China New Higher Education Group Limited
中國新高教集團有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock code: 2001)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

INTERIM RESULTS

The Board of Directors of China New Higher Education Group Limited is pleased to announce the interim results and the unaudited interim condensed consolidated financial statements of the Company and its subsidiaries for the six months ended 30 June 2018, together with the comparative figures for the six months ended 30 June 2017.

Highlight

	Six months ended 30 June 2018 *(RMB million)*	Six months ended 30 June 2017 *(RMB million)*	**Change** *(RMB million)*	**Percentage Change**
Revenue	**248.8**	212.6	36.2	+17.0%
Other income and gains	**77.6**	53.2	24.4	+45.9%
Profit for the period	**150.0**	110.2	39.8	+36.1%
Adjusted net profit#	**92.8**	80.4	12.4	+15.4%
Adjusted net profit margin##	**37.3%**	37.8%	–	-0.5%

	2017/2018 Academic Year *	2016/2017 Academic Year *	**Change**	**Percentage Change**
Total number of students enrolled**	**84,497**	46,460	+38,037	+81.9%

Profit for the period - tax adjusted service income

(Profit for the period - tax adjusted service income)/revenue

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

** *Including the schools to be invested by the Group*

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

	Notes	For the six months ended 30 June	
		2018	2017
		RMB'000	*RMB'000*
		(Unaudited)	(Unaudited)
REVENUE	*4*	**248,824**	212,560
Cost of sales		**(108,956)**	(91,272)
Gross profit		**139,868**	121,288
Other income and gains	*4*	**77,609**	53,218
Selling and distribution expenses		**(2,309)**	(2,261)
Administrative expenses		**(21,643)**	(31,837)
Other expenses		**(622)**	(3,681)
Finance costs	*5*	**(32,144)**	(18,937)
PROFIT BEFORE TAX	*6*	**160,759**	117,790
Income tax expense	*7*	**(10,733)**	(7,544)
PROFIT FOR THE PERIOD		**150,026**	110,246
Attributable to:			
Owners of the parent		**150,026**	110,279
Non-controlling interests		**–**	(33)
		150,026	110,246
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic *(RMB)*			
– For profit for the period	*9*	**0.10**	0.09
Diluted *(RMB)*			
– For profit for the period	*9*	**0.10**	0.09

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2018

	For the six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
PROFIT FOR THE PERIOD	**150,026**	110,246
OTHER COMPREHENSIVE LOSS		
Other comprehensive loss not to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(17,406)**	(20,854)
Net other comprehensive loss not to be reclassified to profit or loss in subsequent periods	**(17,406)**	(20,854)
OTHER COMPREHENSIVE LOSS FOR THE PERIOD, NET OF TAX	**(17,406)**	(20,854)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**132,620**	89,392
Attributable to:		
Owners of the parent	**132,620**	89,425
Non-controlling interests	**–**	(33)
	132,620	89,392

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2018

	Notes	**As at 30 June 2018** ***RMB'000*** **(Unaudited)**	As at 31 Dec 2017 *RMB'000* (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	*10*	**1,162,245**	985,301
Investment properties		**48,504**	47,331
Prepaid land lease payments		**259,603**	96,910
Other intangible assets		**15,867**	11,127
Other non-current assets	*11*	**1,359,213**	1,185,973
Total non-current assets		**2,845,432**	2,326,642
CURRENT ASSETS			
Prepayments, deposits and other receivables	*12*	**146,138**	88,666
Pledged deposits		**33,888**	30,000
Cash and cash equivalents		**569,085**	118,648
Other current assets		**5,680**	5,947
Total current assets		**754,791**	243,261
CURRENT LIABILITIES			
Deferred revenue	*13*	**6,245**	249,599
Other payables and accruals	*14*	**145,995**	192,983
Interest-bearing bank and other borrowings	*15*	**884,604**	207,819
Deferred income		**5,175**	4,088
Tax payable		**23,531**	13,507
Total current liabilities		**1,065,550**	667,996
NET CURRENT LIABILITIES		**(310,759)**	(424,735)
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,534,673**	1,901,907

	Note	As at 30 June 2018 RMB'000 (Unaudited)	As at 31 Dec 2017 RMB'000 (Audited)
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	*15*	**681,974**	144,440
Deferred income		**24,659**	28,637
Deferred tax liabilities		**4,293**	3,975
Total non-current liabilities		**710,926**	177,052
Net assets		**1,823,747**	1,724,855
EQUITY			
Share capital		**983**	983
Reserves		**1,822,764**	1,723,872
Total equity		**1,823,747**	1,724,855

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

1. CORPORATE INFORMATION

The Company was incorporated as an exempted company with limited liability under the Companies Law of the Cayman Islands on 8 July 2016. The registered office address of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The Company was listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 19 April 2017.

The Company is an investment holding company. During the period, the Company and its subsidiaries (collectively referred to as the "Group") were principally engaged in rendering private education services in the People's Republic of China (the "PRC").

2.1 BASIS OF PREPARATION

The unaudited interim condensed consolidated financial statements have been prepared in accordance with HKAS 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

The unaudited interim condensed consolidated financial statements have been prepared under the historical cost convention. The unaudited interim condensed consolidated financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

The unaudited interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2017.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has applied, for the first time, the following new and revised Hong Kong Financial Reporting Standards ("HKFRSs") and Hong Kong Accounting Standards ("HKASs") issued by the HKICPA that are relevant for the preparation of the Group's condensed consolidated financial statements:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
Amendments to HKFRS 15	Clarifications to HKFRS 15 Revenue from Contracts with Customers
Amendments to HKAS 40	Transfers to Investment Property

HKFRS 15 "Revenue from contracts with customers" are effective for the annual periods beginning on or after January 1, 2018 and earlier application is permitted. The Group has applied HKFRS 15 using the modified retrospective method of adoption. It is considered that the adoption of HKFRS 15 did not have significant impact on financial position and performance of the Group during the period.

HKFRS 9 "Financial Instruments" are effective for the annual periods beginning on or after January 1, 2018 and earlier application is permitted. The Group has applied HKFRS 9 retrospectively. It is considered that the adoption of HKFRS 9 did not have significant impact on financial position and performance of the Group during the period.

The application of the new and revised HKFRSs and HKASs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in the Group's interim condensed consolidated financial statements

3. OPERATING SEGMENT INFORMATION

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

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

Geographical information

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

Information about major customers

No revenue from sales to a single customer contributed to 10% or more of the total revenue of the Group during the period.

4. REVENUE, OTHER INCOME AND GAINS

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

	For the six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Revenue		
Type of goods or service		
Tuition fees	**230,099**	196,949
Boarding fees	**18,725**	15,611
	248,824	212,560
Geographical markets		
Mainland China	**248,824**	212,560
Timing of revenue recognition		
Services transferred over time	**248,824**	212,560
Other income and gains		
Service income	**62,479**	33,744
Rental income	**5,757**	4,936
Government grants	**3,041**	5,186
Others	**6,332**	9,352
	77,609	53,218

5. FINANCE COSTS

An analysis of finance costs is as follows:

	For the six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Interest on bank loans	**33,950**	21,332
Interest on finance lease	**3,132**	–
Total interest expense on financial liabilities not at fair value through profit or loss	**37,082**	21,332
Less: Interest capitalized	**(4,938)**	(2,395)
	32,144	18,937

6. PROFIT BEFORE TAX

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

	For the six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Employee benefit expense (excluding directors' and chief executive's remuneration):		
Wages and salaries	**68,797**	61,802
Pension scheme contributions (defined contribution plan)	**6,967**	6,184
	75,764	67,986
Depreciation of items of property, plant and equipment	**19,229**	16,017
Depreciation of investment properties	**518**	400
Amortisation of prepaid land lease payments	**1,164**	1,115
Amortisation of software*	**1,914**	1,120
Minimum lease payments under operating leases	**2,558**	2,287
Provision for prepayments, deposits and other receivables	**8**	483
Gain on disposal of items of property, plant and equipment	**(7)**	–

* The amortisation of software during the period is included in "Cost of sales" in the consolidated statement of profit or loss.

7. INCOME TAX

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands and accordingly is not subject to income tax.

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

The corporate income tax rate for Huihuang Company is 15% based on the relevant tax regulations of Tibet Autonomous Region. The Tibet local government has exempted 40% corporate income tax payable by enterprises in Tibet Autonomous Region for a period of three years commencing from 1 January, 2015 to 31 December, 2017. The effective corporate income tax rate increased to 15% beginning in 2018 since the three year preferential tax exemption expired.

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

The major components of income tax expense of the Group are as follows:

	For the six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Current income tax – Mainland China	**6,440**	4,205
Deferred tax	**4,293**	3,339
Total tax charge for the period	**10,733**	7,544

8. DIVIDENDS

	For the six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Interim – RMB0.027 (2017: RMB0.021) per ordinary share	**38,640**	30,053

Subsequent to the end of the current interim period, the directors of the Company have determined that an interim dividend of RMB0.027 per share amounting to RMB38,640,000 will be paid to the owners of the Company.

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

The calculation of basic earnings per share amounts is based on the profit for the period attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 1,431,100,000 (for the six months ended 30 June 2017: 1,264,138,333) in issue during the period.

The calculation of diluted earnings per share amounts is based on the profit for the period attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the period, 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 the basic and diluted earnings per share are based on:

	For the six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
Earnings		
Profit attributable to ordinary equity holders of the parent (RMB'000)	**150,026**	110,279

	Number of shares	
	For the six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
Shares		
Weighted average number of ordinary shares in issue during the period	**1,431,100,000**	1,264,138,333
Effect of dilution – weighted average number of ordinary shares:		
Share options	**667,565**	–
	1,431,767,565	1,264,138,333

10. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2018, the Group acquired assets at a consideration of RMB198,124,000 (unaudited) (for the six months ended 30 June 2017: RMB22,576,000 (unaudited)), including Construction in progress RMB170,447,000 (for the six months ended 30 June 2017: RMB13,118,000 (unaudited)).

Assets with a net book value of RMB1,691,000 (unaudited) were transferred to investment properties by the Group during the six months ended 30 June 2018 (for the six months ended 30 June 2017: RMB16,390,000 (unaudited)).

Assets with a net book value of RMB1,725,000 (unaudited) was disposed by the Group during the six months ended 30 June 2018 (for the six months ended 30 June 2017: nil (unaudited)), resulting a net gain on disposal of RMB7,000 (unaudited) (for the six months ended 30 June 2017: nil (unaudited)).

11. OTHER NON-CURRENT ASSETS

	30 June	31 December
	2018	2017
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Prepayment for investments	**1,272,839**	1,019,667
Prepayment for land use rights	**67,083**	155,130
Prepayment for other intangible assets	**2,854**	1,659
Prepayment for property, plant and equipment	**16,437**	9,517
	1,359,213	1,185,973

12. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	30 June 2018	31 December 2017
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Prepaid rent and other prepaid expenses	**8,668**	2,541
Advance and other receivables	**121,248**	69,742
Staff advances	**856**	757
Deposits and other miscellaneous receivables	**15,366**	15,626
	146,138	88,666

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

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

13. DEFERRED REVENUE

	30 June 2018	31 December 2017
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Tuition fees	**–**	224,629
Boarding fees	**6,245**	24,970
	6,245	249,599

The students are entitled to the refund of the payments in relation to the proportionate services not yet provided.

14. OTHER PAYABLES AND ACCRUALS

	30 June 2018	31 December 2017
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Payables for purchase of property, plant and equipment	**20,176**	19,029
Accrued bonus and social insurance	**27,510**	42,380
Miscellaneous expenses received from students *(Note (i))*	**39,998**	63,016
Other payables	**57,846**	64,014
Accrued expenses	**465**	4,544
	145,995	192,983

The above balances are unsecured and non-interest-bearing. The carrying amount of other payables and accruals at the end of the period approximated to their fair value due to their short term maturity.

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

15. INTEREST-BEARING BANK AND OTHER BORROWINGS

	As at 30 June 2018		As at 31 December 2017	
	Maturity	***RMB'000***	Maturity	*RMB'000*
		(Unaudited)		(Audited)
Current				
Finance lease payables *(note 16)*	**2018-2019**	**79,512**		–
Loans – secured	**2018-2019**	**423,632**	2018	152,819
Current portion of long-term loans – secured	**2018-2019**	**381,460**	2018	55,000
		884,604		207,819
Non-current				
Finance lease payables *(note 16)*	**2019-2023**	**155,526**		–
Loans – secured	**2019-2023**	**537,585**	2019	144,440
Transaction cost		**(11,137)**		–
		681,974		144,440
Total		**1,566,578**		352,259

As at 30 June 2018, the interest rates of the above borrowings ranged from 4.75% to 7.25% per annum (31 December 2017: 4.75% to 7.13% per annum).

All of the borrowings are jointly secured and pledged by:

(i) 80% equity interest of Yunnan Daai Fangzhou Information Consultancy Co., Ltd.;

(ii) all shares of Beijing Aiyinsheng Education Investment Co.,Ltd.;

(iii) 73.91% equity interest of Haxuan Company;

(iv) all shares of Enshi Autonomous Prefecture Changqing Education Development Co, Ltd.;

(v) personal guarantees executed by Mr. Li, a director of the Company, and Ms. Yang Xuqing ("Ms. Yang", spouse of Mr. Li);

(vi) corporate guarantees executed by subsidiaries of the Group, which are controlled by Mr. Li, a director of the Company;

(vii) deposits of the Group with an amount of RMB30,000,000 at as 30 June 2018 (31 December 2017: RMB30,000,000); and

(viii) all shares of Aspire Education Information Co., Ltd., Aspire Education Holding Co., Ltd. and Tibet Daai Huihuang Information and Technology Co., Ltd..

16. FINANCE LEASE PAYABLES

Finance lease payables as at 30 June 2018 represents the borrowings under a financing arrangements entered into by the Group with third-party leasing companies, in the form of a sale and leaseback transaction which results in a finance lease and bear a repurchase option. The subjects sold and leased back under the financing arrangements are the office properties and office equipment owned by the Group. As the repurchase prices are set at RMB100 and RMB300 which is minimal compared to the expected fair values of the underlying assets at the end of the lease periods of three to five years and the Group is certain that it will exercise the repurchase option, and considering the amounts of the lease payments to be paid on the selling prices, the above financing arrangements are accounted for as collateralized borrowings at amortised cost using the effective interest method.

At 30 June 2018, the total future minimum lease payments under finance leases and their present values were as follows:

	Minimum lease payments 30 June 2018 *RMB'000* **(Unaudited)**	Minimum lease payments 31 December 2017 *RMB'000* (Audited)	**Present value of minimum lease payments 30 June 2018** *RMB'000* **(Unaudited)**	Present value of minimum lease payments 31 December 2017 *RMB'000* (Audited)
Amounts payable:				
Within one year	**96,003**	–	**79,512**	–
In the second year	**72,378**	–	**61,919**	–
In the third to fifth years, inclusive	**99,615**	–	**93,607**	–
After five years	**–**	–	**–**	–
Total minimum finance lease payments	**267,996**	–	**235,038**	–
Future finance charges	**(32,958)**	–		
Total net finance lease payables	**235,038**	–		
Portion classified as current liabilities *(note15)*	**(79,512)**	–		
Non-current portion *(note15)*	**155,526**	–		

17. EVENTS AFTER THE REPORTING PERIOD

(i) On 6 July 2018, Beijing Aiyingsheng Education Investment Co., Ltd. (“Bei Ai Company”), a wholly owned subsidiary of the Group, entered into a cooperation agreement with Lanzhou University of Technology, pursuant to which Bei Ai Company would apply to be a joint school sponsor of the College of Technology and Engineering (”Gansu College”). According to the cooperation agreement, the Group will invest RMB200 million, including land use right for new campus of Gansu College and would be responsible for the construction of the new campus and further operation and development. As at the date of the report, the relevant application to change the school sponsor is pending the final approval of the provincial department of education and the registration with the provincial civil affairs authorities.

(ii) On 12 July 2018, 404,200 share options to subscribe for the ordinary shares of US$0.0001 each in the share capital of the Company were granted, subject to acceptance of the grantees, under the share option scheme adopted by the Company on 20 March 2017. Each share option shall entitle the holder of the share option to subscribe for one share upon exercise of such share option at an exercise price of HK$7.950 per share. Upon the achievement of certain service condition and performance targets, 50%, 30% and 20% of the share options granted shall vest on 12 July 2019, 12 July 2020 and 12 July 2021, respectively.

(iii) As previously reported, through a series of capital increases and equity transfers from 2015 to 2017, the Group acquired the entire equity interest in Enshi Autonomous Prefecture Changqing Education Development Co, Ltd. (“Enchang Company”), which has taken over rights and obligations of Enshi Autonomous Prefecture Haoyouduo Trading Co., Ltd. (“Enhao Company”) in Enhao Company’s agreement with Central China School to become a joint school sponsor for the Central China School. On 18 July 2018, the Ministry of Education (the “MOE”) published a notice in respect of the MOE’s preliminary consent to the change of school sponsor of the Central China School to Enchang Company. As at the date of the report, the relevant application to transfer school sponsorship from the current school sponsor to Enchang Company is still pending the registration with the provincial civil affairs authorities.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Features of applied sciences

As a private higher education provider focusing on applied sciences, the Group strives to provide high quality higher education in a wide selection of fields in applied sciences. Our course offerings are designed to equip students with practical experience and readily applicable skills and prepare them for the job market. Meanwhile, the Group will adjust its course offerings from time to time to meet changing market demand. As a result, we outperformed our industry peers in terms of industry-leading graduate employment rates. Each of the Group's schools has gained wide recognition in the region where it is located and continues to attract students and quality teachers.

Market demand for talents with practical experience and readily applicable technical skills will continue to grow. The Group believes there is significant market potential for the growth of private higher education in the PRC. In light of this industry background, as a private provider of higher education focusing on applied sciences, the Group is well-positioned to capture on the growth opportunities in the PRC higher education sector.

Overview

During the six months ended 30 June 2018, the Group operated and invested in six higher education institutions in the PRC, including Yunnan School and Guizhou School founded by the Group, and Northeast School, Central China School, Xinjiang School and Henan School invested by the Group. Further, the Group has applied to become a joint school sponsor of Gansu College in July 2018. The Group is a leading private higher education group in the PRC in terms of employment rate in 2017 according to the CIC Report.

Our schools, schools to be established, schools to be invested in the PRC and educational curriculums

The Group endeavors to help each student maximize his or her potential and live his or her life to the fullest. The Group's fundamental educational philosophy is mainly composed of two integral parts: (i) to nurture the growth of our students, and provide tailor-made education to each student's individual needs and circumstances; and (ii) to equip our students with practical and readily applicable skills that meet market demand.

Our Schools

Yunnan School

Located in Songming County, Kunming City, Yunnan Province, the predecessor of Yunnan School, Software College was established in 2005 and was successfully upgraded in 2011 with qualification to grant bachelor's degrees. It is now a formal higher education institution providing undergraduate education and junior college education focused on applied sciences. Yunnan school has a site area of approximately 535,800 sq.m., including classroom buildings, student dormitory buildings, teacher dormitory building, simulation training building and other facilities such as library and dining halls. Yunnan School currently offers over 50 majors in six colleges with students mostly enrolled from Yunnan Province and other provinces of Southwest China (such as Guizhou, Sichuan and Chongqing).

Guizhou School

Located in Qingzhen City, Guiyang City, Guizhou Province, Guizhou School is a formal higher education institution established in 2012. It provides junior college education focused on applied sciences. The school has a site area of approximately 284,850 sq.m., including classroom buildings, student dormitory buildings, teacher dormitory building, simulation training building and other facilities such as library and dining halls. Guizhou School currently offers approximately 30 majors in six colleges with students mostly enrolled from Guizhou Province and other provinces of Southwest China (such as Yunnan, Sichuan and Chongqing).

Schools to be invested

Northeast School

Located in Harbin, Heilongjiang Province, Northeast School is an independent institute established in 2004 under the laws of the PRC. Northeast School is a private institution of formal higher education focused on applied sciences, providing undergraduate education and junior college education focused on applied sciences. Northeast School has a site area of approximately 623,000 sq.m. and currently offers over 30 undergraduate and junior college majors in ten colleges.

On 20 April 2016, Haxuan Company, one of the Company's subsidiaries, entered into an agreement with the current school sponsors of Northeast School, pursuant to which Haxuan Company agreed to acquire the entire school sponsor's interest of Northeast School. The Company has received the approval from MOE for the change of school sponsor of the Northeast School to Haxuan Company on 21 May 2018, and accordingly the updated school operating licence (辦學許可證) has been obtained. As of the date of this announcement, the application to change the school sponsor from the current ones to Haxuan Company is only pending registration with the provincial civil affairs authorities.

On 1 September 2016, Northeast School and Huihuang Company entered into an exclusive technical service and education consultancy service agreement, pursuant to which, Huihuang Company agreed to provide technology and management consulting services to Northeast School prior to the transfer of the school sponsorship from the current school sponsors of Northeast School to Haxuan Company and, in return, Northeast School would pay 73.91% of its surplus from operations on a monthly basis to Huihuang Company as service fees during the term of this agreement.

Once the registration is ready, the Northeast School will enter into the structured contracts, the terms and conditions of which shall be the same as the existing Structured Contracts in all material aspects, with Huihuang Company, a wholly owned subsidiary of the Company, and the exclusive technical service and education consultancy service agreement will be terminated automatically upon the approval and registration of change of school sponsor's interest and the execution of the structured contracts. Following the execution of the structured contracts, Northeast School will become an entity controlled by the Group and its results of operations will be consolidated into the Group's results of operations.

Central China School

Located in Enshi City, Hubei Province, Central China School is an institution of formal higher education established in 2003 under the laws of the PRC.

Enchang Company, one of the Company's subsidiaries, entered into a cooperation agreement with Minzu College to establish the new campus of Central China School in August 2015. On 18 July 2018, the application to make Enchang Company as a joint school sponsor of Central China School has been initially approved by MOE and is pending the registration with the provincial civil affairs authorities. Upon its completion, Enchang Company will become a joint school sponsor of Central China School and the results of the Central China School will then be included into our results upon entering into the structured contracts.

On 15 May 2017, Huihuang Company and Central China School entered into an exclusive technical service and education consultancy service agreement, pursuant to which, Huihuang Company agreed to provide technology and management consulting services to Central China School prior to the approval of the change to the school sponsorship of Central China School and, in return, starting from 1 January 2017, Central China School would pay 100% of its surplus from operations on a yearly basis to Huihuang Company as service fees.

Xinjiang School

Located in Xinjiang Uygur Autonomous Region, Xinjiang School is a private institution of formal higher education established in 2003 under the laws of the PRC.

The school is principally engaged in private higher education in Xinjiang which offers undergraduate education. The school obtained the approval to grant bachelor's degrees and is allowed to recruit students for 4 academic years, while Xinjiang School only began to recruit students for the 2016/2017 and the 2017/2018 academic years.

On 27 December 2017, Beijing Daai Consulting, a wholly owned subsidiary of Yun Ai Group, agreed to acquire an aggregate of 56% equity interest of Xinjiang School Sponsor. Upon closing of the acquisition, Xinjiang School Sponsor will be held as to 56% by Beijing Daai Consulting and as to 44% by an independent third party. Beijing Daai Consulting, Xinjiang School and Xinjiang Siyuan Education Investment Co., Ltd.（新疆思源教育投資有限公司）will enter into the structured contracts with Huihuang Company, the terms and conditions of which shall be the same as the existing structured contracts in all material aspects, after which each of the Xinjiang School Sponsor and Xinjiang School will be treated as a consolidated affiliated entity of the Company and the Xinjiang School's results of operations will be consolidated into the Group's results of operations.

Henan School

Located in Luoyang, Henan Province, Henan School is a private institution of formal higher education established under the laws of the PRC in 2003.

Henan School has 9 secondary institutions and 21 higher level vocational majors, focusing on electronic commerce, software technology, Internet of things application technology, etc.

On 8 January 2018, Beijing Daai Consulting, a wholly owned subsidiary of Yun Ai Group, agreed to acquire 55% school sponsor interest of Henan School. As at the date of this announcement, the Company has received the approval from the People's Government of Henan Province for the change of school sponsor of the Henan School to Henan Rongyu which is held as to 55% by Beijing Daai Consulting, and as to 45% by Mr. Rong and Ms. Kong, and the updated school operating licence（辦學許可證）has been obtained. As of the date of this announcement, the change of the school sponsor of Haxuan Company is only pending registration with the provincial civil affairs authorities.

Once the registration is ready, Henan Rongyu and Henan School will enter into the structured contracts with Huihuang Company, the terms and conditions of which shall be the same as the existing structured contracts in all material aspects, after which each of Henan Rongyu and Henan School will be treated as a consolidated affiliated entity of the Company and Henan School's results of operations will be consolidated into the Group's results of operations.

Gansu College

On 6 July 2018, Bei Ai Company, a wholly owned subsidiary of Yun Ai Group, entered into a cooperation agreement with Lanzhou University of Technology, pursuant to which Bei Ai Company would apply to be a joint school sponsor of the Gansu College and make investments to establish a new campus at a new location. Pursuant to the terms of the said agreement, Lanzhou University of Technology shall contribute intangible assets comprising its school name and teaching resources, and Bei Ai Company shall contribute the required funding and land use right for the construction of the new campus and shall be responsible for the construction of the new campus and operation of the Gansu College thereafter. After completion, the operation of the Gansu College will be solely responsible by the Group.

The Gansu College was established under the laws of the PRC in 2004 and is principally engaged in higher education in Gansu Province which is permitted to grant undergraduate degree certificates. The Gansu College offers 33 undergraduate majors, which mainly include engineering majors such as mechanical, electrical, civil engineering, materials, and chemical engineering, and also majors in science, literature and management.

As compared to the new establishment of the Northwest School which can only grant junior college degree certificates upon establishment, becoming a joint school sponsor of the Gansu College, an established higher education institution which can grant undergraduate degree certificates, with an existing capacity of around 8,000 students per academic year is more cost and time efficient. Upon further consideration and assessment, the Company decided to suspend the establishment of the Northwest School and focus the Group's resources to the Gansu College.

The Group agreed to acquire the state-owned land use right in Lanzhou Development Zone by a successful bidding. It was originally intended that such land use right would be used for the establishment of the Northwest School. Since the Group found a more appropriate target school for acquisition in Lanzhou, Gansu Province, the Group negotiated with Department of Land and Resources of Lanzhou and obtained consent that such land use right would be used for the new campus of the Gansu College.

Upon becoming a joint school sponsor of the Gansu College, Bei Ai Company and the Gansu College will enter into the structured contracts with Huihuang Company, the terms and conditions of which shall be the same as the existing Structured Contracts in all material aspects, after which the Gansu College's results of operations will be consolidated into our Group's results of operations.

Number of enrolled students

In order to be admitted for higher education, a student must pass and attain certain scores in China's National Higher Education Entrance Examination. Being institutions providing higher education services, the respective education authorities will specify a quota for the number of new students that each of the Group's schools may admit each year.

The Group believes the educational philosophies of its schools and its well-developed curriculums as well as its high graduate employment rates help the Group to attract high-quality students who are seeking a pathway to satisfactory employment. Moreover, the quality faculty team is also a major factor that has played in the past, and will continue to play in the future, an important role in the success of the schools.

	Number of Enrolled Students Academic Year *Note (7)*	
Schools	**2017/2018**	2016/2017
Yunnan School	**23,642**	19,490
Four-year undergraduate program	**8,891**	8,568
Three-year junior college program	**12,958**	10,922
Other programs *Note (1)*	**1,793**	–
Guizhou School	**15,584**	13,972
Three-year junior college program	**15,584**	13,972
Northeast School *Note (2)*	**9,355**	9,518
Four-year undergraduate program	**9,224**	9,232
Three-year junior college program	**131**	286
Central China School *Note (3)*	**5,709**	3,480
Four-year undergraduate program	**4,328**	2,308
Three-year junior college program	**1,070**	506
Pre-undergraduate program	**311**	666
Xinjiang School *Note (4)*	**3,746**	–
Four-year undergraduate program	**3,746**	–
Henan School *Note (5)*	**18,243**	–
Three-year junior college program	**3,407**	–
Five-year college program	**7,419**	–
Technical secondary program	**7,417**	–
Total	**76,279**	46,460
Gansu College *Note (6)*	**8,218**	–
Four-year undergraduate program	**8,218**	–
Total	**84,497**	46,460

Notes:

(1) Other programs refer to the five-year college programs. Yunnan School developed the five-year college programs in 2017-2018 academic year. Those students will commence their study in partner schools during the first and second academic years and will commence their study in Yunnan School and pay tuition fees to Yunnan School from September 2019 onwards.

(2) The acquisition of Northeast School by the Group is still pending registration with the provincial civil affairs authorities.

(3) The investment in Central China School by the Group is still pending registration with the provincial civil affairs authorities.

(4) The acquisition of Xinjiang School is still pending approval of the change of shareholding of school sponsor.

(5) The acquisition of Henan School is still pending registration with the provincial civil affairs authorities.

(6) The acquisition of Gansu College is still pending approval for change of school sponsor of Gansu College by the provincial education authorities.

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

Graduate employment rate

As a private higher education provider focused on applied sciences, the Group uses graduate employment rate as an important criterion to measure the teaching results. The Group believes that its industry-leading graduate employment rate helps to enhance its reputation and attracts talented high school graduates, while at the same time facilitates the Group's acquisitions of other schools in the PRC.

	Graduate Employment Rate As of 31 December	
Schools	**2017**	2016
Yunnan School	**98.8%**	98.8%
Guizhou School	**97.2%**	97.6%
Average	**98.1%**	98.3%

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

* *Average employment rate is calculated by dividing the total number of students employed by total number of students graduated.*

Teachers

The Group believes the quality of education is largely dependent on the quality of teachers. The Group primarily seeks to recruit (i) high quality experienced teachers who are knowledgeable in both theory and practice; (ii) teachers who have working experience in relevant industries, such as experienced accountants, engineers and managers; and (iii) teachers who hold relevant professional qualifications or credentials. In its recruitment efforts, the Group also places a strong emphasis on strong communication skills and a passion for teaching.

	Number of teachers in Yunnan School and Guizhou School As of 30 June	
	2018	2017
Teachers		
Full-time teachers	**1,301**	1,166
Part-time teachers	**584**	430
Total	**1,885**	1,596

Operation highlights of the Group

The Group has presented some new highlights and features in its operation:

Construction of College of Excellence

The Group further expanded the scale of the college of excellence at both Yunnan School and Guizhou School to provide our students with a full term of modern apprenticeship training during their final academic year, aiming to equip our students with practical work skills required for specific job positions and help them find satisfactory employment.

As of 30 June 2018, 1,211 students had participated in the Group's apprenticeship training, including 723 students from Yunnan School and 488 students from Guizhou School. As of 30 June 2018, the starting salary of the 2017 fresh graduates from the college of excellence at Yunnan School is RMB5,601 per month, which is way above market standard, and its employment rate is 100%.

International Education

The channels and scale of international cooperation were further expanded. Taking Yunnan School as an example, a total of 112 overseas students from India, Pakistan, Bangladesh, etc. were enrolled in the first half of 2018; eighteen 2017 fresh graduates were employed by Chamthapanya Hotel in Laos and the employment of our students gradually covered Southeast Asia and the surrounding countries; Panyapiwat Institute of Management, Thailand（泰國正大管理學院）set up its graduate office in Yunnan School, which further expands the channels for students to further their studies abroad.

Education Reputation

The Group continued to strengthen cultural development and stove to enhance its education and teaching levels. In the first half of 2018, the Northeast School successfully passed the assessment of the undergraduate teaching work by the Ministry of Education. The Young Craftsman (《少年工匠》) program of China Educational Television has made a special coverage about the flight attendance major of Yunnan School. The schools of the Group actively participated in various skill competitions and won numerous awards. Our recognition and reputation have been further improved, and we were widely recognized by the competent authorities and employers.

Poverty Alleviation

The institutions of the Group have established a subsidy system for poverty-stricken students that combines loan, subsidy, work-study program, award, allowance, reduction, and relief. The successful implementation of the "Not One Less" policy was highly valued by the government authorities, the public and the media. For example, for the students of Yunnan School, the proportion of students entitled to subsidies and the amount of subsidy were increased and students with financial difficulties could be arranged to take a part-time job at Jingdong E-commerce Operation Center of Yunnan School. In the 2017/2018 academic year, the Group's two independent non-executive directors (Mr. Wong Man Chung Francis and Mr. Chung Yue Ping Stephen) donated their fees as scholarship to encourage outstanding students of the college and support students with financial difficulties.

FUTURE PROSPECTS

Development Strategy

Acquisition of Schools

The Group intends to expand its school network and increase its market penetration and its market share in the private higher education sector in the PRC. Specifically, the Group has formed an investment team headed and managed directly by its senior vice president and reported to the chief executive officer. This investment team is responsible for identifying and evaluating potential acquisition targets across China. The Group has also established an investment and acquisition management committee headed by the chairman of the Board. This committee will periodically review the feasibility of acquisitions and determine which ones to pursue.

The Group intends to expand into western and central China because significant growth potential is seen in these regions. The higher education enrollment rates in these regions are relatively lower than the national average enrollment rates, and, in particular, that of economically more developed regions in the PRC. For the priority in education operation, the Group will firstly focus on undergraduate colleges and then junior colleges with potential to upgrade as undergraduate colleges. Following the completion of acquisitions or investments, the Group plans to leverage on its replicable business model to optimize the operations of the acquired or invested schools and rapidly replicate the value-added service revenue model of Yunnan School to increase financial returns.

Increase student enrollments at existing schools

The Group will continue to increase the student enrollments at existing schools. Both Yunnan School and Guizhou School have large areas of reserved land, which could be used for further expansion. Northeast School, Central China School and Xinjiang School also have large areas of reserved land, in which the Group could develop after the acquisitions are completed. In order to respond to the increasing number of students, Henan School is now constructing a new intelligent campus with total gross floor area of approximately 680,000 sq. m., which is expected to complete within 3 to 5 years by phases. As of 30 June 2018, the gross floor area of phase 1 is approximately 100,000 sq. m., consisting of 6 blocks of dormitory buildings and L-shape class-room building, assuming all meeting the requirement of start of academic year in September.

During the first half of 2018, four blocks of dormitories at Yunnan School were completed and two blocks of dormitories and a simulation training building at Guizhou School were completed.

Education through cooperation

The Group retains the right to have public-private cooperation in running an independent college. To set up a brand new junior college in a new area and develop it into a college qualified to apply for issuing undergraduate certificates costs a great deal of time and investment. As independent colleges are qualified to run undergraduate programs, it will be the most cost-efficient and time-efficient way for the Group to explore its business by being a joint sponsor of an independent college. Meanwhile, by leveraging on the brand awareness and education resources of public schools, the Group may promote its reputation in the new area, thereby facilitating its local business development.

Establish the Group's own schools

The Group will target the areas where the higher education enrollment rates are relatively lower than the national average enrollment rates as the key areas to establish our schools by copying from the successful models of our two self-established schools to our new schools to be established.

Further optimization of sources of revenue and other income

1. *Increase in tuition fees and boarding fees*

   The Group is able to maintain the current tuition rates and raise the tuition rates and recruit more students as its brand awareness and reputation have grown. According to the CIC Report, in 2017/18, the average tuition fee for private universities was RMB13,068, implying that the existing tuition fees of the Group have room to increase. In the meantime, the enrollment rates of the regions where the Group's schools located were relatively lower than those of other provinces in PRC. Thus, the Group sees favorable potential in increasing the quota of new students and the number of students.

2. *Increase in examination training fees*

   The Group obtains examination preparation and training fees from the preparation and training courses that it offers for professional qualification examinations and standardized tests. Both of which are expected to increase as the number of students increases. The Group intends to establish a driving school with a third party to satisfy the needs of teachers and students.

Strategic plan in respect of talents

The Group will further improve the team building system with an emphasis on pushing ahead with the work in relation to recruitment and training of the teams of management cadres, teachers and students management. The Group has planned and commenced the implementation of projects relating to the introduction of high-end innovative talents and talents specializing in new subjects that are in shortage with a view to facilitating the nurture and development of young talents and enhancing the quality of our talent pool.

The Group intends to continue to attract, incentivize and retain quality teachers and build a first-rate management team of the Group and faculty teams of schools. The Group adopted share option incentive scheme in 2018, the eligible persons under which cover the top management to core members in general level. The Group attaches great effort in continuously attracting high-level academic leaders, thus to maintain its core competitiveness.

Conclusion

Looking forward, the Group will further adhere to its belief "to nurture the growth of our students", thereby further "Promoting Education Development in China Innovatively". For the growth of our students and to achieve our dream of "become a respected first-class education group", the Group has made persistent efforts and united to move forward. By putting every effort on major tasks and continuously striving for improvements, the Group has gained enhancement and achievements in its implementation of key tasks, and strives to mark a new chapter for the development of the Group.

FINANCIAL REVIEW

Revenue

The Group's revenue increased by 17.0% from RMB212.6 million for the six months ended 30 June 2017 to RMB248.8 million for the six months ended 30 June 2018. This increase was primarily due to (i) increase in tuition fees by 16.9% from RMB196.9 million for the six months ended 30 June 2017 to RMB230.1 million for the six months ended 30 June 2018, which was attributable to higher student enrollments in Yunnan School and Guizhou School and the adjustment of tuition fee rates of newly admitted student by some majors in Guizhou School in 2017.

Cost of Sales

Cost of sales of principal business increased by 19.4% from RMB91.3 million for the six months ended 30 June 2017 to RMB109.0 million for the six months ended 30 June 2018. This increase was primarily due to the increase in number of staff of the Group and increased investment in teaching resources by Yunnan School leading to the corresponding increase in staff costs, together with the increase in accumulated depreciation caused by increment of fixed assets which were previously recorded as projects under construction of Yunnan School and Guizhou School in the second half of 2017.

Gross Profit and Gross Profit Margin

Gross profit increased by 15.3% from RMB121.3 million for the six months ended 30 June 2017 to RMB139.9 million for the six months ended 30 June 2018, which was in line with the growth of the Group's business. The gross profit margin decreased to 56.2% for the six months ended 30 June 2018 from 57.1% for the six months ended 30 June 2017, which was primarily due to the higher increase in costs compared with the increase in revenue as a result of rising staff costs.

Other Income and Gains

Other income and gains increased by 45.9% from RMB53.2 million for the six months ended 30 June 2017 to RMB77.6 million for the six months ended 30 June 2018. The increase was primarily due to the increase in service fees charged by Huihuang Company under the exclusive technical service and education consultancy service agreements entered into with the schools invested by the Group.

Selling and Distribution Expenses

Selling and distribution expenses increased from RMB2.26 million for the six months ended 30 June 2017 to RMB2.31 million for the six months ended 30 June 2018. This increase was primarily attributable to the investment in student recruitment promotion.

Administrative Expenses

Administrative expenses decreased by 32.1% from RMB31.8 million for the six months ended 30 June 2017 to RMB21.6 million for the six months ended 30 June 2018, primarily due to the decrease in listing expenses.

Other Expenses

Other expenses decreased from RMB3.7 million for the six months ended 30 June 2017 to RMB0.6 million for the six months ended 30 June 2018. The decrease was primarily due to the donation expenses of RMB2.8 million for the same period last year while we did not incur any for this year.

Finance Costs

Finance costs increased by 69.8% from RMB18.9 million for the six months ended 30 June 2017 to RMB32.1 million for the six months ended 30 June 2018, which was mainly due to the increase in interest expenses resulting from the loan granted by China Construction Bank in the amount of RMB300 million and the Hong Kong syndicated loan of HKD500 million in February 2018.

Profit before Tax

As a result of the foregoing, we recognized a profit before income tax of RMB160.8 million for the six months ended 30 June 2018, as compared to a profit before income tax of RMB117.8 million for the six months ended 30 June 2017, representing an increase of 36.5%.

Income Tax Expense

The Group's income tax expense increased from RMB7.5 million for the six months ended 30 June 2017 to RMB10.7 million for the six months ended 30 June 2018, which was primarily due to (1) the service fees from other income derived from the exclusive technical service and education consultancy service agreements charged by Huihuang Company, entered into with the schools invested by the Group, (2) service fees under the Structured Contracts, and (3) withholding income tax on dividend payout.

Profit for the Period

As a result of the above factors, the net profit of the Group was RMB150.0 million for the six months ended 30 June 2018, an increase of 36.1% as compared with RMB110.2 million for the six months ended 30 June 2017.

Adjusted Net Profit

Adjusted net profit for the six months ended 30 June 2018 increased by 15.4% to RMB92.8 million as compared with the six months ended 30 June 2017. Adjusted net profit margin was 37.3%.

	Six months ended 30 June	
	2018	2017
	RMB million	*RMB million*
Profit for the period		
Less:	**150.0**	110.2
Service income	**(62.5)**	(33.7)
Add: Income tax involved	**5.3**	3.9
	92.8	80.4

LIQUIDITY AND CAPITAL RESOURCES

The Group's primary uses of cash are to fund our working capital requirements, purchase of property, plant and equipment and loan repayment and related interest expenses. As at the date of this announcement, the Group has funded its operations principally with the cash generated from our operations, bank borrowings, shareholder contributions and net proceeds from Global Offering. In the future, the Group believes that our liquidity requirements will be satisfied with a combination of cash flows generated from our operating activities, bank loans, other borrowings and other funds raised from the capital markets from time to time. As of 30 June 2018, the Group had cash and cash equivalents of RMB569.1 million.

Cash flow

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

	Six months ended 30 June	
	2018	2017
	RMB million	*RMB million*
Net cash used in operating activities	**(154.4)**	(161.3)
Net cash used in investing activities	**(540.4)**	(76.7)
Net cash from financing activities	**1,144.3**	685.6
Effect of changes in exchange rate on cash and cash equivalents	**1.0**	(5.8)
Cash and cash equivalents at beginning of the period	**118.6**	178.8
Cash and cash equivalents at the end of the period	**569.1**	620.6

Cash Flows used in Operating Activities

The Group generates cash from operating activities primarily from tuition fees and boarding fees. Cash outflows for operating activities have reflected (i) profit before tax; (ii) movements in working capital; and (iii) other cash items consisting of income tax paid and interest received.

Cash Flows used in Investing Activities

Investing activities comprise primarily purchases of property, plant and equipment and intangible assets, prepaid land lease payments, proceeds from purchase and disposal of wealth management products, and pledged deposits or withdrawals of pledged time deposits.

Net cash used in investing activities amounted to RMB540.4 million for the six months ended 30 June 2018, which had primarily reflected the property, plant and equipment purchased by Yunnan School and Guizhou School, the investment prepayments for the acquisition of Henan School and Xinjiang School, and prepaid rental for the land lease.

Cash Flows from Financing Activities

Financing activities primarily include borrowing and repaying bank loans.

Net cash generated from financing activities amounted to RMB1,144.3 million for the six months ended 30 June 2018, which had primarily reflected the net new loans raised by the Group.

CAPITAL EXPENDITURES

The Group capital expenditures consisted of purchase or construction costs relating to property, equipment, prepaid land lease payments and other intangible assets. For the six months ended 30 June 2018, our capital expenditures were RMB370.7 million. The Group's capital expenditures during the six months ended 30 June 2018 were primarily related to the construction of buildings and school facilities at the new campus of Yunnan School, Guizhou School and Central China School, prepaid rental for the land lease and purchase of equipment and software by Yunnan School and Guizhou School. The Group financed these capital expenditures primarily using the cash generated from operations and bank loans.

Capital Commitments

The Group's capital commitments were primarily related to the balance payment for investments and acquisitions of new schools. The following table sets out a summary of our capital commitments as of the dates indicated:

	As of 30 June 2018	As of 31 December 2017
	RMB million	*RMB million*
Contracted but not provided for:		
Property, plant and equipment	**215.1**	30.9
Investments	**423.5**	124.0
	638.6	154.9

As of 30 June 2018, the Group had no significant capital commitment authorized but not contracted for.

INDEBTEDNESS

Bank Loans and Other Borrowings

The Group's bank loans and other borrowings primarily consisted of short-term working capital loans and long-term project loans for the construction of our school buildings and facilities.

The Group primarily borrows loans from banks to supplement our working capital and finance our expenditure. The bank loans amounted to RMB1,566.6 million as of 30 June 2018, all denominated in Renminbi.

Contingent Liabilities

As of 30 June 2018, the Group did not have any material contingent liabilities, guarantees or any litigations or claims of material importance, pending or threatened against any member of the Group.

Net Debt to Equity Ratio

Net debt to equity ratio equals total interest-bearing bank loans and other borrowings net of cash and cash equivalents at the end of the year divided by total equity at the end of the year. The Group's net debt to equity ratio increased from 13.5% as of 31 December 2017 to 54.7% as of 30 June 2018, which was primarily attributable to an increase in interest-bearing debts.

Gearing Ratio

Gearing ratio equals total debt divided by total equity as of the end of the year. Total debt includes all interest-bearing bank loans and other borrowings. The Group's gearing ratio increased from 20.4% as of 31 December 2017 to 85.9% as of 30 June 2018, which was primarily due to the increase in financing of RMB1,214 million in the first half of 2018 compared with that as of 31 December 2017.

FUTURE PLAN FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

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

SIGNIFICANT INVESTMENTS, ACQUISITIONS AND DISPOSALS

Save as disclosed in this announcement, there were no other significant investments held, no material acquisitions or disposals of subsidiaries, associates and joint ventures during the year, nor was there any plan authorized by the Board for other material investments or additions of capital assets during the six months ended 30 June 2018.

FOREIGN EXCHANGE RISK MANAGEMENT

The functional currency of the Group is RMB. The majority of the Group's revenue and expenditures are denominated in RMB. As at 30 June 2018, certain bank balances were denominated in USD and HKD. The Group currently does not have any foreign currency hedging policies. The management will continue to monitor the Group's foreign exchange risk exposure and consider adopting prudent measures as appropriate.

PLEDGE OF ASSETS

As at 30 June 2018, the Group did not pledge any assets.

HUMAN RESOURCES

As of 30 June 2018, the Group had approximately 2,109 employees (2,068 as of 31 December 2017). As required by the PRC laws and regulations, the Group participates in various employee social security plans for our employees that are administered by local governments, including housing, pension, medical insurance, maternity insurance and unemployment insurance. The Group believes that we maintain a good working relationship with our employees, and we have not experienced any material labor disputes during the period ended 30 June 2018.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As of the date of this announcement, the Group had not entered into any off-balance sheet transactions.

PAYMENT OF INTERIM DIVIDEND

The Board has resolved to recommend the payment of an interim dividend of RMB0.027 per Share for the six months ended 30 June 2018. The interim dividend will be declared in Renminbi and paid in Hong Kong dollars. The exchange rate adopted for conversion was the average middle exchange rate published by the People's Bank of China of the five business days prior to the declaration of the interim dividend (i.e. 24 August 2018 to 30 August 2018) (HK$1.0 to RMB0.870). Accordingly, the amount of the interim dividend payable in Hong Kong dollars will be HK$0.031 per Share.

The interim dividend will be paid on or about Tuesday, 2 October 2018 to the shareholders whose names appear on the register of members of the Company on Wednesday, 19 September 2018.

CLOSURE OF THE REGISTER OF MEMBERS

In order to be qualified for the interim dividend, the register of members of the Company will be closed by the Group from Saturday, 15 September 2018 to Wednesday, 19 September 2018, both days inclusive, during which period no transfer of shares of the Company will be effected. All share transfer documents accompanied by the relevant share certificates must be lodged with the Group's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Friday, 14 September 2018.

CORPORATE GOVERNANCE CODE

The Company is committed to the establishment of good corporate governance practices and procedures with a view to being a transparent and responsible organization which is open and accountable to the Shareholders. The Board strives for adhering to the principles of corporate governance and has adopted sound corporate governance practices to meet the legal and commercial standards, focusing on areas such as internal control, fair disclosure and accountability to all Shareholders to ensure the transparency and accountability of all operations of the Company. The Company believes that effective corporate governance is an essential factor to create more value for its Shareholders. The Board will continue to review and improve the corporate governance practices of the Group from time to time to ensure that the Group is led by an effective Board in order to optimize return for Shareholders.

For the six months ended 30 June 2018, the Company has complied with the Corporate Governance Code.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has also adopted the Model Code set out in Appendix 10 of the Listing Rules as its code of conduct regarding securities transactions by the Directors in March 2017.

Having made specific enquiry with all Directors of the Company, all Directors confirmed that they have complied with the required standard set out in the Model Code regarding directors' securities transactions for the six months ended 30 June 2018.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2018.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This interim results announcement is published on the websites of the Stock Exchange (www.hkex.com.hk) and the Company (http://www.xingaojiao.com). The interim report for the Period containing all the information required by Appendix 16 to the Listing Rules will be dispatched to shareholders of the Company and available on the same websites in due course.

DEFINITIONS

In this announcement, the following expressions shall have the following meanings unless the context requires otherwise:

"Articles of Association" or "Articles"	the articles of association of the Company adopted by the written resolution of the Shareholders on 20 March 2017 and as amended, supplemented and otherwise modified from time to time
"associate(s)"	has the meaning ascribed thereto under the Listing Rules
"Bei Ai Company"	Beijing Aiyinsheng Education Investment Co., Ltd.*（北京愛因生教育投資有限責任公司）, a limited liability company established under the laws of the PRC on 16 October 2012, and wholly owned by Yun Ai Group. Bei Ai Company will act as the school sponsor of the Northwest School upon the official establishment of the Northwest School
"Board"	the board of Directors of the Company

"Business Day" or "business day"	a day on which banks in Hong Kong are generally open for business to the public and which is not a Saturday, Sunday or public holiday in Hong Kong or Cayman Islands
"BVI"	British Virgin Islands
"Central China School"	Science and Technology College of Hubei Minzu University* (湖北民族學院科技學院), an institution of higher education established under the laws of the PRC in 2003. The results attributable to students admitted after the completion of the new campus of Central China School will be included in our results of operation
"China" or "PRC"	the People's Republic of China excluding for the purpose of this report, Hong Kong, Macau and Taiwan
"CIC Report"	China Insights Industry Consultancy Limited ("CIC"), an industry consulting company, was commissioned by the Company to conduct an industry research
"Companies Ordinance"	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
"Companies (WUMP) Ordinance"	Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
"Company"	China New Higher Education Group Limited (中國新高教集團有限公司), an exempted company incorporated in the Cayman Islands with limited liability on 8 July 2016
"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"Controlling Shareholder(s)"	has the meaning ascribed to it under the Listing Rules and unless the context requires otherwise, refers to the controlling shareholders of the Company, namely Aspire Education Technology, Aspire Education Management, Aspire Education Consulting, Aspire Education International and Mr. Li
"Corporate Governance Code"	code on corporate governance practices contained in Appendix 14 to the Listing Rules

"Director(s)"	the director (s) of the Company
"Directors' Powers of Attorney"	the school directors' power of attorney executed by each of the directors of each PRC Operating School dated 8 September 2016
"Gansu College"	College of Technology and Engineering* (蘭州理工大學技術工程學院), an independent institution of higher education established under the laws of the PRC in 2004
"Guizhou School"	Guizhou Technology and Business Institute* (貴州工商職業學院), a private institution of formal higher education established under the laws of the PRC on 3 July 2012, of which the school sponsor's interest is wholly owned by Yun Ai Group and a consolidated affiliated entity of the Company
"Henan School"	Luoyang Science and Technology Vocational College* (洛陽科技職業學院), a private institution of formal higher education established under the laws of the PRC in June 2013
"HK$""HKD" and "cents"	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
"HKFRS"	Hong Kong Financial Reporting Standards
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the PRC
"Huihuang Company"	Tibet Daai Huihuang Information and Technology Co., Ltd.* (西藏大愛輝煌信息科技有限公司), a limited liability company established on 5 August 2016 under the laws of the PRC, which is wholly owned by Aspire Education Holding
"Listing"	the listing of our Shares on the Main Board of the Stock Exchange
"Listing Date"	19 April 2017
"Listing Rules"	The Rules Governing the Listing of Securities on the Main Board of the Stock Exchange
"Loan Agreement"	a loan agreement entered into by and among Huihuang Company, the PRC Operating Schools, and Yun Ai Group dated 8 September 2016

"Minzu College"	Hubei Minzu University*(湖北民族學院), a stateowned higher education institution established under the laws of the PRC
"Model Code"	the model code for securities transactions by directors of listed issuers as set out in Appendix 10 of the Listing Rules
"MOE"	the Ministry of Education of the PRC
"Northeast School"	Harbin Huade University *(哈爾濱華德學院), an independent institute established under the laws of the PRC in 2004. Northeast School will be a consolidated affiliated entity of the Company pending final approval of the MOE and registration with the provincial civil affairs authorities and following the execution of the structured contracts with Huihuang Company
"Northwest School"	Northwest Technology and Business Institute*(西北工商職業學院), a private institution of higher education college to be established under the laws of the PRC, of which the school sponsor's interest will be wholly-owned by Bei Ai Company after the official establishment of the Northwest School
"PRC Consolidated Affiliated Entities"	namely, our School Sponsors and our PRC Operating Schools, each a consolidated affiliated entity of our Company
"PRC Operating Schools"	our consolidated affiliated entities, entities of the Group, namely, Yunnan School and Guizhou School
"Prospectus"	the prospectus of the Company dated 5 April 2017
"RMB"	Renminbi, the lawful currency of the PRC
"School Sponsors"	the current school sponsor, Yun Ai Group, and the future school sponsors, Haxuan Company, Enchang Company and Bei Ai Company
"School Sponsors' and Directors' Rights Entrustment Agreement"	the school sponsors' and directors' rights entrustment agreement entered into by and among Yun Ai Group, Bei Ai Company, the PRC Operating Schools, the directors of each PRC Operating School and Huihuang Company dated 8 September 2016
"School Sponsors' Powers of Attorney"	the school sponsors' power of attorney executed by the School Sponsors in favor of Huihuang Company dated 8 September 2016

"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended and supplemented from time to time
"Share(s)"	ordinary share(s) of US$0.0001 each in the share capital of the Company
"Shareholder(s)"	the shareholder(s) of the Company
"Shareholders' Powers of Attorney"	the shareholders' power of attorney executed by the Registered Shareholders and Yun Ai Group in favor of Huihuang Company dated 8 September 2016
"Shareholders' Rights Entrustment Agreement"	the shareholders' rights entrustment agreement entered into by and among the Registered Shareholders, the School Sponsors and Huihuang Company dated 8 September 2016
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Structured Contracts"	collectively, the Business Cooperation Agreement, the Exclusive Technical Service and Management Consultancy Agreement, the Exclusive Call Option Agreement, the Equity Pledge Agreement, the Shareholders' Rights Entrustment Agreement, the School Sponsors' and Directors' Rights Entrustment Agreement, the School Sponsors' Powers of Attorney, the Directors' Powers of Attorney, the Shareholders' Powers of Attorney, the Loan Agreement and the Spouse Undertakings
"subsidiary(ies)"	has the meaning ascribed to it under the Listing Rules. For the avoidance of doubt, the Subsidiaries include the PRC Operating Schools and the School Sponsors
"substantial Shareholder(s)"	has the meaning ascribed thereto under the Listing Rules
"Xinjiang School"	Xinjiang Institute of Finance & Economics*（新疆財經大學商務學院）, a private institution of formal higher education established under the laws of the PRC in 2003
"Xinjiang School Sponsor"	Xinjiang Institute of Finance & Economics*（新疆財經大學商務學院）, a private institution of formal higher education established under the laws of the PRC in 2003

"Yun Ai Group"	Yunnan Einsun Education Investment Group Co., Ltd.*（雲南愛因森教育投資集團有限公司）(formerly known as "Yunnan Einsun Investment Co., Ltd.*（雲南愛因森投資有限公司）" and "Yunnan Einsun Investment Group Co., Ltd.*（雲南愛因森投資集團有限公司）"), a limited liability company established under the laws of the PRC on 19 September 2005, which is owned as to 29.8806% by Mr. Li, 20.0568% by Pai Dui Pai, 5.7305% by Ba Mu Pu, 22.8102% by Daai Partnership, 1.2956% by Huihuang Investment, 1.32% by Chengxin Investment, 15.5265% by Shanghai Taifu and 3.3822% by Zhongyi Company. It is the school sponsor of the Yunnan School and the Guizhou School
"Yunnan School"	Yunnan Technology and Business University*（雲南工商學院）(formerly known as Yunnan Einsun Software Vocational College*（雲南愛因森軟件職業學院）("Software College")), a private institution of formal higher education established under the laws of the PRC on 29 September 2005, of which the school sponsor's interest is wholly owned by Yun Ai Group and a consolidated affiliated entity of the Company
"%"	per cent

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

Hong Kong, 31 August 2018

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