21世紀教育
21ST CENTURY EDUCATION

China 21st Century Education Group Limited
中國21世紀教育集團有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1598)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2019

FINANCIAL HIGHLIGHTS

	Six months ended 30 June			
	2019	2018	**Changes**	**Percentage of changes**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	
	(Unaudited)	(Unaudited)		
Revenue	**118,568**	101,610	16,958	16.7%
Gross Profit	**65,049**	49,499	15,550	31.4%
Profit for the Period	**50,538**	29,299	21,239	72.5%
Adjusted Net Profit *(Note)*	**50,538**	39,784	10,754	27.0%

	School year 2018/2019	School year 2017/2018	**Change**	**Percentage of change**
Number of Students	**29,985**	21,682	8,303	38.3%

Note: The Company defined its adjusted net profit as its profit for the period after adjusting for those items which were not indicative of the Company's operating performances. Please refer to the section headed "Financial Review" of this announcement for details.

The Board of China 21st Century Education Group Limited is pleased to announce the unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 June 2019, together with the comparative figures for the corresponding period of 2018.

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2019

		Six months ended 30 June	
		2019	2018
	Notes	***RMB'000***	*RMB'000*
		(Unaudited)	(Unaudited)
Revenue from contracts with customers	*4*	**118,568**	101,610
Cost of sales		**(53,519)**	(52,111)
Gross profit		**65,049**	49,499
Other income and gains	*4*	**11,426**	5,251
Selling expenses		**(5,454)**	(4,230)
Administrative expenses		**(15,192)**	(18,932)
Other expenses		**(250)**	(447)
Finance costs	*5*	**(4,851)**	(1,481)
PROFIT BEFORE TAX	*6*	**50,728**	29,660
Income tax expense	*7*	**(190)**	(361)
PROFIT FOR THE PERIOD		**50,538**	29,299
Other comprehensive income			
Exchange differences on translation of foreign operations		**1,262**	(9)
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**51,800**	29,290
Earnings per share attributable to ordinary equity holders of the Company:			
Basic and diluted	*8*	**RMB4.14 cents**	RMB3.23 cents

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

	Notes	**30 June 2019**	31 December 2018
		RMB'000	*RMB'000*
		(Unaudited)	(Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**121,867**	125,541
Prepaid land lease payments		**–**	58,583
Right-of-use assets	*2.2*	**111,426**	–
Goodwill		**17,121**	17,121
Intangible assets		**2,427**	2,584
Equity investment designated at fair value through other comprehensive income	*10*	**38,971**	–
Deferred tax assets		**231**	–
Other non-current assets		**1,258**	–
Total non-current assets		**293,301**	203,829
CURRENT ASSETS			
Trade receivables	*11*	**3,563**	1,885
Contract costs		**2,035**	2,663
Prepayments, deposits and other receivables		**57,761**	17,662
Amount due from a related party		**13,520**	2,815
Term deposits		**70,000**	162,638
Pledged deposits		**105,000**	105,000
Cash and bank balances		**380,423**	259,491
Total current assets		**632,302**	552,154
CURRENT LIABILITIES			
Other payables and accruals		**59,609**	83,272
Interest-bearing bank and other borrowings	*12*	**131,783**	13,000
Contract liabilities		**38,419**	71,637
Tax payable		**2,303**	2,285
Total current liabilities		**232,114**	170,194
NET CURRENT ASSETS		**400,188**	381,960
TOTAL ASSETS LESS CURRENT LIABILITIES		**693,489**	585,789

	Notes	**30 June 2019** *RMB'000* **(Unaudited)**	31 December 2018 *RMB'000* (Audited)
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	*12*	**56,048**	–
Deferred rental obligations		**–**	717
Deferred tax liabilities		**149**	167
Total non-current liabilities		**56,197**	884
Net assets		**637,292**	584,905
EQUITY			
Share capital	*13*	**10,286**	10,323
Treasury shares		**–**	(37)
Reserves		**627,006**	574,619
Total equity		**637,292**	584,905

NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

China 21st Century Education Group Limited (the "Company") is a limited liability company incorporated in the Cayman Islands on 20 September 2016. The address of the registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The Company is an investment holding company. During the six months ended 30 June 2019, the Company and its subsidiaries (collectively referred to as the "Group") were principally engaged in the provision of education services and related management services in the People's Republic of China (the "PRC").

2.1 BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited interim condensed consolidated financial statements for the six months ended 30 June 2019 (the "Period") have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* issued by the International Accounting Standards Board (the "IASB").

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2018.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2018, except for the adoption of new standards effective as of 1 January 2019.

Amendments to IFRS 9	*Prepayment Features with Negative Compensation*
IFRS 16	*Leases*
Amendments to International Accounting Standards ("IAS") 19	*Plan Amendment, Curtailment or Settlement*
Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures*
IFRIC 23	*Uncertainty over Income Tax Treatments*
Annual Improvements 2015-2017 Cycle	*Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23*

Other than as further explained below, the directors do not anticipate that the application of the new and revised IFRSs above will have a material effect on the Group's condensed consolidated financial statements and the disclosure.

(a) IFRS 16 replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC 15 *Operating Leases – Incentives* and SIC 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model.

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initial adoption as an adjustment to the opening balance of right-of-use assets and lease liabilities at 1 January 2019, and the comparative information for 2018 was not restated and continues to be reported under IAS 17.

New definition of a lease

Under IFRS 16, a contract is, or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their standard-alone prices. A practical expedient is available to a lessee, which the Group has adopted, not to separate non-lease components and to account for the lease and the associated non-lease components (e.g., property management services for leases of properties) as a single lease component.

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of IFRS 16

The Group has lease contracts for buildings and land use right. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under IFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low value assets (elected on a lease by lease basis) and short-term leases (elected by class of underlying asset). The Group has elected not to recognise right-of-use assets and lease liabilities for (i) leases of low-value assets (e.g., laptop computers and telephones); and (ii) leases, that at the commencement date, have a lease term of 12 months or less. Instead, the Group recognises the lease payments associated with those leases as an expense on a straight-line basis over the lease term.

Impacts on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and included in interest-bearing bank and other borrowings.

The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019. All these assets were assessed for any impairment based on IAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position.

The Group has used the following elective practical expedients when applying IFRS 16 at 1 January 2019:

- Applied the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application

- Used hindsight in determining the lease term where the contract contains options to extend/terminate the lease

Accordingly, the Group recognised the right-of-use assets of RMB119,332,000 and lease liabilities of RMB58,716,000 as at 1 January 2019. Prepaid rental of RMB2,750,000, accrued rental expenses of RMB717,000, and prepaid land lease payment of RMB58,583,000 were derecognised, resulting in a decrease in prepayments, receivables and other assets and a decrease in deferred rental obligation, as at 1 January 2019.

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 is as follows:

	RMB'000 **(Unaudited)**
Operating lease commitments as at 31 December 2018	26,604
Weighted average incremental borrowing rate as at 1 January 2019	8.27%
Discounted operating lease commitments at 1 January 2019	22,238
Less:	
Commitments relating to short-term leases and leases of low-value assets	(828)
Add:	
Payments for optional termination periods not recognised as at 31 December 2018	37,306
Lease liabilities as at 1 January 2019	58,716

Summary of new accounting policies

The accounting policy for leases as disclosed in the annual financial statements for the year ended 31 December 2018 is replaced with the following new accounting policies upon adoption of IFRS 16 from 1 January 2019:

Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term.

Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in-substance fixed lease payments or a change in assessment to purchase the underlying asset.

Significant judgement in determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has the option, under some of its leases, to terminate the lease. The Group applies judgement in evaluating whether it is reasonably certain not to exercise the option to terminate. It considers all relevant factors that create an economic incentive for it not to exercise the termination. After the lease commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within the control of the Group and affects its ability to not to exercise the option to terminate.

Amounts recognised in the interim condensed consolidated statement of financial position and profit or loss

The carrying amounts of the Group's right-of-use assets and lease liabilities (included within 'interest-bearing bank and other borrowings'), and the movement during the Period are as follow:

	Right-of-use assets			
	Buildings *RMB'000*	**Land use right** *RMB'000*	**Total** *RMB'000*	**Lease liabilities** *RMB'000*
As at 1 January 2019 (unaudited)	60,749	58,583	119,332	58,716
Additions	638	–	638	638
Depreciation charge	(7,665)	(879)	(8,544)	–
Interest expense	–	–	–	2,386
Payments	–	–	–	(7,441)
As at 30 June 2019 (unaudited)	53,722	57,704	111,426	54,299

The Group recognised rental expenses from short-term leases of RMB520,000 and leases of low-value assets of RMB308,000.

(b) IFRIC 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of IAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. Upon adoption of the interpretation, the directors considered the interpretation did not have any significant impact on the Group's interim condensed consolidated financial information.

2.3 ISSUED BUT NOT YET EFFECTIVE IFRSs

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to IFRS 3	*Definition of a Business*[1]
Amendments to IFRS 10 and IAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
IFRS 17	*Insurance Contracts*[2]
Amendments to IAS 1 and IAS 8	*Definition of Material*[1]

1 Effective for annual periods beginning on or after 1 January 2020
2 Effective for annual periods beginning on or after 1 January 2021
3 No mandatory effective date yet determined but available for adoption

The Group has not early adopted any standard interpretation or amendment that was issued but not yet effective and is still evaluating the impact on adopting these new and revised IFRSs.

3. OPERATING SEGMENT INFORMATION

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

During the Period, management has revised reportable segments and revised the Group's internal reporting, which combined all non-vocational businesses, including tutorial center education service, preschool education service, online education service into one segment (quality-oriented education), while the former tertiary education turns to vocational education. As a result of the changes to reportable segments and segment presentation, segment information for the six months ended 30 June 2018 has been re-presented to conform with the revised presentation.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit which is measured consistently with the Group's profit before tax except that finance costs, interest income and other unallocated gains and expenses are excluded from such measurement.

Segment assets exclude cash and bank balances, term deposits, pledged deposits, amount due from a related party, equity investment at fair value through other comprehensive income and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude interest-bearing bank and other borrowings, amount due to a related party, tax payable and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

Six months ended 30 June 2019

	Vocational education *RMB'000* (Unaudited)	Quality-oriented education *RMB'000* (Unaudited)	Total *RMB'000* (Unaudited)
Revenue	**73,297**	**45,271**	**118,568**
Other segment revenue	**2,941**	**301**	**3,242**
Total	**76,238**	**45,572**	**121,810**
Segment results	**44,474**	**11,277**	**55,751**
Reconciliation:			
Finance costs			**(4,851)**
Interest income			**3,182**
Unallocated gains			**5,000**
Unallocated expenses			**(8,354)**
Profit before tax			**50,728**
Segment assets	**233,934**	**53,953**	**287,887**
Reconciliation:			
Cash and bank balances			**380,423**
Term deposits			**70,000**
Pledged deposits			**105,000**
Amounts due from a related party			**13,520**
Equity investment at fair value through other comprehensive income			**38,971**
Unallocated head office and corporate assets			**29,802**
Total assets			**925,603**
Segment liabilities	**(96,445)**	**(47,870)**	**(144,315)**
Reconciliation:			
Interest-bearing bank borrowings			**(133,532)**
Tax payable			**(2,303)**
Unallocated head office and corporate liabilities			**(8,161)**
Total liabilities			**(288,311)**
Other segment information:			
Depreciation and amortisation*	**9,002**	**6,199**	**15,201**
Capital expenditure^	**1,876**	**1,086**	**2,962**
Loss on disposal of items of property, plant, and equipment	**11**	**–**	**11**

* Depreciation and amortisation consists of depreciation and amortisation of property, plant and equipment, right-of-use assets and intangible assets.

Six months ended 30 June 2018

	Vocational education *RMB'000* (Unaudited)	Quality-oriented education *RMB'000* (Unaudited)	Total *RMB'000* (Unaudited)
Revenue	58,062	43,548	101,610
Other segment revenue	2,785	1,522	4,307
Total	60,847	45,070	105,917
Segment results	37,418	15,795	53,213
Reconciliation:			
Finance costs			(1,481)
Interest income			944
Unallocated expenses			(23,016)
Profit before tax			29,660
Other segment information:			
Depreciation and amortisation	5,614	708	6,322
Capital expenditure^	284	702	986
Loss on disposal of items of property, plant, and equipment	6	–	6

^ Capital expenditure consists of additions of property, plant and equipment and intangible assets.

31 December 2018

	Vocational education *RMB'000* (Audited)	Quality-oriented education *RMB'000* (Audited)	Total *RMB'000* (Audited)
Segment assets	207,595	14,512	222,107
Reconciliation:			
Amounts due from related parties			2,815
Cash and bank balances			259,491
Term deposits			162,638
Pledged deposits			105,000
Unallocated head office and corporate assets			3,932
Total assets			755,983
Segment liabilities	(105,113)	(37,376)	(142,489)
Reconciliation:			
Interest-bearing bank borrowings			(13,000)
Tax payable			(2,285)
Unallocated head office and corporate liabilities			(13,304)
Total liabilities			(171,078)

Geographical information

During both periods, the Group operated within one geographical area because all of its revenue was generated in Mainland China and all of its long-term assets were located in Mainland China. Accordingly, no geographical information is presented.

Information about major customers

During both periods, revenue from a major customer who contributed over 10% of the total revenue from contracts with customers of the Group is as follows:

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
河北廿一世紀教育投資有限公司 Hebei Lionful Education Investment Co., Ltd.	**11,870**	10,031

4. REVENUE FROM CONTRACTS WITH CUSTOMERS, OTHER INCOME AND GAINS

		Six months ended 30 June	
		2019	2018
	Notes	***RMB'000***	*RMB'000*
		(Unaudited)	(Unaudited)
Revenue from contracts with customers			
Vocational education			
Tuition fees		**48,654**	34,914
Boarding fees		**5,398**	3,084
College operation service income	*(i)*	**11,870**	11,018
Others	*(ii)*	**7,375**	9,046
		73,297	58,062
Quality-oriented education	*(iii)*		
Tutoring fees		**28,334**	28,317
Tuition fees		**14,732**	15,231
Consultation fee		**2,205**	–
		45,271	43,548
Other income and gains			
Interest income		**3,185**	944
Site use fees	*(iv)*	**1,081**	1,699
Sale of education materials and living goods		**1,676**	984
Government grant		**5,000**	–
Others		**484**	1,624
		11,426	5,251

Notes:

(i) The college operation service income comprises the service income derived from the provision of college operation service and the provision of accommodation service to the students.

(ii) Others primarily represent service fees received from certain independent universities in respect of the provision of student recruitment services, income received from the provision of vocational training and examination preparation courses and income derived from granting the right of canteen management.

(iii) Former tutorial center education, preschool education and online education were integrated to quality-oriented education due to revision of reportable segments.

(iv) Amounts represent usage fees received from certain colleges and enterprises in connection with their uses of the school premises and facilities of the Group to organise teaching and training activities.

5. FINANCE COSTS

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Interest on lease liabilities	**2,386**	–
Interest on bank and other borrowings	**2,058**	1,091
Financing consultancy service charges^	**407**	390
	4,851	1,481

^ The financing consultancy service charges represented service fees paid by the Group in respect of certain bank and other borrowings obtained by the Group during both periods.

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Employee benefit expense (excluding directors' remuneration):		
Wages and salaries	**31,449**	35,392
Equity-settled share option expense	**266**	–
Pension scheme contributions (defined contribution scheme)	**6,916**	6,914
	38,631	42,306
Depreciation	**14,955**	5,321
Recognition of prepaid land lease payments	**–**	878
Amortisation of intangible assets	**246**	123
Minimum lease payments under operating leases:		
– Buildings	**815**	5,946
– Others	**13**	279
	828	6,225
Listing expenses	**–**	10,485
Loss on disposal of items of property, plant and equipment	**11**	6

7. INCOME TAX

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

The Company's directly held subsidiary was incorporated in the British Virgin Islands as an exempted company with limited liability under the British Virgin Islands Companies Act 2004 and accordingly is not subject to income tax.

Hong Kong Profits Tax

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the Period (six months ended 30 June 2018: nil).

PRC Corporate Income Tax

Pursuant to the PRC Income Tax Law and the respective regulations, except for the preferential tax rate of 15% available to Beijing Xin Tian Di Xian Information and Technology Co., Ltd.* (北京新天地綫信息技術有限公司) ("Xin Tian Di Xian"), all of the Group's non-school subsidiaries established in the PRC are subject to the PRC Corporate Income Tax ("corporate income tax") of 25% during the Period (six months ended 30 June 2018: 25%).

There is no corporate income tax imposed on the income from the provision of educational services by Shijiazhuang Institute of Technology. As a result, no income tax expense was recognised by Shijiazhuang Institute of Technology during both periods.

Tutorial centers of the Group which provide non-academic educational services are subject to corporate income tax at a rate of 25% for the Period (six months ended 30 June 2018: 25%).

Except for certain kindergartens which were subject to corporate income tax at a rate of 25%, there was no corporate income tax imposed to other kindergartens during both periods.

Corporate income tax of the Group has been provided at the applicable tax rates on the estimated taxable profits arising in Mainland China during both periods.

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Current – the PRC		
Charge for the period	**439**	361
Deferred	**(249)**	–
	190	361

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

The calculation of basic earnings per share is based on the profit for the period attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares in issue, during the six months ended 30 June 2019 and 2018.

The Group had no potentially dilutive ordinary shares in issue during the six months ended 30 June 2019 and 2018.

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

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Earnings		
Profit attributable to ordinary equity holders of the Company, used in the basic and diluted earnings per share calculation	**50,538**	29,299

	Number of shares	
	Six months ended 30 June	
	2019	2018
Shares		
Weighted average number of ordinary shares in issue during the Period used in the basic and diluted earnings per share calculation	**1,220,541,000**	908,220,994

9. DIVIDENDS

The Board does not recommend the payment of dividend for the six months ended 30 June 2019 (six months ended 30 June 2018: nil).

10. EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	30 June	31 December
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Unlisted equity investments, at fair value		
Shanghai Zhiyu Education and Technology Co., Ltd.	**2,000**	–
Yongyue Capital Management SPC	**36,971**	–
	38,971	–

The above equity investments were irrevocably designated at fair value through other comprehensive income as the Group considers these investments to be strategic in nature.

11. TRADE RECEIVABLES

	30 June 2019 *RMB'000* **(Unaudited)**	31 December 2018 *RMB'000* (Audited)
Trade receivables	**3,563**	1,885

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

	30 June 2019 *RMB'000* **(Unaudited)**	31 December 2018 *RMB'000* (Audited)
Within 1 year	**3,563**	1,885

Trade receivables represented amounts due from certain of the Group's college and kindergarten students.

None of the above trade receivables is either past due or impaired. The receivables have no recent history of default.

12. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Notes	**30 June 2019** *RMB'000* **(Unaudited)**	31 December 2018 *RMB'000* (Audited)
Current			
Short term bank loan – unsecured	*(i)/(ii)*	**113,000**	13,000
Current portion of lease liabilities		**9,392**	–
Current portion of other borrowings – unsecured	*(iii)*	**9,391**	–
		131,783	13,000
Non-current			
Lease liabilities		**44,907**	–
Other borrowings – unsecured	*(iii)*	**11,141**	–
		56,048	–
		187,831	13,000

	30 June 2019 *RMB'000* **(Unaudited)**	31 December 2018 *RMB'000* (Audited)
Analysed into:		
Bank loans repayable:		
Within one year or on demand	**113,000**	13,000
Lease liabilities:		
Within one year or on demand	**9,392**	–
In the second year	**9,712**	–
In the third to fifth years, both years inclusive	**13,713**	–
Beyond five years	**21,482**	–
	54,299	–
Other borrowings:		
Within one year	9,391	–
In the second year	11,141	–
	20,532	–
	187,831	–

Notes:

As at 30 June 2019, the effective interest rates of the Group's interest-bearing bank loan and other borrowings ranged from 8.27% to 13.06% (31 December 2018: 8.27%) per annum.

(i) As at 30 June 2019 and 31 December 2018, a bank borrowing of RMB13,000,000 was guaranteed by an independent financing guarantee company.

(ii) As at 30 June 2019, bank borrowings of RMB100,000,000 were guaranteed by the pledged deposits.

(iii) As at 30 June 2019, other borrowings of RMB20,532,000 were guaranteed by Zerui Education and Hebei Sheng Dao Xiang Cheng Education and Technology Co., Ltd..

13. SHARE CAPITAL

Shares

	30 June 2019 *RMB'000* **(Unaudited)**	31 December 2018 *RMB'000* (Audited)
Authorised:		
3,000,000,000 (31 December 2018: 3,000,000,000) ordinary shares of HK$0.01 each	**25,293**	25,293
Issued and fully paid:		
1,220,541,000 (31 December 2018: 1,224,798,000)	**10,286**	10,323

MANAGEMENT DISCUSSION AND ANALYSIS

1. BUSINESS REVIEW

1.1 Overview

Focusing on the operation and content incubation of the education industry, and adhering to the corporate mission of "promoting the development of the education industry with contents and technologies", the Company has addressed itself to improving the efficiency and customer experience of education operation by virtue of technologies empowerment, and currently has diversified sources of revenue covering full-time vocational education and continuing education, K12 tutorial programs, preschool education and online education.

Considering improving students' abilities as our priority, we are committed to unremittingly providing clients with customized services and solutions based on individual demands. Leveraging on our self-innovated education system and standardized management, we dedicate to offering more friendly and convenient education services to students.

Benefiting from our standardized management and efficient operation, the Group has achieved significant growth in operating indicators such as student numbers and student employment rates, and key financial indicators such as income and profit.

1.2 Cooperation and Acquisition during the Reporting Period

1.2.1 Acquisition and investment

As disclosed in the announcement of the Company dated 28 February 2019, on 28 February 2019, the Group entered into a strategic investment agreement with Beijing Ying Yu New Media Interaction Technology Co., Ltd.* (北京英育新媒互動科技有限公司) ("**Ying Yu New Media**") to invest RMB2,000,000 into Ying Yu New Media to acquire 2% of its equity interest. Ying Yu New Media was established in June 2016, and is a company mainly engaged in the development and consultancy of the technology and corporate management services, and focusing on the integration, research and consultancy of investment and financing resources in the education industry.

1.2.2 Cooperation projects

On 1 April 2019, Shijiazhuang Institute of Technology under vocational education segment entered into a strategic cooperation agreement with the Dundalk Institute of Technology in Ireland, Great Britain to carry out teaching activities and student exchanges, develop cooperation channels suitable for both schools, promote the exchange of academic programs and teaching information, and explore the 3+X cooperation mode for the majors of early childhood education, construction engineering and costing, computer technology and engineering measurement.

1.3 Our Schools

1.3.1 Overview

As of 30 June 2019, the Company owned 15 schools, including 1 private college under vocational education segment (Shijiazhuang Institute of Technology), 6 Saintach Tutorial Schools for cultural education under quality-oriented education segment (consisting of 11 Saintach Tutorial Centers) and 8 Saintach Kindergartens under quality-oriented education segment.

Schools of the Company	**30 June 2019**	30 June 2018
Vocational education – College	**1**	1
Quality-oriented education –		
Tutorial school for cultural education	**6**	6
Among which: tutorial center	**11**	11
Quality-oriented education –		
Kindergarten	**8**	8
Total	**15**	15

1.3.2 Student enrollment

As at 30 June 2019, we had 29,985 students enrolled in our schools, including 15,694 full-time students and 14,291 part-time students. The specific details are as follows:

Breakdown of student enrollment	**2018-2019 school year**	2017-2018 school year	Changes	Percentage of changes
Full-time students				
Vocational education – Shijiazhuang Institute of Technology Including:				
Junior college	**11,438**	9,186	2,252	24.5%
Secondary college	**2,568**	2,028	540	26.6%
Subtotal (full-time college students)	**14,006**	11,214	2,792	24.9%
Quality-oriented education – Saintach Kindergartens①	**1,688**	1,716	(28)	(1.6%)
Subtotal (full-time students)	**15,694**	12,930	2,764	21.4%
Part-time students				
Vocational education – Shijiazhuang Institute of Technology				
Continuing education programs②	**14,291**	8,752	5,539	63.3%
Subtotal (part-time students)	**14,291**	8,752	5,539	63.3%
Total	**29,985**	21,682	8,303	38.3%

Notes:

① The decrease in the number of students of Saintach Kindergartens under quality-oriented education segment for the six months ended 30 June 2019 compared to that for the same period in 2018 was mainly due to the early graduation of a number of students.

② The increase in the number of students in the continuing education programs under vocational education segment for the six months ended 30 June 2019 compared to that for the same period in 2018 was mainly due to the increase in the number of students after Shijiazhuang Institute of Technology under vocational education segment was approved as a teaching station for adult examinations.

For the six months ended 30 June 2019, our tutorial centers for cultural education under quality-oriented education segment delivered approximately 176,570 Tutoring Hours to approximately 3,035 students, with the student renewal rate of the students who continued to choose to study after the completion of the first curriculum amounting to 56.8%. Details are as follows:

	For the six months ended 30 June			
Operating information	**2019**	2018	Changes	Percentage of changes
Quality-oriented education segment – Tutorial Centers for Cultural Education				
Number of Tutoring Hours delivered①	**176,570**	185,231	(8,661)	(4.7%)
Number of students tutored	**3,035**	2,897	138	4.8%
Renewal rate②	**56.8%**	63.2%	(6.4%)	(10.1%)

Notes:

① The decrease in the number of Tutoring Hours delivered for the six months ended 30 June 2019 was mainly due to the fact that the number of high-school students was increased with the accumulation of students, and yet the number of Tutoring Hours per high-school student was relatively low, which resulted in the decrease in the total number of Tutoring Hours; meanwhile, the student diversion measure taken to improve such student structure resulted in an increase in the number of students with fewer Tutoring Hours, which resulted in the decrease in the total number of Tutoring Hours.

② The decrease in the renewal rate was attributable to the change in student structure as mentioned in note①, i.e. the increased course closure of graduating students, and no renewal fees after course closure.

1.3.3 Charge and average tuition revenue

We charge our students fees comprising tuition (including tutoring fees) and, at our Shijiazhuang Institute of Technology under vocational education segment, boarding fees. Our fee range approximates to that for the year ended 31 December 2018, whereas the tutoring fee ranges for the junior college courses at Shijiazhuang Institute of Technology under vocational education segment and cultural education under quality-oriented education segment have changed as follows:

Type of course	**2018-2019 school year**	2017-2018 school year
Vocational education		
Junior college courses	**RMB6,000 to RMB10,000 per school year**	RMB5,600 to RMB10,000 per school year
Quality-oriented education		
Tutorial courses for cultural education	**RMB140 to RMB268 per course**	RMB90 to RMB248 per course

	For the six months ended 30 June			
Average Revenue[①]	**2019**	2018	Changes	Percentage of changes
Vocational education	**3,480**	3,130	350	11.2%
Including:				
Junior college	**3,627**	3,339	288	8.6%
Secondary college	**2,792**	2,149	643	29.9%
Quality-oriented education				
Kindergartens	**8,630**	8,603	27	0.3%

Note:

① The average revenue earned from each full-time student is calculated based on the revenue generated from tuition for half a fiscal year and the average number of students enrolled as of the beginning and middle of the same year.

1.3.4 Employment rate

Shijiazhuang Institute of Technology under vocational education segment builds a modern vocational education system, which adopts the "TOP" talent training model (TOP means "Technique-Occupation-Personality"), to continuously cultivate and deliver application-oriented talents for the society. For the six months ended 30 June 2019, we cooperated with over 40 of the top 500 enterprises, established 13 order-based classes and organised 6 on-site training programs, which significantly enriched our teaching practice. The employment rate of graduates for the year was approximately 95.3%:

Employment Rate	**30 June 2019**	30 June 2018	Change	Percentage of change
Vocational education	**95.3%**	94.5%	0.8%	0.8%

Note:

① The employment rate refers to the proportion of employed students to the total number of junior college graduates for the year.

1.3.5 Our teachers

Teachers	**30 June 2019**	30 June 2018	Changes	Percentage of changes
Full-time Teachers				
Vocational education	**343**	310	33	10.6%
Quality-oriented education①	**332**	340	(8)	(2.4%)
Subtotal (full-time teachers)	**675**	650	25	3.8%
Part-time Teachers②				
Vocational education	**102**	109	(7)	(6.4%)
Quality-oriented education	**281**	346	(65)	(18.8%)
Subtotal (part-time teachers)	**383**	455	(72)	(15.8%)
Total	**1,058**	1,105	(47)	(4.3%)

Notes:

① The decrease in the number of full-time teachers under quality-oriented education segment was mainly due to the decrease in the number of reserve teachers for kindergartens as compared with that of last year.

② The decrease in the number of part-time teachers was mainly due to the Group's efforts to gradually improve the number of full-time teachers, standardize, consolidate and optimize the composition of part-time teachers, and increase the number of classes given by outstanding part-time teachers.

The quality of education we provide is strongly tied to the quality of our teachers. We are committed to recruiting outstanding teachers and strive to maintain the stability of our teachers. The percentage of our teachers that have worked with us for more than two years increased from 72.3% as at 30 June 2018 to 75.6% as at 30 June 2019; and the percentage of our teachers with a bachelor's degree or above increased from 81.1% as at 30 June 2018 to 95.7% as at 30 June 2019.

1.4 Our Content and Output

1.4.1 Management output

We have acquired the capability of management output for the two major segments of vocational education and quality-oriented education.

For the six months ended 30 June 2019, our vocational education segment provided west campus of Sifang College with entrusted operation service and accommodation service for 2,970 students.

For the six months ended 30 June 2019, the "Beijing-Tianjin-Hebei Preschool Education Alliance (京津冀學前教育聯盟)" under our quality-oriented education segment had 811 cooperative members, provided paid services for content support and consultation to 165 cooperative members, and provided service guidance and training services for nearly 300 kindergartens and over 400 teachers.

1.4.2 Content output

We continuously improve our research and development capabilities to meet the needs of different customers, and we are committed to promoting the comprehensive and coordinated development of the children in various aspects from parents to teachers and from society to school. For the six months ended 30 June 2019, our quality-oriented education segment led the development of aesthetic education, sports, kindergarten teacher college and parent education programs, and we started the external promotion of the aesthetic education program jointly developed with the Hebei Youth Calligraphers Association (河北青少年書畫家協會) through the practices in internal kindergartens, and achieved book sales of nearly 5,000 copies in the first half of the year. On the other hand, we focused on the development of professional sports courses for children, and completed the sports course with the efforts of our research and development team with the background of sports and preschool education, including children's football, children's basketball, balance car, orienteering, etc., with a service coverage of more than 40 kindergartens; the offline family education and training program targeting the parents had trained more than 300 customers through the product output by way of partnership, and the product system is still in the process of continuous construction and improvement; the kindergarten teacher college provides kindergarten teachers with professional, multi-dimensional and practical methods for early childhood education, teaching, and home-school education from multiple perspectives to effectively solve practical problems encountered by the kindergarten teachers during work.

1.5 Our Technological Empowerment

Focusing on the strategic layout of "content + technology", the Group further accelerated the expansion of the traditional offline education business into the digital field. Science and technology empowers us to implement content layout in two major segments of vocational education and quality-oriented education, and consolidate and incorporate technology into the content, including technical services and technical consultation. For the six months ended 30 June 2019, we successively developed four technology products, with the functions including online live broadcast, education evaluation, cloud-based classroom, etc., which basically met most of the needs of the target group.

Gaojiaoyun (高教雲) management platform under vocational education segment – "Sousou Smart School (嗖嗖智校)": It is a SaaS-type cloud platform for college teachers and students, which is based on the complete business process of colleges. It aims to build the core platform of the smart campus to provide a series of services such as enrollment management, student registration, financial management, online payment, teaching and related administrative affairs, internship and practical training, and precise employment. For schools, it can realize the full life-cycle management of students from enrollment to employment; for students, it can provide value-added services related to school study, life and consumption. At the same time, through the data accumulation in terms of teaching, student, finance and operation management at schools, combined with cloud computing, big data, artificial intelligence and other advanced technologies, it can build knowledge spectrums and behavior models of the students to make schools as the cockpit for big data and achieve personalized study.

Youjiaoyun (幼教雲) management platform under quality-oriented education segment – "Enlightening Homeland (知蒙家園)": "Enlightening Homeland" is a cloud platform dedicated to improving the information management level of kindergartens, focusing on the affair management, home-school education, employee management and financial management in kindergartens, and can achieve efficient and convenient communication among the kindergartens, kindergarten teachers and parents. The platform is connected to the micro-application terminal on WeChat, and can keep abreast of the situations in the kindergartens in real time. It provides professional management, standardized services, high-quality content and convenient operation for the kindergartens, and has drawn the attention from and been used by many well-known kindergartens after its launch.

Online live broadcast tool – "Live Classroom (直擊課堂)": Live Classroom is an online education live broadcast tool for teachers and small and medium-sized K12 education institutions, and can realize the core functions at one stop such as course release, online audio live broadcast, student management, and paid reading, and can help individuals or organizations to build their exclusive online schools. Live Classroom is a live broadcast tool focusing on the dissemination of knowledge, and any user can use this tool to meet the needs for live broadcast. The tool makes live broadcast without client side available, which can be conducted through browsers, and is applicable for various scenarios such as one-to-one, one-to-many and double-teacher classrooms.

Intelligent education evaluation platform – "Grand Educational Evaluation (博教智評)": It is a very simple and easy-to-use questionnaire + exam + evaluation platform focusing on providing free questionnaire creation, publication, management, collection and data analysis services for the education industry, and providing convenience for most enterprises or individuals to enjoy faster and more convenient data collection and evaluation services.

1.6 Our Licenses and Honors

As of 30 June 2019, the Company had completed the 2018 annual examination and verification of the licenses, permits, approvals and certificates necessary to conduct our operations in all material aspects from the relevant government authorities in the PRC as scheduled, which have remained in full effect. Shijiazhuang High-tech Industrial Development Zone Tianshan Saintach Kindergarten* (石家莊高新技術產業開發區新天際天山幼兒園), Shijiazhuang High-tech Industrial Development Zone Saintach Tutorial School* (石家莊高新區新天際培訓學校), Shijiazhuang Qiaoxi District Bilingual Culture Tutorial School* (石家莊市橋西區雙語文化培訓學校) and Shijiazhuang Qiaoxi District Zhicheng Tutorial School* (石家莊市橋西區智城培訓學校) were awarded 2018 Annual Inspection Excellent School (Kindergarten) by Examination and Approval Bureau of Shijiazhuang Hi-tech Industrial Developmental Zone* (石家莊高新區行政審批局) and Shijiazhuang Qiaoxi District Education Bureau* (石家莊橋西區教育局), respectively.

On 16 January 2019, the Group won the award of "2018 Golden Hong Kong Listed Companies – Most Valuable Company with Small to Medium Market Value (2018金港股最具價值中小市值股公司)" at the annual award ceremony for 2018 "Golden Hong Kong Listed Companies (金港股)" held in Shenzhen by virtue of the steady growth in performance and continuous improvement in comprehensive strength in recent years and strong development potential in future.

On 9 March 2019, the Group's Saintach Kindergarten under quality-oriented education segment was awarded the title of 2018 "Advanced Unit (先進單位)" by Shijiazhuang Private Education Association, and it is the third consecutive year that Saintach Kindergarten has won this honorary title.

On 21 June 2019, the annual award results of "China Financial Market Grand Prize (中國融資大獎)" were revealed in Hong Kong, and the Group won the award of the "Listed Company with Greatest Potential (最具潛力上市公司)" by virtue of its growth.

On 24 June 2019, the cultural education training of the Group's Saintach Tutorial Schools under quality-oriented education segment won the second prize in the "Great Corporate Trainings in Hebei (河北好企訓)" activity jointly held by the State-Owned Assets Supervision and Administration Commission of the People's Government of Hebei Province* (河北省國資委), Hebei Federation of Industry and Commerce* (河北省工商聯) and Changcheng New Media Group* (長城新媒體集團) by virtue of their excellent teaching quality and high social satisfaction.

2. MARKET REVIEW

Vocational education and quality-oriented education have been further supported by policies

With the slowdown in the growth of the real economy, the importance of vocational education has risen to the national strategic level. Quality-oriented education is an area that the state has been vigorously advocating, and since the implementation of various policies by the Ministry of Education this year, it is expected to usher in faster development.

According to the 2019 Government Work Report, China has now built up the largest vocational education system in the world. Vocational college graduates account for 70% of the new labor forces every year. In the first half of 2019, the Communist Party of China, the State Council, the Ministry of Education and the Ministry of Finance mentioned to encourage and accelerate the development of modern vocational education for nine times, which is conducive to alleviating current employment pressure and is also a strategic solution to the shortage of high-skilled talents. Measures taken by relevant ministries include: implementing programs for improving vocational skills, and enlarging the enrollment in tertiary and vocational colleges by 1 million students in the future and encouraging multi-channel recruitments; RMB100.0 billion will be taken out of the unemployment insurance fund balance to provide training for over 15 million targeted attendees, helping them to upgrade skills or switch jobs or industries; about 10 vocational skills will be the starting point revolving around the national needs, and the 1+X pilot certification program will be carried out step by step. All such initiatives will increase student sources and enhance the students' enthusiasm to participate in vocational education.

On 28 March 2019, the National Development and Reform Commission and the Ministry of Education jointly issued the Implementation Measures for the Construction of Integrated Enterprises of Production and Education (Trial) (《建設產教融合型企業實施辦法(試行)》), which sets out the definition and principles of the integrated enterprise of production and education, and incorporates the rules and arrangements for the reform of production and education integration. This policy is conducive to the participation of enterprises in the integration of production and education and further standardization, and the new, deep and recognized school-enterprise cooperation and the schools with production and education integration are expected to receive the incentives in a combined form of "financial + financial + land + credit" granted by the government. This initiative will be more conducive to the content-oriented development of vocational colleges.

At the same time, the government's policy on K12 subject education and quality-oriented education is clearer, and further regulatory measures have been taken to regulate subject training institutions. According to the Opinions on Deepening the Reform of Education and Teaching and Comprehensively Improving the Quality of Compulsory Education (《關於深化教育教學改革全面提高義務教育質量的意見》) issued in July, the importance of "moral education, intellectual education, sports education, aesthetic education, and labor education" is further emphasized for quality-oriented education, and schools are encouraged to promote the implementation of quality-oriented education by purchasing services, which is conducive to the expansion of the quality-oriented education service market.

3. FUTURE PROSPECTS

Centering on the overall national objective for education modernization, we, as a large private education service provider, will continue to exert great efforts on the development of vocational education and quality-oriented education, and continue to maintain a diversified industrial layout.

We will exert more efforts on vocational education, further deepen the integration of production and education and promote the cultivation of order-based classes internally to enhance content-oriented development; and expand the school network externally. The Group currently owns a vocational college, namely Shijiazhuang Institute of Technology, and operates the west campus of Sifang College (an independent college), and will establish presence in the Yangtze River Delta City Cluster* (長三角城市群), the Pearl River Delta City Cluster* (珠三角城市群) and the Beijing-Tianjin-Hebei area for modern vocational education by way of acquisitions and mergers in the future.

We will continue to promote quality-oriented education for the children and teenagers of 0-18 years old, and provide more customers with quality-oriented education under the support of our quality faculty and courses, through our continued efforts in content development and by virtue of internet tools and technological means. We will continue to maintain a light-asset operation mode, and achieve management output by adhering to content construction and technology-empowered development.

We will promote group-based schooling and connected development, and further deepen the content development and technological research and development and further enhance the operational efficiency to promote the digital transformation of the Group. Technology-empowered products, such as Gaojiaoyun (高教雲) and Youjiaoyun (幼教雲), have been applied internally, and will be used more widely in external schools, institutions, and kindergartens to expand the number of our user groups, so that high-quality and convenient education is accessible to more people.

4. FINANCIAL REVIEW

4.1 Revenue

We derive revenue primarily from tuition (including tutoring fees) of schools from our students, boarding fees and service income for provision of college operation services to the west campus of Sifang College.

The revenue increased by approximately 16.7% from approximately RMB101.6 million for the six months ended 30 June 2018 to approximately RMB118.6 million for the six months ended 30 June 2019, mainly due to (1) the increased number of student enrollment and average tuition; and (2) the increased revenue from acquisition of Xin Tian Di Xian.

4.2 Cost of Sales

Cost of sales primarily consisted of staff costs, rental fees, depreciation and amortization and utilities.

The cost of sales increased by approximately 2.7% from approximately RMB52.1 million for the six months ended 30 June 2018 to approximately RMB53.5 million for the six months ended 30 June 2019, mainly due to the increase of the staff costs.

4.3 Gross Profit and Gross Profit Margin

The amount of gross profit increased by approximately 31.4% from RMB49.5 million for the six months ended 30 June 2018 to RMB65.0 million for the six months ended 30 June 2019, and the gross profit margin increased from approximately 48.7% for the six months ended 30 June 2018 to approximately 54.9% for the six months ended 30 June 2019, which was mainly due to the increase in the number of student enrollment.

4.4 Other Income and Gains

Other income and gains consisted of (1) interest income from banks; (2) site use fees charged to certain secondary vocational schools and companies for their external use in connection with usage of the premises and facilities of the Shijiazhuang Institute of Technology for organizing teaching activities and training sessions; (3) gains incurred from the management output of early childhood education under the quality-oriented education segment; and (4) government grants.

Other income and gains increased by approximately 115.1% from approximately RMB5.3 million for the six months ended 30 June 2018 to RMB11.4 million for the six months ended 30 June 2019, mainly due to (1) the increase of bank interest income from fixed term deposits; and (2) the receipt of government grants.

4.5 Selling and distribution expenses

Selling and distribution expenses primarily consisted of salaries and other benefits for recruitment and advertising staff, advertising expenses and student recruitment expenses.

Selling and distribution expenses increased by approximately 28.9% from approximately RMB4.2 million for the six months ended 30 June 2018 to approximately RMB5.5 million for the six months ended 30 June 2019, mainly due to the increase in recruitment promotion expenses.

4.6 Administrative Expenses

Administrative expenses consisted of salaries and other benefits for general administrative staff, office-related expenses, etc..

Administrative expenses decreased by approximately 19.8% from approximately RMB18.9 million for the six months ended 30 June 2018 to approximately RMB15.2 million for the six months ended 30 June 2019, mainly due to the non-recurring listing expenses in 2018.

4.7 Other Expenses

Other expenses mainly consisted of (1) the cost of management output of early childhood education under the quality-oriented education segment; and (2) expenses relating to loss on disposal of various fixed assets.

Other expenses decreased from approximately RMB0.4 million for the six months ended 30 June 2018 to approximately RMB0.3 million for the six months ended 30 June 2019, mainly due to the decrease in management output expenses attributed to early childhood education.

4.8 Finance Costs

Finance costs mainly represented interest on loans borrowed from financial institutions and guarantee fees paid to the third party for the loans borrowed. Finance costs increased by approximately 227.5% from approximately RMB1.5 million for the six months ended 30 June 2018 to approximately RMB4.9 million for the six months ended 30 June 2019, mainly due to the increased finance cost arising from additional bank loans.

4.9 Taxation

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

(2) The Company's directly held subsidiary was incorporated in the British Virgin Islands as an exempted company with limited liability under the British Virgin Islands Companies Act 2004 and accordingly is not subject to income tax;

(3) Pursuant to the Law of the People's Republic of China on Enterprise Income Tax and the respective regulations, except for the preferential tax rate of 15% available to Xin Tian Di Xian, all of the Company's non-school subsidiaries established in the PRC are subject to the PRC Corporate Income Tax at the rate of 25%; and

(4) Income tax expenses remained stable due to the relatively stable operation of non-school subsidiaries established in the PRC.

4.10 Profit for the Period

Due to the above factors, profit for the period of the Company increased by approximately 72.5% from approximately RMB29.3 million for the six months ended 30 June 2018 to approximately RMB50.5 million for the six months ended 30 June 2019.

4.11 Adjusted Net Profit

The Company defined its adjusted net profit as its profit for the period after adjusting for those items which were not indicative of the Company's operating performances (as presented in the table below). This was not an International Financial Reporting Standard measure. The Company had presented this item because the Company considered it as an important supplemental measure of the Company's operational performance used by the Company's management as well as analysts or investors. The following table shows profit and adjusted net profit of the Company for the periods presented below:

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Profit for the period	**50,538**	29,299
Plus:		
Listing expenses	**–**	10,485
Adjusted net profit	**50,538**	39,784

Adjusted net profit for the six months ended 30 June 2019 increased by approximately RMB10.8 million compared with that for the six months ended 30 June 2018, representing an increase of approximately 27.0%. Adjusted net profit margin increased from approximately 39.2% for the six months ended 30 June 2018 to approximately 42.6% for the six months ended 30 June 2019.

4.12 Net liquidity and capital and funds and borrowing sources

As at 30 June 2019, net current assets of the Company were approximately RMB400.2 million, which mainly consisted of prepayments, other receivables and other assets, fixed term deposits and cash and bank balances.

As at 30 June 2019, current assets increased from approximately RMB552.2 million as at 31 December 2018 to approximately RMB632.3 million. The increase in the current assets was mainly due to (1) the increase in the amount due from a related party; (2) the increase in the prepayments for renovation projects; and (3) the increase in the balance of cash and bank deposits.

As at 30 June 2019, current liabilities increased from approximately RMB170.2 million as at 31 December 2018 to approximately RMB232.1 million. The increase in current liabilities mainly reflects (1) the decrease in tuition and boarding fee received in advance from students from approximately RMB71.6 million as of 31 December 2018 to approximately RMB38.4 million as of 30 June 2019, mainly due to the recognition of tuition and boarding fee income; and (2) the increase in interest-bearing bank and other borrowings from approximately RMB13.0 million as at 31 December 2018 to approximately RMB131.8 million as at 30 June 2019, which was mainly attributable to the new loans from financial institutions, etc..

As at 30 June 2019, current ratio of the Company (current assets divided by current liabilities) was 272.4%, which was 324.4% as at 31 December 2018. The decrease in the current ratio was mainly due to the increase in borrowings from financial institutions.

In order to manage the liquidity risk, the Company monitored and maintained a sufficient level of cash and cash equivalents, which is deemed adequate by the management, as the working capital of the Company, and to eliminate the impact of cash flow fluctuations. The Company expects that it can meet the cash flow requirement in the future with internal cash flow generated by operations and bank borrowings. The Company has not adopted other financial instruments for the six months ended 30 June 2019.

All bank borrowings of the Company were denominated in Renminbi and used fixed interest rates. The Company has not adopted financial instruments for hedging purposes.

4.13 Gearing Ratio

As at 30 June 2019, the gearing ratio (calculated by total bank interest-bearing loans divided by total equity) was approximately 29.5%, representing an increase of 27.3 percentage points from approximately 2.2% as at 31 December 2018, mainly due to the new borrowings obtained by the Company from financial institutions in 2019.

4.14 Major Investment

Except as disclosed in this interim results announcement, the Company has no other plans for major investment and capital assets.

4.15 Major Acquisitions and Disposals

For the six months ended 30 June 2019 and up to the date of this interim results announcement, the Company has not conducted any major acquisition or disposal of any subsidiary or associated company.

4.16 Contingent liabilities

As at 30 June 2019, the Company did not have any material contingent liabilities (31 December 2018: nil).

4.17 Foreign exchange risk

Most gains and expenses of the Company were denominated in Renminbi. As at 30 June 2019, certain bank balances were denominated in Hong Kong dollars or US dollars. The Company currently does not have any foreign exchange hedging policy. The management of the Company will continue to monitor the foreign currency exchange risk of the Company and consider taking due diligence measures in due course.

4.18 Pledge of Asset

For the six months ended 30 June 2019, the Group has pledged a bank deposit of RMB105.0 million to secure bank facilities of RMB100.0 million.

4.19 Events after the Reporting Period

According to the announcement of the Company dated 1 August 2019, the Company entered into a strategic cooperation agreement with Zhonghai Ruanyin Investment Management Co., Ltd.* (中海軟銀投資管理有限公司) regarding a merger and acquisition fund for the education industry with a total size of RMB3.0 billion. The Company and Zhonghai Ruanyin Investment Management Co., Ltd.* (中海軟銀投資管理有限公司) will take advantages of their resources with respect to education and engage in the investment and merger and acquisition revolving around the Company's strategic layout of development, which can help the Company extend and integrate industry chains and become a leading education platform in the PRC.

4.20 Human Resources

As at 30 June 2019, the Group had approximately 1,158 employees. The remuneration policy and treatment of the Group's employees are regularly reviewed in accordance with industry practice and the performance of the Group. The Group provided external and internal training programs to its employees. As required by relevant PRC laws and regulations, the Group participated in various employee social security plans that are administered by local governments, including but not limited to, housing, pension, medical insurance and unemployment insurance.

OTHER INFORMATION

1. CORPORATE GOVERNANCE PRACTICES

The Group is committed to maintaining high standards of corporate governance to safeguard the interests of the Shareholders and to enhance corporate value and accountability. The Company has adopted the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 to the Listing Rules as its own code of corporate governance.

For the six months ended 30 June 2019, the Company has complied with all code provisions under the CG Code and adopted most of the recommended best practices set out therein.

2. 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 its own code of conduct regarding securities transactions by Directors. Having made specific enquiries to all Directors, the Directors have confirmed that they have complied with the standard requirements set out in the Model Code all the time for the six months ended 30 June 2019.

3. INTERIM DIVIDEND

The Board does not recommend to distribute any interim dividend for the six months ended 30 June 2019.

4. AUDIT COMMITTEE

As at the date of this interim results announcement, the audit committee of the Company (the "**Audit Committee**") comprises three independent non-executive Directors, namely Mr. Yao Zhijun (chairman), Mr. Guo Litian and Mr. Wan Joseph Jason.

As of 6 March 2019, the Audit Committee comprises three independent non-executive Directors, namely Mr. Yao Zhijun (chairman), Mr. Ma Guoqing and Mr. Guo Litian. On 6 March 2019, Mr. Ma Guoqing resigned as, among other things, an independent non-executive Director and a member of the Audit Committee, and Mr. Wan Joseph Jason was appointed to take such positions.

The Audit Committee has adopted the terms of reference which are in line with the CG Code. The primary duties of the Audit Committee include reviewing and monitoring the financial control, risk management and internal control systems and procedures of the Group, reviewing the financial information of the Group and the relationship with the external auditor of the Company. The unaudited condensed interim results of the Group for the six months ended 30 June 2019 have been reviewed by the Audit Committee.

5. PURCHASE, SALE OR REDEMPTION OF THE LISTED SECURITIES OF THE COMPANY

For the six months ended 30 June 2019, neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed securities of the Company.

6. USE OF NET PROCEEDS FROM THE INITIAL PUBLIC OFFERING

On 29 May 2018, the Company issued 360,000,000 Shares at a price of HK$1.13 per Share pursuant to the initial public offering of Shares, the total proceeds of which amounted to approximately HK$408.9 million, and the Shares were listed on the Main Board of the Stock Exchange. On 17 June 2018, the Company issued 36,000,000 Shares at a price of HK$1.13 per Share pursuant to a partial exercise of over-allotment options relating to listing, and the total proceeds of which amounted to approximately HK$40.7 million. The net proceeds from the listing (net of underwriting fees and relevant expenses) amounted to approximately HK$433 million. The amount will be applied in the manners as set out in the section headed "Future Plans and Use of Proceeds" in the Prospectus and the announcement of the Company dated 12 June 2019 regarding the change in use of proceeds (the "**Announcement**").

The use of net proceeds from the initial public offering for the six months ended 30 June 2019 is set out as follows:

	Intended use of net proceeds set out in the Prospectus *(HK$ million)*	**Amended use of proceeds as at the date of the Announcement** *(HK$ million)*	**Actual use of net proceeds as of 30 June 2019** *(HK$ million)*	**Remaining balance as of 30 June 2019** *(HK$ million)*	**Expected time of full utilisation of remaining balance**
Acquire and rebrand third-party kindergartens in order to expand our Saintach Kindergarten network in the Integrated Area by the end of 2020	173.2	–	0	–	–
Invest in, acquire and rebrand the domestic and overseas vocational education and quality-oriented education training schools and junior and undergraduate colleges	–	173.2	0	173.2	31 December 2020
Expand our Saintach Tutorial Center network in the Integrated Area through acquisition of third party tutorial schools primarily engaged in providing small-group tutoring services by the end of 2020	86.6	86.6	0	86.6	31 December 2020

	Intended use of net proceeds set out in the Prospectus *(HK$ million)*	Amended use of proceeds as at the date of the Announcement *(HK$ million)*	Actual use of net proceeds as of 30 June 2019 *(HK$ million)*	Remaining balance as of 30 June 2019 *(HK$ million)*	Expected time of full utilisation of remaining balance
Maintain, renovate and upgrade the facilities, equipment and infrastructure of our schools and tutorial centers and improve student accommodation, campus environment and teaching conditions at Shijiazhuang Institute of Technology	86.6	86.6	17.0	69.6	31 December 2019
Establish our presence overseas and obtain experience in operating schools abroad	43.3	43.3	0	43.3	30 June 2020
Fund our working capital and general corporate purposes	43.3	43.3	10.7	32.6	30 June 2020
Total	433.0	433.0	27.7	405.3	

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement is published on the website of the Stock Exchange at www.hkexnews.hk and on the website of the Company at www.21centuryedu.com, respectively. The interim report of the Group for the six months ended 30 June 2019 containing all the information required by the Listing Rules will be dispatched to the Shareholders and published on the above websites in due course.

DEFINITIONS

"Board"	the board of directors of the Company
"Company"	China 21st Century Education Group Limited, an exempted company incorporated in the Cayman Islands with limited liability on 20 September 2016, with its shares listed on the Main Board of the Stock Exchange
"Director(s)"	the director(s) of the Company

"government" or "state"	the central government of the PRC, including all governmental sub-divisions (such as provincial, municipal and other regional or local government entities)
"Group" or "we"	the Company, its subsidiaries and our PRC Operating Entities from time to time
"Hebei Saintach"	Hebei Saintach Education and Technology Co., Ltd.* (河北新天際教育科技有限公司), a limited liability company established under the laws of the PRC on 17 September 2002, one of the Company's PRC Operating Entities
"Integrated Area"	also known as the Beijing, Tianjin and Hebei Province integrated area. The concept of this area was created pursuant to a national strategic initiative to promote the region's economic development
"Listing Rules"	The Rules Governing the Listing of Securities on the Stock Exchange, as amended from time to time
"PRC" or "China"	the People's Republic of China
"PRC Operating Entities"	Shijiazhuang Saintach, Hebei Saintach, Shijiazhuang Institute of Technology, Saintach Tutorial Schools and Saintach Kindergartens
"Prospectus"	the prospectus issued by the Company on the initial public offering and listing dated 15 May 2018
"RMB" or "Renminbi"	Renminbi, the lawful currency for the time being of the PRC

"Saintach Kindergartens"	Shijiazhuang Qiaoxi District Blue Crystal Saintach Kindergarten* (石家莊市橋西區新天際藍水晶幼兒園), Shijiazhuang Luquan District Fukang Saintach Kindergarten* (石家莊市鹿泉區新天際福康幼兒園), Shijiazhuang Chang'an District Jianhua Saintach Kindergarten* (石家莊市長安區新天際建華幼兒園), Shijiazhuang Qiaoxi District Lidu Saintach Kindergarten* (石家莊市橋西區新天際麗都幼兒園), Shijiazhuang High-tech Industrial Development Zone Tianshan Saintach Kindergarten* (石家莊高新技術產業開發區新天際天山幼兒園), Shijiazhuang Chang'an District Qinghui Saintach Kindergarten* (石家莊市長安區新天際清暉幼兒園), Zhengding County Saintach Kindergarten* (正定縣新天際幼兒園) and Zhengding County Fumenli Saintach Kindergarten* (正定縣新天際福門裡幼兒園)
"Saintach Tutorial Centers"	Tutorial centers in multiple operating locations which are organized into different Saintach Tutorial Schools
"Saintach Tutorial Schools"	Shijiazhuang City Qiaoxi District Bilingual Culture Tutorial School* (石家莊市橋西區雙語文化培訓學校), Shijiazhuang City Chang'an District Saintach Tutorial School* (石家莊市長安區新天際培訓學校), Shijiazhuang Yuhua District Donggang Road Saintach Tutorial School* (石家莊市裕華區東崗路新天際培訓學校), Shijiazhuang City Qiaoxi District Zhicheng Tutorial School* (石家莊市橋西區智城培訓學校), Shijiazhuang City High-tech Zone Saintach Tutorial School* (石家莊市高新區新天際培訓學校) and Shijiazhuang City Xinhua District Huixuan Education Tutorial School* (石家莊市新華區慧軒教育培訓學校)
"school sponsors"	the individual(s) or entity(ies) that funds or holds interests in an educational institution
"school year"	the school year for all of our schools, which generally starts on 1 September of each calendar year and ends on 30 June of the next calendar year
"Share(s)"	ordinary share(s) of HK$0.01 each in the share capital of the Company
"Shareholder(s)"	holder(s) of the Share(s)
"Shijiazhuang Institute of Technology"	Shijiazhuang Institute of Technology* (石家莊理工職業學院), a junior college established under the laws of the PRC on 1 July 2003 of which school sponsors' interest is wholly-owned by Zerui Education as of the date of this interim results announcement and one of our PRC Operating Entities

"Shijiazhuang Saintach"	Shijiazhuang Saintach Education and Technology Co., Ltd.* (石家莊新天際教育科技有限公司), a limited liability company established under the laws of the PRC on 13 July 2011, wholly-owned by Zerui Education as of the date of this interim results announcement and one of our PRC Operating Entities
"Sifang College"	Sifang College of Shijiazhuang Tiedao University (石家莊鐵道大學四方學院)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Tutoring Hour(s)"	the unit for measuring tutoring time delivered to students, typically representing 60 minutes in lengths for secondary school students and 40 minutes in lengths for primary school students
"Zerui Education"	Hebei Zerui Education Technology Co., Ltd.* (河北澤瑞教育科技有限責任公司), a limited liability company established under the laws of the PRC on 12 July 2017, owned as to 80.625% by Mr. Li Yunong and 19.375% by Ms. Luo Xinlan as of the date of this interim results announcement, respectively, and one of our PRC Operating Entities
"%"	per cent.

Certain amounts and percentage figures included herein have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

If there is any inconsistency between the Chinese names of entities or enterprises established in the PRC and their English translations, the Chinese names shall prevail.

By order of the Board
China 21st Century Education Group Limited
Li Yunong
Chairman

Hong Kong, 9 August 2019

As at the date of this announcement, the executive Directors are Mr. Li Yunong, Mr. Liu Zhanjie, Ms. Liu Hongwei, Mr. Ren Caiyin and Ms. Yang Li; and the independent non-executive Directors are Mr. Guo Litian, Mr. Yao Zhijun and Mr. Wan Joseph Jason.

* *For identification purposes only*