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CHINA CHUNLAI EDUCATION GROUP CO., LTD.

中國春來教育集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1969)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 AUGUST 2018

HIGHLIGHTS

The board (the “**Board**”) of directors (the “**Directors**”) of China Chunlai Education Group Co., Ltd. (the “**Company**”, together with its subsidiaries, the “**Group**”) is pleased to announce the audited consolidated annual results of the Group for the year ended 31 August 2018 (the “**Reporting Period**”). These audited annual results have been reviewed by the Company’s audit committee.

	Year ended 31 August		Change (%)
	2018	2017	
Revenue	487,791	460,889	+5.8%
Gross profit	283,428	290,846	-2.6%
Profit before taxation	119,773	151,649	-21.0%
Profit for the year	118,948	151,649	-21.6%
Non-IFRS measure:			
Adjusted net profit ¹	143,144	154,735	-7.5%

Note:

- (1) Adjusted net profit is calculated as profit for the year excluding (i) share-based compensation, and (ii) listing expenses.

Non-IFRS Measure

To supplement the Group's consolidated financial statements which are presented in accordance with the International Financial Reporting Standards ("IFRS"), the Company also uses adjusted net profit as an additional financial measure. The Company presents this financial measure because it is used by management of the Group to evaluate the Group's financial performance by eliminating the impact of items that the Group do not consider indicative of the performance of the Group's business. The Company also believes that this non-IFRS measure provides additional information to investors and others in understanding and evaluating the Group's consolidated results of operations in the same manner as they help management of the Group and in comparing financial results across accounting periods and to those of peer companies. However, the Company's presentation of such adjusted figure may not be comparable to a similarly titled measure presented by other companies. The use of this non-IFRS measure has limitations as an analytical tool, and you should not consider it in isolation from, or as substitute for analysis of, the Company's results of operations or financial condition as reported under IFRS.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 AUGUST 2018

	Notes	2018 RMB'000	2017 RMB'000
Revenue	4	487,791	460,889
Cost of revenue		<u>(204,363)</u>	<u>(170,043)</u>
Gross profit		283,428	290,846
Other income	5	9,891	7,150
Other gains and losses		(126)	(717)
Selling expenses		(3,988)	(4,234)
Administrative expenses		(65,313)	(60,784)
Listing expenses		(23,499)	(3,086)
Finance costs	6	<u>(80,620)</u>	<u>(77,526)</u>
Profit before tax		119,773	151,649
Income tax expense	7	<u>(825)</u>	<u>–</u>
Profit and total comprehensive income for the year		<u>118,948</u>	<u>151,649</u>
Profit and total comprehensive income for the year attributable to owners of the Company		<u>118,948</u>	<u>151,649</u>
Basic earnings per share (RMB cents)	9	<u>14</u>	<u>21</u>
Diluted earnings per share (RMB cents)	9	<u>14</u>	<u>N/A</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 AUGUST 2018

	<i>Notes</i>	2018 RMB'000	2017 RMB'000
Non-current assets			
Property, plant and equipment		878,131	707,306
Prepaid lease payments		354,499	351,101
Prepayment for cooperation agreements		100,000	100,000
Other non-current assets		142,058	42,962
		1,474,688	1,201,369
Current assets			
Trade and other receivables	<i>10</i>	47,443	34,397
Amount due from the shareholder		7	–
Amounts due from related parties		–	172,448
Prepaid lease payments		8,387	8,150
Restricted bank balance		–	100,000
Bank balances and cash		544,620	267,344
		600,457	582,339
Current liabilities			
Deferred revenue		358,366	195,776
Other payables and accrued expenses	<i>11</i>	169,014	108,321
Income tax payable		825	–
Amount due to a related party		–	2,100
Borrowings		265,353	473,824
		793,558	780,021
Net current liabilities		(193,101)	(197,682)
Total assets less current liabilities		1,281,587	1,003,687
Non-current liabilities			
Amount due to a related party		–	40,000
Borrowings		686,753	518,505
		686,753	558,505
Net assets		594,834	445,182
Capital and reserves			
Share capital/paid-in-capital	<i>12</i>	7	112,600
Reserves		594,827	332,582
Total equity		594,834	445,182

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 AUGUST 2018

1. GENERAL

The Company was incorporated as an exempted company with limited liability under the Companies Law of the Cayman Islands on 15 November 2017. The registered office address of the Company is Cayman Corporate Centre, 27 Hospital Road, George Town, Grand Cayman KY1-9008, Cayman Islands and the address of principal place of business of the Company is 40/F, Sunlight Tower, 248 Queen's Road East, Wanchai, Hong Kong. Its parent is Chunlai Investment Co., Limited ("Chunlai Investment"), which was incorporated in the British Virgin Islands and its ultimate controlling shareholder is Mr. Hou Jun Yu ("Mr. Hou"). The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 13 September 2018 (the "Listing").

The Company is an investment holding company. The principal activities of its subsidiaries are mainly engaged in the operation of private higher education institutions. The Company and its subsidiaries are collectively referred to as the "Group".

The consolidated financial statements are presented in Renminbi ("RMB"), which is the same as the functional currency of the Group.

2. GROUP REORGANIZATION AND BASIS OF PREPARATION

Prior to the incorporation of the Company and the completion of the reorganisation, the main operating activities of the Group were carried out by Henan Shangqiu Chunlai Education Corporation 河南商丘春來教育集團("Henan Chunlai") and its wholly sponsored schools, including Anyang University 安陽學院, Shangqiu University 商丘學院 and Shangqiu University Applied Science and Technology College 商丘學院應用技術學院 ("Kaifeng Campus"), collectively referred as the "Consolidated Affiliated Entities", which were established in the PRC and are engaged in operation of private higher education. Henan Chunlai was controlled by Mr. Hou.

In preparation for the listing of the Company's shares on the Main Board of the Stock Exchange the Company underwent a series of reorganisation (the "Group Reorganisation") as below:

- (1) In November 2017, December 2017 and January 2018, the Company incorporated its wholly owned subsidiaries, including China Chunlai Education (BVI) Limited ("Chunlai BVI"), China Chunlai Education (Hong Kong) Limited ("Chunlai Hong Kong") and Henan Chunlai Education Information Consultancy Co., Ltd. ("Chunlai Information") respectively.
- (2) In August 2017, Mr. Hou established a limited liability company in the People's Republic of China (the "PRC"), named Henan Chunlai Education Technology Co., Ltd. ("Chunlai Technology"), which became a sponsor of Henan Chunlai by acquiring 1% interest in Henan Chunlai.
- (3) Chunlai Technology entered into agreements with the holders of the remaining 99% interest in Henan Chunlai, and assumed management responsibility in Henan Chunlai and became entitled to appoint members of the board of directors of Henan Chunlai.

Due to the restrictions imposed by the relevant laws and regulatory regime of the PRC on foreign ownership of companies engaged in the business carried out by the Consolidated Affiliated Entities, the Company has entered into, via Chunlai Information, various agreements with the Consolidated Affiliated Entities, Chunlai Technology, Mr. Hou and the remaining interest holders of Henan Chunlai (the "Structured Contracts"), which, effective from 22 February 2018, enable Chunlai Information and the Company to:

- exercise effective financial and operational control over the Consolidated Affiliated Entities and Chunlai Technology;
- exercise equity holders' voting rights of the Consolidated Affiliated Entities and Chunlai Technology;
- receive substantially all of the economic interest returns generated by the Consolidated Affiliated Entities and Chunlai Technology in consideration for the business support, technical and management consultancy services provided by Chunlai Information;

- obtain an irrevocable and exclusive right to purchase all or part of the interests in Chunlai Technology and/or any assets that are held by the Consolidated Affiliated Entities at the lowest purchase price permitted under PRC laws and regulations and exercise such right from time to time in the event that PRC laws and regulations permit;
- prevent the Consolidated Affiliated Entities and Chunlai Technology and their sponsor interests or equity holders to sell, assign, transfer, or otherwise dispose of or create encumbrance over their interests in the equity and/or the assets of the Consolidated Affiliated Entities and Chunlai Technology without prior consent of Chunlai Information;
- prevent the Consolidated Affiliated Entities and Chunlai Technology from making any distributions to their equity holders without prior consent of Chunlai Information.

The Company does not have any equity interest in the Consolidated Affiliated Entities and Chunlai Technology. However, the Structured Contracts enable the Company to have the power over the Consolidated Affiliated Entities and Chunlai Technology, rights to variable returns from its involvement with the Consolidated Affiliated Entities and Chunlai Technology and the ability to affect those returns through its power over the Consolidated Affiliated Entities and Chunlai Technology. Consequently, the Company regards the Consolidated Affiliated Entities and Chunlai Technology as indirect subsidiaries. The Group comprising the Company and its subsidiaries (including the Consolidated Affiliated Entities and Chunlai Technology) is regarded as a continuing entity.

3. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”)

The Group has consistently applied all the International Accounting Standards (“IASs”), IFRSs issued by the International Accounting Standards Board (“IASB”), amendments and the related interpretations (“IFRICs”), which are effective for the accounting period beginning on 1 September 2017.

4. REVENUE AND SEGMENT INFORMATION

The Group is mainly engaged in the provision of private higher education services in the PRC. Revenue represents service incomes from tuition and boarding fees less sales related tax.

Information reported to the Group’s chief operating decision maker (“CODM”), Mr. Hou, for the purpose of resource allocation and assessment of segment performance is on a school by school basis. Each individual school constitutes an operating segment. The services provided and type of customers are similar in each operating segment, and each operating segment are subject to similar regulatory environment. Accordingly, their segment information is aggregated as a single reportable segment which is the same as the statements of profit or loss and other comprehensive income as disclosed on page 2. The accounting policies of the reportable segment are the same as the Group’s accounting policies.

The revenue attributable to the Group’s service lines are as follows:

	2018 <i>RMB’000</i>	2017 <i>RMB’000</i>
Tuition fees	435,677	415,686
Boarding fees	52,114	45,203
Total revenue	487,791	460,889

Major customers

No single customer contributes 10% or more of total revenue of the Group during the year ended 31 August 2018 (2017: nil).

Geographical information

The Group primarily operates in the PRC. All of the Group’s revenue was generated in the PRC and all of the Group’s non-current assets are located in the PRC.

5. OTHER INCOME

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Government grants (<i>Note</i>)	1,896	1,921
Academic administrative income	957	1,916
Interest income	3,591	3,190
Service income	3,302	–
Others	145	123
	<u>9,891</u>	<u>7,150</u>

Note: Government grants mainly represent unconditional subsidies from government for recognition of the relevant academic performance of the schools of the Group.

6. FINANCE COSTS

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Interest expense in relation to:		
– Bank borrowings	31,630	29,247
– Borrowing from non-banking institutes	48,821	42,506
– Loan from a related party	169	4,812
– Loan from third parties	–	961
	<u>80,620</u>	<u>77,526</u>

7. INCOME TAX EXPENSE

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Current tax-PRC Enterprise Income Tax (“EIT”)	<u>825</u>	<u>–</u>

8. DIVIDENDS

No dividends has been paid or proposed by the Company during the year ended 31 August 2018 (2017: nil), nor has any dividend been proposed subsequent to 31 August 2018.

9. EARNINGS PER SHARE

	2018	2017
Earnings:		
Earnings for the purpose of calculating basic and diluted earnings per share (Profit attributable to the owners of the Company) (in RMB'000)	118,948	151,649
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic and diluted earnings per share	<u>878,212,838</u>	<u>710,659,187</u>

The calculation of the basic earnings per share attributable to the owners of the Company for the years ended 31 August 2018 and 2017 is based on the consolidated profit attributable to the owners of the Company and the weighted average number of shares outstanding, taking into account the share allotment as described in note 12, the capital injection during the year ended 31 August 2018 and after retrospective adjustments on the assumption that the Group Reorganisation (as defined in Note 2) had been in effect at 1 September 2016.

The computation of diluted earnings per share does not assume the exercise of the Company's share options granted under the Pre-IPO Option Scheme as the potential ordinary shares are anti-dilutive for the year ended 31 August 2018.

No diluted earnings per share for the year ended 31 August 2017 was presented as there were no dilutive potential ordinary shares in issue during the year.

10. TRADE AND OTHER RECEIVABLES

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Tuition and boarding fee receivables	12,339	10,504
Third party payment platform receivables	22,920	–
Other receivables	1,031	1,971
Refundable deposit for purchase of new office	–	20,200
Deferred share issue costs	8,115	1,029
Prepaid expenses	2,938	593
Deposits	100	100
	<u>47,443</u>	<u>34,397</u>

The following is an ageing analysis of tuition and boarding fee receivables at the end of the reporting period.

	2018	2017
Ageing of tuition and boarding fee receivables		
0-30 days	11,512	10,483
181-365 days	819	21
More than 1 year	8	–
Total	<u>12,339</u>	<u>10,504</u>

11. OTHER PAYABLES AND ACCRUED EXPENSES

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Accrued annual fee	–	17,711
Interest payables	8,743	9,433
Accrued staff benefits and payroll	17,671	14,508
Payables for purchase of property, plant and equipment and construction	73,988	25,146
Receipt on behalf of ancillary services providers	19,033	16,417
Other payables, accruals, and deposits received	30,207	14,452
Other taxes payables	7,513	7,454
Accrued share issue costs/listing expenses	11,859	3,200
	<u>169,014</u>	<u>108,321</u>

12. SHARE CAPITAL/PAID-IN CAPITAL

The paid-in-capital of the Group presented as at 31 August 2017, represented the paid-in-capital of Henan Chunlai prior to the completion of the Group Reorganisation as stipulated in Note 2 of the consolidated financial statements. The share capital as at 31 August 2018 represented the share capital of the Company.

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 15 November 2017 with an authorised share capital of HK\$500,000 divided into 50,000,000,000 shares with par value of HK\$0.00001. On the same date, Chunlai Investment acquired one share in the Company at par value and 899,999,999 shares were further issued and allotted to Chunlai Investment as fully-paid at par value with a share capital of HK\$9,000 on 12 February 2018.

	Number of shares	Amount <i>HK\$</i>	Amount <i>RMB</i>	Show in the Consolidated Financial Statements <i>RMB'000</i>
Ordinary shares of HK\$0.00001 each				
Authorised				
At 15 November 2017 (date of incorporation) and 31 August 2018	50,000,000,000	500,000	424,570	N/A
Issued and fully paid				
At 15 November 2017 (date of incorporation)	1	–	–	N/A
Issue of shares on 12 February 2018	899,999,999	9,000	7,251	7
As at 31 August 2018	<u>900,000,000</u>	<u>9,000</u>	<u>7,251</u>	<u>7</u>

13. EVENTS AFTER THE REPORTING PERIOD

The following event took place subsequent to the reporting date:

On 13 September 2018, the Company issued 300,000,000 shares to the public at a price of HK\$2.08 per share, which were listed on the Stock Exchange on the same date.

MANAGEMENT DISCUSSION AND ANALYSIS

Market Overview

Formal education system in the PRC comprises fundamental education, which includes education from preschool to high school, secondary vocational education and higher education. Formal higher education can be further categorised into junior colleges and universities. Junior colleges only offer junior college programmes while universities can offer both junior college programmes and bachelor's degree programmes.

The Private Higher Education Industry in China

The private higher education industry in China has experienced rapid growth since the beginning of the 1990s as the relevant government authorities made great endeavour in developing the regulatory framework for private higher education, according to Frost & Sullivan. The number of student enrolments in private higher education in China has continued to increase in recent years, with more and more students having chosen to go to private universities or colleges instead of public schools. According to Frost & Sullivan, the total number of private higher education institutions in China reached 746 in 2017, and the development of private higher education is primarily driven by a number of factors, including (i) support by PRC government policies and initiatives; (ii) increasing resident income and demand for higher education; (iii) growing market demand for technical talents; and (iv) increasing diversification and strengthened education quality. With the help of these factors, the rapid growth in higher education in China is expected to continue, the private higher education landscape remains competitive.

Business Review

The Company is one of the leading providers of private higher education in China. Since our inception in 2004, we have grown to operate three colleges in Henan Province, namely Shangqiu University, Anyang University and Shangqiu University Kaifeng Campus, and participate in the operation of Hubei College, an independent college of Yangtze University in Hubei Province and which we are in the process of acquiring its sponsor interest. We believe that we have strong potential to further grow our business, and the private higher education market in China presents many market opportunities.

Our employment-oriented curricula are focused on equipping our students with practicable skills that meet the demand of economic development in China. The effectiveness of our practical curricula and training programmes is reflected in our high graduate employment rates. For the 2016/2017 and 2017/2018 school years, the average initial employment rate of our higher education programmes was 94.1% and 93.8%, respectively, substantially above the overall average for higher education in China, which was between 77.4% and 78.4% from 2013 through 2017, according to Frost & Sullivan.

Our Colleges

Shangqiu University

Shangqiu University is located in Shangqiu, Henan Province. The predecessor of Shangqiu University was Huayu College of Henan Agricultural University (河南農業大學華豫學院), which we co-founded with Henan Agricultural University in 2004. Shangqiu University currently offers 46 bachelor's degree programmes, 20 junior college to bachelor's degree transfer programmes, 32 junior college diploma programmes, 14 combined vocational education and junior college diploma programmes and 32 vocational education programmes. Shangqiu University has also been approved to offer double-major bachelor's degree programmes in marketing, Chinese language and literature, and economics. For the 2017/2018 school year, Shangqiu University had a total enrolment of 19,249 students.

In April 2017, Shangqiu University established Chunlai Institute, a two-year honours programme that aims to promote comprehensive and individualised education of its select students. Chunlai Institute offers courses in, among others, management, world history, introduction to traditional Chinese culture, conversational English and art. To increase the competitiveness of its enrolees, Chunlai Institute also offers courses that prepare students for graduate school entrance exams and civil service exams.

Anyang University

Anyang University is located in Anyang, Henan Province. The predecessor of Anyang University was College of Humanities and Management of Anyang Normal University (安陽師範學院人文管理學院) (the “**College of Humanities and Management**”), which was co-founded by Anyang Normal University and Anyang Iron and Steel Group in 2003. Anyang University currently offers 38 bachelor's degree programmes, 25 junior college to bachelor's degree transfer programmes, 25 junior college diploma programmes, 18 combined vocational education and junior college diploma programmes and five vocational education programmes. For the 2017/2018 school year, Anyang University had a total enrolment of 19,524 students.

Shangqiu University Kaifeng Campus

Shangqiu University Kaifeng Campus is located in Kaifeng, Henan Province. It was established in 2013 as a branch college (下屬學院) of Shangqiu University. Shangqiu University Kaifeng Campus currently offers 17 bachelor's degree programmes, six junior college to bachelor's degree transfer programmes and eight junior college diploma programmes. For the 2017/2018 school year, Shangqiu University Kaifeng Campus had a total enrolment of 6,437 students.

Student Enrolment

The table below sets forth the enrolment statistics of our colleges for the 2016/2017 and 2017/2018 school years:

	Student enrolment ⁽¹⁾ for the school year		Change (%)
	2017/2018	2016/2017	
Shangqiu University			
Bachelor's degree programmes	9,776	10,052	-2.7%
Junior college to bachelor's degree transfer programmes	1,150	1,010	13.9%
Junior college diploma programmes ⁽²⁾	5,717	6,354	-10.0%
Vocational education programmes ⁽³⁾	2,606	1,978	31.7%
School subtotal	19,249	19,394	-0.5%
Anyang University			
Bachelor's degree programmes	11,512	11,783	-2.3%
Junior college to bachelor's degree transfer programmes	1,680	1,474	14.0%
Junior college diploma programmes ⁽²⁾	3,529	3,472	1.6%
Vocational education programmes ⁽³⁾⁽⁴⁾	2,803	1,622	72.8%
School subtotal	19,524	18,351	6.4%
Shangqiu University Kaifeng Campus			
Bachelor's degree programmes ⁽⁵⁾	4,995	3,637	37.3%
Junior college to bachelor's degree transfer programmes ⁽⁶⁾	396	–	N/A
Junior college diploma programmes ⁽⁷⁾	1,046	812	28.8%
School subtotal	6,437	4,449	44.7%
Total number of students	45,210	42,194	7.1%

Notes:

- (1) As our school year typically ends in late June or early July, we present student enrolment statistics as of 30 June for the 2016/2017 and 2017/2018 school years.
- (2) Including (i) students enrolled in junior college diploma programmes and (ii) students enrolled in the last three years of combined vocational education and junior college diploma programmes.
- (3) Including (i) students enrolled in vocational education programmes and (ii) students enrolled in the first two years of combined vocational education and junior college diploma programmes.
- (4) Anyang University started its vocational education programmes and combined vocational education and junior college diploma programmes in 2016.

- (5) Shangqiu University Kaifeng Campus started its bachelor's degree programmes in 2013. Consequently, the 2016/2017 school year was the first school year when it had students enrolled in all four class years of its bachelor's degree programmes.
- (6) Shangqiu University Kaifeng Campus started its junior college to bachelor's degree transfer programmes in 2017.
- (7) Shangqiu University Kaifeng Campus started its junior college diploma programmes in 2013. Consequently, the 2015/2016 school year was the first school year when it had students enrolled in all three class years of its junior college diploma programmes.

For the 2017/2018 school year, students enrolled in bachelor's degree programmes of Shangqiu University and Anyang University decreased slightly from the 2016/2017 school year because we allocated part of their admission quotas to Shangqiu University Kaifeng Campus, as approved by or filed with relevant local education authorities.

The Group believes the educational philosophies of its schools and its well-developed curriculums as well as its high graduate employment rates enable the Group to attract high-quality students who are seeking a pathway to satisfactory employment. In addition, 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.

Student Recruitment

Our new student enrolment has historically been driven primarily by word-of-mouth referrals. We believe we generally have a good reputation in providing high quality education services among our students and their parents. In addition, after over 13 years of operations, we have built a highly engaged and vibrant community of alumni, who we believe have an emotional connection to our colleges and are passionate in helping us attract outstanding students. Other than referrals, we also employ a range of marketing and recruiting methods to attract students and increase enrolment at our colleges, such as information sessions, advertisements and brochures.

Our recruitment efforts, coupled with the quality and reputation of our education programmes, have helped us achieve high admission yields. For example, for the 2017/2018 school year, the overall yield of our three colleges, as defined by the number of students who enrolled in a programme divided by the number of students who were admitted in that programme, was 91.2% for our bachelor's degree programmes.

Our Teachers

We believe that our team of experienced and dedicated teachers are crucial to our success. As an operator of private schools, we can provide better incentives to qualified teachers who fit our hiring criteria. Teachers are the key to maintaining high-quality educational programmes and services as well as maintaining our brand and reputation. Our aim is to continue hiring teachers with a strong command of their respective subject areas who are open to innovative teaching methods and a caring heart towards students' well-being. As of 31 August 2018, we had 1,234 full time teachers and 710 part-time teachers.

Future Development

In order to continuously increase our total enrolment, we plan to acquire additional land use rights and construct new educational and living facilities. We consider that the increase in capacity under the expansion plan is essential to accommodate our growth strategy of increasing student enrolment going forward. Each of our colleges generally requires its students to live on campus in dormitories. Therefore, a college's student enrolment is largely limited by the capacity of its student dormitories. Taking into account of the gender specificity of our student dormitories and the gender mix of our students, there is currently limited capacity for a significant growth in student enrolment. We expect to increase the capacity of our colleges progressively to strike a reasonable balance between student enrolment and utilisation. We believe the planned increase in capacity is appropriate and will enable our colleges to grow sustainably.

We consider that, given our track record of delivering quality private higher education and industry reputation, the education authorities in the PRC will be receptive to our application for increasing admission quota provided that we are able to demonstrate that we have sufficient school capacity, appropriate facilities available and quality education programmes to offer, which are among the key objectives of our expansion plans.

Financial Review

Overview

For the year ended 31 August 2018, we recorded a revenue of RMB487.8 million and a gross profit of RMB283.4 million. The gross profit margin was 58.1% for the year ended 31 August 2018 as compared with 63.1% for the corresponding period in 2017.

The adjusted net profit of the Group for the year ended 31 August 2018 was RMB143.1 million, representing a decrease of RMB11.6 million or 7.5% from the corresponding period in 2017. The adjusted net profit margin of the Group was 29.3% and 33.6% for the years ended 31 August 2018 and 31 August 2017, respectively. The decrease in the adjusted net profit was mainly due to the increase in staff cost in Shangqiu College.

The net profit of the Group amounted to RMB118.9 million and RMB151.6 million for the years ended 31 August 2018 and 31 August 2017, respectively. The net profit margin of the Group amounted to 24.4% and 32.9% for the years ended 31 August 2018 and 31 August 2017, respectively.

Revenue

Our revenue increased by 5.8% from RMB460.9 million for the year ended 31 August 2017 to RMB487.8 million for the year ended 31 August 2018, primarily due to the increase of the Group's student enrollment and average tuition fees.

Revenue from Shangqiu University Kaifeng Campus increased by 40.6% from RMB57.6 million for the year ended 31 August 2017 to RMB80.9 million for the year ended 31 August 2018. The increase was primarily due to an increase in student enrolment from 4,449 for the 2016/2017 school year to 6,437 for the 2017/2018 school year. As Shangqiu University Kaifeng Campus increased its capacity from 5,430 for the 2016/2017 school year to 7,848 for the 2017/2018 school year, it received a significantly larger admission quota for the 2017/2018 school year, which was the primary reason for the increase in its student enrolment. In addition, Shangqiu University Kaifeng Campus started its junior college to bachelor's degree transfer programmes in the 2017/2018 school year, which also contributed to the increase in its student enrolment. The increase in revenue from Shangqiu University Kaifeng Campus was also due to an increase in the average tuition fee level, as Shangqiu University Kaifeng Campus increased the average tuition fee rate applicable to students newly admitted in the 2017/2018 school year.

Revenue from Anyang University increased by 2.3% from RMB205.4 million for the year ended 31 August 2017 to RMB210.1 million for the year ended 31 August 2018. The increase was primarily due to an increase in student enrolment from 18,351 for the 2016/2017 school year to 19,524 for the 2017/2018 school year. As Anyang University increased its capacity from 19,604 for the 2016/2017 school year to 20,528 for the 2017/2018 school year, it received a larger admission quota for the 2017/2018 school year, which contributed to the increase in its student enrolment. The increase in revenue from Anyang University was also due to an increase in the average tuition fee level, as Anyang University increased the average tuition fee rate applicable to students newly admitted in the 2017/2018 school year.

Revenue from Shangqiu University decreased by 0.6% from RMB198.0 million for the year ended 31 August 2017 to RMB196.8 million for the year ended 31 August 2018. The decrease was primarily due to Shangqiu University allocated part of its admission quotas to Shangqiu University Kaifeng Campus, as approved by or filed with relevant local education authorities.

Overall, revenue from tuition fees and boarding fees increased by 4.8% and 15.3%, respectively from the year ended 31 August 2017 to the year ended 31 August 2018.

Cost of Revenue

Our cost of revenue increased by 20.2% from RMB170.0 million for the year ended 31 August 2017 to RMB204.4 million for the year ended 31 August 2018. As a percentage of revenue, our cost of revenue increased from 36.9% for the year ended 31 August 2017 to 41.9% for the year ended 31 August 2018. These increases were primarily due to an increase in teaching staff costs, as we increased the number of teachers in each of our colleges to continuously improve our education quality and accommodate the increase in our student enrolment.

Gross Profit and Gross Margin

As a result of the foregoing, our gross profit decreased by 2.6% from RMB290.8 million for the year ended 31 August 2017 to RMB283.4 million for the year ended 31 August 2018, and our gross profit margin decreased from 63.1% for the year ended 31 August 2017 to 58.1% for the year ended 31 August 2018.

Other Income

Our other income increased by 38.3% from RMB7.2 million for the year ended 31 August 2017 to RMB9.9 million for the year ended 31 August 2018, primarily because we started to generate service income from a third-party meal catering service provider, which amounted to RMB3.3 million for the year ended 31 August 2018.

Other Gains and Losses

We recorded other losses of RMB0.7 million for the year ended 31 August 2017, while we recorded other losses of RMB0.1 million for the year ended 31 August 2018. The other losses for the year ended 31 August 2017 were primarily attributable to miscellaneous charges.

Selling Expenses

Our selling expenses decreased by 5.8% from RMB4.2 million for the year ended 31 August 2017 to RMB4.0 million for the year ended 31 August 2018, primarily because we established long-term cooperation with some fixed advertisers to enjoy discounts.

Administrative Expenses

Our administrative expenses increased by 7.5% from RMB60.8 million for the year ended 31 August 2017 to RMB65.3 million for the year ended 31 August 2018, primarily due to increases in depreciation and amortization.

Listing Expenses

We recorded listing expenses of RMB23.5 million for the year ended 31 August 2018 in connection with the Global Offering. We recorded RMB3.1 million listing expenses for the year ended 31 August 2017.

Finance Costs

Our finance costs increased by 4.0% from RMB77.5 million for the year ended 31 August 2017 to RMB80.6 million for the year ended 31 August 2018, primarily due to an increase in the average amount of borrowings.

Taxation

We recorded nil taxation for the year ended 31 August 2017 due to applicable exemptions. However, we recorded RMB0.8 million for the year ended 31 August 2018 due to service revenue in other income.

Profit for the Year

As a result of the foregoing, our profit for the year decreased by 21.6% from RMB151.6 million for the year ended 31 August 2017 to RMB118.9 million for the year ended 31 August 2018.

Adjusted Net Profit

Our adjusted net profit decreased by 7.5% from RMB154.7 million for the year ended 31 August 2017 to RMB143.1 million for the year ended 31 August 2018.

Liquidity and Source of Funding and Borrowing

As at 31 August 2018, the Company had funded the Group's cash requirements principally from cash generated from our operation and external borrowings. The Company had cash and cash equivalents of RMB267.3 million and RMB544.6 million as of 31 August 2017 and 2018, respectively. The Company generally deposit the Group's excess cash in interest bearing bank accounts and current accounts.

As at 31 August 2018, the Group's principal uses of cash have been for the funding of required working capital, capital expenditures and other recurring expenses to support the expansion of the Group's operations. Going forward, the Company believes the liquidity requirements will be satisfied by using funds from a combination of internally generated cash, external borrowings, proceeds from the initial public offering and other funds raised from the capital markets from time to time. Any significant decrease in the student enrolment, or our tuition fees and boarding fees, or a significant decrease in the availability of bank loans or other financing may adversely impact the Group's liquidity.

Gearing Ratio

As at 31 August 2018, the gearing ratio of the Group, which was calculated as total borrowings divided by total equity as of the end of the year, was approximately 160.1%, representing a decrease of 62.8% percentage point(s) as compared with 222.9% as at 31 August 2017. The decrease was due to the fact that the Group partly repaid interest-bearing loans during the year ended 31 August 2018 and an increase in retained earnings.

Material Investments

The Group did not make any material investments during the year ended 31 August 2018.

Material Acquisitions and Disposals

Save for the Group reorganisation as described in the section headed "History, Reorganisation and Corporate Structure" in the prospectus of the Company dated 31 August 2018 (the "**Prospectus**"), the Group did not make any material acquisitions or disposals of subsidiaries during the year ended 31 August 2018.

Pledge of Assets

As at 31 August 2018, a bank loan of the Group with carrying amount of RMB19,035,000 was secured under a mortgage arrangement over the Group's office premises located in Zhengzhou to be acquired.

Contingent Liabilities

The Group had no material contingent liabilities as at 31 August 2018.

Foreign Exchange Exposure

During the year ended 31 August 2018, the Group mainly operated in the People's Republic of China (the "PRC") and majority of the transactions were settled in Renminbi ("RMB"), the functional currency of the Group. As at 31 August 2018, the Group did not have significant foreign currency exposure from its operations.

Future Plans for Material Investments

Except as disclosed in the Prospectus and this annual results announcement, the Company has no other plans for material investments or capital assets.

Employee and Remuneration Policy

As of 31 August 2017 and 2018, we had 2,275 and 2,897 employees, respectively. As of 31 August 2018, all of our employees were located in Henan Province. The following table sets forth the total number of employees by function as of 31 August 2018:

Function	Number of employees	% of total
Teachers	1,944 ⁽¹⁾	67
Administrative staff	379	13
Ancillary teaching staff ⁽²⁾	270	9
Other staff	304	11
Total	2,897	100

Notes:

- (1) Including 1,234 full-time teachers and 710 part-time teachers.
- (2) Ancillary teaching staff includes employees providing assistance in academic activities, such as librarians, laboratory assistants and equipment maintenance staff members.

As required by the PRC laws and regulations, we participate in various employee social security insurance plans for our employees that are administered by local governments, including, among others, housing provident fund, retirement insurance, medical insurance, maternity insurance, employment injury insurance and unemployment insurance. According to the relevant laws and regulations in the PRC, the amount we are required to contribute for each of our employees under such plans should be calculated based on the employee's actual salary level of previous year, and be subject to a minimum and maximum level as from time to time prescribed by local authorities.

The Company has also adopted a Pre-IPO share option scheme and a share award scheme.

EVENTS AFTER THE REPORTING PERIOD

On 13 September 2018, the shares of the Company were listed on the Main Board of the Stock Exchange. 300,000,000 ordinary shares of the Company (the “**Shares**”) were issued at an offer price of HK\$2.08 per Share.

Save as disclosed in this announcement, there was no other significant events that might affect the Group since the end of the year ended 31 August 2018.

FINAL DIVIDEND

The Board does not recommend the payment of final dividend for the year ended 31 August 2018 (2017: nil).

CLOSURE OF REGISTER OF MEMBERS

The Company’s annual general meeting will be held on Friday, 11 January 2019. The register of members of the Company will be closed from Monday, 7 January 2019 to Friday, 11 January 2019, both days inclusive, in order to determine the identity of the Shareholders who are entitled to attend the AGM, during which period no share transfers will be registered. To be eligible to attend the AGM, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company’s branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Friday, 4 January 2019.

CORPORATE GOVERNANCE AND OTHER INFORMATION

The Company was incorporated in the Cayman Islands on 15 November 2017 with limited liability, and the shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 13 September 2018 (the “**Listing Date**”).

The Board has committed to achieving high corporate governance standards. The Board believes that high corporate governance standards are essential in providing a framework for the Group to safeguard the interests of shareholders and to enhance corporate value and accountability.

Compliance with the Code on Corporate Governance Practices

As the Shares were not yet listed on the Stock Exchange as of 31 August 2018, the principles and code provisions of the Corporate Governance Code (the “**CG Code**”) contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) were not applicable to the Company during the Reporting Period.

The Company has adopted the principles and code provisions of the CG Code as the basis of the Company’s corporate governance practices, and the CG Code has been applicable to the Company with effect from the Listing Date.

The Company has complied with all the applicable code provisions set out in the CG Code throughout the period from the Listing Date up to the date of this announcement.

Further information of the corporate governance practice of the Company will be set out in the corporate governance report in the annual report of the Company for the year ended 31 August 2018.

The Company will continue to regularly review and monitor its corporate governance practices to ensure compliance with the CG Code, and maintain a high standard of corporate governance practices of the Company.

Compliance with the 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 regarding the Directors’ dealings in the securities of the Company. The provisions under the Listing Rules in relation to compliance with the Model Code by the Directors regarding securities transactions have been applicable to the Company since the Listing Date. As the shares of the Company were not yet listed on the Stock Exchange as of 31 August 2018, the Model Code was not applicable to the Company during the Reporting Period.

Having made specific enquiry of all the Directors of the Company, all the Directors confirmed that they have strictly complied with the required standards set out in the Model Code throughout the period from the Listing Date up to the date of this announcement.

Scope of Work of the Company’s Auditors

The figures contained in this announcement of the Group’s consolidated results for the year ended 31 August 2018 have been agreed by the Company’s auditor, Deloitte Touche Tohmatsu (the “**Auditors**”), to the figures set out in the audited consolidated financial statements of the Group for the year ended 31 August 2018. The work performed by the Auditors in this respect does not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements, or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by the Auditors on this announcement.

Audit Committee

The Company has established an audit committee with written terms of reference in accordance with the Listing Rules. The audit committee comprises three independent non-executive Directors, namely, Mr. Lau, Tsz Man, Dr. Jin Xiaobin and Ms. Fok, Pui Ming Joanna. Mr. Lau, Tsz Man is the chairman of the audit committee.

The audit committee has reviewed the audited consolidated financial statements of the Group for the year ended 31 August 2018 and has discussed with the Auditors. The audit committee has also discussed matters with respect to the accounting policies and practices adopted by the Company and internal control with senior management members of the Company.

Purchase, Sale or Redemption of the Company's Listed Securities

Since the Company was not listed on the Stock Exchange during the Reporting Period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's securities listed on the Stock Exchange during the Reporting Period.

Material Litigation

The Company was not involved in any material litigation or arbitration during the year ended 31 August 2018. The Directors are also not aware of any material litigation or claims that are pending or threatened against the Group since the Listing Date and up to the date of this announcement.

Use of Proceeds from Global Offering

With the Shares listed on the Stock Exchange on 13 September 2018, the net proceeds from the Global Offering were approximately HK\$552.6 million, which will be utilized for the purposes as set out in the Prospectus.

PUBLICATION OF THE ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This annual results announcement is published on the website of the Stock Exchange at www.hkexnews.hk and the website of the Company at www.chunlaiedu.com. The annual report of the Group for the year ended 31 August 2018 will be published on the aforesaid websites of the Stock Exchange and the Company and will be dispatched to the Company's shareholders in due course.

By Order of the Board of Directors
China Chunlai Education Group Co., Ltd.
Hou Chunlai
Chairman

Hong Kong, 30 November 2018

As at the date of this announcement, our executive Directors are Mr. Hou Junyu and Ms. Jiang Shuqin, our non-executive Director is Mr. Hou Chunlai, and our independent non-executive Directors are Dr. Jin Xiaobin, Ms. Fok, Pui Ming Joanna and Mr. Lau, Tsz Man.