中教控股
CHINA EDUCATION GROUP

China Education Group Holdings Limited
中國教育集團控股有限公司

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

(Stock Code: 839)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2017

FINANCIAL HIGHLIGHTS

- Group's revenue for the year increased 10.2% to RMB949.2 million.
- Gross profit rose 22.6% to RMB559.7 million and gross profit margin improved to 59.0%.
- Profit for the year was RMB428.9 million, up 4.0%.
- Excluding the listing expenses, the core net profit for the year was RMB474.4 million, up 15.0%
- Bank balances and cash were recorded at RMB3,243 million with no bank borrowings at year-end.

ANNUAL RESULTS

The board of directors of China Education Group Holdings Limited is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2017.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2017

	NOTES	**2017**	2016
		RMB'000	*RMB'000*
Continuing operations			
Revenue	*3*	**949,171**	861,289
Cost of revenue		**(389,448)**	(404,577)
Gross profit		**559,723**	456,712
Other income	*4*	**54,814**	73,879
Investment income	*5a*	**14,568**	17,861
Other gains and losses	*5b*	**1,105**	2,627
Selling expenses		**(9,676)**	(9,367)
Administrative expenses		**(133,369)**	(101,523)
Listing expenses		**(45,498)**	–
Finance costs	*6*	**(18,472)**	(14,889)
Profit before taxation		**423,195**	425,300
Taxation	*7*	**(1,730)**	(1,949)
Profit and total comprehensive income for the year from continuing operations		**421,465**	423,351
Discontinued operations			
Profit (loss) and total comprehensive income (expenses) for the year from discontinued operations	*8*	**7,407**	(10,836)
Profit and total comprehensive income for the year		**428,872**	412,515
Profit (loss) and total comprehensive income (expenses) for the year attributable to owners of the Company			
– from continuing operations		**421,465**	423,351
– from discontinued operations		**7,419**	(11,997)
		428,884	411,354
(Loss) profit and total comprehensive (expense) income for the year attributable to non-controlling interests			
– from discontinued operations		**(12)**	1,161
		428,872	412,515
From continuing and discontinued operations			
Earnings per share			
Basic *(RMB cents)*	*10*	**28.16**	27.42
Diluted *(RMB cents)*		**28.16**	N/A
From continuing operations			
Earnings per share			
Basic *(RMB cents)*	*10*	**27.67**	28.22
Diluted *(RMB cents)*		**27.67**	N/A

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2017

	NOTES	**2017**	2016
		RMB'000	*RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**2,638,560**	2,415,697
Prepaid lease payments		**54,946**	50,663
Goodwill		**325,629**	–
Intangible assets		**239,547**	–
Amounts due from related parties		**–**	1,526
Deposits paid for prepaid lease payments		**40,496**	66,130
Deposits paid for acquisition of property, plant and equipment		**2,405**	3,147
		3,301,583	2,537,163
CURRENT ASSETS			
Inventories		**254**	316
Trade receivables, deposits, prepayments and other receivables	*11*	**71,563**	39,612
Amounts due from related parties		**–**	168,952
Amounts due from directors		**–**	446,032
Held for trading investments		**3,402**	7,356
Structured deposits		**50,500**	418,201
Prepaid lease payments		**1,506**	1,321
Bank balances and cash		**3,243,144**	247,133
		3,370,369	1,328,923
CURRENT LIABILITIES			
Deferred revenue	*12*	**727,280**	595,208
Trade payables	*13*	**10,715**	9,296
Other payables and accrued expenses	*14*	**196,908**	207,684
Amounts due to related parties		**–**	38,478
Income tax payable		**12,214**	9,283
Bank borrowings		**–**	209,936
		947,117	1,069,885
NET CURRENT ASSETS		**2,423,252**	259,038
TOTAL ASSETS LESS CURRENT LIABILITIES		**5,724,835**	2,796,201

	NOTE	**2017**	2016
		RMB'000	*RMB'000*
NON-CURRENT LIABILITIES			
Deferred revenue	*12*	**25,905**	25,722
Bank borrowings		**–**	243,140
Deferred tax liability		**59,887**	–
		85,792	268,862
		5,639,043	2,527,339
CAPITAL AND RESERVES			
Share capital/paid-in capital		**17**	181,680
Reserves		**5,639,026**	2,341,938
Equity attributable to owners of the Company		**5,639,043**	2,523,618
Non-controlling interests		**–**	3,721
		5,639,043	2,527,339

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

1. GENERAL

The Company was incorporated in the Cayman Islands and registered as an exempted company with limited liability under the Companies Law Chapter 22 of the Cayman Islands on 19 May 2017. Its ultimate controlling parties are Mr. Yu and Mr. Xie (Mr. Yu and Mr. Xie collectively as the "Controlling Equity Holders"), who are the Co-chairmen of the board and executive directors of the Company. The shares of the Company had been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 15 December 2017 (the "Listing"). The address of the registered office the Company is the offices of Walkers Corporate Limited, Cayman Corporate Centre, 27 Hospital Road, George Town, Grand Cayman KY1-9008, Cayman Islands and the address of principal place of business of the Company is 17/F, Wheelock House, 20 Pedder Street, Central, Hong Kong.

The Company is an investment holding company. The principal activities of its subsidiaries are mainly engaged in the operation of private higher and vocational education institutions.

2.1. BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with the accounting policies which conform with International Financial Reporting Standards ("IFRSs") issued by International Accounting Standard Board ("IASB").

The consolidated financial statements have been prepared on the historical cost basis except for certain financial investments that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

The consolidated financial statements are presented in RMB.

2.2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

The Group has consistently applied all IFRSs issued by the IASB, which are effective for the Group's financial year beginning 1 January 2017.

3. REVENUE AND SEGMENT INFORMATION

Revenue represents service income from tuition fees, boarding fees and ancillary services. We generally requires student to pay tuition fees at the beginning of the school year.

Information reported to the Group's chief operating decision maker ("CODM"), Mr. Yu and Mr. Xie, for the purpose of resource allocation and assessment of segment performance, was focused on a single reporting segment, being the operation of private higher education prior to the acquisition as set out in note 15. After the acquisition, it is changed to be based on the basis of categories of education institution, namely higher education and vocational education. Each category of institution constitutes an operating segment. The services provided and type of customers are similar in each operating segment, and each operating segment are subject to similar regulatory environment. Accordingly, their segment information is aggregated as a single reportable segment which is the same as the statements of profit or loss and other comprehensive income. The accounting policies of the reportable segment are the same as the Group's accounting policies. No analysis of segment assets or segment liabilities is presented as they are not regularly provided to the CODM.

Provision of primary and secondary education and other services was discontinued during the year ended 31 December 2017. The segment information reported does not include any amounts for these discontinued operations.

Revenue from major services

The following is an analysis of the Group's revenue from continuing operations from the major service lines:

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Tuition fees	**857,539**	786,285
Boarding fees	**65,279**	53,779
Ancillary services	**26,353**	21,225
	949,171	861,289

Geographical information

The Group operates in the PRC. All of the Group's revenue from continuing operations and the non-current assets of the Group are located in the PRC.

Information about major customers

No single customer contributes over 10% or more of total revenue of the Group during the year (2016: nil).

4. OTHER INCOME

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Continuing operations		
Consultancy income	**6,750**	47,175
Academic administration income	**14,907**	10,358
Management fee income	**5,817**	6,861
Staff quarter income	**3,164**	1,959
Government grants *(Note)*	**12,478**	2,524
Internet service income	**2,753**	2
Utilities income	**3,004**	1,244
Others	**5,941**	3,756
	54,814	73,879

Note: Government grants mainly represent subsidies from government for procurement of laboratory apparatus and equipment, conducting educational programmes and congratulatory subsidies on the Listing.

5A. INVESTMENT INCOME

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Continuing operations		
Imputed interest income from amounts due from directors	**8,045**	11,763
Imputed interest income from amount due from a related party	**2,012**	2,356
Interest income from banks	**4,511**	3,742
	14,568	17,861

5B. OTHER GAINS AND LOSSES

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Continuing operations		
Foreign exchange loss, net	**(5,295)**	–
Written-off of trade receivables	**(1,285)**	(367)
Fair value loss on held for trading investments	**(1,021)**	(2,904)
Loss on disposal of property, plant and equipment, net	**(276)**	(142)
Net gain on structured deposits	**8,982**	6,040
	1,105	2,627

6. FINANCE COSTS

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Continuing operations		
Interest expenses on bank borrowings	**21,171**	26,925
Less: amounts capitalised in the cost of property, plant and equipment	**(2,699)**	(12,036)
	18,472	14,889

Borrowing costs capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 5.08% per annum (2016: 5.79% per annum), to expenditure on property, plant and equipment (construction in progress).

7. TAXATION

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Continuing operations		
Current tax – PRC Enterprise Income Tax ("EIT")	**7,610**	1,949
Overprovision in prior years - EIT	**(4,019)**	–
Deferred tax	**(1,861)**	–
	1,730	1,949

8. DISCONTINUED OPERATIONS

During the year, the Group completed disposals of a group of subsidiaries, which were mainly engaged in provision of primary and secondary education and other services. The disposals are consistent with the Group's long-term policy to focus its activities on operation of private higher and vocational education institutions.

The profit (loss) for the year from the discontinued operation is set out below.

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Loss of discontinued operations for the year	**(8,152)**	(10,836)
Gain on disposal of discontinued operations	**15,559**	–
	7,407	(10,836)

9. DIVIDENDS

No dividend was paid or proposed for ordinary shareholders of the Company during the year (2016: nil), nor has any dividend been proposed since the end of the reporting period.

10. EARNINGS PER SHARE

For continuing operations

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

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Profit for the purpose of calculating basic and diluted earnings per share from continuing operations	**421,465**	423,351

	Year ended 31 December	
	2017	2016
	'000	*'000*
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,523,288**	1,500,000
Effect of dilutive potential ordinary shares:		
Over-allotment options	**14**	–
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,523,302**	N/A

The weighed average number of ordinary shares for the purpose of basic earnings per share has been adjusted for the reorganisation as set out in the prospectus dated 5 December 2017 and the share allotments of 1,500,000,000 shares had been in effect on 1 January 2016.

The computation of diluted earnings per share does not assume the exercise of the Company's share options granted under the pre initial public offering share option scheme as the potential ordinary shares are anti-dilutive for the year ended 31 December 2017.

No diluted earnings per share for 2016 was presented as there were no potential ordinary shares in issue for 2016.

For continuing and discontinued operations

The calculation of the basic and diluted earnings per share from continuing and discontinued operations attributable to the owners of the Company during the year is based on the consolidated profit attributable to the owners of the Company and the denominators detailed above for basic and diluted earnings per share.

For discontinued operations

Basic and diluted earnings per share for the discontinued operations are RMB0.49 cents per share and RMB0.49 cents per share respectively (2016: basic loss per share of RMB0.8 cents), based on the profit for the year from the discontinued operations of RMB7,419,000 (2016: loss of RMB11,997,000) and the denominators detailed above for both basic and diluted earnings per share.

11. TRADE RECEIVABLES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	At 31 December	
	2017	2016
	RMB'000	*RMB'000*
Trade receivables	**24,679**	10,312
Loans to third parties	**440**	7,315
Staff advances	**1,018**	1,512
Receivables from education bureau	**21,693**	–
Other receivables	**11,809**	4,601
Deposits	**6,563**	4,365
Prepayments	**5,361**	11,507
Total	**71,563**	39,612

The following is the aged analysis of trade receivables presented based on the date of debit notes		
0-90 days	**30**	157
91-120 days	**15,829**	5,074
121-365 days	**–**	–
Over 365 days	**8,820**	5,081
Total	**24,679**	10,312

12. DEFERRED REVENUE

	At 31 December	
	2017	2016
	RMB'000	*RMB'000*
Current		
Tuition fees	**652,114**	534,039
Boarding fees	**51,935**	39,262
Ancillary services	**10,506**	7,372
Government grants *(Note)*	**12,725**	14,535
	727,280	595,208
Non-current		
Government grants *(Note)*	**25,905**	25,722
	753,185	620,930

Note: The amounts represent subsidies receipt in advance from government mainly for procurement of laboratory apparatus and equipments and conducting educational programmes.

13. TRADE PAYABLES

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

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

	At 31 December	
	2017	2016
	RMB'000	*RMB'000*
0-30 days	**7,207**	5,349
31-90 days	**53**	104
91-365 days	**1,106**	2,943
Over 365 days	**2,349**	900
	10,715	9,296

14. OTHER PAYABLES AND ACCRUED EXPENSES

	At 31 December	
	2017	2016
	RMB'000	*RMB'000*
Discretionary government subsidies receipt in advance *(Note)*	**15,108**	40,386
Receipt on behalf of ancillary services providers	**65,989**	74,990
Retention money payables	**10,795**	18,872
Construction cost payables	**–**	15,698
Listing expenses payables	**21,366**	–
Accrued staff benefits and payroll	**38,280**	21,917
Other payables and accruals	**29,132**	27,999
Other taxes payables	**16,238**	7,822
	196,908	207,684

Note: The amounts represent scholarships received from the government to be distributed to students and teachers of the universities.

15. ACQUISITION OF A BUSINESS

On 14 August 2017, Huajiao Education, Mr. Xie, Ganzhou Huafang Education, Lihe Education and Baiyun Technician College entered into an acquisition framework agreement (the "Acquisition Agreement") pursuant to which Huajiao Education will acquire Baiyun Technician College (the "Acquisition") through entering into contractual arrangements (the "Technician College Contractual Arrangements") for a cash consideration of RMB750 million. The Acquisition is accounted for using the acquisition method.

Baiyun Technician College is engaged in the provision of vocational education for technical workers and technicians in the PRC. The directors of the Company are of the view that the completion of the Acquisition would significantly expand and diversify the Group's school portfolio, complement the Group's existing business and give rise to further synergy through economies of scale (including shared management and operational resources of Baiyun Technician College and Guangdong Baiyun University, as well as the expansion and further leverage of the "Baiyun" brand name). The acquisition was completed on the same date and the consideration of RMB750 million was settled in full in August 2017.

Pursuant to the Acquisition Agreement, Mr. Xie guaranteed to Huajiao Education that profit after taxation of Baiyun Technician College (after adding back the fees payable by Baiyun Technician College to Huajiao Education pursuant to the Technician College Contractual Arrangements) (the "Adjusted Net Profit") for the year ending 31 December 2018 shall be no less than RMB60,000,000. If the net profit after taxation of Baiyun Technician college (after adding back the fees payable by Baiyun Technician college to Huajiao Education pursuant to the Technician College Contractual Arrangements) for the year ending 31 December 2018 (the "2018 Actual Adjusted Net Profit") is less than RMB60,000,000, Mr. Xie shall compensate Huajiao Education with a cash sum calculated according to the formula set out as below:

Compensation Sum = (RMB60 million – 2018 Actual Adjusted Net Profit) x 12.5

Consideration transferred

	RMB'000
Cash	750,000

Assets acquired and liabilities recognised at the date of acquisition are as follows:

	RMB'000
Property, plant and equipment	248,404
Prepaid lease payment	5,858
Intangible assets	246,995
Deposits, prepayments and other receivables	23,505
Structured deposits	47,000
Bank balances and cash	92,718
Trade and other payable	(40,700)
Amounts due to related parties	(86,197)
Income tax payable	(268)
Deferred revenue	(51,196)
Deferred tax liability	(61,748)
	424,371

The fair value of deposits and other receivables at the date of acquisition amounted to RMB22,783,000, which is also the gross contractual amounts of those deposits and other receivables.

Goodwill arising on acquisition:

	RMB'000
Consideration transferred	750,000
Less: net assets acquired	(424,371)
Goodwill arising on acquisition	325,629

Goodwill arose in the acquisition of Baiyun Technician College because the consideration paid for the acquisition effectively included amounts in relation to better geographic arrangement and networking effect as benefits of expected synergies, better revenue growth prospect, future market development, and the assembled workforce of Baiyun Technician College. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. None of the goodwill arising on these acquisitions is expected to be deductible for tax purposes.

Net cash outflow on acquisition of Baiyun Technician College

	RMB'000
Cash consideration paid	750,000
Less: cash and cash equivalent balances acquired	(92,718)
	657,282

Included in the profit for the year is RMB36,000,000 attributable to the additional business generated by Baiyun Technician College. Revenue for the year includes RMB67,421,000 generated from Baiyun Technician College.

Had the acquisition been completed on 1 January 2017, total group revenue for the year would have been RMB1,082,775,000, and profit for the year would have been RMB470,315,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2017, nor is it intended to be a projection of future results.

16. EVENTS AFTER REPORTING PERIOD

On 5 January 2018, the over-allotment option described in the prospectus dated 5 December 2017 has been partially exercised by BNP Paribas Securities (Asia) Limited in respect of an aggregate of 20,202,000 ordinary shares of the Company. The Over-allotment Shares were issued and allotted by the Company at HK$6.45 per share.

Subsequent to 31 December 2017, the Group has entered into agreements for the proposed acquisition of 80% interest in a vocational school in Zhengzhou ("Zhengzhou acquisition") and 62% interest in a technican college in Xi'an ("Xi'an acquisition"). Zhengzhou acquisition and Xi'an acquisition are proposed to be at a consideration of RMB855,000,000 and RMB576,600,000, subject to various adjustments in accordance with the terms and conditions set out in the agreements for the respective acquisition. Completion of these acquisitions are subject to the completion of terms and conditions in the agreements for the respective acquisition, and up to the date of this announcement, the aforementioned transactions were not yet completed.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Introduction of the Group

We are a leading private higher and vocational education provider in China. We operate two universities and one vocational college located in Pan-Yangtze River Delta and Pearl River Delta, and enroll students across all provinces in mainland China. As of 31 December 2017, the Company has 76,204 students attending 80 bachelor's degree programmes, 32 junior college diploma programmes, and 108 vocational education programmes. In the school year of 2016/2017, the disciplines provided by us covered 97.7% of undergraduate students' choices and 91.9% of junior college students' choices in China, respectively.

Listing

On 15 December 2017, we were successfully listed on the Mainboard of Hong Kong Stock Exchange with an offer price of HK$6.45. Including the issue of over-allotment shares that was completed in January 2018, we issued a total of 520,202,000 new shares, representing 25.75% of enlarged share capital. Through the initial public offering ("IPO'), we raised a total of approximately HK$3.3 billion or RMB2.7 billion.

Obtaining the Control of Baiyun Technician College

On 14 August 2017, we obtained the control of Baiyun Technician College ("BTC") for a consideration of RMB750 million. Taking over the control of BTC was part of our expansion strategy to enlarge our student enrollment base by over 13,000 students and to broaden our scope of business by adding vocational education into our portfolio.

Our Schools

The two universities and one vocational college which we operate are Jiangxi University of Technology ("JUT"), Guangdong Baiyun University ("GBU"), and BTC. They are all renowned private higher or vocational education institutions in China. JUT has been ranked number one private university in China for nine consecutive years while GBU has been ranked number one private university in Guangdong Province for ten consecutive years. BTC has been ranked number one vocational college in Guangdong Province for seven consecutive years. JUT is the largest private university in China and GBU is the largest private university in Guangdong.

Student Enrollment

For the school year of 2017/2018, the total number of enrolled students of our Group was 76,204, up 1.3% from the school year of 2016/2017.

Student Enrollment	School Year 2017/2018	2016/2017	*% change*
Jiangxi University of Technology	36,368	35,982	1.1%
Guangdong Baiyun University	26,416	25,741	2.6%
Baiyun Technician College	13,420	13,532	-0.8%
Total	**76,204**	**75,255**	**1.3%**

Tuition Fee

In general, we plan to increase our tuition fees between 0% to 10% among various programmes on an annual basis. The tuition fee increase is determined by our school management teams subject to market conditions.

	Listed tuition fees in school year		**Boarding fees in school year**	
	2017/2018	2016/2017	2017/2018	2016/2017
	RMB	*RMB*	*RMB*	*RMB*
Jiangxi University of Technology				
Bachelor's degree programmes	15,000 - 20,000	14,000 - 18,000	1,600 - 2,000	1,480 - 1,680
Junior college diploma programmes	12,500 - 14,000	11,300 - 12,500	1,600 - 2,000	1,480 - 1,680
Continuing education programmes	5,000	7,300 - 7,800	N/A	N/A
Guangdong Baiyun University				
Bachelor's degree programmes	19,000 - 28,000	19,000 - 26,000	1,500	1,500
Junior college diploma programmes	30,000	30,000	1,500	1,500
Continuing education programmes	3,000 - 6,000	3,000 - 6,000	N/A	N/A
Baiyun Technician College				
Post-secondary vocational diploma programmes	11,500 - 14,000	11,500 - 12,000	1,500	1,500
Secondary vocational diploma programmes	11,000 - 13,500	11,000 - 11,500	1,500	1,500
Technician diploma programmes	12,500	12,500	1,500	1,500

OUTLOOK

In China, private higher education institutions can be divided into private regular universities, private junior colleges and independent colleges. As of 31 December 2017, there were over 700 private higher education institutions in China, including private universities, private junior colleges, and independent colleges. Most of these private higher education institutions are controlled and operated independently. Hence, the operation of these institutions are scattered. This translates into huge potentials opportunities for us to take control and operate the institutions. Over the next few years, we shall focus on seeking these opportunities to expand our portfolio across the nation and even overseas.

Mergers and Acquisitions

We have established a strong merger and acquisition team. The team is composed of experienced professionals, including private equity fund manager, accounting, financial, legal and educational consulting professionals, etc. Presently, the team is performing due diligent works on a number of targets at different stages.

Development of New Campus

In September 2017, we held our groundbreaking ceremony for a new campus of Guangdong Baiyun University at Zhongluotan, Guangzhou, Guangdong Province. Once fully developed, the planned new campus is expected to have a site area of 489,000 square meters and accommodate approximately up to 26,000 students.

FINANCIAL REVIEW

Revenue

The Group's revenue reached RMB949.2 million in 2017, up 10.2% as compared to previous year's. A breakdown of revenue is shown below:

	Year ended 31 December		
	2017	2016	*Change*
	RMB'000	*RMB'000*	
Tuition fees	**857,539**	786,285	+9.1%
Boarding fees	**65,279**	53,779	+21.4%
Ancillary services	**26,353**	21,225	+24.2%
	949,171	861,289	+10.2%

The increase in revenue was mainly attributed to the inclusion of Baiyun Technician College on 14 August 2017. Baiyun Technician College contributed approximately RMB67.4 million revenue in 2017, representing 7.1% of the Group's revenue.

Tuition fees contributed over 90.3% of the Group revenue while boarding fees and ancillary services represented approximately 6.9% and 2.8% of the Group revenue, respectively.

Cost of Revenue

Despite of the increase of revenue, the cost of revenue decreased from RMB404.6 million in 2016 to RMB389.4 million in 2017, representing a decrease of 3.7%. The decrease was mainly due to cost savings from the synergy effect of course design and increase in number of students in majors with higher profit margin.

Gross Profit and Gross Profit Margin

For 2017, the Company's gross profit increased by 22.6% to RMB559.7 million from RMB456.7 million in 2016. The gross profit margin was improved from 53.0% in 2016 to 59.0% in 2017. The improvement was mainly due to the decrease in cost of revenue as explained above.

Other Income

Other income primarily included consultancy income, academic administration income, and management fee income. The decrease in other income was mainly due to the decrease in consultancy income received from BTC while less consultancy services were provided by Jiangxi University of Technology during the first half of 2017 before BTC was being taken control by the Group.

Investment Income

Investment income consists of imputed interest income from amounts due from directors and a related party, and interest income from bank. The decrease in investment income is mainly due to the decrease in imputed interest income from amounts due from directors and a related party while both amounts were fully settled in August 2017.

Administrative Expenses

The increase in administrative expenses was mainly due to the inclusion of Baiyun Technician College for the period since August and the set-up of new offices in Shanghai and Hong Kong.

Listing Expenses

Listing expenses consists of professional fees directly charged in relation to the initial public offering in December 2017. The amount of RMB45.5 million represented approximately 75% of the total professional fees while the remaining balance of approximately 25% was capitalised.

Finance Costs

Excluding the effect of interest expenses capitalised, finance costs actually decreased from RMB26.9 million in 2016 to RMB21.2 million in 2017. Interest expenses of RMB12.0 million were capitalised in 2016 while merely RMB2.7 million were capitalised in 2017. As a result, the finance costs appear to have increased by 24.1%.

Discontinued Operations

During 2017, the Group completed disposal of a group of subsidiaries, which were mainly engaged in provision of primary and secondary education and other services. The disposals were consistent with the Group's long-term strategy to focus on private higher and vocational education institutions.

Capital Expenditure

Our capital expenditures for the year ended 31 December 2017 were RMB140.1 million and were primarily related to maintaining and upgrading the existing school premises, and construction of new buildings.

Liquidity, Financial Resources and Gearing Ratio

As at 31 December 2017, the Group had bank balances and cash of RMB3,243.1 million (31 December 2016: RMB247.1 million) with no bank borrowings (31 December 2016: RMB453.1 million). As a result of the net proceeds raised from the IPO, the Group was in net cash position of RMB3,243.1 million as at 31 December 2017 (2016: Net debt of RMB205.9 million). Net cash/debt is defined as interest bearing borrowings less bank balances and cash.

As at 31 December 2017, the gearing ratio, which is calculated on the basis of total borrowing and total equity of the Group, was 0% (31 December 2016: 17.9%).

Foreign Exchange Risk Management

The majority of the Group's revenue and expenditures are denominated in RMB, the functional currency of the Company, except that certain expenditures are denominated in HK$. The Group also has certain foreign currency bank balances and other payables denominated in HK$, which would expose the Group to foreign currency risk. The Group did not use any financial instruments for hedging purposes. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure when the need arises.

Charges on the Group's Assets

There were no material charges on the Group's assets as at 31 December 2017 and 2016.

Contingent Liabilities

As at 31 December 2017 and 2016, the Group did not provide any guarantee in respect of bank borrowing facilities made available to any member of the Group.

SIGNIFICANT EVENTS AFTER FINANCIAL YEAR ENDED 31 DECEMBER 2017

On 5 January 2018, the over-allotment option described in the prospects dated 5 December 2017 has been partially exercised by BNP Paribas Securities (Asia) Limited in respect of an aggregate of 20,202,000 ordinary shares of the Company. The Over-allotment Shares were issued and allotted by the Company at HK$6.45 per share.

Subsequent to 31 December 2017, the Group has entered into agreements for the proposed acquisition of 80% interest in a vocational school in Zhengzhou ("Zhengzhou acquisition") and 62% interest in a technican college in Xi'an ("Xi'an acquisition"). Zhengzhou acquisition and Xi'an acquisition are proposed to be at a consideration of RMB855,000,000 and RMB576,600,000, subject to various adjustments in accordance with the terms and conditions set out in the respective agreements for the respective acquisition. Completion of these acquisitions are subject to the completion of terms and conditions in the agreements for the respective acquisition, and up to the date of this announcement, the aforementioned transactions were not yet completed.

USE OF NET PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

The Company issued 520,202,000 new shares at the issue price of HK$6.45 per share in the connection with the Listing. The net proceeds (before the effect of the exercise of the over-allotment option in January 2018) after deducting the underwriting commission and issuing expenses arising from the Listing amounted to RMB2,618.5 million.

The net proceeds has been applied in the manner as set out in the section headed "Future Plans and Use of Proceeds" of the Company's prospectus dated 5 December 2017. As at the date of this announcement, the Company has applied the net proceeds of approximately RMB208.5 million in repaying of the Group's bank borrowings.

The unutilized net proceeds are generally placed in licensed financial institutions as short-term deposits.

EMPLOYEES AND REMUNERATION POLICIES

Remuneration

As of 31 December 2017, the Group had approximately 4,700 employees (4,000 as of 31 December 2016).

Remuneration policy of our schools is formulated under the guidance of the PRC law and is also based on the industry characteristics as well as various market factors. Staff congress, president's office, and Board of Directors together approve the compensation range. Schools determine their respective compensation standards based on the employment by function (teachers, teaching assistants, administrative personnel and worker. etc) and position (entry-level, team lead, manager, etc.). Schools pay fixed annual salary to senior management and top talents such as directors, deans/department heads, administrative leads, and professors. Schools pay social insurance (pension, medical, unemployment, work injury and maternity insurance), housing provident fund, and enterprise annuity, and provide a variety of benefits for employees, under the guidance of relevant national, provincial, and municipalities policies, such as "Provisional Regulations for payment of Wages" and "Housing Provident Fund Regulations".

Recruitment

We strictly follow the PRC "Labor Law", "Labor Contract Law", "Employment Promotion Law", "Labor Dispute Mediation and Arbitration Law" as well as provincial and local labor laws and regulations (of where the subsidiaries schools locate and operate) in our recruitment process. We prohibit discrimination by age, sex, race, nationality, religion or disability, ensuring everyone has equal employment opportunities and respects.

Schools hire talents based on business development and operational needs, as well as candidates' integrity and professionalism. Our talent selection policy does not only focus on professional knowledge, experience, relevant qualification, but also on candidates' morality, professional ethics and discipline. Our schools carry out their recruitment works based on "Teacher and employee manual" and "Methods for implementing teachers' recruitment work", and continuously to improve and refine their recruitment processes. School staff recruitment procedures/cycle can be summarized as follows: pre-hiring advertisement, resume screening, interview invitation, HR interview, professional qualification assessment, employer business assessment, departmental and school senior management interview, background investigation, conditional employment offer, physical examination, and formal employment offer. All candidates with employment offer will have to sign the employment contract no later than one month since the first day report to work, and we stipulate the probation period according to law. Near the end of the probation period, HR department will work with the candidates' respective departments to conduct comprehensive assessments on new employees' performance and personality fit during the probation period, to decide whether we should officially offer the position as scheduled or before, or terminate the employment.

We actively attract talents through contacting the target colleges, participating in talent recruitment fairs and industry conference, and encouraging our staff in their respected departments to take advantage of social media to refer and recommend talented candidates to join us. In addition, we provide pre-career training for newly hired teachers to help their transitions faster and easier.

DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2017 (2016: nil).

ANNUAL GENERAL MEETING

The AGM is currently planned to be held on Thursday, 14 June 2018. A notice convening the AGM and all other relevant documents will be published and dispatched to the Shareholders in due course.

CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Monday, 11 June 2018 to Thursday, 14 June 2018, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the AGM, all duly completed and signed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Friday, 8 June 2018.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association, or the applicable laws of the Cayman Islands where the Company is incorporated, which would oblige the Company to offer new Shares on a pro-rata basis to existing Shareholders.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities since the Listing Date and up to 31 December 2017.

PUBLIC FLOAT

The Company has maintained the public float as required by the Listing Rules since the Listing Date and up to the date of this announcement.

CORPORATE GOVERNANCE PRACTICES

The Company has applied the principles as set out in the CG Code. The Board is of the view that since the Listing Date and up to 31 December 2017, the Company has complied with all the code provisions as set out in the CG Code.

The Board believes that good corporate governance is essential in enhancing the confidence of the Shareholders, potential investors and business partners and is consistent with the Board's pursuit of value creation for the Shareholders. The Company is committed to enhancing its corporate governance practices appropriate to the conduct and the growth of its business and to reviewing such practices from time to time to ensure that the Company complies with statutory and professional standards and align with the latest development.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as the Group's code of conduct regarding Directors' securities transactions. Specific enquiry has been made by the Company with all Directors and the Directors have confirmed that they have complied with the Model Code throughout the period from the Listing Date up to 31 December 2017.

AUDIT COMMITTEE AND REVIEW OF CONSOLIDATED FINANCIAL INFORMATION

The Audit Committee consists of three independent non-executive Directors, namely Dr. Rui Meng (Chairman), Dr. Gerard A. Postiglione and Dr. Wu Kin Bing. The main duties of the Audit Committee are to assist the Board in providing an independent review of the completeness, accuracy and fairness of the financial information of the Group, as well as the efficiency and effectiveness of the Group's operations and internal controls. The Audit Committee has reviewed the annual results of the Group for the year ended 31 December 2017, including the accounting principles and practices adopted by the Group.

SCOPE OF WORK ON THE ANNUAL RESULTS ANNOUNCEMENT BY AUDITORS

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2017 as set out in the preliminary announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu 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 Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

PUBLICATION OF RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This annual results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.chinaeducation.hk). The annual report of the Company for the year ended 31 December 2017 containing all the information required by the Listing Rules will be dispatched to the Shareholders and made available on the same websites in due course.

DEFINITIONS

"affiliate"	with respect to any specified person, any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person
"AGM"	annual general meeting of the Company
"Articles" or "Articles of Association"	the articles of association of the Company
"associate(s)"	has the meaning ascribed thereto under the Listing Rules
"Audit Committee"	the audit committee of the Board
"Baiyun Technician College"	Guangzhou Baiyun Senior Technical School of Business and Technology (Guangzhou Baiyun Technician College of Business and Technology) (廣州白雲工商高級技工學校(廣州市白雲工商技師學院)), one of our PRC Operating Schools
"Board"	the board of directors of the Company
"Cayman Companies Law"	the Companies Law of the Cayman Islands as amended, supplemented or otherwise modified from time to time

"CG Code"	Corporate Governance Code contained in Appendix 14 to the Listing Rules
"China" or "PRC"	the People's Republic of China and for the purposes of this document only, except where the context requires otherwise, references to China or the PRC exclude Hong Kong, Macau and Taiwan
"Companies Ordinance"	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong)
"Company", "our Company", or "the Company"	China Education Group Holdings Limited (中國教育集團控股有限公司), a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange
"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"connected transaction(s)"	has the meaning ascribed to it under the Listing Rules
"consolidated affiliated entities" or "consolidated affiliated entity"	the entities we control through the Contractual Arrangements, namely Huafang Education, Lihe Education, and our PRC Operating Schools and their respective subsidiaries
"Contractual Arrangements"	the series of contractual arrangements entered into by, among others, the Company, WFOE, Mr. Yu, Mr. Xie, Huafang Education, Lihe Education, our PRC Operating Schools and our consolidated affiliated entities
"controlling shareholders"	has the meaning ascribed to it under the Listing Rules and unless the context otherwise requires, refers to Mr. Yu, Mr. Xie and each of them shall be referred to as a controlling shareholder.
"Director(s)"	the director(s) of the Company
"Group", "our Group", "the Group", "we", "us", or "our"	the Company, its subsidiaries and its consolidated affiliated entities from time to time
"Guangdong Baiyun University"	Guangdong Baiyun University (廣東白雲學院), one of our PRC Operating Schools
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the People's Republic of China
"Hong Kong dollars" or "HK dollars" or "HK$"	Hong Kong dollars, the lawful currency of Hong Kong

"Hong Kong Securities and Futures Ordinance" or "SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Huafang Education"	Ganzhou Huafang Education Consulting Company Limited (贛州市華方教育諮詢有限公司), one of our consolidated affiliated entities
"IFRS"	International Financial Reporting Standards, as issued from time to time by the International Accounting Standards Board
"Independent Third Party(ies)"	any entity(ies) or persons who is not a connected person of the Company within the meaning ascribed thereto under the Listing Rules
"INED"	independent non-executive directors
"Jiangxi University of Technology"	Jiangxi University of Technology (江西科技學院), one of our PRC Operating Schools
"Lihe Education"	Lihe Education Consulting (Ganzhou) Company Limited (禮和教育諮詢（贛州）有限公司), one of our consolidated affiliated entities
"Listing"	the listing of the Shares on the Main Board of the Stock Exchange
"Listing Date"	15 December 2017, the date on which the shares were listed and on which dealings in the shares were first permitted to take place on the Main Board of the Stock Exchange
"Listing Rules"	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"Model Code"	Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules
"Mr. Xie"	Mr. Xie Ketao (謝可滔), an executive director, co-chairman of the Company and a controlling shareholder of the Company
"Mr. Yu"	Mr. Yu Guo (于果), an executive director, co-chairman of the Company and a controlling shareholder of the Company
"PRC Operating Schools"	Jiangxi University of Technology, Guangdong Baiyun University and Baiyun Technician College
"RMB" or "Renminbi"	Renminbi, the lawful currency of China

"Shareholder(s)"	holder(s) of our Share(s)
"Shares"	ordinary shares in our Company of par value HK$0.00001 each
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"subsidiary(ies)"	has the meaning ascribed thereto in section 15 of the Companies Ordinance
"substantial shareholder"	has the meaning ascribed to it in the Listing Rules
"US dollars", "U.S. dollars" or "US$"	United States dollars, the lawful currency of the United States
"%"	per cent

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

Hong Kong, 13 March 2018

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