the year ended 31 December 2019 and up to the date of this announcement. The Group will keep continuous attention on the situation of the COVID-19 and react actively to its impacts on the operation and financial position of the Group, and in the event that there is any significant financial impacts, the Company will release further announcement as and when appropriate, and reflect it in the Group's 2020 interim and annual financial statements.

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, 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 (2019)"	the business cooperation agreement to be entered into by and among Huihuang Company, the PRC Consolidated Affiliated Entities and the New Registered Shareholders
"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
"Central China School"	Science and Technology College of Hubei Minzu University*（湖北民族大學科技學院）, an institution of higher education established under the laws of the PRC in 2003. Central China School is a consolidated affiliated entity of the 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
"core connected person(s)"	has the meaning ascribed to it under the Listing Rules
"Daai Fangzhou"	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
"Director(s)"	the directors of the Company
"Directors' Powers of Attorney (2019) "	the school directors' power of attorney to be executed by each of the directors of each PRC Operating School
"Enchang Company"	Enshi Autonomous Prefecture Changqing Education Development Co., Ltd.* (恩施自治州常青教育發展有限責任公司), 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 is the school sponsor of Central China School
"Equity Pledge Agreement (2019)"	the equity pledge agreement to be entered into by and among the New Registered Shareholders, Yun Ai Group and Huihuang Company
"Exclusive Call Option Agreement (2019)"	the exclusive call option agreement to be entered into by and among Huihuang Company, the PRC Consolidated Affiliated Entities and the New Registered Shareholders

"Exclusive Technical Service and Management Consultancy Agreement (2019)"	the exclusive technical service and management consultancy agreement to be entered into by and among Huihuang Company and PRC Consolidated Affiliated Entities
"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
"Greenwoods Jia Xin Rui Xuan"	Jia Xin Rui Xuan Investment Partnership (Limited Partnership)*（嘉興瑞軒投資合夥企業（有限合夥））, a limited liability partnership established under the laws of the PRC on 29 August 2018. Greenwoods Jia Xin Rui Xuan owns 39% equity interest of Songming Xinju
"Group", "we" or "us"	the Company, its subsidiaries, the 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 the 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）. Guangxi Schools are consolidated affiliated entities of the Company
"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
"Haxuan Company"	Harbin Xuande Technology Co., Ltd.*（哈爾濱軒德科技有限公司）, a limited liability company established under the laws of the PRC on 19 April 2016, and owned as to 73.91% by Yun Ai Group and as to 26.09% by Ningde Company. Haxuan Company is the sole school sponsor of the Northeast School

"Henan Rongyu"	Henan 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, and owned as to 27% by Mr. Rong Hua（榮華）, 18% by Ms. Kong Ailan（孔愛蘭）and 55% by Beijing Daai Gaoxue. Henan Rongyu is the school sponsor of the Henan School
"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. Henan School is a consolidated affiliated entity of the Company
"HK$", "Hong Kong dollar(s)", "HKD" or "cents"	Hong Kong dollars and cents respectively, the lawful currency for the time being of Hong Kong
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the PRC
"Hubei Business Cooperation Agreement"	the business cooperation agreement entered into by and among Huihuang Company, the Central China School Consolidated Affiliated Entities and the Existing Registered Shareholders dated 26 August 2019
"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 a wholly owned subsidiary of the Group
"Independent Third Party(ies)"	third party(ies) who is/are independent of and not connected with the Company and its connected persons
"Listing Rules"	The Rules Governing the Listing of Securities on the Stock Exchange, as amended from time to time
"Loan Agreement (2019)"	a loan agreement to be entered into by and among Huihuang Company, the PRC Operating Schools, and Yun Ai Group
"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
"Mr. Li"	Mr. Li Xiaoxuan（李孝軒）, the founder, one of the controlling shareholders, chairman of the Board and an executive Director of the Company
"MOE"	the Ministry of Education of the PRC

"Ms. Yang"	Ms. Yang Xuqing（楊旭青）, the spouse of Mr. Li
"New Registered Shareholders"	the shareholders of Yun Ai Group immediately after the completion of the equity transfer agreement, namely Pai Dui Pai, Ba Mu Pu, Songming Dexue and Zhongyi Company
"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
"PRC Consolidated Affiliated Entities"	namely, the School Sponsors and the PRC Operating Schools, each a consolidated affiliated entity of the Company and other investment holding companies which were consolidated to the Group by virtue of the Structured Contracts, as amended from time to time
"PRC Legal Advisors"	Commerce & Finance Law Offices, the Company's Legal advisors as to PRC Laws
"PRC Operating Schools"	the consolidated affiliated entities, namely, Yunnan School, Guizhou School, Henan School, Northeast School, Guangxi Schools and Central China School
"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 and wholly owned by Songming Xinju. Qingzhou Yinghua is the school sponsor of the Guangxi Schools
"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, Enchang Company and the future school sponsor Bei Ai Company
"School Sponsors' and Directors' Rights Entrustment Agreement (2019)"	the school sponsors' and directors' rights entrustment agreement to be entered into by and among School Sponsors, the PRC Operating Schools, the relevant directors appointed by the School Sponsors and Huihuang Company
"School Sponsors' Powers of Attorney (2019)"	the school sponsors' power of attorney to be executed by the School Sponsors in favor of Huihuang Company
"SFO"	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 (2019)"	the shareholders' power of attorney to be executed by the New Registered Shareholders and Yun Ai Group in favor of Huihuang Company
"Shareholders' Rights Entrustment Agreemen (2019)"	the shareholders' rights entrustment agreement to be entered into by and among the New Registered Shareholders, the School Sponsors and Huihuang Company
"Sino-Foreign Regulation"	the Regulation on Sino-Foreign Cooperation in Operating Schools*（中華人民共和國中外合作辦學條例）, promulgated by the State Council in 2003 and amended on 2 March 2019
"Songming Dexue"	Songming Dexue Education Development Co., Ltd.*（嵩明德學教育發展有限公司）, a limited liability company established under the laws of the PRC on 17 April 2019 and wholly owned by Mr. Li. Songming Dexue is one of the New Registered Shareholders and owns 70.8305% equity interest of Yun Ai Group
"Spouse Undertakings (2019)"	the spouse undertakings to be executed by Ms. Yang, the spouse of Mr. Li
"Stock Exchange" or "Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Structured Contracts"	collectively, the Business Cooperation Agreement (2019), the Exclusive Technical Service and Management Consultancy Agreement (2019), the Exclusive Call Option Agreement (2019), the Equity Pledge Agreement (2019), the Shareholders' Rights Entrustment Agreement (2019), the School Sponsor's and Directors' Rights Entrustment Agreement (2019), the School Sponsors' Powers of Attorney (2019), the Directors' Powers of Attorney (2019), the Shareholders' Powers of Attorney (2019), the Loan Agreement (2019) and the Spouse's Undertakings (2019), and the amendments thereof, further details of which are set out in the announcements dated 26 August 2019 and 9 December 2019
"subsidiary(ies)"	has the meaning ascribed to it under the Listing Rules

"substantial Shareholder(s)"	has the meaning ascribed to it under the Listing Rules
"USD"	United States dollars, the lawful currency of the United States
"Xinjiang School"	Xinjiang Institute of Finance and Economics*（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 19 September 2005, which is owned as to 20.0568% by Pai Dui Pai, 5.7305% by Ba Mu Pu, 70.8305% by Songming Dexue and 3.3822% by Zhongyi Company. It is the school sponsor of the Yunnan School and the Guizhou School
"%"	per cent

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

Hong Kong, 23 March 2020

As at the date of this announcement, the executive Directors are Mr. Li Xiaoxuan and Mr. Zhao Shuai, the independent non-executive Directors are Mr. Kwong Wai Sun Wilson, Mr. Hu Jianbo, Mr. Chan Tung Hoi and Dr. Pang Tsz Kit Peter.

* *For identification purpose*