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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 EIGHT MONTHS ENDED 31 AUGUST 2018

FINANCIAL HIGHLIGHTS

- Financial year end date has been changed from 31 December to 31 August to align with academic year. Current accounting period covers the period of eight months from 1 January 2018 to 31 August 2018.
- Adjusted net profit increased by 62.9% to RMB481.6 million for the period compared to RMB295.7 million recorded in the pro forma period 2017.
- Net profit increased by 65.9% to RMB401.1 million for the period compared to RMB241.8 million recorded in the pro forma period 2017.
- Revenue increased by 58.6% to RMB932.9 million for the period compared to RMB588.1 million recorded in the pro forma period 2017.
- Total bank balances and cash was RMB1,907.1 million.
- The Board proposed payment of a final dividend of HK7.4 cents per ordinary share.

ANNUAL RESULTS

The board of directors of China Education Group Holdings Limited is pleased to announce the audited consolidated results of the Group for the eight months ended 31 August 2018.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE EIGHT MONTHS ENDED 31 AUGUST 2018

	NOTES	**Eight months ended 31 August 2018** *RMB'000*	Year ended 31 December 2017 *RMB'000*
Continuing operations			
Revenue	*4*	**932,910**	949,171
Cost of revenue		**(360,238)**	(389,448)
Gross profit		**572,672**	559,723
Other income		**54,085**	54,814
Investment income		**14,923**	14,568
Other gains and losses		**(43,616)**	1,105
Selling expenses		**(18,235)**	(9,676)
Administrative expenses		**(167,520)**	(133,369)
Listing expenses		**–**	(45,498)
Finance costs		**(24,381)**	(18,472)
Profit before taxation		**387,928**	423,195
Taxation	*5*	**13,154**	(1,730)
Profit and total comprehensive income for the period/year from continuing operations		**401,082**	421,465
Discontinued operations			
Profit and total comprehensive income for the period/year from discontinued operations		**–**	7,407
Profit and total comprehensive income for the period/year	*6*	**401,082**	428,872
Profit and total comprehensive income for the period/year attributable to owners of the Company			
— from continuing operations		**357,588**	421,465
— from discontinued operations		**–**	7,419
		357,588	428,884
Profit (loss) and total comprehensive income (expense) for the period/year attributable to non-controlling interests			
— from continuing operations		**43,494**	–
— from discontinued operations		**–**	(12)
		43,494	(12)
		401,082	428,872

	NOTE	Eight months ended 31 August 2018 RMB'000	Year ended 31 December 2017 RMB'000
From continuing and discontinued operations			
Earnings per share	*8*		
Basic		**RMB17.70 cents**	RMB28.16 cents
Diluted		**RMB17.62 cents**	RMB28.16 cents
From continuing operations			
Earnings per share	*8*		
Basic		**RMB17.70 cents**	RMB27.67 cents
Diluted		**RMB17.62 cents**	RMB27.67 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 AUGUST 2018

	NOTES	At 31 August 2018 RMB'000	At 31 December 2017 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**3,258,673**	2,638,560
Prepaid lease payments		**63,292**	54,946
Goodwill		**916,553**	325,629
Intangible assets		**994,162**	239,547
Contract costs		**42,699**	–
Prepayments for acquisition of business		**1,246,815**	–
Deposits paid for prepaid lease payments		**113,486**	40,496
Deposits paid for acquisition of property, plant and equipment		**27,895**	2,405
Deferred tax asset		**11,010**	–
		6,674,585	3,301,583
CURRENT ASSETS			
Inventories		**381**	254
Trade receivables, deposits, prepayments and other receivables	*9*	**130,226**	71,563
Financial assets at fair value through profit or loss		**61,805**	3,402
Structured deposits		**–**	50,500
Contract costs		**16,269**	–
Prepaid lease payments		**1,506**	1,506
Restricted bank deposits		**110,000**	–
Bank balances and cash		**1,738,455**	3,243,144
		2,058,642	3,370,369
CURRENT LIABILITIES			
Deferred income		**23,651**	727,280
Trade and bills payable	*10*	**30,925**	10,715
Other payables, accrued expenses and provisions		**535,080**	196,908
Income tax payable		**12,717**	12,214
Contract liabilities		**1,037,964**	–
Other borrowings		**107,000**	–
		1,747,337	947,117
NET CURRENT ASSETS		**311,305**	2,423,252
TOTAL ASSETS LESS CURRENT LIABILITIES		**6,985,890**	5,724,835

	At 31 August 2018 *RMB'000*	At 31 December 2017 *RMB'000*
NON-CURRENT LIABILITIES		
Deferred income	**34,237**	25,905
Other payables	**100,265**	–
Bank borrowing	**130,000**	–
Deferred tax liability	**259,218**	59,887
	523,720	85,792
	6,462,170	5,639,043
CAPITAL AND RESERVES		
Share capital	**17**	17
Reserves	**6,143,080**	5,639,026
Equity attributable to owners of the Company	**6,143,097**	5,639,043
Non-controlling interests	**319,073**	–
	6,462,170	5,639,043

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE EIGHT MONTHS ENDED 31 AUGUST 2018

1. GENERAL

China Education Group Holdings Limited (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 address of the registered office of 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 Suite 1504, Two Exchange Square, 8 Connaught Place, Central, Hong Kong.

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

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

As set out in the announcement of the Company issued on 3 August, 2018, the financial year end date of the Company and the Group has been changed from 31 December to 31 August to align the financial year end date of the Group with the academic year of the schools operated by the Group in the PRC, which ends in August each year. Accordingly, the current accounting period covers a period of eight months from 1 January 2018 to 31 August 2018. The corresponding comparative amounts shown for the consolidated statement of profit or loss and other comprehensive income and related notes cover a period of twelve months from 1 January 2017 to 31 December 2017 are therefore not entirely comparable with those of the current period.

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 instruments that are measured at fair values at the end of the reporting period. 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.

3. IMPACTS AND CHANGES IN ACCOUNTING POLICIES

The Group has applied the following new and amendments to IFRSs issued by the IASB for the first time in current period:

IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers and the related Amendments
IFRIC-Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
Amendments to IAS 28	As part of the Annual Improvements to IFRSs 2014–2016 Cycle
Amendments to IAS 40	Transfers of Investment Property

Except as described below, the application of the new and amendments to IFRSs in the current period has had no material impact on the Group's financial performance and positions for the current period and prior year and/or on the disclosures set out in these consolidated financial statements.

(a) IFRS 15 "Revenue from Contracts with Customers" ("IFRS 15")

The Group has applied IFRS 15 for the first time in the current reporting period. IFRS 15 superseded IAS 18 "Revenue", IAS 11 "Construction Contracts" and the related interpretations.

The Group has applied IFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated. Furthermore, in accordance with the transition provisions in IFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 18 "Revenue" and the related interpretations.

At the date of initial application, included in the total deferred income amounting to RMB652,114,000, RMB51,935,000 and RMB10,506,000 are related to the tuition fees, boarding fees and fees for ancillary services, respectively received in advance from students. These balances were reclassified to contract liabilities upon application of IFRS 15.

(b) IFRS 9 "Financial Instruments" ("IFRS 9")

The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9, i.e. applied the classification and measurement requirements (including impairment under expected credit loss ("ECL") model) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 39 "Financial Instruments: Recognition and Measurement".

At the date of initial application, the Group no longer applied designation as measured at fair value through profit or loss ("FVTPL") for the structured deposits as these financial assets are required to be measured at FVTPL under IFRS 9. As a result, the fair value of these investments of RMB50,500,000 were reclassified from financial assets designated at FVTPL to financial assets at FVTPL.

The Group applies the IFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade receivables. To measure the ECL for trade receivables from students, trade receivables from students have been grouped based on shared credit risk characteristics such as the status of the students. In determining the ECL for receivables from educational bureaus, they are assessed individually.

Most of the banks which the Group placed deposits at are graded with top credit ratings. Therefore, these deposits are considered to be low credit risk investments and the loss allowance is measured on twelve months ECL basis.

Loss allowances for other financial assets at amortised cost mainly comprise of other receivables, restricted bank deposits and bank balances and cash other than graded in the top credit rating agencies, are measured on twelve months ECL basis and there had been no significant increase in credit risk since initial recognition.

As at 1 January 2018, no additional credit loss allowance has been recognised against retained profits.

4. REVENUE AND SEGMENT INFORMATION

The Group is mainly engaged in the provision of private higher and vocational education institution services in the PRC.

Revenue represents services income from tuition, boarding fee and ancillary services.

Information reported to the Group's chief operating decision makers ("CODM"), Mr. Yu and Mr. Xie, for the purpose of resource allocation and assessment of segment performance, was based on the categories of education institutions, namely higher education and vocational education. Each category of institutions constitutes an operating segment. The services provided and type of customers are similar in each operating segment, and each operating segment is subject to similar regulatory environment. Accordingly, their segment information is aggregated as a single reportable segment which is the same as the consolidated statement of profit or loss and other comprehensive income as disclosed above. No analysis of segment assets or segment liabilities is presented as they are not regularly provided to the CODM.

Revenue from major services

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

For the eight months ended 31 August 2018

	RMB'000
Tuition fees recognised over time	**844,702**
Boarding fees recognised over time	**76,031**
Ancillary services recognised over time	**12,177**
	932,910

For the year ended 31 December 2017

	RMB'000
Tuition fees	857,539
Boarding fees	65,279
Ancillary services	26,353
	949,171

5. TAXATION

	Eight months ended 31 August 2018 *RMB'000*	Year ended 31 December 2017 *RMB'000*
Continuing operations		
Current tax — Enterprise Income Tax ("EIT")	**(5,065)**	(7,610)
Overprovision in prior years — EIT	**2,659**	4,019
Deferred tax	**15,560**	1,861
	13,154	(1,730)

6. PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE PERIOD/YEAR

	Eight months ended 31 August 2018 *RMB'000*	Year ended 31 December 2017 *RMB'000*
Profit and total comprehensive income for the period/year from continuing operations has been arrived at after charging:		
Staff costs, including directors' remuneration		
— salaries and other allowances	**244,003**	222,543
— retirement benefit scheme contributions	**39,482**	37,328
— share-based payments	**40,679**	3,077
Total staff costs	**324,164**	262,948
Depreciation of property, plant and equipment	**100,036**	124,646
Amortisation of prepaid lease payments	**1,796**	1,390
Amortisation of intangible assets	**17,700**	7,448
Amortisation of contract costs	**2,233**	–
Auditor's remuneration	**4,260**	3,700
Minimum operating lease rental expense in respect of rented premises	**11,066**	10,819

7. DIVIDENDS

No dividend was paid or proposed for ordinary shareholders of the Company during the eight months ended 31 August 2018 (for the year ended 31 December 2017: nil).

Subsequent to the end of the reporting period, a final dividend in respect of the eight months ended 31 August 2018 of HK7.4 cents (for the year ended 31 December 2017: nil) per ordinary share, in an aggregate amount of approximately HK$149,495,000 (for the year ended 31 December 2017: nil), has been proposed by the directors of the Company and is subject to approval by the shareholders in the forthcoming annual general meeting.

8. 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:

	Eight months ended 31 August 2018	Year ended 31 December 2017
	RMB'000	*RMB'000*
Profit for the purpose of calculating basic and diluted earnings per share from continuing operations	**357,588**	421,465

	Eight months ended 31 August 2018	Year ended 31 December 2017
	'000	*'000*
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**2,019,870**	1,523,288
Effect of dilutive potential ordinary shares:		
Over-allotment options	**814**	14
Share options	**8,249**	–
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**2,028,933**	1,523,302

The weighted average number of ordinary shares for the year ended 31 December 2017 for the purpose of basic earnings per share had 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 2017.

The computation of diluted earnings per share for the year ended 31 December 2017 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.

9. TRADE RECEIVABLES AND RECEIVABLES FROM EDUCATION BUREAUS

The following is an analysis of trade receivables and receivables from educational bureaus, net of allowance for credit losses, by age, presented based on debit note.

	At 31 August 2018	At 31 December 2017
	RMB'000	*RMB'000*
0–90 days	**271**	21,723
91–120 days	**442**	15,829
121–365 days	**25,271**	–
Over 365 days	**572**	8,820
	26,556	46,372

10. TRADE AND BILLS PAYABLE

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

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

	At 31 August 2018	At 31 December 2017
	RMB'000	*RMB'000*
0–30 days	**25,347**	7,207
31–90 days	**756**	53
91–365 days	**2,548**	1,106
Over 365 days	**2,274**	2,349
	30,925	10,715

11. ACQUISITIONS OF BUSINESSES

(a) Zhengzhou acquisition

On 13 March 2018, Junshi Education Consulting (Ganzhou) Co. Ltd. (君時教育諮詢(贛州)有限公司), a consolidated affiliated entity of the Company, entered into an acquisition agreement and a supplemental agreement (the "Zhengzhou Acquisition Agreements") with Mr. Yu Cuntao (the "Zhengzhou Vendor") for the acquisition of 80% equity interest in 樹仁教育管理有限公司 ("Shu Ren Education"), a limited liability company established under the laws of the PRC and owned the sponsor interest of Zhengzhou Transit School, at the consideration of RMB855,000,000 (the "Zhengzhou Consideration"). Zhengzhou Consideration comprises RMB120,000,000 ("Zhengzhou Equity Consideration") payable to Zhengzhou Vendor for the transfer of the 80% equity interest in Shu Ren Education and RMB735,000,000 for injection into Shu Ren Education as additional capital. The acquisition was completed on 23 March 2018.

Pursuant to the Zhengzhou Acquisition Agreements, the Zhengzhou Equity Consideration shall be paid by the Group to Zhengzhou Vendor by four installments and Zhengzhou Vendor had agreed to provide a profit guarantee in relation to the financial performance of Zhengzhou Transit School for each of the three calendar years ending 31 December 2020. The payment of the second, the third and the fourth installments of the Zhengzhou Equity Consideration of RMB20,000,000 each shall be reduced by an amount to be determined by the following formula if the audited profit before tax and excluding the non-operating profit of Zhengzhou Transit School ("Zhengzhou Actual PBT") for each of the three calendar years ending 31 December 2020 is less than RMB45,000,000, RMB80,000,000 and RMB90,000,000 ("Zhengzhou Guaranteed PBT") for each of the calendar year ending 31 December 2018, 31 December 2019 and 31 December 2020, respectively:

RMB20,000,000 x (1 – (Zhengzhou Actual PBT/Zhengzhou Guaranteed PBT))

(b) Xi'an acquisition

On 13 March 2018, Shangzhi Education Consulting (Ganzhou) Co. Ltd. (上智教育諮詢(贛州)有限公司), a consolidated affiliated entity of the Company, entered into an acquisition agreement and a supplemental agreement (the "Xi'an Acquisition Agreements") with all the shareholders (the "Xi'an Vendors") of 贛州西鐵教育諮詢有限公司 ("Xitie Education") for the acquisition of 62% equity interest in Xitie Education, a limited liability company established under the laws of the PRC and indirectly owns the sponsor interest of Xi'an Railway College, at the consideration of RMB576,600,000 (the "Xi'an Consideration"). Xi'an Consideration comprises RMB472,170,000 ("Xi'an Equity Consideration") payable to Xi'an Vendors for the transfer of the 62% equity interest in Xitie Education and RMB104,430,000 for injection into Xitie Education as additional capital. The acquisition was completed on 23 March 2018.

Pursuant to the Xi'an Acquisition Agreements, the Xi'an Equity Consideration shall be paid by the Group to Xi'an Vendors by four installments and Xi'an Vendors had agreed to provide guarantee in relation to the future student enrollment or the financial performance of Xi'an Railway College. The payment of the second installment of the Xi'an Equity Consideration of RMB42,480,000 shall be made on the condition that the number of new students of Xi'an Railway College at the end of 30 October 2018 (the spring and fall semesters of academic year) has attained the agreed target. The payment of the third and the fourth installments of the Xi'an Equity Consideration of RMB100,000,000 each shall be reduced by an amount to be determined by the following formula if the audited profit before tax and excluding the non-operating profit of Xi'an Railway College ("Xi'an Actual PBT") for each of the calendar year ending 31 December 2018 and 31 December 2019 is less than RMB74,000,000 and RMB100,000,000 ("Xi'an Guaranteed PBT") for the calendar year ending 31 December 2018 and 31 December 2019 respectively:

RMB100,000,000 x (1 – (Xi'an Actual PBT/Xi'an Guaranteed PBT))

(c) Baiyun acquisition

On 14 August 2017, Huajiao Education, Mr. Xie, Huafang Education, Lihe Education and Baiyun Technician College entered into an acquisition framework agreement (the "Baiyun Acquisition Agreement") pursuant to which Huajiao Education will acquire Baiyun Technician College (the "Baiyun Acquisition") through entering into contractual arrangements (the "Technician College Contractual Arrangements") for a cash consideration of RMB750 million. The Baiyun Acquisition was 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 Baiyun Acquisition would significantly expand and diversify the Group's schools 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 Baiyun 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 calendar 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 calendar 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

12. CAPITAL COMMITMENTS

	At 31 August 2018 *RMB'000*	At 31 December 2017 *RMB'000*
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of the acquisition of		
— property, plant and equipment	**5,529**	1,646
— prepaid lease payments	**319,997**	367,190
	325,526	368,836

In addition, on 29 June 2018, Huajiao Education has entered into a framework agreement with Value Partners Private Equity Investment Management (Shen Zhen) Limited, a subsidiary of Value Partners Group Limited, for the establishment of a fund tentatively named VP-CEG China Education Fund (the "China Education Fund"). The Group will make an initial contribution of RMB250 million to the China Education Fund. No contribution has been made up to 31 August 2018.

13. EVENT AFTER REPORTING PERIOD

Subsequent to 31 August 2018, the Group has completed the acquisition of Songtian Group. The financial impact and disclosure for the fair value of each major class of assets acquired and liabilities assumed as of the acquisition date are estimating as the preparation of initial accounting for this business combination, for example, valuation of assets acquired and liabilities assumed, is in progress at the time the financial statements are authorised for issue.

Details of the acquisition were set out in the announcements of the Company dated 14 June 2018, 3 September 2018 and 26 September 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

We are a leading private higher and vocational education provider in China. As at 31 August 2018, the Group operated two universities and three vocational schools located in four provinces, namely Jiangxi, Guangdong, Henan and Shaanxi, and recruited students across all provinces in mainland China. As at 31 August 2018, the Group had approximately 121,000 students attending 86 bachelor's degree programmes, 43 junior college diploma programmes, and 129 vocational education programmes.

In the academic year of 2017/2018, the disciplines provided by us covered 97.7% of undergraduate students' choices and 91.9% of junior college students' choices in China.

Growth Strategy

Given the high-barrier of entrance to the higher education sector, we have formulated our merger and acquisition strategy as the key strategy to achieve our growth target. Within eight months after Listing, we have consolidated two schools and added about 45,000 students to our student enrollment base. We will continue to explore other merger and acquisition opportunities and to select the ones with good growth potential at reasonable valuation.

Acquisitions Completed During The Reporting Period

On 23 March 2018, the Group completed two acquisitions, namely Zhengzhou Transit School and Xi'an Railway College, to expand its business coverage into the central and the western regions of China. Through welcoming two schools on board, we have expanded our school portfolio from three schools into five schools. At the same time, our student enrollment base increased by 61.2% from approximately 75,000 students at the time of our initial public offering to approximately 121,000 students. Both acquired schools focus on providing railway-related vocational education to students to equip them for their career development in the growing China's railway industry.

Under the guidance and support of the state's macro policies, China's rail transit has begun to boom during the 13th Five-Year Plan period. With the rapid development of China's high-speed rail, metro, intercity railways, and civil aviation, we envisage that there will be a promising demand for the graduates of both Zhengzhou Transit School and Xi'an Railway College in the job market.

Acquisition of Zhengzhou Transit School

On 23 March 2018, the Group completed the acquisition of 80% equity interest in the sponsorship holding company which owns the entire school sponsor interest of Zhengzhou Transit School, for a total consideration of RMB855.0 million. The consideration was comprised of RMB120.0 million for the transfer of equity interest and RMB735.0 million for capital injection to reduce the debts of school and to finance its continuous expansion. Zhengzhou Transit School was established in 2010 with the approval by Zhengzhou Municipal Education Bureau. The school locates in Xinzheng Xincun Industrial Park, Zhengzhou City, Henan Province with site area and gross floor area of approximately 423,000 square meters and over 300,000 square meters, respectively. As at 31 August 2018, Zhengzhou Transit School had over 24,000 students. The school provides a variety of urban rail transit programmes and has established cooperation with many large cities (such as Beijing, Shanghai, Shenzhen, Guangzhou and Tianjin) to increase the employment opportunities of its graduates.

Acquisition of Xi'an Railway College

On 23 March 2018, the Group completed the acquisition of 62% equity interest in the sponsorship holding company which owns the entire school sponsor interest of Xi'an Railway College, for a total consideration of RMB576.6 million. The consideration was comprised of RMB472.2 million for the transfer of equity interest and RMB104.4 million for capital injection to reduce the debts of school and to finance its continuous expansion.

Xi'an Railway College was founded in 2006 under the former name of 西安數字科技專修學院 and changed its present name to 西安鐵道技師學院 in 2015 with the approval of the Department of Human Resources and Social Security of Shaanxi Province. Xi'an Railway College is a mechanic and technician college that nurtures professional talents for rail transportation. Since its establishment, the school has received significant supports from the Department of Human Resources and Social Security and the provincial government of Shaanxi Province and has been developed into a prominent incubator for high-skilled talents to cater for the rapid economic growth of central-west region of China. Located in Xi'an, Shaanxi Province, Xi'an Railway College is open to students from all over the country. As at 31 August 2018, the school had over 20,000 students.

Acquisition In Progress During The Reporting Period

On 14 June 2018, the Group entered into an agreement with an Independent Third Party to acquire 100% ownership of a target company whose principal business is investment in Songtian Company, which in turn owns sponsor interest of the Songtian Schools (Songtian University and Songtian College).

In September 2018 (after the reporting period), the acquisition of Songtian University and Songtian College was duly completed. Transfer of equity interest and change in the board of directors and the legal representatives of Songtian Company (the 100% co-sponsor of Songtian University and 100% sponsor of Songtian College) have been completed and duly registered with the relevant government departments in the PRC.

The Directors believe that the transaction marks the Group's continuous efforts to expand its school network and increase market penetration. The Directors consider that Songtian Schools are located in the economically vibrant Pearl River Delta Economic Zone and will benefit from the economic development of Guangdong-Hong Kong-Macao Greater Bay Area. The Board sees good potential in Songtian Schools to increase student enrollment and the Group will be able to leverage on its competitive advantages to streamline the operation of Songtian Schools and to enhance their financial performance. The Group intends to efficiently integrate Songtian Schools into the Group's school network and implement the Group's centralised management system to improve their operational efficiencies, increase their school sizes, optimise their pricing strategies and as a result improve the profitability of the Group as a whole.

Songtian University

Founded in 2000, Songtian University is a private university (independent college) approved by the Ministry of Education in April 2004 and operated by Songtian Company in collaboration with Guangzhou University. Located in Guangzhou, Guangdong Province, the PRC, the University conducts unified student recruitment on a national scale. Songtian University has eight faculties and three academic departments and offers full-time undergraduate programmes. In 2017/2018 academic year, Songtian University had more than 8,700 students. The initial employment rate of Songtian University in 2017 was approximately 95.6% while China's overall initial employment rate for higher education graduates in the same year was approximately 77.0%. Songtian University earned the Award for Guangdong's Most Competitive Independent College in the 30 Years of Reform and Opening-Up (改革開放30周年廣東最具競爭力獨立學院獎) by Guangzhou Daily. Songtian University also won the Guangzhou's Garden Organisation title from Guangzhou government for its beautiful landscape.

Songtian College

Founded in 2000, Songtian College is registered as a full-time higher vocational college with the Ministry of Education of the PRC and is established with the approval from People's Government of Guangdong Province. The College locates in Guangzhou, Guangdong Province, the PRC. Songtian College has seven faculties/academic departments and commenced recruiting students in 2007. In 2017/2018 academic year, Songtian College had approximately 3,300 full-time students. The initial employment rate of Songtian College in 2017 was approximately 98.4% while China's overall initial employment rate for higher education graduates in the same year was approximately 77.0%. According to a report commissioned by Guangdong Department of Education in 2012, Songtian College achieved the highest satisfaction on current employment from graduates among vocational colleges in the province.

Our Schools

As at 31 August 2018, we operated two universities and three vocational schools (31 December 2017: two universities and one vocational school). The following table sets forth certain details of our five schools.

School	Year Founded	Date of Joining the Group	Description
1 Jiangxi University of Technology	1993	December 2007	Ranked number one private university in China for nine consecutive years The largest private university in China in terms of student enrollment One of the first few private universities approved by the Ministry of Education
2 Guangdong Baiyun University	1989	December 2007	Ranked number one private university in Guangdong Province for twelve consecutive years One of the first few private universities approved by the Ministry of Education
3 Baiyun Technician College	1989	August 2017	Ranked number one vocational college in Guangdong Province for seven consecutive years The second largest private technician college in China in terms of student enrollment
4 Zhengzhou Transit School	2010	March 2018	The largest private secondary vocational school in China in terms of student enrollment
5 Xi'an Railway College	2006	March 2018	The largest private technician college in China in terms of student enrollment

Student Enrollment

As at 31 August 2018, the total number of enrolled students of our Group was 121,315, up 61.2% from enrollment as at 31 August 2017.

	As at	
	31 August 2018	31 August 2017
Jiangxi University of Technology	**36,368**	35,982
Guangdong Baiyun University	**26,416**	25,741
Baiyun Technician College	**13,420**	13,532
Zhengzhou Transit School	**24,476**	N/A*
Xi'an Railway College	**20,635**	N/A*
Total	**121,315**	75,255

* *Zhengzhou Transit School and Xi'an Railway College were not yet our operating schools as at 31 August 2017.*

Tuition Fees and Boarding Fees

In general, we adjust our tuition fees between 0% and 10% among various programmes on annual basis. The tuition fee adjustment is determined by our school management teams subject to the operating costs and market conditions.

	Listed tuition fees in academic year		Boarding fees in academic 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

	Listed tuition fees in academic year		Boarding fees in academic year	
	2017/2018	2016/2017	**2017/2018**	2016/2017
	RMB	*RMB*	***RMB***	*RMB*
Zhengzhou Transit School				
Secondary vocational diploma programmes	**7,300**	N/A*	**1,000**	N/A*
Xi'an Railway College				
Technician diploma programmes	**9,800–16,000**	N/A*	**1,000**	N/A*

* *Zhengzhou Transit School and Xi'an Railway College were not yet our operating schools in the academic year 2016/2017.*

OUTLOOK

In China today, there are over 700 private higher education institutions, including private universities, private junior colleges, independent colleges, and thousands of private vocational schools. Most of these private higher education institutions and private vocational schools are owned and operated independently. Hence, the ownership and operation of these institutions and schools are scattered. This translates into huge potentials for merger and acquisition opportunities as well as significant room for enhancing the quality of education at the schools. On 10 August 2018, the Ministry of Justice of the People's Republic of China issued Draft Amendments on the Implementation Rules for the Law for Promoting Private Education (the "Proposed Implementation") (《中華人民共和國民辦教育促進法實施條例(修訂草案)(送審稿)》) to seek views and comments on the proposed changes. The key objectives of the Proposed Implementation are to foster the steady growth and healthy development of the private education in China. We believe the Proposed Implementation is beneficial and favorable to the development of the private higher education sector.

Based on our preliminary review of the current draft, we expect more private higher education institutions, particularly the independent colleges, are willing to sell. According to the current draft of the Proposed Implementation, the public education institutions are prohibited to use their brand name to make profits. Hence, the public institutions can no longer allow the independent schools attaching to them and paying them management fees. The independent schools need to be separated from the public institutions. However, given the current draft of Proposed Implementation is subject to amend or change, we will assess the development of the Proposed Implementation from time to time and adjust our corporate strategies if necessary.

Entering Into A Framework Agreement For The Establishment of China Education Fund

On 29 June 2018, the Group entered into the framework agreement with VP Shenzhen, a subsidiary of Value Partners Group Limited, for the establishment of the China Education Fund, with a targeted asset under management of RMB5 billion. The Group (and/or its affiliates and nominee(s)) and Value Partners Group Limited (and/or its subsidiary(ies)) will make an initial contribution of RMB250 million and RMB370 million, respectively, to the China Education Fund. It is expected that Huajiao Education (or its nominee) and VP Shenzhen are to be the co-general partners of the China Education Fund. The Directors believe that the Group's cooperation with Value Partners Group Limited, a leading investment fund house in Asia, will enhance the performance of the China Education Fund by combining the Group's experience in private higher and vocational education in China and the investment expertise of Value Partners Group Limited.

Development of New Campus

The construction work of the new campus of Guangdong Baiyun University in Zhongluotan, Guangzhou, Guangdong Province, has been proceeding as planned. With a site area of 489,000 square meters, the development is divided into two phases with the first phase to be completed in 2019. The first phase will provide a student capacity of 8,000 while the second phase will accommodate 18,000 students when it is completed in 2021.

FINANCIAL REVIEW

On 3 August 2018, the Company announced to change its financial year-end date from 31 December to 31 August so as to align the financial year-end date of the Group with the academic year of the schools operated by the Group in the PRC, which ends in August each year. As a result of this, the annual results covered the eight months ended 31 August 2018, instead of the usual twelve-month results. The corresponding comparative amounts shown covered twelve-month period from 1 January 2017 to 31 December 2017, and therefore are not directly comparable with the amounts shown for the current period.

To provide meaningful comparative information, the Group prepared pro forma financial information covering the eight months ended 31 August 2017. The pro forma figures have not been audited. They are derived by subtracting the unaudited results of Baiyun Technician College from the audited results of the Group for the year ended 31 December 2017; and thereafter subtracting the financial results for the period from 1 September 2017 to 31 December 2017 on a proportion basis from the remaining amount. The reason to subtract the unaudited results of Baiyun Technician College is because the acquisition of Baiyun Technician College was completed on 14 August 2017.

The key highlights for the eight months ended 31 August 2018 and the pro forma period 2017, which refer to the eight months ended 31 August 2017, are as follows:

	Eight months ended 31 August		
	2018	2017	**% change**
	(audited)	(pro forma)	
	RMB'000	*RMB'000*	
Revenue	**932,910**	588,109	58.6%
Cost of revenue	**360,238**	252,790	42.5%
Gross profit	**572,672**	335,319	70.8%
Gross profit margin	**61.4%**	57.0%	4.4%
Profit and total comprehensive income for the period	**401,082**	241,810	65.9%
Adjusted net profit	**481,625**	295,680	62.9%

For the eight months ended 31 August 2018, the Group recorded revenue increased by 58.6% of RMB932.9 million compared to RMB588.1 million recorded in the pro forma period 2017. Adjusted net profit increased by 62.9% to RMB481.6 million compared to RMB295.7 million recorded in the pro forma period 2017.

Adjusted Net Profit

For the eight months ended 31 August 2018, excluding foreign exchange loss, listing expenses and share-based payments, the adjusted net profit amounted to RMB481.6 million. When reviewing the previous year ended 31 December 2017, the adjusted net profit amounted to RMB482.7 million.

		Eight months ended 31 August 2018	Year ended 31 December 2017
		RMB'000	*RMB'000*
Profit and total comprehensive income for the period/year		**401,082**	428,872
Adjustments for:	Foreign exchange loss	**39,864**	5,295
	Share-based payments	**40,679**	3,077
	Listing expenses	**–**	45,498
		80,543	53,870
Adjusted net profit		**481,625**	482,742

Revenue

The Group's revenue reached RMB932.9 million for the eight months ended 31 August 2018, up 58.6% as compared to RMB588.1 million for the pro forma period 2017. The significant increase in revenue was mainly driven by the inclusion of three vocational schools, namely Baiyun Technician College, Zhengzhou Transit School and Xi'an Railway College. Baiyun Technician College acquisition was completed on 14 August 2017 while both Zhengzhou Transit School and Xi'an Railway College acquisitions were completed on 23 March 2018.

Cost of Revenue

The cost of revenue increased from approximately RMB252.8 million for the pro forma period 2017 to approximately RMB360.2 million for the eight months ended 31 August 2018, representing a 42.5% increase.

Gross Profit and Gross Profit Margin

The Group's gross profit was RMB572.7 million for the eight months ended 31 August 2018 as compared to RMB335.3 million for the pro forma period 2017. The gross profit margin was improved from 57.0% for the pro forma period 2017 to 61.4% for the eight months ended 31 August 2018. The improvement was mainly due to implementation of cost control measures.

Other Income

Other income primarily included government grants, academic administration income and management fee income.

Other Gains and Losses

The other gains and losses were recorded at a loss about RMB43.6 million for the eight months ended 31 August 2018 which was mainly attributable to the foreign exchange loss of RMB39.9 million, a result of exchanging Hong Kong dollars to the appreciated Renminbi during the period.

Selling Expenses

The Group's selling expenses was RMB18.2 million for the eight months ended 31 August 2018 as compared to RMB9.7 million for the year ended 31 December 2017. It represented about 2.0% of the revenue for the eight months ended 31 August 2018 and was increased as compared to that of 1.0% for the year ended 31 December 2017. The significant increase of selling expenses incurred for the eight months ended 31 August 2018 was mainly related to the increase in marketing and student recruitment expenses of the schools. The two universities incurred RMB5.0 million while the three vocational schools reported a total selling expense of RMB13.2 million.

Administrative Expenses

The Group's administrative expenses was RMB167.5 million for the eight months ended 31 August 2018 as compared to RMB133.4 million for the year ended 31 December 2017. It represented about 18.0% of the revenue for the eight months ended 31 August 2018 and was increased as compared to that of 14.1% for the year ended 31 December 2017. The increase of administrative expenses incurred for the eight months ended 31 August 2018 was mainly related to share-based payments of approximately RMB40.7 million, the inclusion of the administrative expenses of the three vocational schools, totaling at RMB30.9 million, as well as those of Huajiao Education and Hong Kong offices, totaling at RMB28.3 million.

Finance Costs

The finance costs of RMB24.4 million for the eight months ended 31 August 2018 represented the interest expenses on bank and other borrowings and imputed interest on deferred cash considerations.

Net Profit and Net Profit Margin

The Group's net profit was approximately RMB401.1 million for the eight months ended 31 August 2018, representing growth of 65.9% compared to RMB241.8 million for the pro forma period 2017. The net profit margin was slightly increased from 41.1% for the pro forma period 2017 to 43.0% for the eight months ended 31 August 2018.

Property, Plant and Equipment

Property, plant and equipment as at 31 August 2018 increased by 23.5% to approximately RMB3,258.7 million from approximately RMB2,638.6 million as at 31 December 2017. Increase in property, plant and equipment was mainly due to the inclusion of Zhengzhou Transit School and Xi'an Railway College.

Prepayments for Acquisition of Business

The prepayments represent the amounts made for the acquisition of Songtian University and Songtian College which was announced on 14 June 2018, 3 September 2018 and 26 September 2018. The acquisition was duly completed in September 2018.

Total Bank Balances and Cash

Including structured deposits recognised in financial assets at fair value through profit or loss and restricted bank deposits, the total bank balances and cash was decreased from approximately RMB3,293.6 million as at 31 December 2017 to approximately RMB1,907.1 million as at 31 August 2018. Most of the cash was used for school acquisitions.

Capital Expenditure

Our capital expenditures for the eight months ended 31 August 2018 were approximately RMB77.2 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 August 2018, the Group had total bank balances and cash (including structured deposits recognised in financial assets at fair value through profit or loss and restricted bank deposits) of approximately RMB1,907.1 million (31 December 2017: RMB3,293.6 million) and bank and other borrowings of approximately RMB237.0 million (31 December 2017: nil).

As at 31 August 2018, the gearing ratio, which is calculated on the basis of total borrowings and total equity of the Group, was 3.7% (31 December 2017: 0%).

Foreign Exchange Risk Management

The majority of the Group's revenue and expenditures are denominated in Renminbi, the functional currency of the Company, except that certain expenditures are denominated in Hong Kong dollars. The Group also has certain foreign currency bank balances and other payables denominated in Hong Kong dollars and US dollars, which would expose the Group to foreign exchange 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

As at 31 August 2018, 50% of the equity interest of Huajiao Education owned by the Group is pledged to a financial institution to secure banking facilities granted to the Group.

Save as above, there was no other material charge on the Group's assets as at 31 August 2018 and 31 December 2017.

Contingent Liabilities

As at 31 August 2018 and 31 December 2017, the Group had no significant contingent liabilities.

SIGNIFICANT EVENT AFTER REPORTING PERIOD

In September 2018, the acquisition of Songtian University and Songtian College is duly completed. Transfer of equity interest and change in the board of directors and the legal representatives of Songtian Company (the 100% co-sponsor of Songtian University and 100% sponsor of Songtian College) have been completed and duly registered with the relevant government departments in the PRC.

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

The Group issued 520,202,000 new Shares (after partially exercising the over-allotment option in January 2018) at the issue price of HK$6.45 per Share in connection with the Listing. The net proceeds after deducting underwriting commission and issuing expenses incurred from the Listing is amounted to approximately RMB2,725.7 million. As at 31 August 2018, the Company has utilised the net proceeds of approximately RMB1,934.9 million and the net proceeds have 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. The unutilised net proceeds are placed in licensed financial institutions as short-term deposits.

The following sets forth a summary of the utilisation of the net proceeds from Company's initial public offering as at 31 August 2018.

Purpose	**Percentage to total amount**	**Net proceeds amount***	**Utilised amount**	**Unutilised amount**
		RMB (million)	*RMB (million)*	*RMB (million)*
Acquisition of or cooperation with other universities both domestically and abroad	59.50%	1,621.8	1,621.8	–
New campus development	26.90%	733.2	40.7	692.5
Repayment of certain portion of bank loans	8.00%	218.1	218.1	–
Working capital supplement	2.40%	65.4	36.9	28.5
Establishing teacher and staff training centre	1.10%	30.0	0.4	29.6
Research and development	1.10%	30.0	0.7	29.3
Provision of scholarships	0.50%	13.6	2.7	10.9
Maintenance, renovation and upgrading of existing schools	0.50%	13.6	13.6	–
	100%	**2,725.7**	**1,934.9**	**790.8**

* *Net proceeds (including those from partial exercise of over-allotment option) after deducting underwriting commission and issuing expenses incurred from the Listing.*

EMPLOYEES AND REMUNERATION POLICIES

Remuneration

As at 31 August 2018, the Group had 6,307 employees (31 December 2017 : 4,660), a 35.3% increase from 2017 mainly due to acquisition of two schools.

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 (majority schools of the Group), president's office, and board of directors collectively approve the compensation range. Our member schools determine their respective compensation standards based on the employment by function (teachers, teaching assistants, administrative personnel and workers, etc.) and position (entry-level, team lead, and manager, etc.). Some of our member schools pay fixed annual salary to senior management and top talents such as directors, deans/department heads, administrative leads, and professors. Schools participate in social insurance plans (pension, medical, unemployment, work injury and maternity insurance) under the guidance of relevant national, provincial, and municipalities policies and provide a variety of benefits for employees. For example, Jiangxi University of Technology participates in enterprise annuity for employees plan and Zhengzhou Transit School pays commercial insurance for the retired employees rehired by it, etc.

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 operating schools locate and operate) in our recruitment process. We prohibit discrimination of staff 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 candidate's integrity and professionalism. Our talent selection policy does not only focus on professional knowledge, experience, and relevant qualification, but also on candidate's morality, professional ethics and discipline. Our schools carry out their recruitment works based on the *Teacher and Employee Manual* and the *Methods for Implementing Teachers' Recruitment Work*, and continuously to improve and refine their recruitment processes. School staff recruitment procedures/cycle can be summarised as follows: prehiring 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 ahead of the schedule, or terminate the employment.

We actively attract talents through contacting the target colleges, participating in talent recruitment fairs and industry conferences, and encouraging our staff to take advantage of social media to refer and recommend talented candidates to join us. In addition, we provide pre-employment and on-the-job trainings such as assigning coaches (experienced teachers) for newly hired teachers to ensure they have faster and easier transitions and integrations.

FINAL DIVIDEND

The Board recommends the payment of a final dividend of HK7.4 cents per ordinary share for the eight months ended 31 August 2018 (for the year ended 31 December 2017: nil) by cash to Shareholders whose names appear on the register of members of the Company on Tuesday, 5 March 2019. Subject to the approval of the Shareholders at the forthcoming annual general meeting of the Company, the final dividend will be paid on Friday, 15 March 2019.

ANNUAL GENERAL MEETING

The forthcoming annual general meeting will be held on Monday, 25 February 2019. Notice convening the annual general meeting will be published and despatched to the Shareholders in due course.

CLOSURE OF REGISTER OF MEMBERS

For the Annual General Meeting

The register of members of the Company will be closed from Wednesday, 20 February 2019 to Monday, 25 February 2019, both days inclusive, during which period no transfer of Shares will be registered. In order to be eligible to attend and vote at the forthcoming annual general meeting, all transfer documents 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 not later than 4:30 p.m. on Tuesday, 19 February 2019.

For the Proposed Final Dividend

The proposed final dividend is subject to the approval of the Shareholders at the forthcoming annual general meeting. The register of members of the Company will be closed from Friday, 1 March 2019 to Tuesday, 5 March 2019, both days inclusive, during which period no transfer of Shares will be registered. In order to qualify for the proposed final dividend, all transfer documents 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 the aforementioned address not later than 4:30 p.m. on Thursday, 28 February 2019.

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 during the eight months ended 31 August 2018.

PUBLIC FLOAT

Based on the information publicly available to the Company, the Company continues to meet the prescribed public float under the Listing Rules.

CORPORATE GOVERNANCE PRACTICES

The Company has applied the principles of the code provisions set out in the CG Code. During the eight months ended 31 August 2018, the Company has complied with all the code provisions 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 eight months ended 31 August 2018.

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 eight months ended 31 August 2018, 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 eight months ended 31 August 2018 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 period. 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 eight months ended 31 August 2018 will be despatched 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
"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
"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"	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
"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, Huajiao Education, 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", "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
"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
"Huajiao Education"	Huajiao Education Technology (Jiangxi) Company Limited (華教教育科技(江西)有限公司), a wholly-owned subsidiary of the Company

"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
"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 on the Listing Date
"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, Baiyun Technician College, Zhengzhou Transit School and Xi'an Railway 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
"Songtian College"	Guangzhou Songtian Polytechnic College (廣州松田職業學院), a polytechnic college located in Guangzhou, the PRC
"Songtian Company"	增城市松田實業有限公司, a limited liability company established in the PRC

"Songtian Group"	Songtian Company, Songtian College and Songtian University
"Songtian University"	Guangzhou University Songtian College (廣州大學松田學院), a university located in Guangzhou, the PRC
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"subsidiary(ies)"	has the meaning ascribed thereto in section 15 of the Companies Ordinance
"VP Shenzhen"	Value Partners Private Equity Investment Management (Shen Zhen) Limited (惠理股權投資管理（深圳）有限公司), a company established in the PRC and a wholly-owned subsidiary of Value Partners Group Limited
"US dollars", "U.S. dollars" or "US$"	United States dollars, the lawful currency of the United States
"Xi'an Railway College"	Xi'an Railway Technician College (西安鐵道技師學院), one of our PRC Operating Schools
"Zhengzhou Transit School"	Zhengzhou City Rail Transit School (鄭州城軌交通中等專業學校), one of our PRC Operating Schools
"%"	per cent

The English names of the PRC entities (including schools), PRC laws or regulations, and the PRC governmental authorities referred to in this announcement are merely translations from their Chinese names and are for identification purposes. If there is any inconsistency, the Chinese names shall prevail.

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

Hong Kong, 20 November 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.