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)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2019

FINANCIAL AND KEY OPERATING DATA HIGHLIGHTS

	For the year ended 31 December		
	2019	2018	% Change
	RMB'000	*RMB'000*	
Revenue	**1,831,667**	1,473,748	+24.3%
Gross Profit	**767,623**	598,031	+28.4%
Net Profit	**134,881**	73,971	+82.3%
Adjusted Net Profit(*Note 1*)	**165,021**	121,265	+36.1%
Proposed final dividend per ordinary share	**HK$5.3 cents**	–	N/A
Proposed final special dividend per ordinary share	**HK$2.0 cents**	–	N/A
Number of Enrollments	709,393	593,252	+19.6%
Number of Tutoring Hours	15,488,368	13,562,869	+14.2%
Number of Education Centres	265	242	
Number of Newly Established Education Centres	53	60	

Note 1: 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 equity-settled compensation costs, discontinued operations and listing expenses.

* *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**" or "**Beststudy**" and, together with its subsidiaries, collectively the "**Group**") announces the consolidated financial results of the Group for the year ended 31 December 2019 (the "**Reporting Period**"), together with the comparative figures for the corresponding period in 2018 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2019

	Notes	**2019** *RMB'000*	2018 *RMB'000*
CONTINUING OPERATIONS			
Revenue	*4*	**1,831,667**	1,473,748
Cost of sales		**(1,064,044)**	(875,717)
Gross profit		**767,623**	598,031
Other income and gains, net	*4*	**18,818**	6,648
Investment income		**1**	164
Selling expenses		**(162,660)**	(130,443)
Research and development expenses		**(165,450)**	(170,739)
Administrative expenses		**(242,307)**	(185,801)
Finance costs		**(47,968)**	–
Share of losses of associates		**(3,587)**	(1,233)
Share of profits of a joint venture		**114**	164
Fair value changes on investments at fair value through profit or loss	*9*	**36,919**	34,514
Other expenses		**(44,678)**	(43,530)
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS		**156,825**	107,775
Income tax expense	*6*	**(21,944)**	(34,718)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		**134,881**	73,057
DISCONTINUED OPERATIONS			
Profit for the year from discontinued operations		**–**	914
PROFIT FOR THE YEAR		**134,881**	73,971
Attributable to:			
Owners of the parent		**135,547**	54,899
Non-controlling interests		**(666)**	19,072
		134,881	73,971

CONSOLIDATED STATEMENT OF PROFIT OR LOSS (continued)

Year ended 31 December 2019

	Note	**2019** **RMB'000**	2018 *RMB'000*
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	*8*		
Basic			
– For profit for the year		**RMB17.3 cents**	RMB8.7 cents
– For profit from continuing operations		**RMB17.3 cents**	RMB8.6 cents
Diluted			
– For profit for the year		**RMB17.1 cents**	RMB8.7 cents
– For profit from continuing operations		**RMB17.1 cents**	RMB8.6 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2019

	2019	2018
	RMB'000	*RMB'000*
PROFIT FOR THE YEAR	**134,881**	73,971
OTHER COMPREHENSIVE INCOME		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of financial statements	**5,517**	180
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods	**5,517**	180
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**5,517**	180
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**140,398**	74,151
Attributable to:		
Owners of the parent	**141,064**	55,042
Non-controlling interests	**(666)**	19,109
	140,398	74,151

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2019

	Notes	**2019** *RMB'000*	2018 *RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**202,027**	160,768
Right-of-use assets		**893,785**	–
Intangible assets		**15,808**	9,586
Investments in associates		**70,239**	14,997
Investment in a joint venture		**5,718**	5,512
Equity investments at fair value through profit or loss	*9*	**3,827**	71,299
Debt investments at fair value through profit or loss	*9*	**203,589**	–
Time deposits		**50,270**	–
Prepayments for purchases of property, plant and equipment		**12,035**	29,179
Deferred tax assets		**18,999**	10,817
Total non-current assets		**1,476,297**	302,158
CURRENT ASSETS			
Short-term debt investments measured at fair value through profit or loss	*9*	**816,470**	517,907
Short-term equity investments measured at fair value through profit or loss	*9*	**63,537**	412
Prepayments, deposits and other receivables		**139,838**	147,539
Restricted cash		**5,146**	2,347
Cash and cash equivalents		**196,406**	468,041
Other current assets		**1,236**	1,218
Assets classified as held for sale		**66,072**	–
Total current assets		**1,288,705**	1,137,464

No ageing analysis has been prepared as there was no trade receivable as at 31 December 2019 (2018: Nil).

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)
As at 31 December 2019

	Note	**2019** *RMB'000*	2018 *RMB'000*
CURRENT LIABILITIES			
Other payables and accruals		**200,095**	192,079
Lease liabilities		**225,915**	–
Contract liabilities		**775,071**	562,841
Tax payable		**33,678**	21,410
Liabilities directly associated with the assets classified as held for sale		**111**	–
Total current liabilities		**1,234,870**	776,330
NET CURRENT ASSETS		**53,835**	361,134
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,530,132**	663,292
NON-CURRENT LIABILITIES			
Rental payables		**–**	41,210
Lease liabilities		**733,470**	–
Total non-current liabilities		**733,470**	41,210
Net assets		**796,662**	622,082
EQUITY			
Equity attributable to owners of the parent			
Share capital	*10*	**304**	303
Reserves		**797,030**	622,821
		797,334	623,124
Non-controlling interests		**(672)**	(1,042)
Total equity		**796,662**	622,082

No ageing analysis has been prepared as there was no trade payable as at 31 December 2019 (2018: Nil).

NOTES TO CONSOLIDATED FINANCIAL INFORMATION

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 after-school education services for preparing kindergarten students for their transition into primary schools to Grade 12 ("**K-12**"), 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 an acting in concert agreement.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("**IFRSs**") (which include all International Financial Reporting Standards, International Accounting Standards ("**IASs**") and Interpretations) issued by the International Accounting Standards Board ("**IASB**"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for certain equity investments and debt investments which have been measured at fair value. Assets classified as held for sale are stated at the lower of their carrying amounts and fair values less costs to sell. These financial statements are presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2019. A subsidiary is an entity (including a structured entity), directly or indirectly controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised IFRSs for the first time for the current year's financial statements.

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

(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 to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors continue to classify leases as either operating or finance leases using similar principles as in IAS 17. IFRS 16 did not have any significant impact on leases where the Group is the lessor.

The Group has adopted IFRS 16 using the modified retrospective method with the date of initial application of 1 January 2019. Under this method, the standard has been applied retrospectively with the cumulative effect of initial adoption recognised as an adjustment to the opening balance of retained profits at 1 January 2019, and the comparative information for 2018 was not restated and continued to be reported under IAS 17 and related interpretations.

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.

Nature of the effect of adoption of IFRS 16

The Group has lease contracts for various items of property. 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 leases with a lease term of 12 months or less ("short-term leases") (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 January 2019, the Group recognises depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

As a lessee – Leases previously classified as operating leases

Impact 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:

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

- Using 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 rentals of RMB15,816,000 and 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
Operating lease commitments as at 31 December 2018	1,200,582
Less: Commitments relating to short-term leases and those leases with a remaining lease term ended on or before 31 December 2019	3,891
Discounted operating lease commitments as at 1 January 2019	1,196,691
Weighted average incremental borrowing rate as at 1 January 2019	4.73%
Lease liabilities as at 1 January 2019	**1,006,904**

(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 continued to be measured at amortised cost in accordance with IFRS 9. Accordingly, the amendments did not have any impact on the financial position or performance of the Group.

(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 financial position or performance of the Group.

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 revenue from service provided to a single customer amounted to 10.0% or more of total revenue of the Group during the years ended 31 December 2019 and 2018.

4. REVENUE, OTHER INCOME AND GAINS, NET

Revenue represents the value of services rendered, net of value-added tax ("**VAT**") and other sales tax, after allowances for refunds and discounts during the Reporting Period.

An analysis of revenue is as follows:

	2019	2018
	RMB'000	*RMB'000*
Revenue from contracts with customers		
Premium learning programs		
– Small group tutoring	**918,459**	750,241
– Individualised tutoring	**698,850**	551,685
Full-time test preparation programs	**156,549**	129,545
Talent education	**56,104**	39,516
Others	**1,705**	2,761
	1,831,667	1,473,748

Revenue from contracts with customers

(i) Disaggregated revenue information

For the year ended 31 December 2019

Segments	**Small group tutoring**	**Individualised tutoring**	**Full-time test preparation programs**	**Talent education**	**Others**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***
Timing of revenue recognition						
Services transferred at a point in time	**–**	**698,850**	**–**	**–**	**1,705**	**700,555**
Services transferred over time	**918,459**	**–**	**156,549**	**56,104**	**–**	**1,131,112**
	918,459	**698,850**	**156,549**	**56,104**	**1,705**	**1,831,667**

For the year ended 31 December 2018

Segments	Small group tutoring	Individualised tutoring	Full-time test preparation programs	Talent education	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Timing of revenue recognition						
Services transferred at a point in time	–	551,685	–	–	2,761	554,446
Services transferred over time	750,241	–	129,545	39,516	–	919,302
	750,241	551,685	129,545	39,516	2,761	1,473,748

The following table shows the amounts of revenue recognised in the Reporting Period that were included in the contract liabilities at the beginning of the Reporting Period.

	2019	2018
	RMB'000	*RMB'000*
Revenue recognised that was included in contract liabilities at the beginning of the Reporting Period:		
Tutoring services	**562,841**	517,171

(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 of 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 a short period of time.

Other income and gains, net

	2019	2018
	RMB'000	*RMB'000*
Interest income	**5,383**	1,230
Other service income, net	**–**	2,000
Subsidy income from the PRC government	**8,723**	2,375
Gain on disposal of an associate	**848**	–
Site use income	**–**	389
Foreign exchange gains, net	**344**	–
Gain on lease modifications	**1,460**	–
Gain on disposal of items of property, plant and equipment	**46**	–
Dividend income from equity investments at fair value through profit or loss	**1,633**	–
Others	**381**	654
	18,818	6,648

The subsidy income from the PRC government mainly represents subsidies granted by the local government to Guangzhou Beststudy Enterprise Co., Ltd. 廣州市卓越里程教育科技有限公司 ("**Guangzhou Beststudy**"), Guangzhou Zhuoye Information Technology Co., Ltd. 廣州市卓業信息技術有限公司, Guangzhou Yuyou Education Technology Co., Ltd. 廣州譽優教育科技有限公司, Shenzhen Zhuoyue Education Training Co., Ltd. 深圳市卓越教育培訓有限公司, Foshan Beststudy Culture Communication Co., Ltd. 佛山市卓越里程文化傳播有限公司, Shanghai Yangpu Beststudy Education and Training Centre 上海楊浦區卓越教育培訓中心, Nanning Beststudy Education Technology Co., Ltd. 南寧卓越里程教育科技有限公司 mainly as compensation for their operating expenses and as encouragement for their contribution to the local economy. There are no unfulfilled conditions or contingencies relating to such subsidies.

5. PROFIT BEFORE TAX

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

	Notes	**2019** **RMB'000**	2018 RMB'000
Employee benefit expense (excluding Directors' remuneration):			
Wages and salaries		**813,064**	715,497
Pension scheme contributions		**100,927**	86,181
Equity-settled compensation costs		**30,140**	6,481
		944,131	808,159
Cost of services provided*		**1,064,044**	875,717
Depreciation of property, plant and equipment		**70,955**	41,651
Depreciation of right-of-use assets		**197,931**	–
Amortisation of intangible assets		**2,237**	2,181
Minimum lease payments under operating leases		**–**	200,724
Lease payments not included in the measurement of lease liabilities		**7,619**	–
(Gain)/loss on disposal of items of property, plant and equipment**		**(46)**	254
Loss on disposal of an intangible asset		**63**	–
Gain on lease modifications	*4*	**(1,460)**	–
Interest income	*4*	**(5,383)**	(1,230)
Subsidy income from the PRC government	*4*	**(8,723)**	(2,375)
Foreign exchange difference, net**		**(344)**	364
Gain on disposal of an associate	*4*	**(848)**	–
Loss on disposal of subsidiaries		**350**	–
Fair value gains:			
Equity investments at fair value through profit or loss	*9*	**(19,012)**	(4,839)
Debt investments at fair value through profit or loss	*9*	**(17,907)**	(29,675)
Auditor's remuneration		**2,830**	1,380
Listing expenses		**–**	41,727

* The staff costs of RMB713,232,000 (2018: RMB593,906,000) and the depreciation and amortisation of RMB238,017,000 (2018: RMB32,684,000) are included in "Cost of sales" in the consolidated statement of profit or loss.

** Included in "Other income and gains, net" or "Other expenses" in the consolidated statement of profit or loss.

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 year.

PRC Corporate Income Tax ("CIT")

Guangzhou Beststudy was accredited as a High-tech Enterprise in 2019 and was entitled to a preferential tax rate of 15.0% from 2019 to 2021 (2018: 25.0%).

Guangzhou Beststudy Wendao Travel Service Co., Ltd. 廣州卓越問道旅行社有限公司 and Zhuhai Xiangzhou District Siqi Cultural Training Center 珠海市香洲區思奇文化培訓中心 were certified as small and micro-sized enterprise ("**SME**") in 2019 and enjoyed 75.0% reduction of the accumulated taxable income and the preferential CIT rate of 20.0% for the year (2018: 50.0% reduction of the accumulated taxable income and the preferential CIT rate of 20.0%).

Guangzhou Qizuo Education Consulting Co., Ltd. 廣州奇作教育諮詢有限公司, Guangzhou Aiyuwen Technology Information Consulting Co., Ltd. 廣州市愛語文科技諮詢有限公司, Zhongshan West District Zhuoye Boda Huating Education and Training Center 中山市西區卓業博達華庭教育培訓中心 and Zhongshan Xiaolan Zhuoye Boda Education and Training Center 中山市小欖卓業博達教育培訓中心 were certified as SME in 2019 and enjoyed 75.0% reduction of the accumulated taxable income and the preferential CIT rate of 20.0% for the year (2018: 25.0%).

Pursuant to the CIT Law and the respective regulations, the other PRC subsidiaries were subject to income tax at a statutory rate of 25.0% for the year (2018: 25.0%).

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

	2019	2018
	RMB'000	*RMB'000*
Current – the PRC		
Charge for the year	**30,126**	40,736
Deferred	**(8,182)**	(6,018)
Total tax charge for the year from continuing operations	**21,944**	34,718
Total tax charge for the year from discontinued operations	**–**	51
	21,944	34,769

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:

2019

	Hong Kong		Mainland China		Total	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Profit before tax from continuing operations	**29,274**		**127,551**		**156,825**	
Tax at the statutory tax rate	**4,830**	**16.5**	**31,888**	**25.0**	**36,718**	**23.4**
Lower tax rates enacted by local authority	**–**	**–**	**(14,114)**	**(11.1)**	**(14,114)**	**(9.0)**
Effect on opening deferred tax of decrease in rates	**–**	**–**	**(19)**	**–**	**(19)**	**–**
Adjustments in respect of current tax of previous periods	**–**	**–**	**(4,705)**	**(3.7)**	**(4,705)**	**(3.0)**
Profits and losses attributable to a joint venture and associates	**(19)**	**(0.1)**	**806**	**0.6**	**787**	**0.5**
Additional deduction of research and development expenses	**–**	**–**	**(4,618)**	**(3.6)**	**(4,618)**	**(2.9)**
Income not subject to tax	**(5,037)**	**(17.2)**	**(2,846)**	**(2.2)**	**(7,883)**	**(5.0)**
Expenses not deductible for tax	**–**	**–**	**5,877**	**4.6**	**5,877**	**3.7**
Tax losses utilised from previous periods	**–**	**–**	**(1,132)**	**(0.9)**	**(1,132)**	**(0.7)**
Tax losses not recognised	**226**	**0.8**	**10,807**	**8.5**	**11,033**	**7.0**
	–	**–**	**21,944**	**17.2**	**21,944**	**14.0**
Tax charge from continuing operations at the effective rate	**–**	**–**	**21,944**	**17.2**	**21,944**	**14.0**

2018

	Hong Kong		Mainland China		Total	
	RMB'000	%	*RMB'000*	%	*RMB'000*	%
(Loss)/profit before tax from continuing operations	(5,185)		112,960		107,775	
Profit before tax from discontinued operations	–		965		965	
	(5,185)		113,925		108,740	
Tax at the statutory tax rate	(856)	16.5	28,481	25.0	27,625	25.4
Profits and losses attributable to a joint venture and associates	–	–	308	0.3	308	0.3
Income not subject to tax	–	–	(594)	(0.5)	(594)	(0.5)
Expenses not deductible for tax	168	(3.2)	2,842	2.4	3,010	2.8
Tax losses utilised from previous periods	–	–	(793)	(0.7)	(793)	(0.7)
Tax losses not recognised	688	(13.3)	4,525	4.0	5,213	4.7
	–	–	34,769	30.5	34,769	32.0
Tax charge from continuing operations at the effective rate	–	–	34,718	30.7	34,718	32.2
Tax charge from discontinued operations at the effective rate	–	–	51	5.3	51	5.3

7. DIVIDENDS

	2019	2018
	RMB'000	*RMB'000*
Proposed final dividend per ordinary share – HK$5.3 cents (2018: nil)	**41,090**	–
Proposed final special dividend per ordinary share – HK$2.0 cents (2018: nil)	**15,506**	–
	56,596	–

The proposed final dividend and final special dividend, out of the share premium account of the Company for the year ended 31 December 2019, are subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

During the year ended 31 December 2018, Guangzhou Beststudy, a subsidiary of the Company, 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 year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 784,460,207 (2018: 627,862,355) in issue during the year, as adjusted to reflect the rights issue during the year.

The calculation of the diluted earnings per share amount for the year is based on the profit for the year attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation of diluted earnings per share is the adjusted weighted average number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares. The Group had no potentially dilutive ordinary shares in issue during the year ended 31 December 2018.

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

	2019	2018
	RMB'000	*RMB'000*
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation:		
From continuing operations	**135,547**	53,985
From discontinued operations	**–**	914
Profit attributable to ordinary equity holders of the parent	**135,547**	54,899

	Number of shares	
	2019	2018
Shares		
Weighted average number of ordinary shares in issue	**849,650,959**	698,694,751
Weighted average number of shares held for the RSU Scheme	**(65,190,752)**	(70,832,396)
Adjusted weighted average number of ordinary shares in issue used in the basic earnings per share calculation	**784,460,207**	627,862,355
Effect of dilution – weighted average number of ordinary shares:		
RSU Scheme	**8,126,698**	–
Adjusted weighted average number of ordinary shares in issue used in the diluted earnings per share calculation	**792,586,905**	627,862,355

9. OTHER INVESTMENTS

		31 December 2019	31 December 2018
		RMB'000	*RMB'000*
Non-current assets			
Equity investments at fair value through profit or loss			
– Unlisted equity investments	*(i)*	**3,827**	71,299
Debt investments at fair value through profit or loss			
– Unlisted trust plans and asset management plans	*(ii)*	**203,589**	–
		207,416	71,299
Current assets			
Short-term debt investments measured at fair value through profit or loss			
– Wealth management products issued by banks	*(ii)*	**370,282**	517,907
– Unlisted trust plans and asset management plans	*(ii)*	**274,447**	–
– Funds	*(ii)*	**171,741**	–
		816,470	517,907
Short-term equity investments measured at fair value through profit or loss			
– Listed equity investments	*(iii)*	**63,537**	412
		880,007	518,319

(i) As at 31 December 2019, unlisted equity investments amounting to RMB65,989,000 held by Guangzhou Gaofen Network Technology Co., Ltd. 廣州高分網絡科技有限公司 were classified as assets held for sale.

(ii) Wealth management products issued by banks, unlisted trust plans, asset management plans and funds, were denominated in RMB and US$ at aggregate amounts of RMB773,489,000 and RMB246,570,000, with an expected rate of return ranging from 3.5% to 8.0% (2018: 4.2% to 4.8%) per annum for the year. They were mandatorily classified as financial assets at fair value through profit or loss as their contractual cash flows are not solely payments of principal and interest. The fair values are based on cash flows discounted using the expected return based on management judgement.

(iii) The fair values of listed equity investments are determined based on the closing prices quoted in active markets. They are accounted for using their fair values based on the quoted market prices without deduction for transaction costs.

(iv) Amounts recognised in profit or loss

	2019	2018
	RMB'000	*RMB'000*
Fair value changes on equity investments		
– Unlisted equity investments	**(3,055)**	6,622
– Listed equity investments	**22,067**	(1,783)
Fair value changes on debt investments		
– Unlisted trust plans and asset management plans	**10,052**	–
– Wealth management products issued by banks	**5,199**	29,675
– Funds	**2,656**	–
	36,919	34,514

10. SHARE CAPITAL

Shares

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

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

	Notes	Number of shares in issue	Share capital
			RMB'000
At 1 January 2018		430,000,000	164
Issue of ordinary shares	*(i)*	223,100,000	72
Issue of shares held for RSU Scheme	*(ii)*	43,540,000	15
Issue of ordinary shares upon listing	*(iii)*	151,400,000	52
At 31 December 2018 and 1 January 2019		848,040,000	303
Exercise of over-allotment options	*(iv)*	1,680,000	1
At 31 December 2019		849,720,000	304

(i) On 20 May 2018, the Company allotted and issued an aggregate of 223,100,000 new ordinary shares for cash at par value to the shareholders. In recognition of the contributions of the employees and to provide incentives, the 27,292,396 new shares issued to Soarise Bulex Limited were reserved for future grant of shares pursuant to the RSU Scheme.

(ii) On 27 December 2018, the Company allotted and issued 43,540,000 new shares at par value to Soarise Bulex Limited to provide for future grant of shares pursuant to the RSU Scheme.

(iii) On 27 December 2018, the Company issued 151,400,000 new ordinary shares at a price of HK$2.40 per share in connection with the global offering.

(iv) On 16 January 2019, the Company issued 1,680,000 new ordinary shares at a price of 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 Fulltime Test Preparation Program.

As of 31 December 2019, the Group had a total of 265 education centres nationwide, which are mainly located 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 deeply 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 RMB1,831.7 million, achieving an increase of approximately 24.3% compared to 2018. It is worth noting that the revenue grew at a pace as high as 28.5% in the second half of 2019, which was a stronger drive to the annual results.

During the Reporting Period, the student enrollment number was 709,393, representing a year-on-year increase of 19.6% as compared with the year ended 31 December 2018. The total tutoring hours were 15,488,368 hours, growing by 14.2% as compared with 2018.

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

With respect to operational indicators, although many new education centres were established during the Reporting Period, the overall student retention rate[1] and the full class rate of the Small Group Tutoring[2] both remained relatively stable at 83.0% and 64.1%, respectively.

The Group also recorded continuous growth in expanding the footprint and the market share. The number of our education centres was 265. During the Reporting Period, we opened 53 new education centres, which were primarily located in major cities of the Guangdong-Hong Kong-Macao Greater Bay Area including Guangzhou, Shenzhen, Foshan, Dongguan, Zhongshan and Huizhou, demonstrating the Group's efforts in continuously and steadily advancing the business expansion strategy. Overall, we recorded an aggregate net increase of 97[3] education centres in 2018 and 2019, which basically satisfied the expected plans and objectives.

During the Reporting Period, we witnessed rapid development in the two new businesses. Although they generated a relatively low absolute revenue, we still foresaw a huge development space and potential. The one-on-three individualised course was widely appreciated and recognised by the customers. During the Reporting Period, the revenue from one-on-three individualised course grew by 87.0% from 2018, and the full class rate of one-on-three individualised course[4] also exceeded 80.0%. The online one-on-one tutoring course developed rapidly and recorded exciting achievements. Compared with 2018, the revenue grew at a pace as high as 1,152.2% and contributed significantly to our operation results.

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. During the Reporting Period, our research and development expenses amounted to RMB165.5 million and achieved remarkable results. We comprehensively improved the E-Education System (EES) for teaching platform-based tutoring courses, the individualised teaching system and the full-time smart classroom system, so as to standardised teaching activities and to informatise and digitalise teaching management. Meanwhile, these information technology-based teaching platforms provided students with more effective and more individualised teaching plans and approaches and effectively improved our teaching quality and students' learning efficiency, for which we won high praise from students and parents. In the future, we will continue to invest resources into research and development and remain devoted to building a strong middle platform and improving teaching quality, therefore to foster future performance growth.

[1] 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.

[2] The full class rate of the Small Group Tutoring is the ratio of the actual enrollment number to the maximum enrollment number of Small Group Tutoring.

[3] 1. in order to meet the operating requirements of tutoring classes, we merged 3 customised tutoring education centres in Shanghai into the tutoring education centres; 2. in order to explore a new business model, we explored the adoption of the joint venture empowerment model with small and micro enterprise among 11 existing education centres of smaller scale.

[4] The full class rate of one-on-three individualised course is the ratio of actual enrollment number to the maximum enrollment number of one-on-three individualised course.

We continually committed ourselves to building a high-quality team. As at 31 December 2019, the Group had 6,902 full-time staffs and 3,839 full-time teachers. During the Reporting Period, we made a new progress in talent building, and lots of outstanding talents chose to join us. In the campus recruitment, about 90.0% of the fresh graduates we hired as management trainee were from national 211/985 key universities, and 40 of them graduated from global top 100 universities. We also recruited a number of senior management members born in the 1980s from the talent market, bringing new energy to our management team.

In addition, we have paid and will pay great attention to providing comprehensive and systematic teacher training and staff training. Our training and career development department, which we named "Zhuoyue Academy", developed and provided comprehensive training programs to our teachers and staffs, which was of great significance to maintaining the quality of education products and services at stable levels. During the Reporting Period, Zhuoyue Academy was honoured as "2019 Corporate Universities of Great Potential" (「2019年度最具成長性企業大學」) for its outstanding performance.

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 8.9%. We primarily employed word-of-mouth 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.

FUTURE PROSPECTS

Footprint Expansion

To meet the increasing demands for K-12 after-school education services, we plan to deeply develop the markets in which we operate our current businesses and improve the performance of existing education centres. With our brand influence and reputation, we plan to operate more education centres in South China, especially in the Guangdong-Hong Kong-Macao Greater Bay Area, to improve our market shares in such regions. We intend to further construct more education centres in Shenzhen and accelerate the expansion to cities other than Guangzhou and Shenzhen. In 2020, we expect to build schools with revenue over RMB100 million in cities other than Guangzhou.

To ensure smooth progress of the footprint expansion strategy, we will adjust the Group's organizational structure, improve the staff incentive mechanism and establish the four-tier partnership, thereby encouraging staffs to engage in the footprint expansion with initiative and creativity. Meanwhile, we will accelerate the cultivation and introduction of outstanding talents to build a huge and high-quality talent pool for developing businesses in other regions. We will establish the dedicated regional development department for cities other than Guangzhou and Shenzhen and develop unified expansion strategies for these cities, so that the Group will be able to advance regional market expansion at a speedy pace. In addition, we will accelerate mergers and acquisitions to provide driving force for the Group's footprint expansion strategy.

Continuous Focus on Chinese Dominance Strategy

Chinese language products are critical to our sustainable development. We will continue to focus on the Chinese Dominance strategy and further solidify the Chinese Dominance positioning of the Group through improving the product system, developing new courses and enhancing the incentive mechanism.

For this end, we will upgrade and improve the existing dual Chinese system, namely Beststudy Chinese Subject and Beststudy Macro Chinese, to adapt the system to market needs. To facilitate the Chinese course innovation and upgrading, we have cooperated with School of Chinese Language and Literature of Beijing Normal University to establish "BNU School of Chinese Language and Literature Zhuoyue Education Research Centre". In the future, we will work with School of Chinese Language and Literature of Beijing Normal University in key areas including the Chinese curriculum system in the basic education stage, Chinese teacher training and Chinese language ability assessment, incorporating the top-notch university academic performance and remarkable research achievements into our Beststudy Chinese Subject and Beststudy Macro Chinese products and offering valuable experience and scientific guidance to our K-12 Chinese education. In addition, we have established a highly effective incentive mechanism to encourage staffs to actively participate in the Group's Chinese Dominance strategy. We hope that the plans stated above will help the Group to realise its Chinese Dominance strategy.

Ecosystem Construction Guided by "All for children's healthy development" Purpose

To realise the objective of cultivating versatile talents, we will comprehensively promote the ecosystem construction by diversified means and with the guidance of "all for children's healthy development" purpose, and offer students diverse K-12 after-school tutoring products and one-stop after-school education services for K-12 education stage. We will provide more products and services in respect of Talent Education, such as physical training, training of thinking skills and scientific innovation. We hope that such products and services will help us to manage the inflow of students at "low school age" and attract more students to choose Beststudy services at the very early stage of K-12 education. We will accelerate the education ecosystem construction through independent management and external investment, thereby deepening students and parents' understanding about the Group and attracting them to choose Beststudy services.

Faster Stride Towards Online and Offline Education Services and Products ("OMO") Education

In a bid to help students to realise totally individualised learning to meet their demands and objectives at different learning stages, we will accelerate the promotion of OMO education, enabling students to switch to different learning methods and scenarios at any time based on their own conditions, preferences and other key factors, hence achieving the learning objective of "put students as our focus, but not focus on courses". OMO education is a space-time scenario that break physical and time limits, and is also a diversified learning model. To realise OMO education in a better and faster manner, we will continue to improve teaching skills and methods and upgrade the operation service system, thereby ensuring that we will offer students superior course experience. At the time of the COVID-19 epidemic, our offline training business is temporarily affected, but we work hard to overcome these obstacles by shifting to other teaching scenarios and offering students online courses for the ones they have enrolled. We also make sure that these online courses are offered "by original teachers, at scheduled time and with pre-determined content" (「原老師、原時間、原內容」), so that students can achieve their learning objectives in a safe and healthy environment. The severe epidemic can never stop us from forging ahead and can never stir us from the original aspiration, "all for children's healthy development". We will resolutely march on the path of OMO education in full sail and turn a crisis into an opportunity to blaze up a prosperous future.

FINANCIAL REVIEW

Revenue

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

	For the year ended 31 December		
	2019	2018	% Change
	RMB'000	*RMB'000*	
Small Group Tutoring	**918,459**	750,241	**22.4%**
Individualised Tutoring	**698,850**	551,685	**26.7%**
Full-time Test Preparation Program	**156,549**	129,545	**20.8%**
Talent Education	**56,104**	39,516	**42.0%**
Others	**1,705**	2,761	**-38.2%**
Total	**1,831,667**	1,473,748	**24.3%**

The Group's revenue is principally generated from the tuition fees we collect from our students. During the Reporting Period, the Group's revenue generated from our principal business increased by approximately 24.3% to approximately RMB1,831.7 million from approximately RMB1,473.7 million in 2018. As compared to 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 year ended 31 December		
	2019	2018	% Change
Small Group Tutoring	**540,398**	458,205	17.9%
Individualised Tutoring	**142,415**	114,743	24.1%
Full-time Test Preparation Program	**6,059**	5,422	11.7%
Talent Education	**20,521**	14,882	37.9%

(ii) Tutoring hours

	For the year ended 31 December		
	2019	2018	% Change
Small Group Tutoring	**11,967,138**	10,728,002	11.6%
Individualised Tutoring	**2,753,945**	2,285,133	20.5%
Full-time Test Preparation Program	**N/A**	N/A	N/A
Talent Education	**767,285**	549,734	39.6%

(iii) Per-hour charges

	For the year ended 31 December		
	2019	2018	% Change
Small Group Tutoring	**77**	70	9.7%
Individualised Tutoring	**254**	241	5.1%
Full-time Test Preparation Program	**N/A**	N/A	N/A
Talent Education	**73**	72	1.4%

COST OF SALES

Cost of sales increased by RMB188.3 million or 21.5% from RMB875.7 million in 2018 to RMB1,064.0 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; and (ii) 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, the Group's gross profit increased by 28.4% from RMB598.0 million in 2018 to RMB767.6 million for the Reporting Period.

The gross profit margin of the Group in 2018 was 40.6%, whilst for the Reporting Period it was 41.9%. The increase in gross profit margin was primarily due to the maturing of the education centres established in 2018, the increase in market share of one-on-three individualized courses, the optimization of education centres and the impact of the adoption of IFRS No. 16 *Leases*.

OTHER INCOME AND GAINS

During the Reporting Period, the Group recorded other income and gains in the amount of RMB18.8 million, representing an increase of RMB12.2 million year-on-year. The other income and gains during the Reporting Period mainly include interest income of current deposit and time deposit in the amount of RMB5.4 million and government grants in the amount of RMB8.7 million, representing an increase of RMB4.2 million and RMB6.3 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 increased by RMB2.4 million from approximately RMB34.5 million in 2018 to approximately RMB36.9 million for the Reporting Period. The fair value changes included profit or loss from fair value changes on listed and unlisted equity investments, wealth-management products issued by banks, unlisted trust plans, asset management plans and funds.

SELLING EXPENSES

During the Reporting Period, the Group's total selling expenses amounted to approximately RMB162.7 million, representing an increase of 24.8% from RMB130.4 million in 2018. The increase is critical to our business growth and expansion in accordance with our plan. Despite the increase, our selling expenses as a percentage of revenue has maintained at a relatively stable level.

ADMINISTRATIVE EXPENSES

Administrative expenses included the compensation for administrative staff, office rentals and daily operational expenses. During the Reporting Period, the Group's total administrative expenses amounted to approximately RMB242.3million, representing an increase of 30.4% as compared to RMB185.8 million in 2018.

The increase was mainly due to (i) equity-settled compensation costs increased to RMB30.1million in 2019 from RMB6.5 million in 2018, (ii) the adjustments of employees' compensation packages and (iii) the corresponding professional fees incurred by the Group in accordance with compliance requirements after listing.

RESEARCH AND DEVELOPMENT EXPENSES

During the Reporting Period, the Group's research and development expenses amounted to RMB165.5 million, representing a decrease of RMB5.2 million from RMB170.7 million in 2018.

OTHER EXPENSES

The Group's other expenses during the Reporting Period amounted to RMB44.7 million, mainly consisted of investments in the online small group tutoring and charitable donations, among which approximately RMB35.7 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 technology 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 user 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 have participated in online small group tutoring in the form of associate interest and do not expect further substantial investment expenses in relation to online small group tutoring business will be incurred in the consolidated financial statements of the Group. Instead, a share of profit or loss of the associates would be recorded to reflect the Group's investment results on these type of companies.

In 2018, the Group's other expenses primarily consisted of professional service expenses in connection with the listing amounted to RMB41.7 million.

FINANCE COSTS

During the Reporting Period, the Group recorded finance costs in the amount of approximately RMB48.0 million as a result of the interest expenses recognised upon adoption of IFRS 16 *Leases*.

INCOME TAX EXPENSES

During the Reporting Period, the Group's income tax expenses were RMB21.9 million, decreased by approximately RMB12.8 million from RMB34.7 million for the corresponding period last year. The effective tax rate decreased from 32.2% in 2018 to 14.0% for the Reporting Period. The decrease in effective tax rate was mainly attributable to (i) Guangzhou Beststudy enjoyed the preferential CIT rate of 15.0% for the year 2019 as it obtained the qualification of high-tech enterprise; (ii) the adjustment in respect of current tax for the year 2018 and 2019 due to one of the subsidiaries made additional deductions for research and development expenses in the tax returns of respective years.

PROFIT FOR THE REPORTING PERIOD

Our Group's profit for the Reporting Period increased from RMB74.0 million for 2018 to RMB134.9 million for the Reporting Period, representing an increase of 82.3%. The factors impacting net profit for the Reporting Period mainly included: the contribution from revenue growth, the improvement of scale effect and efficiency and the decrease of effective income tax rate.

NON-GAAP MEASUREMENTS RELATED TO THE PROFIT FOR THE REPORTING PERIOD

To supplement our 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 has 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 increased by approximately 36.1% from RMB121.3 million for 2018 to RMB165.0 million for the Reporting Period. 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 compensation costs and discontinued operations.

Net profit from core business represents 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 increased by 48.3% from RMB115.7 million for 2018 to RMB171.5 million for the Reporting Period.

The following table reconciles adjusted net profit and 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 year ended 31 December		
	2019	2018	% Change
	RMB'000	*RMB'000*	
Net profit	**134,881**	73,971	82.3%
Add:			
Listing expenses	**–**	41,727	–100.0%
Equity-settled compensation costs	**30,140**	6,481	365.1%
Discontinued operations	**–**	(914)	–100.0%
Adjusted Net Profit	**165,021**	121,265	36.1%
Add:			
Fair value changes on unlisted equity investments through profit or loss	**3,055**	(6,622)	–146.1%
Share of profits or losses of associates and a joint venture	**3,473**	1,069	224.9%
Net Profit from Core Business	**171,549**	115,712	48.3%

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.

INVESTMENT AND TREASURY POLICY

The Board and the finance department are mainly responsible for making, implementing and supervising our investment decisions. In this regard, we had implemented the following investment and treasury policies:

- the Board is responsible for the overall planning, coordination, analysis and research of equity investment projects;
- we assign certain personnel to conduct long-term routine management of equity investment projects, including supervising the results of operations and financial status of the investee, monitoring the investee's profitability and performing regular investment analysis;
- investments could be made when we have surplus cash that is not required for our short-term working capital purposes;
- we mainly make investments in short-term wealth management products with low risk, high liquidity and reasonable returns;
- the annual cap for purchasing short-term wealth management products is set by our Board annually; and
- we assess the risk associated with the underlying financial instruments based on the risk classification provided by the issuing licensed commercial bank.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2019, cash and cash equivalents of the Group amounted to RMB196.4 million, representing a decrease of approximately 58.0% as compared with RMB468.0 million as at 31 December 2018. The decrease was due to the net increase of RMB509.4 million in total of the low-risk wealth management products purchased by the Group for cash management purposes, which were represented as short-term debt investments measured at fair value through profit or loss.

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 credit-worthy banks with no recent history of default.

CURRENT AND GEARING RATIO

As at 31 December 2019, the current ratio of the Group was approximately 1.04, representing a decrease from 1.47 as at 31 December 2018. The current ratio is equal to total current assets divided by the total current liabilities.

As at 31 December 2019, the gearing ratio of the Group was 71.2%, 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.

The decrease in the current ratio and the increase in the gearing ratio were mainly due to the impact of the adoption of IFRS 16 *Leases* by the Group since 1 January 2019.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

During the year, the Group did not have any material acquisitions nor disposals of subsidiaries and affiliated companies.

FUTURE PLANS FOR SIGNIFICANT INVESTMENT AND CAPITAL ASSETS

The Group does not have other plans for significant investment or capital assets as of the date of this announcement.

SIGNIFICANT INVESTMENT

As at 31 December 2019, the Group held financial assets at fair value through profit or loss comprising (i) debt investments of RMB1,020.1 million (31 December 2018: RMB517.9 million), in aggregate accounted for 36.9% of the Group's total assets as at 31 December 2019, representing investments in various types of short-term wealth management products issued by licensed banks and unlisted trust plans and asset management plans and funds; and (ii) equity investments of RMB67.4 million (31 December 2018: RMB71.7 million), in aggregate accounted for 2.4% of the Group's total assets as at 31 December 2019, representing investment portfolio of unlisted companies and listed companies.

The Group adopts prudent and pragmatic investment strategies over its significant investments. The subscription of the significant investments as well as the investments in other financial products were made for treasury management purpose to maximize the return of the Company after taking into account, among others, the level of risk, return on investment and the term to maturity. When making the investment decision, it is the Company's investment strategy to select standard short-term financial products that had relatively low associated risk in order to secure a stable investment income. Prior to making an investment, the Company had also ensured that there remains sufficient working capital for the requirements of the Group's business, operating activities and capital expenditures even after making the significant investments.

CONTINGENT LIABILITIES

As of 31 December 2019, the Group did not have any unrecorded significant contingent liabilities, guarantees or any litigation against the Group.

PLEDGE OF ASSETS

As at 31 December 2019, bank balances amounting to RMB5.1 million were restricted, including bank balances amounting to RMB3.0 million restricted for capital verification purpose upon setting up two subsidiaries of the Group, and RMB2.1 million restricted for establishing education reserve accounts at the request of the local education bureau, which is a prerequisite for launching the private education business.

BANK LOANS AND OTHER BORROWINGS

As at 31 December 2019, the Company did not have bank loans or other borrowings.

FOREIGN EXCHANGE EXPOSURE

The Group's transactions during the Reporting Period were mostly denominated in RMB. Foreign exchange exposures mainly arise from debt investments at fair value through profit or loss denominated in US$. 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. The Group did not enter into any financial instrument for hedging purpose.

EVENTS AFTER THE REPORTING PERIOD

In the early 2020, upon the outbreak of the novel coronavirus (COVID-19), various industries were affected by the epidemic to varying extent, and the PRC government has also adopted various preventive and control measures. The Group adopted comprehensive measures immediately after the outbreak. We suspended offline training activities at the request of the government and transferred all offline courses in online teaching. Meanwhile, the government promulgated the policies, including VAT reduction initiative for tutoring service, social insurance reduction and exemption and housing provident fund so as to help to alleviate the impact. The Group is also actively negotiating with the owners of the training centres regarding the rent reductions, in order to reduce related costs.

Since the COVID-19 outbreak has not yet ended, the Group will keep continuous attention on the situation of COVID-19 and react actively to its impact on the operation and financial position of the Group, and will reflect in the Group's 2020 interim and annual financial statements.

HUMAN RESOURCES

As at 31 December 2019, the Group had a total of 6,902 (2018: 6,082) employees. To ensure that the 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' Restricted Share Units Scheme ("**RSU Scheme**") is employed by our Group. The total cost of the equity-settled compensation granted to employees for the Reporting Period amounted to RMB30.1 million. In addition, discretionary bonus is offered to eligible employees by reference to the Group's results and individual performance.

DIVIDENDS

Despite the impact caused by the epidemic on the training industry, with a healthy cash flows of the Company, in order to make returns to the investors, the Board of the Company is pleased to recommend the payment of a final dividend of HK$5.3 cents per ordinary share and a special dividend of HK$2.0 cents per ordinary share for the year ended 31 December 2019, out of the share premium account of the Company, accounting for approximately 30.3% and 11.4%, respectively, of profit for the year attributed to owners of the parent during the year.

Subject to approval at the forthcoming annual general meeting on 21 May 2020, the said final and special dividend will be paid on or around 9 June 2020 to shareholders whose names appear on the register of members of the Company on 29 May 2020.

USE OF PROCEEDS FROM THE LISTING

The net proceeds from the listing (including from the partial exercise of the over-allotment option) amounted to HK$299.5 million, after deducting the underwriting fees and other listing expenses borne by the Company. As known to the Directors, there is no material change to the planned use of the proceeds as set out in the section headed "Future Plans and Use of Proceeds" in the prospectus of the Company dated 12 December 2018 (the "**Prospectus**").

An analysis of the planned use of net proceeds as stated in the Prospectus and the actual use of the net proceeds from 27 December 2018 (being the date of the listing (the "**Listing Date**")) up to 31 December 2019 and the intended use of the proceeds and the expected timeline are set out as below:

Business objective as stated in the Prospectus	**Percentage of use of proceeds as stated in the Prospectus**	**Planned use of net proceeds from the Listing Date to 31 December 2019**(1) *HK$'million*	**Actual use of net proceeds during the period from the Listing Date to 31 December 2019** *HK$'million*	**Proceeds unused**(2) *HK$'million*	**Expected timeline**(3)
For expansion of the business network	50.00%	149.7	149.7(4)	–	Completed
For seeking strategic alliances and acquisitions to support and expand the operations	30.00%	89.9	65.2(5)	24.7	For the remaining unused proceeds, as of the date of this announcement, we had no finalised or definitive investment or acquisition agreements.
For investments to improve the teaching quality	20.00%	59.9	59.9(6)	–	Completed

Notes:

1. The actual proceeds allocated to each business objective stated in the table have been adjusted and recalculated with reference to (i) the actual net proceeds of HK$299.5 million received by the Company from the Listing (including from the partial exercise of the over-allotment option and after deducting the underwriting fees and other listing expenses borne by the Company); and (ii) the percentage of use of proceeds allocated to each business objective as disclosed in the Prospectus.

2. As at 31 December 2019, the unused net proceeds were deposited into current deposits and low-risk short-term debt investment products.

3. The expected timeline to use the remaining proceeds is prepared based on the best estimate made by the Group, which is subject to change according to the current and future development of the market condition.

4. Mainly used to establish our new education centres.

5. Mainly used to acquire interests in associates.

6. Mainly used to develop new education products and services.

RSU SCHEME

The Company approved and adopted the RSU Scheme on 3 December 2018. The purpose of the RSU Scheme is to incentivise Directors, senior management and employees for their contribution to the Group, to attract, motivate and retain skilled and experienced personnel to strive for the future development and expansion of the Group by providing them with the opportunity to own equity interests in the Company.

On 3 September 2019, the Board resolved to grant certain number of restricted share units at a consideration of RMB0.80 or nil per share to 551 employees of the Group (the "**Grantees**"), subject to acceptance of the Grantees. The purpose of the grant is to provide our employees with an opportunity to own equity interests in the Company and to reward them for their contributions to the Group and to motivate them to strive for the future development and expansion of the Group in the coming three years.

As the trustee of the Company (the "**Trustee**"), Ms. Huojuan Zhou retired on 8 October 2019, the Company appointed Ms. Shaoping Fu as the trustee on the same date to assist in the administration of the RSU Scheme.

As of 31 December 2019, the Trustee has purchased an aggregate of 1,575,000 shares (representing approximately 0.2% of the total issued shares of the Company) under the RSU Scheme. A total of 50,368,257 shares (representing approximately 5.9% of the total issued shares of the Company) have been granted to employees of the Group under the RSU Scheme.

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.

Save as disclosed below, 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 comprise experienced individuals. The Board currently comprises three executive directors (including Mr. Junjing Tang), one non-executive director and three independent non-executive directors and therefore has a fairly strong independence element in its composition. The Company will continue to review and enhance its corporate governance practices to ensure compliance with the CG Code.

The Board will continue to review and monitor the operation 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

Other than the shares purchased (as employee incentive which will create value for the Shareholders) through the Trustee as mentioned in the paragraph headed "RSU Scheme", neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the Reporting Period.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph C.3 of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules (the "**CG Code**"). The audit committee consists of Mr. Peng Xue, Ms. Yu Long and Mr. Wenhui Xu, with Mr. Peng Xue being the chairman of the committee.

The primary function of the audit committee is to assist the Board in providing an independent view of our financial reporting process, internal control and risk management system, overseeing the audit process and performing other duties and responsibilities as assigned by our Board. On 25 March 2020, the audit committee of the Company has in conjunction with management reviewed the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the consolidated financial statements of the Group for the year ended 31 December 2019.

SCOPE OF WORK OF THE COMPANY'S AUDITOR IN RESPECT OF THIS ANNUAL RESULTS ANNOUNCEMENT

The figures in respect of the Group's consolidated statement of financial position as at 31 December 2019, consolidated statement of profit or loss and consolidated statement of comprehensive income for the year then ended and the related notes thereto as set out in the preliminary announcement have been agreed by the Company's auditor to the amounts set out in the Group's consolidated financial statements for the year. The work performed by the Company's auditor, Ernst & Young in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards in Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Ernst & Young on the preliminary announcement.

ANNUAL GENERAL MEETING

The 2020 annual general meeting (the "**AGM**") will be held on 21 May 2020. Notice of the 2020 AGM and all other relevant documents will be published and despatched to the Shareholders in due course.

CLOSURE OF REGISTER OF MEMBERS

(a) Attending the AGM

The register of members of the Company will be closed from 18 May 2020 to 21 May 2020, both days inclusive and during which period no share transfer will be effected, for the purpose of ascertaining Shareholders' entitlement to attend and vote at the AGM. In order to be eligible to attend and vote at the AGM, all share transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on 15 May 2020.

(b) Determining the entitlement to the proposed final and special dividend

The register of members of the Company will be closed from 27 May 2020 to 29 May 2020, both days inclusive and during which period no share transfer will be effected, for the purpose of determining the Shareholders' entitlement to the proposed final dividend and special dividend for the year ended 31 December 2019. In order to qualify for the proposed final and special dividend, all share transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on 26 May 2020.

PUBLICATION OF RESULTS ANNOUNCEMENT AND ANNUAL 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 annual report of the Company for the year ended 31 December 2019 containing all the information required by the Listing Rules will be despatched to the Shareholders 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 the parents, shareholders and business partners 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, 25 March 2020

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