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Minsheng Education Group Company Limited 民生教育集团有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1569)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

FINANCIAL HIGHLIGHTS				
	Year ended 31 December			Percentage Change
	2018	2017	Change	
	RMB'000	RMB'000	RMB'000	
Revenue	623,143	477,780	145,363	+30%
Gross profit	333,368	278,688	54,680	+20%
Profit for the year	332,828	260,847	71,981	+28%
Core net profit (<i>Note</i>)	338,198	310,353	27,845	+9%
	As at 31 December			Percentage Change
	2018	2017	Change	
Total number of students enrolled	65,496	41,120	24,376	+59%
<i>Note:</i>	Core net profit is defined as profit for the year of the Group after adjusting for those items which are not indicative of the Group's operating performances. For details, please refer to the section headed "Financial Review" in this announcement.			

The board (the "**Board**") of directors (the "**Directors**") of Minsheng Education Group Company Limited (the "**Company**") is pleased to announce the audited consolidated annual results of the Company and its subsidiaries (collectively referred to as the "**Group**" or "**We**") for the year ended 31 December 2018 (the "**Reporting Period**") together with the comparative figures for the year ended 31 December 2017.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	<i>Notes</i>	2018 RMB'000	2017 <i>RMB'000</i>
REVENUE	4	623,143	477,780
Cost of sales		<u>(289,775)</u>	<u>(199,092)</u>
Gross profit		333,368	278,688
Other income and gains	4	189,884	146,292
Selling and distribution expenses		(16,794)	(7,783)
Administrative expenses		(143,501)	(125,701)
Other expenses, net		(835)	(25,222)
Finance costs	5	(13,202)	(3,043)
Share of loss of an associate		<u>(644)</u>	<u>(269)</u>
PROFIT BEFORE TAX	6	348,276	262,962
Income tax expense	7	<u>(15,448)</u>	<u>(2,115)</u>
PROFIT FOR THE YEAR		<u>332,828</u>	<u>260,847</u>
Attributable to:			
Owners of the parent		332,839	259,947
Non-controlling interests		<u>(11)</u>	<u>900</u>
		<u>332,828</u>	<u>260,847</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT:	8		
Basic		<u>RMB0.0828</u>	<u>RMB0.0686</u>
Diluted		<u>RMB0.0827</u>	<u>RMB0.0686</u>

	2018	2017
<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
PROFIT FOR THE YEAR	<u>332,828</u>	<u>260,847</u>
OTHER COMPREHENSIVE INCOME		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Available-for-sale investments:		
Change in fair value	–	320
Reclassification adjustments for gains on maturity included in profit or loss	<u>–</u>	<u>(111)</u>
	<u>–</u>	<u>209</u>
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods	<u>–</u>	<u>209</u>
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:		
Equity investments designated at fair value through other comprehensive income:		
Changes in fair value	<u>(2,070)</u>	<u>–</u>
Exchange differences on translation of foreign operations	<u>36,396</u>	<u>(29,431)</u>
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods	<u>34,326</u>	<u>(29,431)</u>
OTHER COMPREHENSIVE INCOME FOR THE YEAR	<u>34,326</u>	<u>(29,222)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>367,154</u>	<u>231,625</u>
Total comprehensive income attributable to:		
Owners of the parent	367,165	230,725
Non-controlling interests	<u>(11)</u>	<u>900</u>
	<u>367,154</u>	<u>231,625</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	<i>Notes</i>	2018 RMB'000	2017 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		2,157,994	1,066,138
Prepaid land lease payments		744,785	330,957
Goodwill		1,685,099	303,937
Other intangible assets		6,257	3,380
Investments in associates		2,030	36,023
Equity investment at fair value through other comprehensive income		6,380	–
Equity investment at fair value through profit or loss		61,347	–
Available-for-sale investment		–	6,000
Other non-current assets		382,559	15,500
		<u>5,046,451</u>	<u>1,761,935</u>
Total non-current assets			
CURRENT ASSETS			
Inventories		1,381	1,351
Trade receivables	9	5,510	807
Prepayments, other receivables and other assets		62,986	31,784
Available-for-sale investments		–	466,320
Investment deposits		–	243,370
Cash and bank balances		1,505,820	1,696,278
Restricted bank balances		2,324	20,000
		<u>1,578,021</u>	<u>2,459,910</u>
Total current assets			
CURRENT LIABILITIES			
Deferred revenue	10	–	321,835
Contract liabilities	10	534,097	–
Other payables and accruals	11	697,349	289,809
Deferred income – current		19,937	17,134
Interest-bearing bank and other borrowings		244,635	144,118
Tax payable		11,063	859
		<u>1,507,081</u>	<u>773,755</u>
Total current liabilities			
NET CURRENT ASSETS			
		<u>70,940</u>	<u>1,686,155</u>

	2018	2017
<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>5,117,391</u>	<u>3,448,090</u>
NON-CURRENT LIABILITIES		
Deferred income – non-current	282,027	271,407
Interest-bearing bank and other borrowings	214,099	30,000
Other long term liability	310,538	–
Put option liability	<u>781,332</u>	<u>–</u>
Total non-current liabilities	<u>1,587,996</u>	<u>301,407</u>
Net assets	<u>3,529,395</u>	<u>3,146,683</u>
EQUITY		
Equity attributable to owners of the parent		
Share capital	307	307
Reserves	<u>3,408,101</u>	<u>3,025,378</u>
	3,408,408	3,025,685
Non-controlling interests	<u>120,987</u>	<u>120,998</u>
Total equity	<u>3,529,395</u>	<u>3,146,683</u>

NOTES TO FINANCIAL STATEMENTS

1. CORPORATE AND GROUP INFORMATION

The Company was incorporated in the Cayman Islands on 13 December 2005 as an exempted company with limited liability under the laws of the Cayman Islands. The address of the registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

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

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) (which include all International Financial Reporting Standards, International Accounting Standards (“IASs”) and interpretations) issued by the International Accounting Standards Board (“IASB”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for equity investment at fair value through other comprehensive income, equity investment at fair value through profit or loss, loan to an associate included in other non-current assets and certain available-for-sale investments, which have been measured at fair value. These financial statements are presented in Renminbi (“RMB”), and all values are rounded to the nearest thousand except otherwise indicated.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised standards for the first time for the current year’s consolidated financial statements.

IFRS 9	<i>Financial Instruments</i>
IFRS 15	<i>Revenue from Contracts with Customers</i>
IFRIC 22	<i>Foreign Currency Transactions and Advance Consideration</i>
Amendments to IFRS 2	<i>Classification and Measurement of Share-based Payment Transactions</i>
Amendments to IFRS 4	<i>Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts</i>
Amendments to IFRS 15	<i>Clarifications to IFRS 15 Revenue from Contracts with Customers</i>
Amendments to IAS 40	<i>Transfers of Investment Property</i>
<i>Annual Improvements 2014-2016 Cycle</i>	<i>Amendments to IFRS 1 and IAS 28</i>

Other than as explained below regarding the impact of IFRS 9 and IFRS 15, the adoption of the above new and revised standards has had no significant financial effect on these consolidated financial statements.

(a) IFRS 9

IFRS 9 *Financial Instruments* replaces IAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

The Group has recognised the transition adjustments against the applicable opening balances in equity at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under IAS 39.

The following describes the classification of the Group's financial assets upon the adoption of IFRS 9 as of 1 January 2018:

- Trade receivables, financial assets included in prepayments, other receivables and other assets, investment deposits, cash and bank balances and restricted bank balances of RMB807,000, RMB14,313,000, RMB243,370,000, RMB1,696,278,000 and RMB20,000,000 respectively, previously classified as loans and receivables under IAS 39 are held to collect contractual cash flows and give rise to cash flows representing SPPI. These are now classified and measured as financial assets at amortised cost.
- Equity investment in non-listed company, amounting to RMB6,000,000, previously was designated as available-for-sale investment under IAS 39. Upon the adoption of IFRS 9, the Group elected to designate this equity investment as fair value through other comprehensive income, and the fair value of the unlisted security is measured amounting to RMB8,450,000.
- Wealth management products of RMB466,320,000 with guaranteed principal and floating interests were previously classified as available-for-sale investments at fair value under IAS 39. Under IFRS 9, these non-equity investments are now classified and measured as financial assets at fair value through profit or loss.
- Loan to an associate included in investments in associates amounting to RMB33,455,000, previously was designated as an investment in associate under the equity method of accounting less any impairment loss. Upon the adoption of IFRS 9, the loan to an associate is now classified and measured as fair value through profit or loss, and the fair value of the loan to an associate approximates its carrying amount.
- The Group has not designated any financial liabilities as at fair value through profit or loss. There are no changes in classification and measurement for the Group's financial liabilities.

The Group applies the simplified approach to provide for the expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. The Group considered the trade receivables overdue over one year for students that are not dropped out from schools are not default as the tuition fees and boarding fees will be fully received upon the graduation of the students by reference to past experience.

Except for certain receivables included in prepayments, other receivables and other assets for which the counterparty failed to make demanded repayment and the Group has made 100% provision (“default receivables”), the other balances will be settled within 12 months and has no historical default, the financial assets included in prepayments, other receivables and other assets were categorised in stage 1 for measurement of expected credit losses at the end of the year. In calculating the expected credit loss rate, the Group considers the historical loss rate and adjusts for forward looking macroeconomic data. During the current year, except for the default receivables, the Group estimated the expected loss rate for the other receivables is minimal.

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

(b) IFRS 15

The Group has applied IFRS 15 and its amendment 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 adopted IFRS 15 using the modified retrospective method of adoption. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group has elected to apply the standard to contracts that are not completed as at 1 January 2018.

The cumulative effect of the initial application of IFRS 15 was recognised as an adjustment to the opening balance of retained profits as at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under IAS 18 and related interpretations.

At the date of initial application, included in the total deferred revenue amounting to RMB321,835,000 are related to the tuition fees and boarding fees received in advance from students. These balances were reclassified to contract liabilities upon application of IFRS 15.

3. OPERATING SEGMENT INFORMATION

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

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

Geographical information

During the year, the Group operated within one geographical segment because all of its revenue was generated in the PRC and over 90% of its long-term assets/capital expenditure were located/incurred in the PRC. Accordingly, no geographical segment information is presented.

Information about major customers

No service provided to a single customer accounted for 10% or more of the total revenue of the Group during the year.

4. REVENUE, OTHER INCOME AND GAINS

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

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Revenue from contracts with customers		
Tuition fees	570,630	440,368
Boarding fees	<u>52,513</u>	<u>37,412</u>
	<u>623,143</u>	<u>477,780</u>
Other income and gains		
Dividend income from an available-for-sale investment	–	360
Investment income from short-term investments measured at amortised cost and short-term investments measured at fair value through profit or loss/available-for-sale investments and investment deposits	15,172	24,693
Rental income	2,926	1,659
Bank interest income	23,228	7,789
Government grants*		
– Related to assets	18,676	9,639
– Related to income	59,682	93,317
Exchange gain, net	8,894	–
Management service income	54,173	–
Fair value gains on equity investment at fair value through profit or loss	296	–
Others	<u>6,837</u>	<u>8,835</u>
	<u>189,884</u>	<u>146,292</u>

- * The government grants are related to the subsidies received from the local government for the purpose of compensating the operating expenses arising from the schools' teaching activities and expenditures on teaching facilities. There are no unfulfilled conditions or contingencies relating to such government grants recognised.

5. FINANCE COSTS

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Interest on loans from the ultimate holding company and related parties	–	491
Interest on bank loans and other loans	8,925	2,552
Interest on finance leases	1,197	–
Interest on put option liability	3,080	–
	<u>13,202</u>	<u>3,043</u>

6. PROFIT BEFORE TAX

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

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Depreciation	71,720	47,344
Amortisation of other intangible assets	1,241	1,042
Minimum lease payments under operating leases	8,125	6,983
Recognition of prepaid land lease payments	7,736	2,717
Auditor's remuneration	3,789	4,247
Employee benefit expense (excluding directors' remuneration):		
Wages and salaries	146,097	106,813
Equity-settled share option expense	2,514	451
Pension scheme contributions (defined contribution schemes)	41,284	28,432
Foreign exchange differences, net	(8,894)	20,468
Impairment of financial assets:		
Impairment of trade receivables	80	–
Impairment of financial assets included in prepayments, other receivables and other assets	47	–
Reversal of impairment of financial assets included in prepayments, other receivables and other assets	(500)	–
Dividend income from an available-for-sale investment	–	(360)
Investment income from available-for-sale investments and investment deposits	–	(24,693)
Investment income from financial assets at fair value through profit or loss and investment deposits	(15,172)	–
Bank interest income	(23,228)	(7,789)
Fair value gains from an equity investment at fair value through profit or loss	(296)	–
Loss on disposal of items of property, plant and equipment, net	140	1,966
Donation expense	834	2,629
	<u>834</u>	<u>2,629</u>

7. INCOME TAX

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Current – Mainland China		
Charge for the year	<u>15,448</u>	<u>2,115</u>

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

The Company, Minsheng Education Company Limited, Minsheng Education Services Company Limited, Minsheng Education Development Company Limited, Minsheng Vocational Education Company Limited, Minsheng Secondary Education Company Limited, Minsheng Education Technology Company Limited, Minsheng Education Information Company Limited and Leed International Education Group Inc., which were incorporated in the Cayman Islands, are not subject to income tax.

Minsheng Education Development (Hong Kong) Company Limited, Hong Kong College of Technology and Business Limited and Leed International Education Group (China) Limited which were incorporated in Hong Kong, were subject to profits tax at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the year.

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

Pursuant to the PRC Corporate Income Tax Law and the respective regulations, except for the preferential tax rate of 15% under the Western Development Tax Incentive Scheme available to Chongqing Li'ang Education Services Company Limited and Chongqing Pass Education Services Company Limited, the companies of the Group which operate in Mainland China are subject to Corporate Income Tax (“CIT”) at a rate of 25% on their respective taxable income.

According to the Implementation Rules for the Law for Promoting Private Education (the “**Implementation Rules**”), private schools, whether requiring reasonable returns or not, may enjoy preferential tax treatments. Private schools for which the school sponsors do not require reasonable returns are eligible to enjoy the same preferential tax treatment as public schools. It is stated in the Implementation Rules that the relevant authorities under the State Council may introduce preferential tax treatments and related policies applicable to private schools requiring reasonable returns. During the year, no separate policies, regulations or rules have been introduced by the authorities in this regard. In accordance with the historical tax returns filed to the relevant tax authorities, except for Laoling Minsheng Education High School Company Limited which was incorporated as a limited liability, the Group’s schools which require reasonable returns did not pay corporate income tax and had enjoyed the preferential corporate income tax exemption treatments in 2018.

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

The calculation of basic earnings per share is based on the profit for the year attributable to owners of the parent, and the weighted average number of ordinary shares of 4,017,720,000 (2017: 3,790,753,205) in issue during the year.

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

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

	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
Earnings		
Profit attributable to owners of the parent, used in the basic and diluted earnings per share calculation	<u>332,839</u>	<u>259,947</u>
Number of shares		
	2018	2017
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	<u>4,017,720,000</u>	<u>3,790,753,205</u>
Effect of dilution – weighted average number of ordinary shares:		
Share options	<u>4,993,230</u>	<u>886,898</u>
	<u>4,022,713,230</u>	<u>3,791,640,103</u>

9. TRADE RECEIVABLES

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Trade receivables	5,510	807
Impairment	<u>—</u>	<u>—</u>
	<u>5,510</u>	<u>807</u>

The Group's students are required to pay tuition fees and boarding fees in advance for the upcoming school year, which normally commences in September. The outstanding receivables represent amounts related to students who have applied for the delayed payment of tuition fees and boarding fees. There is no fixed term for delayed payments. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified students, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

An ageing analysis of the trade receivables as at the end of the reporting year, based on the transaction date and net of loss allowance, is as follows:

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Within 1 year	5,162	584
1 to 2 years	309	201
2 to 3 years	39	10
Over 3 years	<u>—</u>	<u>12</u>
	<u>5,510</u>	<u>807</u>

10. CONTRACT LIABILITIES/DEFERRED REVENUE

Contract liabilities

Details of contract liabilities as at 31 December 2018 are as follows:

	31 December 2018 <i>RMB'000</i>
<i>Short-term advances received from customers</i>	
Tuition fees	486,752
Boarding fees	<u>47,345</u>
	<u>534,097</u>

Deferred revenue

	31 December 2017 RMB'000
Tuition fees	291,710
Boarding fees	<u>30,125</u>
	<u><u>321,835</u></u>

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

11. OTHER PAYABLES AND ACCRUALS

	2018 RMB'000	2017 RMB'000
Accrued bonuses and other employee benefits	50,553	24,614
Payables for catering services	13,794	6,970
Payables for purchase of property, plant and equipment	158,290	65,057
Payables for management fee	68,469	32,364
Miscellaneous expenses received from students (<i>note (i)</i>)	32,502	25,124
Other tax payable	1,131	2,605
Payables for audit fee	3,960	2,250
Payables for interest	6,426	32,309
Consideration payable for business combination	91,730	–
Payable to companies controlled by the non-controlling shareholders of a subsidiary	193,638	–
Other payables*	<u>76,856</u>	<u>98,516</u>
	<u><u>697,349</u></u>	<u><u>289,809</u></u>

* Payables of RMB20,000,000 (2017: RMB72,000,000) to the non-controlling shareholder of Chongqing Electronic Information College is included within other payables.

Other payables are non-interest-bearing and repayable on demand.

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

12. EVENTS AFTER THE REPORTING PERIOD

Loan from Bank of China (Hong Kong) Company Limited

In February 2019, according to a USD50 million banking facilities agreement (the “**Facilities Agreement**”) signed between the Company and Bank of China (Hong Kong) Company Limited, the Company withdrew HKD250 million for 5 years, which was mainly used for the Company’s mergers and acquisitions.

13. DIVIDEND

The Board do not recommend the payment of any dividend in respect of the year (2017: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Overview

Our primary focus is to provide high-quality private higher education and vocational education in China dedicated to nurturing application-oriented professionals. We offer a comprehensive range of diverse majors and courses, including through our collaborative relationships and cooperative education programs with local businesses and government agencies, through which we strive to improve our students' theoretical literacy, practical technique and career prospects. As a result, we have achieved high graduate employment rates for our graduates from the schools we own and/or operate. We attribute the relatively high graduate employment rates to the effectiveness of our education programmes, which we believe will continue to elevate our brand reputation and help us attract talented students.

On 22 March 2017, the Company launched a public offering on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”), becoming the first listed private higher education group in China. The Company is one of the largest private higher education providers in China, as measured by total number of student enrollment as at 30 June 2016. Benefitting from the continuous implementation of external mergers and acquisitions, the Group had enrollment of 65,496 students in aggregate as at 31 December 2018, representing a significant increase of 59.28% as compared with that as at 31 December 2017. The Group currently manages and/or operates 10 schools, in addition to the five existing schools operated in Chongqing and Inner Mongolia, the PRC, the Group has acquired or agreed to acquire new schools in Yunnan, Shandong and Hebei in 2018, further increasing the number of the Group's schools and expanding the Group's coverage. Our 10 school include:

- (i) **Six higher education schools** – Chongqing College of Humanities, Science and Technology, Yunnan University Dianchi College, Pass College of Chongqing Technology and Business University, Chongqing Vocational College of Applied Technology, Chongqing Electronic Information College and Inner Mongolia Fengzhou Vocational College (Qingcheng Branch);
- (ii) **Two secondary vocational schools** – Laoling Minsheng Secondary Vocational School and Laoling Secondary Vocational and Technical School managed and operated under an entrustment management arrangement; and
- (iii) **Two high schools** – Shouguang Bohai Experimental School and Laoling Senior High School Affiliated with Minsheng Education Group.

Overview of the Business Review during the Reporting Period

During the Reporting Period, the Group gained significant achievement in terms of external mergers and acquisitions, investment in and establishment of new schools and expansion of financing channels, which have laid down a solid foundation for the future development of the Group.

1. Mergers and Acquisitions

The Group mainly adopts a merger and acquisition strategy to achieve its goal of growth. During the Reporting Period, the Group announced the acquisition of four schools, namely Shouguang Bohai Experimental School, Yunnan University Dianchi College (“**Dianchi College**”), Hebei University of Technology City College and Qufu Fareast Vocational and Technical College (“**Fareast College**”). During the Reporting Period, the transactions in relation to Shouguang Bohai Experimental School and Yunnan University Dianchi College were completed and were fully takeover, and their financial results have been consolidated in the financial results of the Group under the prevailing accounting principles.

Please refer to the sections headed “Acquisition Completed during the Reporting Period” and “Acquisition in Progress during the Reporting Period” in this announcement for details.

2. Investment in and Establishment of New Schools

During the Reporting Period, the first batch of students enrolled by Laoling Minsheng Secondary Vocational School and Laoling Senior High School Affiliated with Minsheng Education Group (both of which were invested in and newly established by the Company) commenced the school year in September 2018.

In May 2018, we (as the cornerstone investor) have invested in Top Education Group Ltd (Stock Code: 1752), a private higher education provider in Australia offering accredited undergraduate and postgraduate award courses in business and law, which was listed on the Main Board of the Stock Exchange on 11 May 2018.

Please refer to the section headed “Investments in and Newly Established Schools during the Reporting Period” in this announcement for details.

3. Expansion of Financing Channels

On 23 August 2018, the Company entered into the comprehensive strategic cooperation agreement with The Industrial and Commercial Bank of China Limited Chongqing Branch (“**ICBC**”) in order to build a long-term and stable comprehensive strategic cooperation relationship between ICBC and the Company. Subject to credit approval, ICBC intends to provide the Company with the indicative overall financing credit of no less than RMB10 billion in the next three years.

On 28 December 2018, the Company entered into a strategic cooperation agreement with CICC Capital Management Co., Ltd. regarding an education industry merger and acquisition fund. Both parties intend to cooperate with each other via the merger and acquisition fund with a total size of approximately RMB10 billion which is to be raised in four instalments.

Please refer to the section headed “Expansion of Financing Channels during the Reporting Period” in this announcement for details.

Acquisition completed during the Reporting Period

Yunnan University Dianchi College

Dianchi College is an independent college located in Yunnan, the PRC, offering undergraduate courses. As at 31 December 2018, there were 18,948 students enrolled in Dianchi College. According to the Notice of the Yunnan Provincial Department of Education on the 13th Five-Year Plan for the Development of Ordinary Higher Education Scales issued by the Yunnan Provincial Department of Education on 13 January 2017, the Yunnan Provincial Department of Education has set a “Goal Guidance of Development Scale for General Higher Education 2020 (普通高等教育2020年規模發展指導目標)” for Dianchi College which shall target to reach 28,000 students in 2020.

On 20 August 2018, Minsheng Vocational Education Company Limited (“**Minsheng Vocational**”), a wholly-owned subsidiary of the Company, and with the relevant vendors entered into a share purchase agreement (the “**Share Purchase Agreement**”) in relation to the acquisition of 51% of the issued share capital of Leed International Education Group Inc. (“**Leed International**”) (the “**Acquisition**”), pursuant to which Minsheng Vocational conditionally agreed to acquire, and the relevant vendors conditionally agreed to sell 51% of the share capital of Leed International at the consideration of RMB582.5 million equivalent USD. The consideration was mainly financed by the internal resources of the Group. In addition to the consideration, pursuant to the terms of the Share Purchase Agreement, Minsheng Vocational shall be responsible to repay on behalf of Leed International a debt in the amount of the USD equivalent of RMB231.0 million to a third party.

Further, on 20 August 2018, Leed International, Minsheng Vocational and the relevant vendors entered into an entrustment agreement, pursuant to which Minsheng Vocational would be entrusted to manage, among others, Leed International and its subsidiaries in certain aspects, and the remaining 49% of the issued share capital of Leed International (the “**Equity Entrustment Agreement**”), with effect from the date of completion of the Share Purchase Agreement.

As a condition precedent to the payment of the first instalment of the consideration, on 20 August 2018, among others, Minsheng Vocational, Chongqing Huizhi Education Services Company Limited* (重慶匯智教育服務有限公司) (“**Chongqing Huizhi**”), Yunnan Dianjiao Asset Management Company Limited* (雲南滇教資產管理有限公司) (“**Dianjiao AM Co**”) and Dianchi College entered into an entrusted management agreement, pursuant to which, the entire management of Dianjiao AM Co and Dianchi College is entrusted to Minsheng Vocational and Chongqing Huizhi (“**Dianchi College Management Agreement**”).

On 20 December 2018, the Company announced that the Acquisition had been completed. The change of the articles of association, the board members and the legal representative of both the school sponsor of Dianchi College and Dianchi College have been completed and have been filed/registered with the relevant government authorities in China.

Accordingly, the Equity Entrustment Agreement has come into effect upon the completion. The 49% of the issued share capital of Leed International owned by the vendors and its corresponding equity interest and/or the school sponsor's interest, the business operations, assets, human resources, financial matters of Leed International and its subsidiaries have already been entrusted and/or delivered to Minsheng Vocational for the Company's control and management. Accordingly, the financial results of Leed International and its subsidiaries (including Dianchi College and Dianjiao AM Co) are all be consolidated into the financial statements of the Group.

Pursuant to the Share Purchase Agreement, it is agreed that, with a view to maintain a good relationship with the vendors, Minsheng Vocational and/or its affiliated company would extend loans of up to RMB400 million to the Vendors. On 24 December 2018, among others, Chongqing Yuecheng Zhiyuan Education Technology Co., Ltd. ("**Chongqing Yuecheng**"), a consolidated affiliated entity of the Company, as the lender and a borrower designated by the relevant vendors entered into a loan agreement, pursuant to which, Chongqing Yuecheng agreed to lend to the borrower, and the borrower agreed to borrow from Chongqing Yuecheng, a loan in the principal amount of RMB200 million. For further details of the loan, please refer to the announcement dated 26 December 2018 published by the Company.

For details of the Acquisition, please refer to the circular dated 20 December 2018 and the announcements dated 21 August 2018, 11 September 2018, 5 October 2018, 20 December 2018 and 26 December 2018, published by the Company.

Shouguang Bohai Experimental School

Shouguang Bohai Experimental School* (壽光渤海實驗學校) ("**Bohai Experimental School**"), also known as, The Experimental High School associated with University of Chinese Academy of Sciences Basic Education Institute* (中國科學院大學基礎教育研究院附屬實驗中學) and Shouguang No. 1 Secondary School Branch School* (壽光市第一中學分校), which is a high school located in Shouguang, Shandong Province, the PRC. As at 31 December 2018, there were 2,544 students in Bohai Experimental School.

On 10 March 2018, Shiji Kuangao (Beijing) Investment Management Co., Ltd.* (世紀寬高 (北京) 投資管理有限公司) ("**Shiji Kuangao**") entered into a school sponsor's interest transfer agreement ("**Interest Transfer Agreement**") with Shouguang City Hongjing Town Development and Investment Company Limited* (壽光市宏景城鎮建設投資有限公司) and Shouguang City No.1 Middle School* (壽光市第一中學), pursuant to which, Shiji Kuangao agreed to acquire 100% of the school sponsor's interest of Bohai Experimental School, and the land, building, facilities and equipment of the east side of the Bohai Experimental School for a total consideration of approximately RMB151.73 million.

On 12 March 2018, Chongqing Jierui Education Technology Co., Ltd.* (重慶傑睿教育科技有限公司) ("**Jierui**"), a consolidated affiliated entity of the Company, entered into an equity transfer agreement with the shareholder of Shiji Kuangao and Shiji Kuangao, to acquire 100% of the equity interest of Shiji Kuangao ("**Equity Transfer Agreement**"). Pursuant to the Interest Transfer Agreement, Shiji Kuangao will be entitled to acquire Bohai Experimental School.

The completion of the Equity Transfer Agreement and the Interest Transfer Agreement took place on 2 May 2018. For details of the above transaction, please refer to the announcements of the Company dated 12 March 2018, 13 April 2018 and 2 May 2018.

On 2 May 2018, Chongqing Mengzhuo Education Technology Co., Ltd.* (重慶夢卓教育科技有限公司), an indirect wholly-owned subsidiary of the Company, entered into a set of contractual arrangements in relation to Shiji Kuangao, Jierui and its shareholders, so that the Group is able to exercise control over Shiji Kuangao as the school sponsor of Bohai Experimental School and the Company is able to consolidate the financial results of Jierui, Shiji Kuangao and Bohai Experimental School into the Group's results from the commencement date of the contractual arrangements, i.e. 2 May 2018. For details of the contractual arrangements, please refer to the announcement of the Company dated 2 May 2018.

Chongqing Electronic Information College

Chongqing Electronic Information College* (重慶電信職業學院) is a full-time ordinary higher education institution located in Chongqing city, the PRC. As at 31 December 2018, there were 6,080 students in Chongqing Electronic Information College.

On 6 November 2017, Chongqing Yuecheng entered into a capital increase agreement with Chongqing Chuangsite Technology Company Limited and Chongqing Electronic Information College, pursuant to which Chongqing Yuecheng agreed to make a capital contribution of RMB125.0 million to Chongqing Electronic Information College ("**Capital Contribution**"). Upon completion of the Capital Contribution, 51% of the school sponsor's interest in Chongqing Electronic Information College would be owned by Chongqing Yuecheng.

On 23 February 2018, Chongqing Yuecheng has completed the Capital Contribution to Chongqing Electronic Information College and has completed all the registration procedures with Chongqing City Civil Affairs Bureau (重慶市民政局) in relation to Chongqing Yuecheng becoming one of the school sponsors of Chongqing Electronic Information College. Accordingly, Chongqing Yuecheng owns 51% of the school sponsor's interest in Chongqing Electronic Information College. Chongqing Yuecheng has also completed all registration procedures with Chongqing City Civil Affairs Bureau in relation to the change of the legal representative of Chongqing Electronic Information College to the person designated by Chongqing Yuecheng.

Acquisition in progress during the Reporting Period

Qufu Fareast Vocational and Technical College

Fareast College is a full-time ordinary higher education institution located in Qufu city, Shandong province the PRC.

On 23 November 2018, Chongqing Yuecheng, as purchaser, and a third party (“**Ms. Pan**”), as vendor, entered into a share transfer agreement (the “**Share Transfer Agreement**”), pursuant to which Ms. Pan agreed to sell 51% of the equity interest of Qufu Changyong Corporate Management Consulting Company Limited (“**Qufu Changyong**”) to Chongqing Yuecheng, and Chongqing Yuecheng agreed to acquire the equity interest of Qufu Changyong, at a total consideration of RMB91.8 million. Upon the completion, Chongqing Yuecheng will hold 51% of equity interest in Qufu Changyong and indirectly hold 51% of sponsor interest in Fareast College through Qufu Changyong.

Subsequent to the execution of the share transfer Agreement, on 23 November 2018, Chongqing Yuecheng, Ms. Pan, Qufu Changyong and Fareast College signed an entrustment agreement (the “**Fareast College Entrustment Agreement**”), pursuant to which, with effect from the date of completion of the payment of the first instalment until the date of completion, Fareast College will be entrusted to Chongqing Yuecheng for management. During the entrustment period, 51% of the net profit of Fareast College will be paid to Chongqing Yuecheng as management fee.

For details, please refer to announcements dated 25 November 2018 and 15 January 2019 published by the Company.

For updates on the above acquisition of Fareast College, please refer to the paragraph headed “Events after the Reporting Period” under the section headed “Other Information” in this announcement below.

Hebei University of Technology City College

Hebei University of Technology City College* (河北工業大學城市學院) (“**City College**”) is a full time independent college offering undergraduate studies located in Tianjin city, the PRC.

On 9 July 2018, the Company entered into a framework agreement (the “**Framework Agreement**”) with the Zhangjiakou Municipal People’s Government (張家口市人民政府) (the “**Zhangjiakou Government**”) and Hebei University of Technology (河北工業大學), together with the Zhangjiakou Government, the “**Parties**”) in relation to the proposed cooperation (the “**Proposed Cooperation**”) regarding the operation of the City College. Pursuant to the Framework Agreement, with the support of Zhangjiakou Government, Hebei University of Technology and the Company will co-operate the City College in Zhangjiakou City of Hebei Province. By taking advantage of the respective strengths, the Parties strive to make the City College the best private undergraduate college in Hebei Province and the application-oriented training base for talents in Hebei Province through the opportunity of organizing the 2022 Winter Olympic Games, with around 10,000 undergraduate and junior college students in total. For details, please refer to the announcement of the Company dated 9 July 2018.

On 22 August 2018, Chongqing Yuecheng entered into (i) a cooperation agreement with Hebei University of Technology in relation to the cooperation of sponsoring the City College; and (ii) a framework agreement with Hebei University of Technology in relation to the conversion of the City College into an independently organised private undergraduate higher education institution. On 23 August 2018, Chongqing Yuecheng entered into an agreement with the Zhangjiakou Government and Zhangjiakou Economic Development Zone Management Committee* (張家口經濟開發區管理委員會) in relation to the cooperation of construction and development of City College. For details on the above agreements, please refer to the announcement of the Company dated 24 August 2018.

Anhui Wonder University of Information Engineering

Anhui Wonder University of Information Engineering* (安徽文達信息工程學院) (“**Wonder University**”) is an independently organised private undergraduate higher education institution located in Hefei city, Anhui province, the PRC which was established in 2001, offering courses and programs leading to higher education degrees.

On 30 August 2017, Chongqing Yuecheng entered into an acquisition agreement with the current school sponsor of Wonder University pursuant to which Chongqing Yuecheng agreed to acquire 51% of the school sponsor’s interest in Wonder University for a total consideration of RMB500.0 million.

As at 31 December 2018, the application for transferring the school sponsorship is going through the approval procedures of government authorities. The Company is closely following up the progress of approval procedures and will publish further announcements in respect of such matter pursuant to the Rules Governing the Listing Securities on the Stock Exchange (the “**Listing Rules**”) in due course.

Investments in and Newly Established Schools during the Reporting Period

Laoling Minsheng Secondary Vocational School

The Group established Laoling Minsheng Secondary Vocational School* (樂陵民生職業中等專業學校) in Laoling, Dezhou city, Shandong province, the PRC on 20 September 2016. It has completed its first phase construction and commenced the school year in September 2018. As at 31 December 2018, there were 261 students.

Laoling Senior High School Affiliated with Minsheng Education Group* (民生教育集團附屬樂陵高級中學) (“Minsheng Laoling Senior High School”)

On 12 February 2018, Jierui entered into an agreement and a supplemental agreement (collectively, the “**Laoling Agreements**”) with the People’s Government of Laoling* (樂陵市人民政府) (the “**Laoling Government**”) in relation to the proposed establishment of a high school offering grade 10 to grade 12 secondary education programs in Laoling, Dezhou city, Shandong province, the PRC, namely Minsheng Laoling Senior High School, which commenced the school year in September 2018. As at 31 December 2018, there were 482 students.

Top Education Group Ltd

The Group has invested in Top Education Group Ltd. (“**Top Education**”) (Stock Code: 1752) which is a private higher education provider in Australia offering accredited undergraduate and postgraduate award courses in business and law and was listed on the main board of the Stock Exchange on 11 May 2018.

On 21 April 2018, Minsheng Education Development Company Limited, a direct wholly-owned subsidiary of the Company, entered into a cornerstone investment agreement with Top Education to subscribe for 209,000,000 ordinary shares at the final offer price in the initial public offering of Top Education.

As at 31 December 2018, the shares in Top Education held by the Group represented approximately 8.1% of the total issued share capital of Top Education.

Expansion of Financing Channels during the Reporting Period

During the Reporting Period, the Group proactively expanded financing channels a number of ways such as bank loans, merger and acquisition fund, with a view to provide regular and long-term financial support for the business development of the Company.

Establishment of an Education Industry Merger and Acquisition Fund with CICC Capital Management Co., Ltd.

On 28 December 2018, the Company entered into a strategic cooperation agreement with CICC Capital Management Co., Ltd. (“**CICC Capital**”) regarding an education industry merger and acquisition fund (the “**M&A Fund**”).

Both parties intend to cooperate with each other via the M&A Fund with a total size of approximately RMB10 billion, which is to be raised in four phases. Both parties intend to (1) be market-facing, conducive to development of the nation, and promoting employment, (2) focus on investments in the private higher education industry, and (3) promote industry-education integration and the school-enterprise cooperation in order to cultivate more high-skilled talents. The Company shall be entitled to the first priority to acquire any investment project proposed to be disposed of by the M&A Fund on the same conditions as those offered to other purchasers.

The Comprehensive Strategic Cooperation Agreement Entered Into with the Industrial and Commercial Bank of China Chongqing Branch

On 23 August 2018, the Company entered into a comprehensive strategic cooperation agreement with The Industrial and Commercial Bank of China Limited Chongqing Branch (“**ICBC**”), in order to build a long-term and stable comprehensive strategic cooperation relationship between ICBC and the Company.

Subject to credit approval, ICBC intends to provide the Company with the indicative overall financing credit of no less than RMB10 billion in the next three years to support various funding needs of the Company in developing education and education-related businesses, including but not limited to pre-project loans, project loans, working capital loans, M&A loans, M&A funds, equity financing and financial leasing.

Financing cost are in-line with the bank's benchmark interest rate. The strategic cooperation agreement is valid for five years from the date of signing the strategic cooperation agreement.

For other financial services to be provided by ICBC to the Company and other details of the strategic cooperation agreement, please refer to the announcement of the Company dated 27 August 2018.

Our Schools in China

Ten schools in the PRC were managed and/or operated by the Group as at 31 December 2018, four of which are located in Chongqing, four are located in Shandong, one is situated in Inner Mongolia and one in Yunnan. Through these schools, we primarily offer higher education, including undergraduate and junior college education. Set forth below are certain particulars of the ten schools of the Group.

Undergraduate Schools

Chongqing College of Humanities, Science and Technology

Chongqing College of Humanities, Science and Technology is a formal university-level higher education school located in Chongqing, the PRC. Its predecessor, Southwest University Yucai College, was recognized by the Ministry of Education of the PRC (the "MOE") as an independent college in March 2003. In April 2013, the college was approved by the MOE to convert to a private independently organised university-level education school and was the first and one and only one private higher education school in Chongqing obtaining such approval for conversion. Chongqing College of Humanities, Science and Technology provides undergraduate and junior college education. In 2018, the college had 15 second-level colleges offering 43 undergraduate majors and 1 junior college major, covering 9 subject categories.

The tuition fee for Chongqing College of Humanities, Science and Technology for the 2018-2019 school year is approximately RMB12,000 to RMB18,000 (the tuition fee depends on the major).

Yunnan University Dianchi College

Yunnan University Dianchi College is an independent college located in Kunming, Yunnan Province, the PRC, which was established in 2001. Yunnan University Dianchi College offers formal undergraduate education. In 2018, the college offered 48 undergraduate majors, covering 8 subject categories.

The tuition fee for Yunnan University Dianchi College for the 2018-2019 school year is approximately RMB16,000 to RMB24,500 (the tuition fee depends on the major).

Pass College of Chongqing Technology and Business University

Pass College of Chongqing Technology and Business University is an independent college located in Chongqing, the PRC, which was certified by the MOE in December 2003. This college provides undergraduate and junior college education. In 2018, the college offered 24 undergraduate majors and 1 junior college major.

The tuition fee for Pass College of Chongqing Technology and Business University for the 2018-2019 school year is approximately RMB12,000 to RMB16,000 (the tuition fee depends on the major).

Pass College of Chongqing Technology and Business University officially commenced the student enrollment of adult higher education in March 2017. The school currently offers three undergraduate majors, namely business administration, marketing and accounting. In December 2018, Pass College of Chongqing Technology and Business University has admitted 3,614 adult students for degree and junior college programs and will report for the school year in March 2019.

Higher Vocational Schools

Chongqing Electronic Information College

Chongqing Electronic Information College is a full-time ordinary higher education institution located in Chongqing city, the PRC, providing junior college education. In 2018, the college offered 21 majors.

The tuition fee for Chongqing Electronic Information College for the 2018-2019 school year is approximately RMB8,800 to RMB12,000 (the tuition fee depends on the major).

Chongqing Vocational College of Applied Technology

Chongqing Vocational College of Applied Technology is a full-time ordinary higher education institution located in Chongqing, the PRC, providing junior college education. This college obtained approval as a higher vocational school by the People's Government of Chongqing in April 2005 and was registered with the Civil Affairs Department of Chongqing in December 2006. In 2018, the college offered 20 majors.

The tuition fee for Chongqing Vocational College of Applied Technology for the 2018-2019 school year is approximately RMB9,000 to RMB9,800 (the tuition fee depends on the major).

Inner Mongolia Fengzhou Vocational College (Qingcheng Branch)

Inner Mongolia Fengzhou Vocational College (Qingcheng Branch) is a full-time ordinary higher education institution located in Hohhot, Inner Mongolia, the PRC, providing junior college education. We became one of its school sponsors and have been entitled to the entire interest in Inner Mongolia Fengzhou Vocational College (Qingcheng Branch) in 2008. In the 2018-2019 school year, the college offered 12 majors.

The tuition fee for Inner Mongolia Fengzhou Vocational College (Qingcheng Branch) for the 2018-2019 academic year is approximately RMB7,000 (the tuition fee is applied to all majors).

Secondary Vocational Schools

Laoling Minsheng Secondary Vocational School

Laoling Minsheng Secondary Vocational School is a full-time regular specialized secondary school located in Laoling, Shandong province, the PRC, providing secondary vocational education, and the first batch of students enrolled has commenced the school year in September 2018. In 2018, the school offered 8 majors.

Laoling Secondary Vocational and Technical School

Laoling Secondary Vocational and Technical School is a full-time regular specialized secondary school located in Laoling, Shandong Province, the PRC, providing secondary vocational education. As disclosed in the prospectus of the Company dated 10 March 2017, pursuant to certain cooperation agreements entered into between the Group, the People's Government of Laoling and the Bureau of Education of Laoling, Laoling Secondary Vocational and Technical School will be managed and operated by Laoling Minsheng Secondary Vocational School under an entrustment management arrangement. In 2018, the school offered 12 majors.

High Schools

Shouguang Bohai Experimental School

Shouguang Bohai Experimental School is a high school located in Shouguang, Shandong province, the PRC, offering grade 10 to grade 12 secondary education programs.

Laoling Senior High School Affiliated with Minsheng Education Group

Laoling Senior High School Affiliated with Minsheng Education Group is a high school located in Laoling, Shandong province, the PRC, and the first batch of enrolled students have started the school year in September 2018.

Our Investments in Overseas Schools

In addition to our schools in the PRC, we have invested in Top Education in May 2018 as mentioned under the paragraph headed "Investment in the Newly Established Schools during the Reporting Period" above in this announcement.

The Group has also invested in Beacon International College PTE. LTD. ("**Beacon International College**") in Singapore and Hong Kong Nang Yan College of Higher Education Limited ("**Hong Kong Nang Yan College**") in Hong Kong.

As at 31 December 2018, we directly owned approximately 8.1% equity interest in Top Education and 25.6% equity interest in Beacon International College, and were one of the two members of Hong Kong Nang Yan College, which is a company limited by guarantee established under the laws of Hong Kong.

Number of Enrolled Students

On 31 December 2018, the total student enrollment of the Group amounted to 65,496, representing an increase of 59.28% as compared to that of 31 December 2017.

Schools	Number of Enrolled Students	
	2018	2017
Chongqing College of Humanities, Science and Technology	20,696	19,529
Yunnan University Dianchi College	18,948	N/A ^(Note)
Pass College of Chongqing Technology and Business University	10,923	10,471
Chongqing Electronic Information College	6,080	5,948
Chongqing Vocational College of Applied Technology	3,157	2,884
Inner Mongolia Fengzhou Vocational College (Qingcheng Branch)	2,048	2,288
Laoling Minsheng Secondary Vocational School	261	N/A ^(Note)
Laoling Secondary Vocational and Technical School	357	N/A ^(Note)
Shouguang Bohai Experimental School	2,544	N/A ^(Note)
Laoling Senior High School Affiliated with Minsheng Education Group	482	N/A ^(Note)
Total	65,496	41,120

Note:

Yunnan University Dianchi College, Shouguang Bohai Experimental School and Laoling Secondary Vocational and Technical School were not operated by the Group as at 31 December 2017. No students had been enrolled in Laoling Minsheng Secondary Vocational School and Laoling Senior High School Affiliated with Minsheng Education Group as at 31 December 2017.

Operational Update on Business of the Group

- 1. The Group's schools have added new enrollment majors that meet the needs of industrial development.** 17 majors include data science and big data technology, mobile internet application technology, aged service and management, medical inspection technology, railway traffic operation management, network new media, financial engineering and so on. The new majors adapt the development of the industry, meet the need of the market in the cultivation direction of high-end talents of applied knowledge, is conducive to increasing enrollment and employment, and is conducive to enhancing the core competitiveness of the school.
- 2. The employment rate of the graduates of the Group is much higher than the provincial average employment rate the schools locate in.** For example, Yunnan University Dianchi College's employment rate reached around 97.44%, Chongqing Vocational College of Applied Technology's employment rate reached around 97.72%, and the overall quality of our students is recognized by the society.
- 3. The Group has recruited more high-quality teaching staff.** As at 31 December 2018, a total of 4,353 employees were serving the Group, a significant increase of 2,662 employees as compared to 2017, to accommodate the development of the school and the educational management requirements for the increase in the number of students;
- 4. The Group has strengthened its management team.** Newly hired outstanding management talents with more experience and ability. For example, Chongqing College of Humanities, Science and Technology has adjusted the leadership of the school-level leadership team and has recruited the vice-principal through the open recruitment internally and externally. Compared with last year, the new management in schools are more capable with a reasonable structure. The schools also set the promotion criteria for the staff at the team and departmental levels in order to select the talents, to increase sense of responsibility and to improve management efficiency;
- 5. The Group has upgraded its teaching conditions and enhanced the learning environment.** In 2018, the Group further improved the schools' educational and teaching hardware conditions, purchased a batch of new experimental training equipment, and improved and enhanced the educational environment. The construction of the new campus of Laoling Minsheng Secondary Vocational School has been completed and has been in use since September 2018;

6. **The quality of talent training in the Group's schools has gained a good social reputation, and was awarded in multiple national contests.** In 2018, Chongqing College of Humanities, Science and Technology won 3 first prizes, 24 second prizes and 29 third prizes in the 4th National Applied Talents Integrated Skills Competition (「第四屆全國應用型人才綜合技能大賽」). Dianchi College was awarded “Role Model Chinese Higher Education Institute in Innovation and Entrepreneurship 2018” (「2018年度中國創業創新典型示範高校」). It also won a gold prize in the “The National Final of China's Internet + Innovation and Entrepreneurship among University Students” (《第四屆中國「互聯網+」大學生創新創業大賽全國總決賽》).

Outlook

The schools of the Group are committed to cultivating outstanding professional talents equipped with application-oriented skills. Recently, the PRC government has promulgated a series of policies and documents including the Implementation Plan on National Vocational Education Reform (《國家職業教育改革實施方案》), China's Education Modernization 2035 (《中國教育現代化2035》) and Implementation Plan on the Advancement of Education Modernization (2018-2022) (《加快推進教育現代化實施方案(2018-2022年)》), with an aim to promote the integration of enterprises with vocational schools and universities, encourage the cultivation of application-oriented talents and operate diversified vocational schools. The Chinese government's work report clearly stated the reform and improvement of the examination methods for higher vocational colleges, and large-scale expansion of one million people this year.

Leveraging on the extensive experience accumulated in the education industry and with its aim at cultivating sophisticated talents with application-oriented skills, the Group will strengthen the integration of enterprises with vocational schools and universities and deepen school-enterprise cooperation by taking advantage of the opportunities brought by governmental policies, and further expand the Group's school network and student number through mergers and acquisitions of quality undergraduate schools and higher vocational (junior) colleges.

Financial Review

Revenue

Revenue represents the value of services rendered during the reporting period. The Group derives revenue primarily from tuition fees and boarding fees our schools collect from students.

The revenue of the Group increased by approximately 30.4% from approximately RMB477.8 million in 2017 to approximately RMB623.1 million in 2018. This increase was primarily due to the increase of the Group's student enrollment and average tuition fees.

Cost of Sales

Cost of sales consists primarily of staff costs, depreciation and amortization, cost of cooperative education, utilities, cost of repairs, office expenses, student study and practice fees and other costs.

The cost of sales increased by approximately 45.5% from RMB199.1 million in 2017 to approximately RMB289.8 million in 2018. This increase was primarily due to (i) the increase in the number of teachers recruited by the Group's schools during the Reporting Period; (ii) the increase in the teachers' remuneration and benefits; and (iii) the increase in depreciation costs as a result of consolidation of the newly acquired schools into the Group.

Gross Profit

The gross profit increased by approximately 19.6% from approximately RMB278.7 million in 2017 to approximately RMB333.4 million in 2018, and gross profit margin slightly decreased by 4.8% from approximately 58.3% in 2017 to approximately 53.5% in 2018, which was mainly due to the increase in number and salary of teachers and the increase in depreciation of new schools newly consolidated to the Group.

Other Income and Gains

Other income and gains consists primarily of government grants, investment income from available for-sale investments and investment deposits, other interest income and net rental income.

Other income and gains increased by approximately 29.8% from approximately RMB146.3 million in 2017 to approximately RMB189.9 million in 2018. This increase was primarily due to (i) the payment of 100% net profit of Dianchi College and Yunnan Dianjiao Asset Management Company Limited to the Group as entrustment management service fees during the term of Dianchi College Management Agreement; (ii) the increase in investment return of wealth management products and the interest income of bank deposits; and (iii) the increase in exchange gains during the Reporting Period.

Selling and Distribution Expenses

Selling and distribution expenses consist primarily of salaries and other benefits for our staff who are in charge of student recruitment and advertising, advertising expenses and student recruitment expenses.

Selling and distribution expenses increased from approximately RMB7.8 million in 2017 to approximately RMB16.8 million in 2018, primarily due to the increase in enrollment costs as a result of consolidation of several newly acquired schools into the Group during the Reporting Period.

Administrative Expenses

Administrative expenses primarily consist of the salaries and other benefits for general and administrative staff, office-related expenses, depreciation of office buildings and equipment, environment and health expenses, travel and transportation expenses and rental expenses.

Administrative expenses increased by approximately 14.2% from approximately RMB125.7 million in 2017 to approximately RMB143.5 million in 2018, primarily due to (i) the increase in option awards of the Group; (ii) the increase in staff costs as a result of consolidation of several newly acquired schools into the Group during the Reporting Period; (iii) the increase in property management and environmental protection related expenses; and (iv) the increase in maintenance fees incurred by several schools of the Group.

Other Expenses, Net

Other expenses consist primarily of expenses relating to donations made to third-party educational and other institutions, loss on disposal of property, plant and equipment and net exchange loss.

Other expenses, net decreased substantially from approximately RMB25.2 million in 2017 to approximately RMB0.8 million in 2018. This decrease was primarily attributable to the decrease in gains or losses on disposal of assets during the Reporting Period as compared with 2017; and (ii) the net exchange gain recorded in 2018 as compared with net exchange loss in 2017.

Finance Costs

Finance costs mainly represent interests on loans which we borrowed from the ultimate holding company and certain related parties, banks and others, and which were originally borne by the schools we newly acquired through merger and acquisition during the Reporting Period.

Finance costs increased from approximately RMB3.0 million in 2017 to approximately RMB13.2 million in 2018, mainly due to the increase in interests on existing loans of the Group's newly-consolidated schools and the interest we paid on bank loans and other borrowings.

Loss from Investments

Loss from investments increased from approximately RMB0.3 million in 2017 to approximately RMB0.6 million in 2018, which was mainly due to the pro-rata recognition of its share of loss of Beacon International College (an associated company) for the year by the Group.

Profit for the Year

As a result of the above factors, profit for the year of the Group increased by approximately 27.6% from approximately RMB260.8 million in 2017 to approximately RMB332.8 million in 2018.

Core Net Profit

The Group defines its core net profit as its profit for the year after adjusting for those items which are not indicative of the Group's operating performances (as presented in the table below). This is not a IFRSs measure. The Group has presented this item because the Group considers it an important supplemental measure of the Group's operational performance used by the Group's management as well as analysts or investors. The following table shows profit and adjusted net profit of the Group for the years presented below:

	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
Profit for the year	332,828	260,847
Add:		
Listing-related expenses	–	25,738
Unrealised exchange (gain)/loss	(7,738)	20,468
Share option expenses	13,108	3,300
Core net profit	<u>338,198</u>	<u>310,353</u>

Core net profit in 2018 increased by approximately RMB27.8 million (approximately 9.0%) as compared with 2017. Core net profit margin decreased from approximately 65.0% in 2017 to approximately 54.3% in 2018.

Financial and Liquidity Position

Net Current Assets

As at 31 December 2018, the Group had net current assets of approximately RMB70.9 million, which primarily consisted of cash and bank balances. The current assets as at 31 December 2018 decreased to approximately RMB1,578.0 million from approximately RMB2,459.9 million as at 31 December 2017. The decrease in current assets primarily reflected that (i) the cash and bank balances decreased from approximately RMB1,716.3 million as at 31 December 2017 to approximately RMB1,508.1 million as at 31 December 2018, mainly due to the cash outflows of RMB600.0 million, a result of the acquisition of Shiji Kuangao and Leed International; (ii) the repayment of bank and third party borrowings led to the outflows of RMB180.0 million in 2018; and (iii) the foreign exchange rate changes. The current liabilities increased from approximately RMB773.8 million as at 31 December 2017 to approximately RMB1,507.1 million as at 31 December 2018, mainly reflecting (i) an increase of approximately RMB534.1 million in contract liabilities because of the increase in tuition fee received due to an increase in student numbers for the 2018-2019 school year as at 31 December 2018 and the completion of acquisitions of Shouguang Bohai Experimental School and Yunnan University Dianchi College in 2018; (ii) an increase of approximately RMB100.5 million in bank and other borrowings; and (iii) an increase of approximately RMB407.5 million in other payables and accruals mainly due to an increase in expenses for purchase of teaching equipment, etc.

Capital Commitments

The Group had the following capital commitments at the end of the reporting period:

	2018	2017
	RMB'000	RMB'000
Contracted, but not provided for:		
Equipment	10,887	7,653
Buildings	110,595	19,364
Loans committed to an associate	–	8,359
Acquisition of a private school	91,800	500,000
	213,282	535,376

At the end of the Reporting Period, the Group did not have significant capital commitments that are authorised but not contracted for.

Indebtedness

The Group's interest-bearing bank and other borrowings primarily consisted of short-term working capital loans to supplement our working capital and finance our expenditure and long-term project loans for the continuous development of our school buildings and facilities.

The bank loans and other borrowings amounted to RMB458.7 million as at 31 December 2018, all dominated in Renminbi. As at 31 December 2018, our bank loans and other borrowings bore effective interest rates ranging from 1.2% to 24.0% per annum.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of internally generated cash flows from operations and other borrowings. The Group regularly reviews its major funding positions to ensure that it has adequate financial resources in meeting its financial obligations.

Contingent Liabilities

As at 31 December 2018, the Group did not have any material contingent liabilities, guarantees or any litigations or claims of material importance, pending or threatened against any member of the Group (2017: nil).

Pledge of Assets

As at 31 December 2018, certain of the Group's buildings and land with a net carrying amount of approximately RMB342.0 million (2017: RMB284.4 million) were pledged to secure bank loans and other borrowings.

Foreign Exchange Exposure

The majority of the Group's revenue and expenditures are denominated in RMB. As at 31 December 2018, certain bank balances were denominated in United States dollar ("US\$") and Hong Kong dollar ("HK\$"). The Group currently does not have any foreign currency hedging policies. The management will continue to monitor the Group's foreign exchange risk exposure and consider adopting prudent measures as appropriate.

Gearing Ratio

The gearing ratio increased to 13.0% as at 31 December 2018 from approximately 5.5% as at 31 December 2017, due to the increase in interests on existing loans of the Group's newly-consolidated schools and the interest we paid on bank loans and other borrowings.

Salary increment for Employees, Training and Development

In 2018, in order to motivate our faculty staff for better work performance, the Group has reviewed and increased the salaries of employees. The increment in salaries is based on their performance, experience and prevailing industry practices, with all compensation policies and packages reviewed on a regular basis. As required by PRC laws and regulations, we participate in various employee social security plans for our employees that are administered by local governments, including pension, medical, maternity, work-related injury, unemployment insurance and housing provident fund.

In addition, the Group provides comprehensive training programs to its existing and newly recruited employees and/or sponsors its employees to attend various job-related training courses and also support some excellent teachers to study, train and communicate with famous universities abroad.

OTHER INFORMATION

Events after the Reporting Period

Except for the disclosure in note 12 to financial statements, the event occurred after the reporting period is as follows:

Commencement of Entrustment of Fareast College

On 23 November 2018, Chongqing Yuecheng, as purchaser, and a third party ("**Ms. Pan**"), as vendor, entered into a share transfer agreement (the "**Share Transfer Agreement**"), pursuant to which Ms. Pan agreed to sell 51% of the equity interest of Qufu Changyong to Chongqing Yuecheng, and Chongqing Yuecheng agreed to acquire the equity interest of Qufu Changyong, at a total consideration of RMB91.8 million. Upon the completion, Chongqing Yuecheng will hold 51% of equity interest in Qufu Changyong and indirectly hold 51% of school sponsor's interest in Fareast College through Qufu Changyong.

Subsequent to the execution of the share transfer Agreement, on 23 November 2018, Chongqing Yuecheng, Ms. Pan, Qufu Changyong and Fareast College signed the Fareast College Entrustment Agreement, pursuant to which, Ms. Pan, Qufu Changyong and Fareast College agreed to entrust the rights to manage Fareast College to Chongqing Yuecheng with effect from the date of completion of the payment of the first instalment of the consideration contemplated under the Share Transfer Agreement until the date of completion of the Share Transfer Agreement. In February 2019, the payment of the relevant first instalment was completed, upon which, Chongqing Yuecheng has commenced its holistic and comprehensive management of Fareast College, including but not limited to the overall entrustment of all aspects of Fareast College, such as seals and certificates, businesses, assets, finance, human resources, students, and legal matters. Chongqing Yuecheng has been therefore entitled to 51% of the net profit of Fareast College during the term of the Fareast College Entrustment Agreement as management fee, but the acquisition has not been completed.

Dividend

The Board does not recommend any dividend in respect of the year ended 31 December 2018 (2017: nil).

Purchase, Sale or Redemption of Listed Securities of the Company

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities for the year ended 31 December 2018.

Corporate Governance Code

For the year ended 31 December 2018, the Company has complied with all code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 to the Listing Rules as the code of conduct governing Directors' securities transactions. The Company confirms that, having made specific enquiries of all the Directors, each of them has complied with the required standard as set out in the Model Code for the year ended 31 December 2018.

Use of Proceeds

Net proceeds from the shares of the Company being listed on the Stock Exchange on 22 March 2017 (including the Over-allotment Option and after deducting underwriting fee and relevant expenses) amounted to approximately HK\$1,374.7 million. As at 31 December 2018, a total amount of approximately HK\$882.9 million out of the net proceeds had been used by the Group according to the allocation set out in the prospectus of the Company dated 10 March 2017.

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

Purpose	Percentage to total amount	Net proceeds HKD (million)	Utilised amount at 31 December 2018 HKD (million)	Unutilised amount at 31 December 2018 HKD (million)
Acquiring additional existing schools in the PRC and overseas	55.0%	756.1	694.8	61.3
Establishing new schools or expanding the existing schools we own or operate	21.2%	291.4	–	291.4
Repaying a term loan from a third party financial institution	14.8%	203.5	162.0	41.5
Financing working capital and general corporate use	9.0%	123.7	52.4	71.3
Total	100.0%	1,374.7	909.2	465.5

Audit Committee and Review of Annual Financial Information

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

Publication of Annual Results Announcement and Annual Report

This annual results announcement is published on the website of the Stock Exchange at www.hkexnews.hk and on the website of the Company at www.minshengedu.com, respectively. The annual report of the Company for the year ended 31 December 2018 containing all the information required by the Listing Rules will be dispatched to the shareholders of the Company and published on the above websites in due course.

Acknowledgement

On behalf of the Board, I would like to express my sincere gratitude to the Group's management and staff members for their dedication and hard work and our shareholders for their trust and support.

By order of the Board
Minsheng Education Group Company Limited
Li Xuechun
Chairman

Hong Kong, 14 March 2019

In this announcement, the English translation of company or entity names in Chinese which are marked with "" is for identification purpose only.*

As at the date of this announcement, the executive Directors are Mr. Li Xuechun, Ms. Zhang Weiping, Mr. Zuo Yichen and Mr. Lam Ngai Lung, the non-executive Directors are Mr. Lin Kaihua and Ms. Li Yanping, and the independent non-executive Directors are Mr. Chan Ngai Sang, Kenny, Mr. Yu Huangcheng and Mr. Wang Wei Hung, Andrew.