Modern Education Group Limited
現代教育集團有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1082

ANNOUNCEMENT FOR INTERIM RESULTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2012

FINANCIAL HIGHLIGHTS

For the six months ended 31 December 2012:

Revenue was approximately HK$128.18 million, representing a decrease of 23.27% as compared to approximately HK$167.06 million for the corresponding period in 2011.

Profit was approximately HK$4.05 million, representing a decrease of 61.74% as compared to approximately HK$10.59 million for the corresponding period in 2011. The decrease was mainly due to the transition period of one-off education reform.

The Board did not recommend the payment of an interim dividend for the six months ended 31 December 2012 (2011: HK$ 0.025 per share).

INTERIM RESULTS (UNAUDITED)

The board of directors (the "Board" or "Director(s)") of Modern Education Group Limited (the "Company") is pleased to present the unaudited condensed consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 31 December 2012 (the "Period") together with the comparative figures for the corresponding period in 2011 and the relevant explanatory notes as set out below.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Six months ended 31 December	
		2012	2011
	NOTES	***HK$'000***	*HK$'000*
		(Unaudited)	(Unaudited)
Revenue	*4*	**128,176**	167,056
Other income and expenses	*5*	**21,555**	1,050
Staff costs	*7*	**(33,919)**	(32,323)
Tutor contractor fee	*7*	**(41,216)**	(52,491)
Operating lease payments	*7*	**(26,014)**	(26,680)
Marketing expenses		**(18,145)**	(17,599)
Printing costs		**(445)**	(343)
Depreciation and amortisation		**(4,205)**	(4,395)
Other operating expenses		**(21,566)**	(21,195)
Finance costs	*6*	**–**	(141)
Profit before taxation	*7*	**4,221**	12,939
Taxation	*8*	**(169)**	(2,347)
Profit for the period		**4,052**	10,592
Other comprehensive income			
Exchange differences arising on translation of the PRC operation		**4**	51
Total comprehensive income for the period		**4,056**	10,643
Profit for the period attributable to:			
Owners of the Company		**4,340**	10,396
Non-controlling interests		**(288)**	196
		4,052	10,592
Total comprehensive income attributable to:			
Owners of the Company		**4,344**	10,447
Non-controlling interests		**(288)**	196
		4,056	10,643
Dividends	*9*	**–**	10,000
Earnings per share – basic *(HK cents)*	*10*	**0.99**	2.60

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	NOTES	**31 December 2012** *HK$'000* **(Unaudited)**	30 June 2012 *HK$'000* (Audited)
Non-current assets			
Property, plant and equipment		**17,412**	19,744
Investment properties		**37,531**	–
Intangible assets		**4,540**	4,639
Deferred tax assets		**1,338**	1,533
Deposits		**16,236**	16,476
		77,057	42,392
Current assets			
Trade and other receivables	*11*	**20,150**	21,237
Amounts due from related parties		**268**	268
Derivative financial instruments		**4,238**	4,238
Investment in convertible notes		**40,053**	–
Pledged bank deposits		**–**	437
Fixed deposits held at banks with original maturity over three months		**27,000**	41,124
Bank balances and cash		**71,616**	77,968
		163,325	145,272
Current liabilities			
Other payables		**24,527**	8,630
Deferred income		**10,751**	5,661
Tax payable		**2,272**	6,985
Amounts due to related parties		**600**	720
Bank overdraft		**280**	–
		38,430	21,996
Net current assets		**124,895**	123,276
Total assets less current liabilities		**201,952**	165,668
Non-current liabilities			
Deferred tax liabilities		**759**	823
Provision for long service payments		**2,280**	2,176
		3,039	2,999
Net assets		**198,913**	162,669
Capital and reserves			
Share capital	*12*	**48,000**	40,000
Reserves		**148,832**	120,300
Equity attributable to owners of the Company		**196,832**	160,300
Non-controlling interests		**2,081**	2,369
Total equity		**198,913**	162,669

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL

The Company was incorporated in the Cayman Islands on 26 January 2011 and registered as an exempted company with limited liability under the Companies Law of the Cayman Islands. Its shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 4 July 2011.

The Company acts as an investment holding company while its subsidiaries are principally engaged in the provision of private tutoring and education services. The addresses of the registered office and principal place of business of the Company are P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands and Suite 2701, 27/F, Tower 2, Nina Tower, 8 Yeung Uk Road, Tsuen Wan, New Territories, Hong Kong respectively.

The interim condensed consolidated financial statements are presented in Hong Kong dollars ("HK$"), which is the functional currency of the Company.

2. BASIS OF PREPARATION

The interim condensed consolidated financial statements have been prepared in accordance with the applicable disclosure provisions of the Appendix 16 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), and with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The interim condensed consolidated financial statements have been prepared under the historical cost basis except for certain properties and financial instruments which are measured at fair values or revalued amounts, as appropriate.

The accounting policies used in the interim condensed consolidated financial statements are consistent with those used in the Group's annual financial statements for the year ended 30 June 2012. In addition, the Group has applied the following accounting policies during the Period.

Financial assets at fair value through profit or loss

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL (including investment in convertible note) are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets and is included in the consolidated income statement.

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of that property) is included in the profit or loss in the period in which the asset is derecognised.

Except in relation to the new and revised standards, amendments and interpretations ("new and revised HKFRSs") issued by the HKICPA that are adopted for the first time for the current period's financial statements, the adoption of such new and revised HKFRSs does not have material impact on the interim condensed consolidated financial statements and does not result in substantial changes to the Group's accounting policies.

4. REVENUE AND SEGMENT INFORMATION

HKFRS 8 "Operating segments" requires operating segments to be identified on the basis of internal reports about the Group's business units that are regularly reviewed by the chief operating decision maker in order to allocate resources and to assess performance. The chief operating decision maker regularly reviews revenue analysis by services provided, including secondary tutoring services, secondary day school education, primary tutoring services, skill courses and test preparation courses, English language training and test preparation courses, technical consultation, management and software licensing services, overseas studies consultation services and international foundation year courses (the "IFY courses"). Other than the revenue analysis, no operating results and other discrete financial information is provided to the chief operating decision maker for the assessment of performance of the respective services provided. Hence, the Group's operation is regarded as a single reportable operating segment.

An analysis of the Group's revenue by services is as follows:

	Six months ended 31 December	
	2012	2011
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Secondary tutoring services	**103,569**	135,454
Secondary day school education	**2,047**	9,237
Primary tutoring services	**10,113**	8,012
English language training and test preparation courses	**11,085**	10,850
Technical consultation, management and software licensing services	**521**	1,401
Overseas studies consultation services	**555**	1,798
IFY courses	**286**	304
	128,176	167,056

The Group's assets, revenue and profit for the period derived from activities located outside Hong Kong are less than 10% of the Group's assets, revenue and profit, respectively.

No individual customer accounted for over 10% of the Group's total revenue during both periods.

5. OTHER INCOME AND EXPENSES

	Six months ended 31 December	
	2012	2011
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Interest income	**590**	672
Loss on disposal/written off of property, plant and equipment	**(517)**	(254)
Printing fee income	**–**	347
Management fee income	**1,041**	72
Gain on fair value change in convertible notes	**20,053**	–
Rental income	**255**	–
Others	**133**	213
	21,555	1,050

6. FINANCE COSTS

	Six months ended 31 December	
	2012	2011
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Interests on bank and other borrowings wholly repayable within five years	**–**	141

7. PROFIT BEFORE TAXATION

	Six months ended 31 December	
	2012	2011
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Profit before taxation has been arrived at after charging:		
Directors' remuneration	**8,965**	6,175
Other staff costs	**27,337**	27,703
Other staff's retirement benefit scheme contributions	**1,060**	1,011
	37,362	34,889
Tutor contractor fee to Directors	**(3,443)**	(2,566)
Staff costs	**33,919**	32,323

Tutor contractor fee is calculated based on (i) certain percentage of revenue derived from the secondary tutoring services and English language training and test preparation courses; and (ii) fixed hourly rate on primary tutoring services, skill courses and test preparation courses.

Operating lease payments represent the minimum lease payments under operating leases paid or payable to lessors which mainly are independent third parties.

8. TAXATION

	Six months ended 31 December	
	2012	2011
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
The taxation comprises:		
Hong Kong Profits Tax		
Current period	**31**	2,605
PRC Enterprise Income Tax		
Current period	**6**	115
Deferred tax		
Current period	**132**	(373)
Taxation for the period	**169**	2,347

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both periods.

Subsidiaries established in the People's Republic of China (the "PRC") were subject to Enterprise Income Tax at 25%. The provision for PRC Enterprise Income Tax is based on the estimated taxable income for PRC taxation purposes at the rate of taxation applicable to each year.

9. DIVIDENDS

The Board did not recommend the payment of an interim dividend for the six months ended 31 December 2012 (31 December 2011: HK$0.025 per share).

10. EARNINGS PER SHARE

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

	Six months ended 31 December	
	2012	2011
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Profit for the period attributable to owners of the Company	**4,340**	10,396
Weighted average number of ordinary shares for the purpose of basic earnings per share	**436,243,094**	400,000,000
Basic earnings per share *(HK cents)*	**0.99**	2.60

No diluted earnings per share is presented as there were no potential ordinary shares outstanding during both periods.

11. TRADE AND OTHER RECEIVABLES

	31 December	30 June
	2012	2012
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Accrued revenue and trade receivables	**3,248**	2,959
Less: Allowance for doubtful debts	**(1,927)**	(1,993)
	1,321	966
Rental deposits	**25,093**	26,129
Other deposits	**723**	1,406
Prepayments	**6,084**	6,091
Other receivables	**2,665**	2,271
	35,886	36,863
Less: Rental deposits (shown under non-current assets)	**(15,736)**	(15,626)
Trade and other receivables	**20,150**	21,237

The following is an aged analysis of accrued revenue and trade receivables presented based on the invoice date at the end of the reporting period:

	31 December 2012	30 June 2012
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Accrued revenue not yet billed	**196**	498
Trade receivables:		
0 – 30 days	**627**	174
31 – 60 days	**150**	51
61 – 90 days	**108**	199
Over 90 days	**240**	44
	1,321	966

The accrued revenue and trade receivables primarily arose from the continuing franchising income of primary tutoring service to franchisees, the offering of overseas studies consultation services as well as the provision of technical consultation, management and software licensing services to 北京市朝陽區雅思培訓學校 ("Beijing Yasi School"). The accrued revenue is not yet due as it is billed in arrears. The credit periods are ranged from 30 days to 90 days. There is no credit period granted for tuition fee as they are normally received in advance.

12. SHARE CAPITAL

The movements of share capital of the Company are as follows:

	Number of shares	**Amount**
		HK$'000
Ordinary shares of HK$0.1 each		
Authorised		
– At 30 June 2012 and 31 December 2012	1,500,000,000	150,000
Issued and fully paid		
– At 1 July 2012 (Audited)	400,000,000	40,000
– Issue of new shares *(Note)*	80,000,000	8,000
– At 31 December 2012 (Unaudited)	480,000,000	48,000

Note: On 18 October 2012, the Company entered into a placing agreement for a placement of existing shares and top-up subscription total of 80,000,000 new shares of the Company at a placing price of HK$0.42 per share.

MANAGEMENT DISCUSSION AND ANALYSIS

Following the listing on the Main Board of the Stock Exchange on 4 July 2011 (the "Listing Date"), the Group has continually strengthened its leading position in the private tutoring and education services market in Hong Kong and enlarged its presence in the markets in the People's Republic of China (the "PRC"). During the Period, we received the "Hong Kong Star Brands Award 2012 (Enterprises)"(香港星級品牌大獎2012企業獎) from the Hong Kong Small and Medium Enterprises Association. In addition, to show concerns to the underprivileged and the needy in society, the Group held the《Modern Education presents: Yan Oi Tong Charity Night for Dementia Care》event to raise funds and support the sustainable development of dementia care service in Hong Kong. Moreover, to foster the cultural exchange between Hong Kong and PRC, the Group title sponsored and participated in the "Shenzhen-Hong Kong Secondary School Students Writing Competition 2012" held by Shenzhen Yiwen Book IMP. & EXP. Co. ("Yiwen Book"). We have been awarded the Caring Company Logo by The Hong Kong Council of Social Service in recognition of our commitment in Caring for the Community, Caring for the Employees and Caring for the Environment over the previous year.

BUSINESS REVIEW

During the Period, although there was a gain on fair value change in convertible notes of approximately HK$20.05 million, the Group recorded a substantial decrease in the profit primarily due to the transition period of one-off education reform.

Secondary Tutoring Services

The abolishment of HKALE and HKASLE for Form 7 students has caused decline in revenue in the secondary tutoring services of the Group. However, we believe that this is a one-off and short-term adverse impact. In view of the challenges of the new HKDSE to students, it is expected that the demand for HKDSE preparation courses will be increasing. During the Period, the Group recorded a continual growth in the number of enrolments in the tutoring courses for Secondary One to Secondary Six students, the growth of which was especially apparent in Liberal Studies courses, which partly offset the aforesaid revenue gap.

The following tables set forth the number of course enrolments, the number of tutors and the average course fees of each category of secondary tutoring courses for the Period:

	Six months ended 31 December	
	2012	2011
Number of course enrolments *(in thousands)*		
Regular courses	**161**	212
Intensive courses	**7**	7
Summer courses	**41**	63
Special courses	**32**	40
Number of tutors *(Note 1)*		
Regular courses	**44**	62
Intensive courses	**27**	28
Summer courses	**42**	51
Special courses	**46**	48
Average course fee *(HK$) (Note 2)*		
Regular courses	**477**	470
Intensive courses	**525**	493
Summer courses	**387**	360
Special courses	**115**	141

Note 1: Tutors may provide secondary tutoring services for all or certain categories of courses. Thus, the sum of the number of tutors for the provision of regular courses, intensive courses, summer courses and special courses is not equal to the total number of tutors for the Period.

Note 2: Being revenue divided by course enrolments for the Period.

Secondary Day School Education

The number of course enrolments of our day school students dropped during the Period mainly because there was no class run for Form 7 students and competition from the excessive enrolment of associate degree students among local universities, which had a similar target market as the Company's secondary day schools, resulted in a substantial decrease in the number of enrolments in the Company's secondary day school education. It is believed such an incident is unlikely to repeat itself in the future as higher institutions become more experienced in controlling the number of enrolments. The following table illustrates the number of course enrolments and average course fees for the respective school levels under our secondary day school education during the Period:

	Six months ended 31 December	
	2012	2011
Number of course enrolments *(in thousands)*		
Secondary/Form 5	**–**	–
Secondary/Form 6	**0.7**	1.4
Form 7	**–**	1.2
Average course fee *(HK$) (Note 1)*		
Secondary/Form 5	**–**	–
Secondary/Form 6	**2,958**	2,854
Form 7	**–**	3,519

Note 1: Revenue divided by course enrolments for the Period.

As at 31 December 2012, we had 9 schools operated under our "Modern College"（現代書院）brand.

English Language Training and Test Preparation Courses

During the Period, we committed more resources to enhance our development in providing English language training and test preparation courses under the brand of "Modern Education"(現代教育). The International English Language Testing System (IELTS) Preparation Course and Diploma in Workplace English (TOEIC) Preparatory Courses were the most popular courses among our students, and they can be reimbursed by the Hong Kong Government under the Continuing Education Fund. Besides, we developed intensive courses for Test of English as Foreign Language (TOEFL) and IELTS examinations.

We recorded a total number of approximately 7,400 course enrolments for the Period under our English language training and test preparation courses, compared with approximately 7,500 course enrolments for the corresponding period in 2011.

Primary Tutoring Services, Skill Courses and Test Preparation Courses

The Company has been expanding its primary tutoring services. We continued to offer certain test preparation courses, such as Cambridge Young Learners' English Tests, Olympic Mathematics, Pearson Test of English and GAPSK certificate classes, as well as cooperating with a renowned learning centre to launch interview preparation classes for students' application for admission to renowned secondary schools. During the Period, we also opened 3 more directly owned learning centres. In addition, we had 2 new franchisees joining us and the cooperation with 1 franchisee terminated upon the expiry of their franchise agreements. As of 31 December 2012, we had 12 directly owned learning centres and 21 franchised centres in operation as well as 3 franchised centres under construction or looking for appropriate locations.

For the Period, we recorded a total number of approximately 5,500 course enrolments for our primary tutoring services, skill courses and test preparation courses offered by our directly owned learning centres, compared with approximately with 5,100 course enrolments for the same period last year. Total revenue contributed by our franchised centres to the Group reached approximately HK$1.5 million (2011: approximately HK$1.02 million).

Internet education business

On 28 September 2012, the Group entered into the subscription agreement through its indirect wholly-owned subsidiary, Wise Action Limited, with M Dream Inworld Limited ("M Dream") in respect of the issue of the convertible notes (the "Convertible Notes") in the principal amount of HK$20 million.

In addition, the Group entered into a service agreement (the "Service Agreement") with a wholly-owned subsidiary of M Dream. Pursuant to the Service Agreement, the Group agreed to provide services to M Dream in respect of (i) advising in building up a website for M Dream as the platform for internet education business; (ii) sourcing a suitable information technology company for building up the website and supervising the whole process; and (iii) providing electronic textbooks and/or teaching materials for the internet education business.

M Dream is a company listed on the Growth Enterprises Market of the Stock Exchange and is principally engaged in website development, electronic products and services. The Directors considered the investment could procure the Group a business partner to explore business opportunities in internet learning business.

PRC Operations

As for our operation in Southern China, one of our subsidiaries continued to provide educational consultation and management services at Shaoguan No. 1 High School. With the help of our expertise in running test preparation courses on international standardised tests and examinations, bridging courses have been run at Shaoguan No. 1 High School and other high schools to prepare local Chinese students for overseas higher education.

Capturing the rapid development of e-books and the implementation of the "Eletronic School Bag" policy and growing demand on high quality education in the PRC, we entered into a strategic partnership agreement with Yiwen Book, which is affiliated with the Shenzhen News and Press Bureau and Shenzhen Foreign Trade and Development Bureau, to jointly further explore opportunities in the PRC education market. Leveraging the respective competitive edge of both parties, the related co-operation includes 3 main areas: (i) the development of the e-book business via the Group", (ii) the provision of "Youngster Training Course"; and (iii) the introduction of distance education courses of renowned PRC universities to Hong Kong students.

With the support of Yiwen Book, we shall launch more than 160 e-books (teaching version) of different levels and series for kindergarten and primary school education as well as training in "Shenzhen Book City"(深圳書城). We shall also prepare e-books classes to promote the sales of e-books.

Overseas Studies Consultation Services

Pursuant to the co-operation agreement with an overseas studies consultation company based in Hong Kong, we have been providing consultation services since May 2011 for students who intend to study abroad. Our professional advice and analysis are tailor-made for each student by offering a wide range of choices of overseas educational institutes, namely high schools, colleges and universities in the United States, the United Kingdom, Australia, New Zealand and Canada. Currently, we have approximately 1,000 overseas educational partners all over the world.

With our strategic promotion, the brand of "Modern Overseas"(現代海外升學) has been built up rapidly to differentiate our services in the market. During the Period, our overseas studies consultation services assisted many students through various channels. Among others, regular seminars were held for our students and their parents, providing a platform for information sharing and answering enquiries. Thousands of students and parents attended our seminars and showed an interest in overseas studies.

Bridging Courses

During the Period, we expanded our overseas studies services by providing the IFY courses in the form of a one-semester full-time pathway programme for secondary school students in pursuit of overseas higher education. The IFY courses are offered under the brand of "Modern College"(現代書院) in Hong Kong. Students with a qualification of Secondary 5/Form 5 or above might be admitted. They would be further assisted by our overseas studies consultation services upon the completion of the IFY courses. To achieve synergy in providing all-round services in this market, we extended the service to the PRC market. During the Period in September, we provided IFY courses in top-tier secondary schools in Guangdong Province and expect to extend the service to ten cities in the PRC in the next three years.

FINANCIAL REVIEW

Revenue

The Group's revenue decreased by approximately HK$38.88 million or 23.27% during the Period as compared with the corresponding period in 2011. Such decrease was primarily due to the decrease in revenue from secondary tutoring services from approximately HK$135.45 million for the corresponding period in 2011 to approximately HK$103.57 million for the Period, representing a decrease of approximately HK$31.89 million or 23.54%, and the drop in revenue of secondary day school education was approximately HK$7.19 million or 77.84% as compared with the corresponding period in 2011. Moreover, there were drops in revenue from technical consultation, management and software licensing services and overseas studies consultation services of approximately HK$0.88 million or 62.80% and approximately HK$1.24 million or 69.13% respectively as compared with the corresponding period in 2011. The Group kept a steady and encouraging growth of approximately HK$2.10 million or 26.23% and approximately HK$0.24 million or 2.17% in primary tutoring services and English language training and test preparation courses respectively. The Group's performance for the Period has been negatively affected by the implementation of the Diploma of Secondary Education and at the same time the abolishment of the HKALE and HKASLE. However, the adverse impact was partly compensated by an increase in average course fee and the introduction of a new core subject – Liberal Studies.

Other income and expenses

The Group's other income and expenses increased by approximately HK$20.50 million during the Period as compared with the corresponding period in 2011. Such increase was primarily due to the gain on fair value changes in convertible notes of approximately HK$20.05 million, and the contribution from rental income of approximately HK$0.26 million during the Period.

Staff costs

The Group's staff costs increased by approximately HK$1.6 million or 4.94% during the Period as compared with the corresponding period in 2011. Such increase was primarily due to the effect of (i) the increase of approximately HK$1.6 million in directors' basic salaries for the Period, (ii) the increase of approximately HK$1.2 million in staff cost of primary tutoring services for the Period and (iii) the decrease of staff cost incurred for service contract of approximately HK$1.13 million during the Period.

Tutor contractor fee

The Group's tutor contractor fee decreased by approximately HK$11.27 million or 21.48% during the Period as compared with the corresponding period in 2011. Such decrease was in line with the decline of approximately 23.54% in revenue derived from secondary tutoring services.

Operating lease payments

The Group's operating lease payments decreased by approximately HK$0.67 million or 2.5% during the Period as compared with the corresponding period in 2011. Such decrease was primarily due to the combined effect of a decrease in operating lease payment of two new learning centres and the adjustment in monthly rental payment of certain learning centres upon renewal of their tenancy contracts during the Period.

Marketing expenses

The Group's marketing expenses increased by approximately HK$0.55 million or 3.1% during the Period as compared with the corresponding period in 2011. To promote the Group's expertise in delivering quality tutoring services under the 334 academic system and enhance the Group's brand name after its listing on the Hong Kong Stock Exchange, the Group committed additional resources in conducting marketing campaigns through multimedia channels during the Period.

Other operating expenses

The Group's other operating expenses increased by approximately HK$0.37 million or 1.74% during the Period as compared with the corresponding period in 2011. Such increase was primarily due to the incurring of professional and listing related expenses after the Company's listing on the Stock Exchange in July 2011.

Finance costs

There was no finance costs incurred during the Period.

Taxation

The Group's tax expenses decreased by approximately HK$2.18 million or 92.81% during the Period as compared with the corresponding period in 2011 as a result of the decrease in profit before taxation for the Period. The Group's effective tax rate were approximately 5.10% and 18.14% for the periods ended 31 December 2012 and 2011 respectively.

Profit attributable to owners of the Company, net profit margin and earnings per share

The Group's profit for the Period attributable to owners of the Company decreased by approximately HK$6.06 million or 58.25% as compared with the corresponding period in 2011. The Group's net profit margin decreased from 6.34% for the corresponding period in 2011 to 3.16% for the Period. The decrease in net profit margin was due to the drop in revenue. For the Period, the basis earnings per share of the Company were 0.99 HK cents (2011: 2.60 HK cents).

Liquidity and Financial Resources

We have built an appropriate liquidity risk management framework to manage our short, medium and long-term funding and to satisfy liquidity management requirements.

Financial resources

The Group generally finances its operations with internally generated cash flow. As at 31 December 2012, the total of cash and cash equivalents, pledged and unpledged bank deposits amounted to approximately HK$98.62 million (30 June 2012: approximately HK$119.53 million). During the Period, net cash inflow from operating activities of the Group amounted to approximately HK$5.88 million (six months ended 31 December 2011: approximately HK$25.81 million).

Borrowings

During the Period, the Group has approximately HK$280,000 bank borrowings (30 June 2012: Nil).

Gearing ratio

As at 31 December 2012, the gearing ratio of the Group was 16.19% (30 June 2012: 9.56%). Gearing ratio is total debts divided by the sum of total equity plus total debts. Total debts refer to total liabilities minus the sum of tax payable, deferred tax liabilities and dividend payable (if any).

EXPOSURE TO FOREIGN EXCHANGE RISK

The income and expenditure of the Group are mainly denominated in Hong Kong dollars and as such the impact of foreign exchange exposure of the Group was considered minimal. Hence, no hedging or other arrangements to reduce the currency risk have been implemented.

EMPLOYEE AND REMUNERATION POLICY

As at 31 December 2012, the Group had a total number of 347 (30 June 2012: 377) employees. They receive competitive remuneration packages that are constantly monitored with reference to the market circumstances, with incentives such as discretionary bonuses based on the Group's and individual performance. The Group provides a comprehensive benefits package and career development opportunities.

Pursuant to a share option scheme adopted on 11 June 2011 (the "Share Option Scheme"), the Board may grant options to eligible employees, including the directors of the Company and any of its subsidiaries, to subscribe for shares of the Company. During the Period, no options were granted under the Share Option Scheme.

CONTINGENT LIABILITIES

As at 31 December 2012, the Group did not have any contingent liabilities.

CAPITAL COMMITMENTS

As at 31 December 2012, there were no respective capital commitments in respect of contracted for but not provided in the consolidated financial statements (30 June 2012: HK$264,000) and in respect of authorised but not contracted amounting to HK$500,000 (30 June 2012: HK$500,000).

CHARGES ON THE GROUP'S ASSETS

As at 31 December 2012, the Group did not have any bank deposits (30 June 2012: HK$0.44 million) pledged to banks to secure short term banking facilities granted to the Group.

SIGNIFICANT INVESTMENTS

On 28 September 2012, the Group announced that a subscription agreement was entered into between Wise Action Limited (an indirect wholly-owned subsidiary of the Company) and M Dream to subscribe for the Convertible Notes in the principal amount of HK$20,000,000. Details were disclosed in the Company's announcement dated 28 September 2012. Save as the aforesaid, the Group did not have any other significant investments for the Period.

MATERIAL ACQUISITIONS

On 31 July 2012, the Group announced the acquisitions of (i) Rooms 1001, 1002 and 1003 on 10th Floor, Sino Centre, Nos. 582-592 Nathan Road, Mong Kok, Kowloon, Hong Kong; and (ii) Office No. 1303 on 13th Floor, Argyle Centre Phase I, No. 688 Nathan Road, No. 65 Argyle Street, Mong Kok, Kowloon, Hong Kong at a cash consideration of HK$17,500,000 and HK$19,300,000 respectively. Details were disclosed in the Company's announcement dated 31 July 2012. Save as the aforesaid, the Group did not have any other material acquisitions for the Period.

USE OF PROCEEDS FROM THE LISTING

The Company was listed on the Main Board of the Stock Exchange on 4 July 2011. The net proceeds from the Company's issue of new shares (after deducting expenses relating specifically to the issue of new shares in the initial public offering and expenses relating generally to the listing of all the shares of the Company, whether existing or new) amounted to approximately HK$130 million.

As at 31 December 2012, the net proceeds from the initial public offering had been utilised in the following manner:

	Planned amount per Prospectus	Amount utilised up to 31 December 2012	Balance as at 31 December 2012
	HK$ million	*HK$ million*	*HK$ million*
Repayment of loans	50	49.54	0.46
Setting up secondary learning centres	15	7.53	7.47
Setting up primary learning centres	6	2.14	3.86
Setting up kids learning centres	15	0.57	14.43
Provision of overseas studies consultation services	6	–	6
Provision of test preparation and bridging courses	4	2.06	1.94
Strategic merger and acquisition	34	–	34

The unutilised balance was placed in bank deposits in accounts at commercial banks in Hong Kong. The Group intends to utilise the net proceeds balance in the same manner and proportion as set out in the Company's prospectus dated 20 June 2011.

OUTLOOK

Although the Group recorded a decreased profit resulting from the abolishment of HKALE & HKASLE examinations, it is believed that the impact is just short-term and will be compensated with revenue from HKDSE preparation courses and other services offered by the Group in the long run.

With the change in education policy, the modification of exam formats and changing requirements of the market, we expect industry consolidation in the tutoring service sector since only bigger players with abundant resources are able to cope with these changes. The Group, as a listed leading provider of tutoring services in Hong Kong, it is confident to exploit new market opportunities to meet the market demand by taking the advantage of its leading position in the industry and competitive edges of strong brand, extensive service network, enriched expertise, innovative and quality products and close relationships with business partners in both Hong Kong and the PRC.

In Hong Kong

According to a report from the Hong Kong Examinations and Assessment Authority, there will be 71,000 day school candidates taking the HKDSE in 2013, which is more or less the same as the number of candidates in 2012. However, the number of self-study candidates has increased eight times to 9,000 candidates for the upcoming HKDSE. Figures show more than 12,000 students failed to get university offers although their results reached the minimum entry requirements during the first HKDSE. Therefore, students have growing concerns about the examination and thus it is believed that the number of students enrolling in the Group's HKDSE preparation courses will continue to increase.

In response to the change of the new academic structure of the 334 system for senior secondary education and higher education, the Group is well equipped to offer quality and effective HKDSE preparation courses to meet the market demand.

In addition, the Group sees opportunities in overseas studies and bridging course sectors. According to statistics, currently there are about 72,000 HKDSE candidates competing for 15,000 subsidized university undergraduate places. The keen competition has created a rising demand for overseas studies in the coming years. Studying abroad has always been one of the most popular paths to continue higher education among Hong Kong students. It is expected to be a desired alternative for the candidates who face difficulties in the stiff competition under the 334 system.

Besides, the Group in particular holds an optimistic view on the prospects of the primary school tutoring sector. According to government statistics, among the 95,000 newborn babies in 2011, close to 36,000 of them have parents from the PRC. As a result, the competition for primary school places has become very keen. In the past eleven years, over 175,000 of such babies were born in Hong Kong, and the Hong Kong government estimated that over 90,000 of them will return to Hong Kong for study and residence in the future. Furthermore, the number of children aged 3 whose parents are PRC residents has increased rapidly to 29,800 in 2012 from 709 in 2003, representing a 41-fold increase during the past 9 years. It is expected that 2015 will reach the peak period for these children returning to Hong Kong, and the number will continue to increase in the next three years: 13,000, 14,000, 20,000 in 2016, 2017 and 2018 respectively. The Group will monitor the market conditions and is well-equipped to carry out expansion plans to cope with market needs.

In the PRC

The Mainland stayed relatively resilient and maintained robust GDP growth in 2012. The overall economic growth in China has led to a significant increase in spending on education in China.

With our rich experience in providing international courses and bilingual teachings in Hong Kong, together with the national circumstances and advantages of our Hong Kong's established brand, the Group is confident that we will grasp this valuable opportunity to develop our market share in the Mainland and/or inviting any joint venture opportunity in Hong Kong with those long history and well-developed brands in education established in the Mainland.

With the strategic co-operation agreement with Yiwen Book, we target to jointly develop the e-book and domestic education and training markets in the PRC. With the e-book business started off successfully in Shenzhen, it is expected to develop throughout the country, reaching 100,000 primary and secondary students in the future. Under the favorable trend, overall economic growth and demand for e-learning and extensive network of Yiwen Book in the PRC, the Group is confident the collaboration will have favorable prospect.

With the increasing interactions between Shenzhen and Hong Kong, more and more Hong Kong residents choose to work and settle in Shenzhen. According to statistics, currently more than 10,000 students who live in Shenzhen study in Hong Kong, and they travel between Shenzhen and Hong Kong everyday. By adhering to the principle of "Education with no boundaries but optimization", the Group plans to operate the "Hong Kong Kids Tutorial Class"(港人子弟補習班), to offer all-rounded education service to them.

With the success of "Shenzhen-Hong Kong Secondary School Students Writing Competition" with Shenzhen Yiwen Book in 2012, the competition will continue to receive support to help strengthen the Group's brand and identity in the PRC education market. Looking ahead, the Group is committed to strengthening existing core businesses while embracing new growth opportunities through diversification by actively exploring new co-operation and developing further education business with other potential partners with sound background and strong capabilities in Hong Kong, China and overseas markets. In particular, the Group strives to become one of the leading providers of private education services in the PRC by further developing its presence in the PRC while maintaining its leading position in the private education services industry in Hong Kong.

The Group will keep update with the market changes, actively explore high potential business opportunities, so as to facilitate sustainable growth and widen its source of income in the long run.

Solid Liquidity Position

The Group will enhance its treasury function with an aim to optimally utilizing its surplus resources and maximizing its investment returns. The Group will actively look for investment opportunities. The Group is dedicated to diversifying its investment into the property and securities markets, so as to spread and lower business risks. The Group will continue to prudently and effectively manage its financial resources to bring more value to shareholders.

CORPORATE GOVERNANCE

Code for securities transactions by Directors

The Company has adopted a code for securities transactions on terms equivalent to the required standard of the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules.

Having made specific enquiries with the Directors, the Company confirmed that each of the Directors has complied with the required standard set out in the Model Code regarding securities transactions by the Directors adopted by the Company throughout the Period.

Compliance with provisions of Corporate Governance Code

The Company has applied the principles of the Code of Corporate Governance Practices (the "CG Code") as set out in Appendix 14 to the Listing Rules. The Company has been in compliance with the code provisions of the CG Code throughout the Period.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries had purchased, redeemed or sold any of the Company's listed securities during the Period under review.

AUDIT COMMITTEE

The Company has established the audit committee of the Company ("Audit Committee") and adopted the written terms of reference in compliance with the Listing Rules. The primary duties of the Audit Committee are to review and provide supervision over the Group's financial reporting process and internal controls. The Audit Committee is composed of three independent non-executive Directors, namely, Mr. Kwok Shun Tim, Mr. Wong Yuk Tong and Ms. Wu Mei Chu. Mr. Kwok Shun Tim is the chairman of the Audit Committee since his appointment on 14 September 2012.

The Group's interim results for the Period are unaudited but have been reviewed by the Audit Committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosure have been made. The Audit Committee recommended the Board to adopt the same.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This results announcement is published on the website of the Stock Exchange at *www.hkexnews.hk* and the Company's website at *www.moderneducationgroup.com*. The interim report containing all the information required by the Listing Rules will be dispatched to the shareholders of the Company and available on the websites mentioned above in due course.

ACKNOWLEDGEMENT

We would like to express our heartfelt appreciation to our employees for their contributions to the Group. We would also like to express our deepest gratitude to our shareholders and investors for their support. We will continue to create value and contribute to the Group to benefit all our stakeholders.

By Order of the Board
Modern Education Group Limited
Lee Wai Lok, Ignatious
Executive Director

Hong Kong, 21 February 2013

As of the date of this announcement, the executive Directors are Mr. Ng Kam Lun, Eric, Mr. Ng Norman, Mr. Lee Wai Lok, Ignatious and Mr. Chow Kai Wah, Gary; and the independent non-executive Directors are Mr. Kwok Shun Tim, Mr. Wong Yuk Tong and Ms. Wu Mei Chu.