卓越教育

China Beststudy Education Group
卓越教育集團*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3978)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2019

FINANCIAL AND KEY OPERATING DATA HIGHLIGHTS

	For the six months ended 30 June		
	2019	2018	% Change
	RMB'000	*RMB'000*	
Revenue	**867,401**	723,116	+20.0%
Gross Profit	**358,762**	305,901	+17.3%
Net Profit	**75,256**[1]	82,823	-9.1%
Number of Enrollments	**343,277**	289,204	+18.7%
Number of Tutoring Hours	**6,737,299**	6,003,399	+12.2%
Number of Education Centres	**260**	213	
Number of Newly Established Education Centres	**30**[2]	34	

Notes:

1. Net profit for the Reporting Period was RMB75.3 million. The particular factors significantly impacting net profit for the Reporting Period included: (i) following the adoption of new IFRS 16 *Leases* on 1 January 2019, the Group has recognised depreciation of right-of-use assets and interest expense on lease liabilities, additionally decreasing net profit by RMB7.5 million; (ii) our initial investment made in online small group tutoring business amounted to a net expense after offsetting with tax impact of RMB25.8 million. In light of the resource input associates with business expansion plan for online small group tutoring and considering its impact on the Group's net profit, we plan to adjust our strategy and to divest the controlling stake of existing online small group tutoring business. For details, please refer to Page 22 of this announcement; and (iii) a decrease in the fair value of unlisted equity investments in the amount of RMB5.7 million.

2. As of 31 December 2018, the Group had 242 education centres. During the Reporting Period, 30 new education centres were established and three education centres were separated from existing education centres and managed independently thereafter. In order to continuously improve our operation efficiency, we continue to expand new education centres as well as optimise the structure of our education centres at the same time. We upgraded and replaced six old education centres, closed three education centres pursuant to adjustment of our business strategy, closed three education centres in order to meet the compliance requirement and closed three old education centres in order to optimise our resources as these centres did not achieve our performance target.

* *For identification purposes only*

In this announcement "we", "us" and "our" refer to the Company (as defined below) and where the context otherwise requires, the Group (as defined below).

The board (the "**Board**") of directors (the "**Directors**") of China Beststudy Education Group (the "**Company**" and, together with its subsidiaries, collectively the "**Group**") announces the unaudited interim condensed consolidated financial results of the Group for the six months ended 30 June 2019 (the "**Reporting Period**"), together with the comparative figures for the corresponding period in 2018 as follows:

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
For the six months ended 30 June 2019

	Notes	**2019** ***RMB'000*** **(Unaudited)**	2018 *RMB'000* (Audited)
CONTINUING OPERATIONS			
Revenue	*4*	**867,401**	723,116
Cost of sales		**(508,639)**	(417,215)
Gross profit		**358,762**	305,901
Other income and gains, net	*4*	**10,466**	4,047
Investment income		**1**	164
Selling expenses		**(60,699)**	(54,901)
Research and development expenses		**(82,260)**	(78,656)
Administrative expenses		**(95,805)**	(79,009)
Share of profit of a joint venture		**90**	89
Share of losses of associates		**(209)**	(1,128)
Fair value changes on investments at fair value through profit or loss		**23,451**	33,331
Finance costs	*2.2*	**(25,102)**	–
Other expenses		**(37,970)**	(16,538)
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS		**90,725**	113,300
Income tax expense	*6*	**(15,469)**	(31,391)
PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS		**75,256**	81,909
DISCONTINUED OPERATIONS			
Profit for the period from discontinued operations		**–**	914
PROFIT FOR THE PERIOD		**75,256**	82,823
Attributable to:			
Owners of the parent		**75,755**	60,054
Non-controlling interests		**(499)**	22,769
		75,256	82,823
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	*8*		
Basic and diluted			
– For profit for the period		**RMB9.7 cents**	RMB9.6 cents
– For profit from continuing operations		**RMB9.7 cents**	RMB9.5 cents

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2019

	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
PROFIT FOR THE PERIOD	**75,256**	82,823
OTHER COMPREHENSIVE INCOME		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of financial statements	**622**	186
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods	**622**	186
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	**622**	186
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**75,878**	83,009
Attributable to:		
Owners of the parent	**76,377**	60,203
Non-controlling interests	**(499)**	22,806
	75,878	83,009

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

	Note	**30 June 2019 (Unaudited)** *RMB'000*	31 December 2018 (Audited) *RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**163,073**	160,768
Right-of-use assets	*2.2*	**933,768**	–
Intangible assets		**9,334**	9,586
Investment in a joint venture		**5,612**	5,512
Investments in associates		**47,589**	14,997
Equity investments at fair value through profit or loss		**66,678**	71,299
Prepayments for purchases of property, plant and equipment		**34,868**	29,179
Deferred tax assets		**15,276**	10,817
Total non-current assets		**1,276,198**	302,158
CURRENT ASSETS			
Short-term investment measured at amortised cost		**299**	–
Short-term debt investments measured at fair value through profit or loss		**531,838**	517,907
Short-term equity investments measured at fair value through profit or loss		**60,011**	412
Prepayments, deposits and other receivables		**107,568**	147,539
Restricted cash		**4,252**	2,347
Cash and cash equivalents		**490,520**	468,041
Other current assets		**1,876**	1,218
Total current assets		**1,196,364**	1,137,464

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

As at 30 June 2019

	Notes	30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
CURRENT LIABILITIES			
Other payables and accruals		**156,890**	192,079
Lease liabilities	*2.2*	**211,555**	–
Contract liabilities	*9*	**598,475**	562,841
Tax payable		**30,664**	21,410
Total current liabilities		**997,584**	776,330
NET CURRENT ASSETS		**198,780**	361,134
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,474,978**	663,292
NON-CURRENT LIABILITIES			
Rental payables		**–**	41,210
Lease liabilities	*2.2*	**773,027**	–
Total non-current liabilities		**773,027**	41,210
Net assets		**701,951**	622,082
EQUITY			
Equity attributable to owners of the parent			
Share capital	*10*	**304**	303
Reserves		**702,663**	622,821
		702,967	623,124
Non-controlling interests		**(1,016)**	(1,042)
Total equity		**701,951**	622,082

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

As at 30 June 2019

1. CORPORATE AND GROUP INFORMATION

The Company was incorporated in the Cayman Islands on 27 August 2010 as an exempted company with limited liability under the laws of the Cayman Islands. The address of the registered office of the Company is 4th Floor, Harbour Place, 103 South Church Street, P.O. Box 10240, Grand Cayman, KY1-1002, Cayman Islands.

The Company is an investment holding company. During the Reporting Period, the Group was engaged in the provision of preparing kindergarten students for their transition into primary schools to Grade 12 ("**K-12**") after-school education services, including small group tutoring courses and tutoring courses for individuals, talent education and full-time test preparation courses in Mainland China.

The ultimate controlling parties of the Group are Mr. Junjing Tang, Mr. Junying Tang and Mr. Gui Zhou who have entered into acting in concert agreement.

2.1 BASIS OF PREPARATION

The unaudited interim condensed consolidated financial information for the Reporting Period has been prepared in accordance with IAS 34 *Interim Financial Reporting*. The unaudited interim condensed consolidated financial information does 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 unaudited interim condensed consolidated financial information are consistent with those applied in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2018, except for the adoption of the new and revised International Financial Reporting Standards ("**IFRSs**") effective as of 1 January 2019.

Amendments to IFRS 9	*Prepayment Features with Negative Compensation*
IFRS 16	*Leases*
Amendments to 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 explained below regarding the impact of IFRS 16 *Leases*, Amendments to IAS 28 *Long-term Interests in Associates and Joint Ventures* and IFRIC 23 *Uncertainty over Income Tax Treatments*, the new and revised standards are not relevant to the preparation of the Group's unaudited interim condensed consolidated financial information. The nature and impact of the new and revised IFRSs are described below:

(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. Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have any financial impact on leases where the Group is the lessor.

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 retained earnings 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 properties. 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 lease liabilities.

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 right-of-use assets of RMB981,510,000 and lease liabilities of RMB1,006,904,000 as at 1 January 2019. Prepaid rental of RMB15,816,000, accrued rental expenses of RMB41,210,000 were derecognised, resulting in a decrease in prepayment and rental payables of RMB15,816,000 and RMB41,210,000, respectively, as at 1 January 2019.

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

	RMB'000 (Unaudited)
Operating lease commitments as at 31 December 2018	1,200,582
Weighted average incremental borrowing rate as at 1 January 2019	4.73%
Discounted operating lease commitments as at 1 January 2019	1,010,795
Less: Commitments relating to short-term leases and those leases with a remaining lease term ending on or before 31 December 2019	3,891
Lease liabilities as at 1 January 2019	**1,006,904**

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 lease properties for additional terms. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. It considers all relevant factors that create an economic incentive for it to exercise the renewal. 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 exercise the option to renew.

Amounts recognised in the unaudited 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, and the movement during the period are as follow:

	Right-of-use assets Properties *RMB'000* (Unaudited)	Lease liabilities *RMB'000* (Unaudited)
As at 1 January 2019	981,510	1,006,904
Additions	50,960	50,960
Depreciation charge	(98,702)	–
Interest expense	–	25,102
Payments	–	(98,384)
As at 30 June 2019	**933,768**	**984,582**

The Group recognised rental expenses from short-term leases of RMB2,007,000 and rental income from subleasing right-of-use assets of RMB447,000 for the Reporting Period.

(b) Amendments to IAS 28 clarify that the scope exclusion of IFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies IFRS 9, rather than IAS 28, including the impairment requirements under IFRS 9, in accounting for such long-term interests. IAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group assessed its business model for its long-term interests in associates and joint ventures upon adoption of the amendments on 1 January 2019 and concluded that the long-term interests in associates and joint ventures continue to be measured at amortised cost in accordance with IFRS 9. Accordingly, the amendments did not have any impact on the Group's unaudited interim condensed consolidated financial information.

(c) 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 Group considered whether it has any uncertain tax positions. Based on the Group's tax compliance, the interpretation did not have any significant impact on the Group's unaudited interim condensed consolidated financial information.

3. OPERATING SEGMENT INFORMATION

The Group is principally engaged in the provision of K-12 after-school education services in Mainland China.

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

Geographical information

During the Reporting Period, the Group operated within one geographical segment because all of its revenue was generated in Mainland China and all of its long-term assets/capital expenditure were located/incurred in Mainland China. Accordingly, no further geographical segment information is presented.

Information about major customers

No service provided to a single customer amounted to 10% or more of total revenue of the Group during the period.

4. REVENUE, OTHER INCOME AND GAINS, NET

Revenue represents the value of services rendered after allowances for refunds and discounts during the Reporting Period.

An analysis of revenue is as follows:

	For the six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Revenue from contracts with customers		
Premium learning programs		
– Small group tutoring	**414,598**	339,718
– Individualised tutoring	**355,110**	295,817
Full-time test preparation programs	**72,405**	67,421
Talent education	**24,078**	17,848
Others	**1,210**	2,312
	867,401	723,116

Revenue from contracts with customers

(i) Disaggregated revenue information

For the six months ended 30 June 2019

Segments	**Small group tutoring** *RMB'000* (Unaudited)	**Individualised tutoring** *RMB'000* (Unaudited)	**Full-time test preparation programs** *RMB'000* (Unaudited)	**Talent education** *RMB'000* (Unaudited)	**Others** *RMB'000* (Unaudited)	**Total** *RMB'000* (Unaudited)
Timing of revenue recognition						
Services transferred at a point in time	–	355,110	–	–	1,210	356,320
Services transferred over time	414,598	–	72,405	24,078	–	511,081
	414,598	355,110	72,405	24,078	1,210	867,401

For the six months ended 30 June 2018

Segments	Small group tutoring *RMB'000* (Audited)	Individualised tutoring *RMB'000* (Audited)	Full-time test preparation programs *RMB'000* (Audited)	Talent education *RMB'000* (Audited)	Others *RMB'000* (Audited)	Total *RMB'000* (Audited)
Timing of revenue recognition						
Services transferred at a point in time	–	295,817	–	–	2,312	298,129
Services transferred over time	339,718	–	67,421	17,848	–	424,987
	339,718	295,817	67,421	17,848	2,312	723,116

(ii) *Performance obligations*

Except for the other services, short-term advances are normally required before rendering the services of small group tutoring, individualised tutoring, full-time test preparation programs and talent education.

The Group has elected the practical expedient for not to disclose information about the remaining performance obligations as majority of the services have original expected duration of one year or less or the services are rendered in short period of time.

	For the six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Other income and gains, net		
Interest income	**2,968**	617
Other service income, net	**–**	924
Subsidy income from the PRC government	**6,018**	1,656
Site use income	**447**	78
Licensing and consulting income	**–**	597
Gain on disposal of items of property, plant and equipment	**147**	–
Gain on disposal of an associate	**848**	–
Others	**38**	175
	10,466	4,047

5. PROFIT BEFORE TAX

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

		For the six months ended 30 June	
	Notes	**2019**	2018
		RMB'000	*RMB'000*
		(Unaudited)	(Audited)
Employee benefit expense (excluding Directors' remuneration):			
Wages and salaries		**385,763**	346,771
Pension scheme contributions		**46,765**	37,369
Equity-settled share option expense		**–**	1,959
		432,528	386,099
Cost of services provided		**508,639**	417,215
Depreciation of property, plant and equipment		**30,575**	17,152
Depreciation of right-of-use assets		**98,702**	–
Amortisation of intangible assets		**1,137**	1,029
Minimum lease payments under operating leases		**2,007**	91,118
Fair value losses/(gains):			
Unlisted equity investments at fair value through profit or loss		**5,662**	(18,758)
Wealth management products issued by banks		**(8,609)**	(15,808)
Unlisted trust plans		**(989)**	–
Bond funds		**(503)**	–
Listed equity investments		**(19,012)**	1,235
Auditor's remuneration		**1,400**	457
Listing expenses		**–**	15,714
(Gain)/loss on disposal of items of property, plant and equipment, net		**(147)**	200
Loss on disposal of intangible assets		**63**	–
Interest income	*4*	**(2,968)**	(617)
Finance costs	*2.2*	**25,102**	–
Subsidy income from the PRC government	*4*	**(6,018)**	(1,656)
Foreign exchange difference, net		**(207)**	296
Gain on disposal of an associate	*4*	**(848)**	–

6. 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.

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.

PRC Corporate Income Tax ("CIT")

Zhuhai Chuangsi Language Training School 珠海創思語言培訓學校 ("**Zhuhai Chuangsi**") and Guangzhou Beststudy Wendao Travel Agent Co., Ltd. 廣州卓越問道旅行社有限公司 ("**Guangzhou Wendao**") were certified as a small and micro-sized enterprise ("**SME**") and were entitled to a preferential tax rate of 20% in 2018. During the period, Zhuhai Chuangsi and Guangzhou Wendao were not certified as an SME. As a result, Zhuhai Chuangsi and Guangzhou Wendao were subject to income tax at a statutory rate of 25% for the period (2018: 20%).

Pursuant to the CIT Law and the respective regulations, the other PRC subsidiaries were subject to income tax at a statutory rate of 25% for the period (2018: 25%).

CIT of the Group has been provided at the applicable tax rates on the estimated taxable profits arising in Mainland China during the period.

	For the six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Current – the PRC		
Charge for the period	**24,539**	31,186
Overprovision in prior years	**(4,611)**	–
Deferred	**(4,459)**	205
Total tax charge for the period from continuing operations	**15,469**	31,391
Total tax charge for the period from discontinued operations	**–**	51
	15,469	31,442

A reconciliation of the tax expense applicable to profit before tax at the statutory tax rate of the majority of the Group's subsidiaries to the tax expense at the effective tax rate is as follows:

	For the six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Profit before tax from continuing operations	**90,725**	113,300
Profit before tax from discontinued operations	**–**	965
	90,725	114,265
Tax at the statutory tax rate	**22,681**	28,566
Adjustments in respect of current tax of previous periods	**(4,611)**	–
Profits and losses attributable to associates and a joint venture	**30**	261
Income not subject to tax	**(3,137)**	(4,889)
Expenses not deductible for tax	**536**	2,400
Additional deduction of research and development expenses	**(4,168)**	–
Tax losses utilised from previous periods	**(702)**	(105)
Tax losses not recognised	**4,840**	5,209
	15,469	31,442
Tax charge from continuing operations at the effective rate	**15,469**	31,391
Tax charge from discontinued operations at the effective rate	**–**	51

7. DIVIDENDS

No dividend had been declared by the Company during the Reporting Period.

During the six months ended 30 June 2018, Guangzhou Beststudy Enterprise Co., Ltd. 廣州市卓越里程教育科技有限公司, a subsidiary of the Group, declared and paid cash dividends of RMB100,000,000 to its then shareholders.

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

The calculation of the basic earnings per share amounts is based on the profit for the period attributable to ordinary equity holders of the parent of RMB75,755,000 (six months ended 30 June 2018: RMB60,054,000), and the weighted average number of ordinary shares of 778,748,377 (30 June 2018: 625,793,254) in issue during the period, as adjusted to reflect the rights issue during the period.

The weighted average number of ordinary shares for the purpose of calculating basic earnings per share for the six months ended 30 June 2019 and 2018 have been retrospectively adjusted for the effect of issue of ordinary shares and arrived at after eliminating the shares of the Company held under the restricted stock unit scheme ("**RSU Scheme**").

The diluted earnings per share amount is equal to the basic earnings per share amount for the six months ended 30 June 2019 and 2018, as there were no potentially dilutive ordinary shares in issue during the six months ended 30 June 2019 and 2018. RSUs are not included in the computation of diluted earnings per share as RSUs have not been granted under the RSU Scheme as at 30 June 2019.

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

	For the six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation:		
From continuing operations	**75,755**	59,140
From discontinued operations	**–**	914
Profit attributable to ordinary equity holders of the parent	**75,755**	60,054

	Number of shares for the six months ended 30 June	
	2019	2018
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	**778,748,377**	625,793,254

9. CONTRACT LIABILITIES

	30 June 2019	31 December 2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Contract liabilities		
– Tutoring fees	**598,475**	562,841

The contract liabilities primarily relate to the advance consideration received from the students for contracts, for which revenue is recognised when the services have been rendered.

Changes in contract liabilities during the period/year are as follows:

	30 June 2019	31 December 2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
At the beginning of the period/year	**562,841**	517,171
Revenue recognised that was included in the contract liabilities at the beginning of the period/year	**(459,383)**	(517,171)
Increases due to cash received, excluding amounts recognised as revenue during the period/year	**495,017**	562,841
At the end of the period/year	**598,475**	562,841

10. SHARE CAPITAL

Shares

	30 June 2019 *RMB'000* **(Unaudited)**	31 December 2018 *RMB'000* (Audited)
Authorised:		
3,000,000,000 ordinary shares of US$0.00005 each as at 30 June 2019 (2018: 3,000,000,000 ordinary shares)	**1,070**	1,070
Issued and fully paid:		
849,720,000 ordinary shares as at 30 June 2019 (2018: 848,040,000 ordinary shares)	**304**	303

A summary of movements in the Company's share capital is as follows:

	Number of shares in issue	**Share capital** *RMB'000*
At 31 December 2018 and 1 January 2019	**848,040,000**	303
Exercise of over-allotment options	**1,680,000**	1
At 30 June 2019	**849,720,000**	304

On 16 January 2019, a total number of 1,680,000 shares were issued by the Company at HK$2.40 per share upon the exercise of over-allotment share options granted to the relevant underwriters in connection with the global offering.

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

As the largest K-12 after-school education service provider in southern China and the fifth largest nationwide[1], our Group has been adhering to the "all for children" since our establishment 22 years ago. We provide quality and diversified education products and services to students and parents. Our Group mainly offers after-school education-related courses, including Small Group Tutoring, Individualised Tutoring, Talent Education and Full-time Test Preparation Program.

As of 30 June 2019, the Group had a total of 260 education centres nationwide, which are mainly distributed in major cities in the Greater Bay Area such as Guangzhou, Foshan, Shenzhen, Dongguan, Zhongshan and Zhuhai. The main education products and services provided by our Group are Small Group Tutoring, Individualised Tutoring, Talent Education and Full-Time Test Preparation Program. Our Small Group Tutoring and Individualised Tutoring are designed to improve students' academic performance, and cover all key academic subjects taught in primary schools, middle schools, and high schools in China. Our Talent Education is designed to nurture the all-round development of our students and make the learning process more engaging and enjoyable. Our Full-time Test Preparation Program aims to help middle school and high school graduates achieve admission to their preferred schools through Zhongkao (中考) and Gaokao (高考).

The Group has been deep plowing the South China area and radiating across the country. Through 22 years of efforts and development, our "Zhuoyue Education" (卓越教育) brand and reputation have also been recognised and welcomed by students and parents. In financial year 2019, we obtained the award of "2018 Education Leader" (2018年度教育領航者) issued by "Yangcheng Evening News" (羊城晚報) and the "2019 Shenzhen Business Leading Brand in the New Consumption Era" (2019年新消費時代深圳商業領軍品牌) accredited by Shenzhen Special Zone Daily. The recognition of students, parents and people from all walks of life will help us to enlarge our student pool and further strengthen our market position in the K-12 after-school education training industry in China.

Business Review

- During the Reporting Period, our Group had a revenue of RMB867.4 million, achieving an increase of approximately 20.0% compared to the six months ended 30 June 2018.

- During the Reporting Period, our student enrollment number was 343,277 and the total tutoring hours were approximately 6,737,299 hours, representing an increase of approximately 18.7% and 12.2%, respectively, as compared to the six months ended 30 June 2018.

[1] According to an industry report prepared by Frost & Sullivan based on 2017 statistics.

- Our Group has achieved a continuing increase in terms of regional expansion and market share. As of 30 June 2019, the number of our education centres is 260. During the Reporting Period, we added 30 new education centres, 28 of which are located in major cities in the "Greater Bay Area" such as Guangzhou, Foshan, Dongguan, Zhongshan, Huizhou and Shenzhen, demonstrating the Group's strategy of continuing and steady expansion of our Group's business regions. In order to continuously improve our operation efficiency, we continue to expand new education centres as well as optimise the structure of our education centres at the same time. We upgraded and replaced six old education centres, closed three education centres pursuant to adjustment of our business strategy, closed three education centres in order to meet the compliance requirement and closed three old education centres in order to optimise our resources as these centres did not achieve our performance target.

- The operation conditions of our education centres newly opened in 2018 were satisfactory. The revenue and gross profit have achieved substantial growth in the Reporting Period. Most of the education centres have broken even in line with our schedule and some of which have achieved profitability and contributed to our operating results. This reflects the effectiveness of our Group's regional expansion strategy and demonstrates a positive growth trend.

- The one-on-three individualised course we introduced to the market in 2018 was widely appreciated by the customers. During the Reporting Period, our student enrollment number and total tutoring hours for the one-on-three individualised course achieved a substantial increase of approximately 71.7% and 91.4% as compared to the six months ended 30 June 2018.

- With respect to operational indicators, our student retention rate[2] was approximately 80.4% during the Reporting Period, representing a steady increase from 74.5% for the six months ended 30 June 2018. Despite many new education centres were added during the Reporting Period, the department of Small Group Tutoring has reached a 62.5% full class rate[3], maintaining a relatively stable level.

- We were committed to continuingly improving our research and development capabilities by continually researching and developing, updating and improving our curricula, teaching materials and information technology system. As of 30 June 2019, we had an in-house research and development team of 582 employees. During the Reporting Period, our research and development expenses amounted to RMB82.3 million. We will keep our level of investment in research and development to maintain and improve our education quality in order to ensure future potential for business growth.

- Our selling expenses to revenue ratio remained at a steady level. During the Reporting Period, the percentage of selling expenses in terms of revenue was approximately 7.0%. We primarily employ word-of-month referrals by users as our marketing strategy to focus our resources on research and development as well as training of our teachers in order to attract students through high quality education services. In line with continuous expansion of our education centres, we will increase our marketing expenses.

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[2] The "student retention rate" refers to the number of students who, after completing one semester tutoring course on a certain subject, continue to enroll in our tutoring course on the same subject for the consecutive semester or every other semester as a percentage of the total number of students who complete our K-12 after-school tutoring courses during a calendar year.

[3] "Full class rate" of the Small Group Tutoring and Talent Education is the ratio of the actual enrollment number to the maximum enrollment number of Small Group Tutoring and Talent Education

- We will continue to commit to building a high-quality teaching team. As of 30 June 2019, our Group had 3,271 full-time teachers. We placed and will continue to place strong emphasis on providing comprehensive and systematic training for our teachers by establishing a training and career development department, which we named "Zhuoyue Academy", to develop and provide comprehensive training programs for our teachers, which is critical to the consistency of the quality of our education products and services.

Prospects

Our goal is to maintain and strengthen our established leading position in China's K-12 after-school education market. We intend to pursue the following strategies to achieve our goal and further grow our business and expand our market share:

1. **Increase existing market penetration and expand our geographic coverage**

   We plan to continue to penetrate our existing markets where we already have established presences, maintain and continue to increase our market share and improve our existing education centres' performance. In order to enhance the study experience of our students and parents, we also plan to continue to upgrade our teaching equipment and facilities of the existing education centres. With our brand influence and reputation, we will continue to expand our education services network in southern China, especially the Greater Bay Area. Our education centre expansion plan is still progressing in a sustainable and steady manner and we will keep flexibility in the progress in response to market conditions.

2. **Continue to optimise and diversify our service offerings**

   In order to broaden our student base and enhance our profitability, we plan to continuingly optimise and diversify our service offerings.

   (i) ***Continue to enrich and optimise our present education program offerings.*** We have put forward "Chinese Dominance" as the strategic goal of our Group to make Chinese education as our Group's positioning from the perspectives of branding, product managing and marketing. For example, in order to optimise Chinese education system and cultivate tier one Chinese teachers, we have cooperated with the Chinese College of Beijing Normal University to establish "Zhuoyue Education Research Centre" in July 2019. The Chinese College of Beijing Normal University has maintained leading standard in the same subject nationwide and its Chinese Subject is the first batch of national key disciplines in the first-level disciplines. We will make use of the university's resources and advantages to carry out the planning of the Chinese curriculum system in the basic education stage, establish a more scientific curriculum system, and expand the output channels of the language. At the same time, we will use a series of activities including Chinese Youth League, Traditional Chinese Cultural Festivals marketing events, Master's Forums to promote two major Chinese products, Beststudy Chinese Subject and Beststudy Macro Chinese, in order to improve the brand awareness of our "Chinese Dominance".

(ii) ***We also plan to continuingly optimise and upgrade our one-on-three course offerings under our individualised tutoring program.*** As an important component of our individualised tutoring program, our one-on-three courses will focus on high quality and prime services as a guideline for development. Since the introduction of our one-on-three course offerings in 2018, we have continuingly invested our resources in developing good quality teaching substance, maintained the teaching principle of training student's knowledge, quality and overall ability, improved the one-on-three class mode and upgraded education services. The number of students increased continuously and we have established good reputation among our students and parents. During the Reporting Period, our one-on-three course offerings achieved outstanding increase. Both the number of student enrollment and tutoring hours recorded substantial increases. We expect our one-on-three course offerings will maintain a continuous growth and its proportion in our individualised tutoring program will continue to increase. We also expect our student retention rate will steadily increase.

(iii) ***Continue to develop the art major candidate market.*** In view of the surge in the number of art major candidates in southern China, we provided Gaokao preparation course to art major candidates and established a specialised art major school from 2017 and plan to further expand our market in Guangzhou and Shenzhen. Currently, our senior teaching and research team has published a series of textbooks and curriculum systems specifically for art major candidates. In the future, we will continue to invest in research and development of resources, optimise and upgrade standardised products, create smart classrooms and establish and improve independent curriculum systems and specialised teachers team.

3. Upgrade teaching platform system, achieve informatisation and digitisation in teaching activities and teaching management by utilising teaching visualisation platform

We plan to continuously upgrade our information technology platforms to achieve informatisation and digitisation of our teaching and teaching management. During recent years, we have invested a substantial amount of research and development resources in development of information technology platforms. Through our continuous research and development investment, we recently released the E-Education System ("**EES**"), which is a comprehensive teaching system that integrates product development, teaching management, course content and interaction between education centres and parents. It has standardised teaching activities, informatised and digitalised teaching management. In the future, we will continue to invest in the research and development, optimisation and upgrading of EES, combining artificial intelligence, cloud computing and big data analysis in the teaching process to better record and analyse the teaching and learning process, generate accurate student portraits. Through analysing data models and the full process of teaching and researching-teaching-practice and assessment, we will be able to design more effective and more individualised teaching plan and methods from multiple perspectives which will achieve smart teaching. At the same time, combined with our self-developed teaching visualisation platform, teaching management is more scientific and efficient. In addition, big data will also be applied to our teaching management system to integrate and centrally manage student data, education centres operations, and enrollment to improve operational efficiency.

4. Explore online education

As an important component of the merge of online and offline education services and products ("**OMO**"), we believe that the launch of the online one-on-one tutoring courses could provide students and parents with more flexible and all-rounded individualised tutoring solutions. We have improved our online individualised product model and established teaching management system including smart evaluation and pedagogical and artificial intelligence-assisted teaching. We have also made breakthroughs in OMO enrollment mode and reduction on cost of getting new customers. In the future, we will continue to explore and optimise product models and increase investment in artificial intelligence teaching in order to provide high-quality online personalised tutoring services to more students and to build a complete one-to-one individualised tutoring product system.

With respect to the online small group tutoring, we have been investing resources in early stage research and development to focus on the technical polishing of online live broadcast and intelligent teaching interaction technology and constantly improve all aspects of teaching. We have achieved positive results on products and technologies and laid a solid foundation for future development. We consider that in the future, the online small group tutoring business model will rely on a large amount of investment to obtain higher growth in online users traffic and will put pressure on operating profit in the short term. In order to achieve continuous expansion of business, we plan to adjust our strategy and to divest the controlling stake of existing online small group tutoring business by introducing external investment, and we shall participate in online small group tutoring in the form of associate interest to achieve short-to-mid-term balance for profitability.

5. Pursue selective strategic alliances and acquisitions

We intend to pursue selective strategic alliances and/or acquisitions to enhance our growth potential and market share as and when appropriate. We intend to acquire or make strategic investments in certain regionally renowned K-12 after-school education service providers to increase market coverage into some of our targeted local markets.

FINANCIAL REVIEW

Revenue

The following table sets forth a breakdown of our Group's revenue by type of education services we provided in the six months ended 30 June 2019 and 2018:

	For the six months ended 30 June		
	2019	2018	% Change
	RMB'000	*RMB'000*	
	(Unaudited)	*(Audited)*	
Small Group Tutoring	**414,598**	339,718	+22.0%
Individualised Tutoring	**355,110**	295,817	+20.0%
Full-time Test Preparation Program	**72,405**	67,421	+7.4%
Talent Education	**24,078**	17,848	+34.9%
Others	**1,210**	2,312	-47.7%
Total	**867,401**	723,116	+20.0%

Our Group's revenue is principally generated from the tuition fees we collect from our students. During the Reporting Period, our Group's revenue generated from our principal business increased by approximately 20.0% to approximately RMB867.4 million from approximately RMB723.1 million for the six months ended 30 June 2018. As compared to the six months ended 30 June 2018, the increase in revenue generated from our principal business was mainly attributable to the increase in number of overall enrollments, tutoring hours and per-hour charges.

(i) Number of enrollments

	For the six months ended 30 June		
	2019	2018	% Increase
Small Group Tutoring	**246,090**	205,200	+19.9%
Individualised Tutoring	**87,700**	74,555	+17.6%
Full-time Test Preparation Program	**2,700**	2,577	+4.8%
Talent Education	**6,787**	6,872	-1.2%

(ii) Tutoring hours

	For the six months ended 30 June		
	2019	2018	% Increase
Small Group Tutoring	**5,060,096**	4,562,742	+10.9%
Individualised Tutoring	**1,394,539**	1,216,945	+14.6%
Full-time Test Preparation Program	**N/A**	N/A	N/A
Talent Education	**282,664**	223,712	+26.4%

(iii) Per-hour charges

	For the six months ended 30 June		
	2019	2018	% Increase
	RMB	*RMB*	
Small Group Tutoring	**82**	74	10.8%
Individualised Tutoring	**255**	243	4.9%
Full-time Test Preparation Program	**N/A**	N/A	N/A
Talent Education	**85**	80	6.3%

Cost of Sales

Cost of sales increased by approximately RMB91.4 million or 21.9% from approximately RMB417.2 million for the six months ended 30 June 2018 to approximately RMB508.6 million for the Reporting Period. The increase was mainly attributable to (i) an increase in rentals as well as depreciation and amortisation caused by the construction of the new education centres pursuant to our expansion plan since 2018; (ii) an increase in rentals as well as depreciation and amortisation caused by improvements and renovations of our old education centres since the second half of 2018 and (iii) an increase in staff costs with the expansion of our business.

Gross Profit and Gross Profit Margin

As a result of the above principal factors, our Group's gross profit increased by approximately 17.3% from approximately RMB305.9 million for the six months ended 2018 to approximately RMB358.8 million for the Reporting Period.

The gross profit margin of our Group for the six months ended 30 June 2018 was approximately 42.3%, whilst for the Reporting Period it was approximately 41.4%. The decrease in gross profit margin was primarily due to the increase in cost of sales as a result of construction of new education centres and renovation of the old education centres. While we consider such investment is critical to the future development of our Group, we have also seen that these newly established education centres have achieved profitability gradually and improved our overall gross profit margin from that of 38.9% for the second half of 2018.

Other Income and Gains

During the Reporting Period, our Group recorded other income and gains in the amount of approximately RMB10.5 million, representing an increase of approximately RMB6.5 million or 162.5% as compared to the corresponding period last year. The other income and gains during the Reporting Period mainly include interest income of current deposit and time deposit in the amount of approximately RMB3.0 million and government grants in the amount of approximately RMB6.0 million, representing an increase of approximately RMB2.4 million and approximately RMB4.3 million, respectively, as compared to the corresponding period last year.

Fair Value Changes on Investments at Fair Value through Profit or Loss

The fair value changes on investments at fair value through profit or loss decreased by RMB9.8 million from approximately RMB33.3 million for the six months ended 30 June 2018 to approximately RMB23.5 million for the Reporting Period, which is mainly attributable to (i) a decrease in fair value of unlisted equity investments in the amount of RMB5.7 million was recorded for the Reporting Period, as compared to an increase of fair value of RMB18.8 million for the six months ended 30 June 2018; and (ii) a decrease in fair value of wealth-management products, bond funds and unlisted trust plans by approximately RMB5.7 million from RMB15.8 million for the six months ended 30 June 2018 to RMB10.1 million for the Reporting Period. Such decreases in fair value were partially off-set by an increase in fair value of listed equity investments in the amount of RMB19.0 million for the Reporting Period.

Selling Expenses

During the Reporting Period, our Group's total selling expenses amounted to approximately RMB60.7 million, representing an increase by approximately 10.6% from approximately RMB54.9 million for the six months ended 30 June 2018. The increase was mainly due to the increase in our advertising and marketing expenses, which was critical to our business growth and expansion and incurred in accordance to our plan. Despite the increase, our selling expenses as a percentage of revenue has maintained at a relatively stable level (7.6% for the six months ended 2018 and 7.0% for the Reporting Period).

Administrative Expenses

Administrative expenses include the compensation for administrative staff, office rentals and daily operational expenses. During the Reporting Period, our Group's total administrative expenses amounted to approximately RMB95.8 million, representing an increase of approximately 21.3% as compared to approximately RMB79.0 million for the six months ended 30 June 2018.

The increase was mainly due to (i) the adjustments of employees' compensations packages, (ii) the increase in rentals for new offices and (iii) the increase in professional consulting fees.

Research and Development Expenses

During the Reporting Period, our Group's research and development expenses amounted to approximately RMB82.3 million, representing an increase of approximately RMB3.6 million or 4.6% from approximately RMB78.7 million for the six months ended 30 June 2018.

The increase was mainly attributable to adjustments of compensation packages of our research and development employees. We constantly invest in research and development activities to support the long-term development of business of our Group. During the Reporting Period, our research and development expenses as a percentage of revenue has maintained at a relatively stable level (10.9% for the six months ended 2018 and 9.5% for the Reporting Period).

Other Expenses

Our Group's other expenses during the Reporting Period amounted to approximately RMB38.0 million, mainly consisted of net loss of certain projects expenses in the amount of approximately RMB35.9 million, among which approximately RMB34.4 million was related to investment into research and development as well as advertising for the Group's online small group tutoring.

For online small group tutoring, we have achieved positive results on products and technologies and laid a solid foundation for future development. We consider that in the future, the online small group tutoring business model will rely on a large amount of investment to obtain higher growth in online users traffic and will put pressure on our financial performance in the short term. In order to achieve continuous expansion of business while balancing for the short-to-mid-term profitability, we plan to adjust our strategy to participate in online small group tutoring in the form of associate interest. In the event that the Group has materialised its divestment plan of the online small group tutoring business, it is expected that no substantial investment expenses will be further incurred for developing online small group tutoring business. Instead, a share of profit or loss of the associate would be recorded to reflect our Group's invest result on these type of companies.

Finance Costs

During the Reporting Period, our Group recorded finance costs in the amount of approximately RMB25.1 million as a result of the interest expense recognised upon adoption of IFRS 16 *Leases*.

Income Tax Expense

During the Reporting Period, our Group's income tax expense was approximately RMB15.5 million, decreased by approximately RMB15.9 million from approximately RMB31.4 million for the corresponding period last year. The effective tax rate decreased from 27.7% for the six months ended 30 June 2018 to 17.1% for the Reporting Period. The decrease in effective tax rate was mainly attributable to (i) the adjustment in respect of current tax for the year 2018 due to some PRC subsidiaries made additional deductions for research and development expenses during the Reporting Period; and (ii) certain increase in fair value of capital investment generated in Hong Kong which was not subject to profits tax.

Profit for the Period

Our Group's profit for the period decreased from approximately RMB82.8 million for the six months ended 30 June 2018 to approximately RMB75.3 million for the Reporting Period, representing a decrease of approximately 9.1%. The particular factors significantly impacting net profit for the Reporting Period mainly included: (i) following the adoption of new IFRS 16 *Leases* on 1 January 2019, the Group has recognised depreciation of right-of-use assets and interest expense on lease liabilities, additionally decreasing net profit by RMB7.5 million; (ii) a net expense after offsetting with tax impact in the amount of RMB25.8 million was incurred for our online small group tutoring business. In light of the resource input associates with the business expansion plan for online small group tutoring and considering its impact on the Group's net profit, we plan to adjust our strategy and to divest the controlling stake of existing online small group tutoring business; and (iii) a decrease in the fair value of unlisted equity investments in the amount of RMB5.7 million.

Non-GAAP Measurements Related to the Profit for the Reporting Period

To supplement our unaudited interim condensed consolidated financial statements, which are presented in accordance with IFRSs, we also use Adjusted Net Profit and Net Profit from Core Business as additional financial measurements. We present these financial measures because they are used by our management to evaluate our financial performance by eliminating the impact of items that we do not consider indicative of the performance of our business. We also believe these non-GAAP measurements provide additional information to investors and others in understanding and evaluating our results of operations.

The terms of Adjusted Net Profit and Net Profit from Core Business are not defined under IFRSs. The use of these non-GAAP measurements have material limitations as an analytical tool, as they do not include all items that impact our net profit for the periods. We compensate for these limitations by reconciling these financial measures to the nearest IFRSs performance measure, which should be considered when evaluating the Group's performance.

Our Adjusted Net Profit decreased by approximately 24.4% from approximately RMB99.6 million for the six months ended 30 June 2018 to approximately RMB75.3 million for the Reporting Period. The Adjusted Net Profit eliminates the effect of non-recurring items and certain items that were not incurred in relation to the Group's principal business, such as listing expenses, equity-settled share compensation costs and discontinued operations.

The Net Profit from Core Business represents the Adjusted Net Profit excluding the effect of share of profits or losses of associates and a joint venture and fair value changes on unlisted equity investments through profit or loss, which is decreased by 1.0% from approximately RMB81.9 million for the six months ended 30 June 2018 to approximately RMB81.0 million for the Reporting Period.

The following table reconciles the Adjusted Net Profit and the Net Profit from Core Business for the periods presented to net profit for the periods, the most directly comparable financial measurement calculated and presented in accordance with IFRSs.

	For the six months ended 30 June		
	2019	2018	% Change
	RMB'000	*RMB'000*	
Net Profit	**75,256**	82,823	-9.1%
Add:			
Listing Expenses	**–**	15,714	
Equity-settled share compensation costs	**–**	1,959	
Discontinued operations	**–**	(914)	
Adjusted Net Profit	**75,256**	99,582	-24.4%
Add:			
Fair value changes on unlisted equity investments through profit or loss	**5,662**	(18,758)	
Share of profits or losses of associates and a joint venture	**119**	1,039	
Net Profit from Core Business	**81,037**	81,863	-1.0%

In light of the foregoing limitations for other financial measurements, when assessing our operating and financial performance, shareholders and investors should not consider Adjusted Net Profit and Net Profit from Core Business in isolation or as a substitute for our profit for the period, operating profit or any other operating performance measure that is calculated in accordance with IFRSs. In addition, because such measures may not be calculated in the same manner by all companies, it may not be comparable to other similar titled measurements by other companies.

Liquidity and Financial Resources

As at 30 June 2019, cash and cash equivalents of our Group remained stable and amounted to approximately RMB490.5 million, representing a slight increase of approximately 4.8% as compared with approximately RMB468.0 million as at 31 December 2018.

Our cash and cash equivalent balances are denominated in RMB. Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances and deposits are deposited in creditworthy banks with no recent history of default.

Current and Gearing Ratio

As at 30 June 2019, the current ratio of our Group was approximately 1.20, representing an increase from approximately 1.47 as at 31 December 2018. The current ratio is equal to total current assets divided by the total current liabilities.

As at 30 June 2019, the gearing ratio of our Group was approximately 71.6%, representing an increase from approximately 56.8% as at 31 December 2018. The gearing ratio is equal to total debts divided by the sum of total equity and total debts.

Future Plans for Material Investments and Capital Assets

The Group did not have other plans for material investments or capital assets as of the date of this announcement.

Significant Investment, Acquisition and Disposal of Subsidiaries

The Group had no significant investment, acquisition or disposal of subsidiaries during the Reporting Period.

Contingent Liabilities

As of 30 June 2019, the Group did not have any unrecorded significant contingent liabilities, guarantees or any litigation against our Group.

Pledge of Assets

As at 30 June 2019, bank balances amounting to RMB4,252,000 were restricted, including bank balances amounting to RMB1,252,000 restricted as per request by some local education bureaus for launching the private education business, and bank balance of RMB3,000,000 restricted for capital verification purpose upon setting up some of the Group's subsidiaries.

Bank Loans and Other Borrowings

As at 30 June 2019, the Company did not have bank loans or other borrowings.

Foreign Exchange Exposure

Our Group's sales and purchases during the Reporting Period were mostly denominated in RMB. As at 30 June 2019, the proceeds received from the listing were denominated in HKD. Therefore, the foreign exchange risk assumed by us primarily arises from movements in the HKD/RMB exchange rates. During the Reporting Period, the Group did not experience any significant difficulties in or impacts on its operations or liquidity due to fluctuations in currency exchange rates. Our Group did not enter into any financial instrument for hedging purpose.

SUBSEQUENT EVENT

Subsequent to the end of the reporting date, the Group had no significant events occurred.

HUMAN RESOURCES

As at 30 June 2019, our Group had a total of 6,275 (2018: 5,278) employees. To ensure that our Group is able to attract and retain staff capable of attaining the best performance levels, remuneration packages are reviewed on a regular basis. The employees' share option scheme is employed by our Group. The total equity-settled share compensation costs to employees for the Reporting Period were nil and approximately RMB2.0 million in the comparable period of 2018. The decrease was mainly attributable to the variation of vesting period of the share options granted to employees. In addition, discretionary bonus is offered to eligible employees by reference to our Group's results and individual performance.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend to the shareholders of the Company for the Reporting Period.

CORPORATE GOVERNANCE PRACTICES

The Company recognised the importance of good corporate governance for enhancing the management of the Company as well as preserving the interests of its shareholders as a whole. The Company has adopted the code provisions as set out in the Corporate Governance Code (the "**CG Code**") as contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"), as its own code to govern its corporate governance practices.

In the opinion of the Directors, the Company has complied with the relevant code provisions contained in the CG Code during the Reporting Period.

Under the code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and performed by different individuals. Under the current organisation structure of the Company, Mr. Junjing Tang is the chairman and chief executive officer of the Company. With extensive experience in the education industry, Mr. Junjing Tang is responsible for overall development, operation and management of the Company and is instrumental to the growth and business expansion since the establishment of the Group. The Board considers that vesting the roles of chairman and chief executive officer in the same person is beneficial to the management of the Group. The balance of power and authority is ensured by the operation of the senior management and the Board, which comprises experienced individuals. The Board currently comprises three executive directors (including Mr. Junjing Tang), two non-executive directors and three independent non-executive directors and therefore has a fairly strong independence element in its composition.

The Board will continue to review and monitor the practices of the Company with an aim of maintaining a high standard of corporate governance.

MODEL CODE FOR SECURITIES TRANSACTIONS

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 dealings in the securities of the Company by the Directors and the Group's senior management who, because of his/her office or employment, is likely to possess inside information in relation to the Company or its securities.

Upon specific enquiry, all Directors confirmed that they have complied with the Model Code during the Reporting Period. In addition, the Company is not aware of any non-compliance of the Model Code by the senior management of the Group during the Reporting Period.

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

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

REVIEW OF FINANCIAL INFORMATION

Audit Committee

The audit committee of the Company, comprising Mr. Peng Xue, Ms. Yu Long, and Mr. Wenhui Xu, has discussed with the management and reviewed the unaudited interim financial information of the Group for the Reporting Period, and considered that the Company had complied with all applicable accounting standards and requirements and made adequate disclosures.

PUBLICATION OF RESULTS ANNOUNCEMENT AND INTERIM REPORT

This announcement is published on the website of The Stock Exchange of Hong Kong Limited at www.hkexnews.hk and on the website of the Company at www.beststudy.com. The interim report of the Company for the Reporting Period containing all the information required by the Listing Rules will be dispatched to shareholders of the Company and published on the above websites in due course.

APPRECIATION

On behalf of the Board, I would like to thank all our colleagues for their diligence, dedication, loyalty and integrity. I would also like to thank all our shareholders, customers, bankers and other business associates for their trust and support.

By Order of the Board
China Beststudy Education Group
Junjing Tang
Chairman, Chief Executive Officer and Executive Director

Hong Kong, 21 August 2019

As at the date of this announcement, the executive directors are Mr. Junjing Tang, Mr. Junying Tang and Mr. Gui Zhou, the non-executive directors are Mr. Wenhui Xu and Ms. Wen Li, and the independent non-executive directors are Mr. Yingmin Wu, Ms. Yu Long and Mr. Peng Xue.