China Kepei Education Group Limited
中國科培教育集團有限公司

(Incorporated in the Cayman Islands with limited liability)
（於開曼群島註冊成立的有限公司）

Stock Code 股份代號：1890

2019 INTERIM REPORT 中期報告

Contents

Corporate Profile

China Kepei Education Group Limited (the "Company"), together with its subsidiaries (collectively referred to as the "Group","we", "our" or "us"), is a leading provider of private higher education in South China focusing on profession-oriented education. As of 30 June 2019, we had an aggregate of 52,960 students enrolled at the schools we operated, namely, Guangdong Polytechnic College and Zhaoqing Science and Technology Secondary Vocational School* (肇慶市科技中等職業學校) ("Zhaoqing School"), both of which are located in Zhaoqing City, Guangdong Province.

We are committed to providing students with high-quality profession-oriented education and help them meet the growing and changing market demand. We focus on engineering majors in order to better capture local employment demands, balanced with economics, management, education and art majors to offer well-rounded education services. We endeavor to provide students with various profession-oriented training and internship opportunities in collaboration with research institutions and enterprises, through which we foster practical skills and market competitiveness of our students. We have also built our reputation on the high initial employment rate of our graduates. For the 2017/2018 school year**, Guangdong Polytechnic College had 1,023 graduates from its undergraduate programs, achieving an initial employment rate of 96.8%.

Through over 19 years of private higher education operation in South China, we believe that we have established a strong reputation, which helps us attract high-quality students and teachers and pave the way for our success. We intend to maintain and strengthen our market position in the private higher education industry in China.

* for identification purpose only

** a school year generally starts from September 1 of each calendar year to August 31 of the following calendar year

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Ye Nianqiao *(Chairman and Chief Executive Officer)*

Dr. Zhang Xiangwei

Mr. Zha Donghui

Ms. Li Yan

Mr. Ye Xun

Non-executive Director

Mr. Wang Chuanwu

Independent Non-executive Directors

Dr. Xu Ming

Dr. Deng Feiqi

Dr. Li Xiaolu

AUDIT COMMITTEE

Dr. Xu Ming *(Chairman)*

Mr. Wang Chuanwu

Dr. Deng Feiqi

REMUNERATION COMMITTEE

Dr. Deng Feiqi *(Chairman)*

Mr. Zha Donghui

Dr. Li Xiaolu

NOMINATION COMMITTEE

Mr. Ye Nianqiao *(Chairman)*

Dr. Deng Feiqi

Dr. Li Xiaolu

JOINT COMPANY SECRETARIES

Ms. Li Yan

Ms. Leung Suet Wing

AUTHORIZED REPRESENTATIVES

Mr. Ye Nianqiao

Ms. Leung Suet Wing

REGISTERED OFFICE

Maples Corporate Services Limited

P.O. Box 309, Ugland House

Grand Cayman, KY1-1104

Cayman Islands

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

Qifu Road

Gaoyao District

Zhaoqing City

Guangdong Province

PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

31/F, Tower Two, Times Square

1 Matheson Street

Causeway Bay

Hong Kong

CAYMAN ISLANDS SHARE REGISTRAR AND TRANSFER OFFICE

Maples Fund Services (Cayman) Limited

PO Box 1093, Boundary Hall

Cricket Square

Grand Cayman, KY1-1102

Cayman Islands

Corporate Information

HONG KONG SHARE REGISTRAR

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183 Queen's Road East
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Hong Kong

LEGAL ADVISORS

As to Hong Kong law:
Fangda Partners
26/F, One Exchange Square
8 Connaught Place
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Hong Kong

As to PRC law:
Jingtian & Gongcheng
34/F, Tower 3, China Central Place
77 Jianguo Road, Chaoyang District
Beijing
China

As to Cayman Islands law:
Maples and Calder (Hong Kong) LLP
53rd Floor, The Center
99 Queen's Road
Central
Hong Kong

COMPLIANCE ADVISOR

First Shanghai Capital Limited
19/F, Wing On House
71 Des Voeux Road Central
Hong Kong

AUDITOR

Ernst & Young
Certified Public Accountants
22/F, CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited

INVESTOR RELATIONS

Mr. Zheng Chaoran
Investor Relations Director
Email: ir@kepeieducation.com

STOCK CODE

1890

COMPANY'S WEBSITE

www.chinakepeiedu.com

Financial Highlight

	For six months ended 30 June			Percentage
	2019	2018	**Change**	**Change**
	RMB'000	RMB'000	RMB'000	(%)
Revenue	**359,284**	284,122	75,162	+26.5
Gross profit	**252,421**	193,636	58,785	+30.4
Profit for the period	**244,581**	178,153	66,428	+37.3
Core net profit*	**245,233**	173,620	71,613	+41.2
EPS (RMB per share)	**0.13**	0.12	0.01	+8.3

* Core net profit was derived from the profit for the period after adjusting for the items which are not indicative of the Group's operational performance. Please refer to the section of "Financial Review" in this report for details of the reconciliation of the profit for the period to the core net profit of the Group.

Financial ratio	For six months ended 30 June	
	2019	2018
Gross profit margin (%)	**70.3**	68.2
Net profit margin (%)	**68.1**	62.7

Management Discussion and Analysis

BUSINESS OVERVIEW

The Group is a leading provider of private higher education in South China focusing on profession-oriented education. As of 30 June 2019, the Group had an aggregate of 52,960 students enrolled at the schools we operated, namely, Guangdong Polytechnic College and Zhaoqing School.

Market Position

With over 19 years' experience in operating higher education institutions in China, the Group is a leading provider of private higher education services in South China in terms of student enrollment. As of 30 September 2017, according to the market research report on China's private higher education market prepared by Frost & Sullivan (Beijing) (the "Frost & Sullivan Report"), Guangdong Polytechnic College ranked first among a total of 61 private higher education institutions (excluding independent colleges) in South China in terms of the number of newly admitted students and student enrollment, with a market share of 2.6% in South China. As of 30 September 2017, according to the Frost & Sullivan Report, Zhaoqing School ranked first in terms of student enrollment among a total of approximately 70 private specialized secondary schools in Guangdong Province, with a market share of 8.5%.

The Group is committed to providing students with high-quality profession-oriented education and helping them meet the growing and changing market demand. It focuses on engineering majors in order to better capture local employment demands, balanced with economics, management, education and art majors to offer well-rounded education services. It endeavors to provide students with various profession-oriented training and internship opportunities in collaboration with research institutions and enterprises, through which it fosters practical skills and market competitiveness of its students.

The PRC Schools

Guangdong Polytechnic College: A degree-granting undergraduate-level education institution established in 2005 which offers undergraduate, junior college and adult education programs. As of 30 June 2019, it has a total of 44,702 students enrolled, consisting of 19,977 undergraduate students, 7,610 junior college students and 17,115 adult college students. It offers 49 majors, consisting of 29 undergraduate majors and 20 junior college majors, in a wide range of subject areas. Its core majors include standardisation management, electrical engineering and automation, electronic information engineering and mechanical design; and

Zhaoqing School: A secondary vocational school established in 2000 which provides secondary vocational education in 12 majors, including automobile servicing, electronic commerce, and electromechanical technology application. As of 30 June 2019, it has a total of 8,258 students enrolled.

Revenue

For the six months ended 30 June 2019, the Group experienced revenue growth at its schools, which was in line with the expansion of its business and student enrollment. Revenue increased from RMB284.1 million for the six months ended 30 June 2018 to RMB359.3 million for the six months ended 30 June 2019. The Group typically charges students fees comprising tuition fees, boarding fees and other education service fees and tuition fees remained as the major revenue, accounting for approximately 91.6% of the total revenue of the Group for the six months ended 30 June 2019.

The table below summarises the amount of revenue generated from tuition fees, boarding fees and other education service fees charged by Guangdong Polytechnic College and Zhaoqing School (the "PRC Schools") for the periods indicated:

	For six months ended 30 June			Percentage
	2019	2018	**Change**	**Change**
	RMB'000	RMB'000	RMB'000	(%)
Tuition fees				
Undergraduate program	**217,993**	151,186	66,807	+44.2
Junior college program	**63,871**	66,952	(3,081)	-4.6
Adult college program	**23,301**	16,698	6,603	+39.5
Upgrade of junior college students to undergraduate students	**2,131**	1,948	183	+9.4
Secondary vocational education	**21,870**	21,471	399	+1.9
Total tuition fees	**329,166**	258,255	70,911	+27.5
Boarding fees	**27,994**	22,460	5,534	+24.6
Other education service fees	**2,124**	3,407	(1,283)	-37.7
Total	**359,284**	284,122	75,162	+26.5

The increase of the total revenue of the Group for the six months ended 30 June 2019 was mainly due to the increase of the Group's student enrollment and average tuition fee.

The following table sets out the tuition fee information for the PRC Schools for the school years indicated:

School	Tuition Fees/ School Year 2018/2019 RMB	Tuition Fees/ School Year 2017/2018 RMB	Boarding Fees/ School Year 2018/2019 RMB	Boarding Fees/ School Year 2017/2018 RMB
Guangdong Polytechnic College				
— Undergraduate program	**21,800–22,800**	18,800–19,800	**1,600**	1,500
— Junior college program	**15,800–18,800**	14,100–18,800	**1,600**	1,500
— On-campus adult college program	**5,900–10,700**	5,900–10,700	**1,600**	1,500
— Off-campus adult college program	**680–980**	680–980	**N/A**	N/A
Zhaoqing School				
— Secondary vocational education	**6,100–9,300**	6,100–9,300	**1,170–1,570**	1,170–1,570

Notes:

(1) Tuition fees and boarding fees shown above for both of the PRC Schools only apply to newly enrolled students in the relevant school years.

(2) The tuition fees range excluded the “2+2” undergraduate and junior college program offered by Guangdong Polytechnic College, which was generally charged higher than the ordinary program.

Student Enrollment

The following table sets out information relating to the student enrollment for the PRC Schools for the school years indicated:

	Numbers of Students Enrolled As of 30 June 2019	2018	Change	Percentage Change (%)
School				
Guangdong Polytechnic College				
Undergraduate program	**19,977**	14,900	5,077	+34.1
Junior college program	**7,610**	9,309	(1,699)	-18.3
On-campus adult college program	**2,239**	2,009	230	+11.4
Off-campus adult college program	**14,876**	7,324	7,552	+103.1
Subtotal	**44,702**	33,542	11,160	+33.3
Zhaoqing School				
Secondary vocational program	**8,258**	7,352	906	+12.3
Total	**52,960**	40,894	12,066	+29.5

The student enrollment information was based on the records as of 30 June 2019. As of 30 June 2019, the total number of enrolled students of the Group was 52,960, up 29.5% from the enrolled students as of 30 June 2018.

School Utilisation Rate

School utilisation rate is calculated by boarding student enrollment for a particular school year divided by school capacity for such school year. The school capacity at the PRC Schools is calculated by the number of beds available in student dormitories.

	School Capacity As at 30 June 2019	2018	School Utilisation Rate As at 30 June 2019	2018
Guangdong Polytechnic College	**29,148**	25,148	**89.8%**	86.1%
Zhaoqing School	**6,829**	6,829	**86.0%**	81.3%
Total	**35,977**	31,977	**89.1%**	85.1%

Future Plans

In strengthening the Group's position as a leading provider of private higher education focusing on profession-oriented education, it plans to pursue the following business strategies:

(i) Expand the Group's school network through strategic mergers and acquisitions

The Group will target at the mergers and acquisitions of: (1) private regular undergraduate institutions; (2) independent colleges; and (3) high-quality private junior colleges which focus on applied science and target to cultivate applied talents. As at the date of this report, no target has been identified yet, the Group will continue to look for potential target for mergers and acquisitions.

In terms of geographical coverage, the Group will continue to focus on expanding its school network within Guangdong Province and strengthen its leading position in the Pearl River Delta. It is expected that the development plan for Guangdong-Hong Kong-Macau Greater Bay Area announced on 18 February 2019 will boost the economy and produce increasing demand for professional talents from high-end manufacturing sector and supporting social services. The Group will seize the significant geographical advantage of China's manufacturing center and meet strong local demands for professional talents. Meanwhile, the Group will also explore expansion opportunities in South China and Southwest China, where there is also a relative scarcity of higher education resources, as well as other areas in China with market potential.

The management team of the Group will leverage its extensive experience to further increase competitiveness in student admission and graduate employment, and thus receive higher fees and achieve growth. The Group aims to enhance education quality by transplanting its profession-oriented instruction method and market-oriented major and curriculum offering to the acquired schools. With respect to graduate employment, the Group plans to share its employment information and resources as well as extensive school-enterprise relationships with newly acquired schools. The Group will also implement centralised management over its entire school network, optimise pricing strategy and lower the operating costs of newly acquired schools.

(ii) Increase the capacity of the PRC Schools

The third phase of the construction of the new Dinghu campus of Guangdong Polytechnic College is expected to be completed by the second half of 2019, and will further expand the capacity of Guangdong Polytechnic College by over 3,000 students. Besides the new Dinghu campus, the Group plans to further upgrade the Gaoyao campus of Guangdong Polytechnic College, with the focus on the expansion and upgrade of the dormitories and supporting facilities. The construction of the dormitories with a capacity of approximately 7,000 students is expected to be completed in the second half of 2020. The Group plans to use proceeds from the listing of the Company on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 25 January 2019 (the "Listing"), supplemented by the Group's working capital, to fund such expansion and upgrade.

(iii) Strengthening school-enterprise collaboration

The Group plans to further advance its profession-oriented education by strengthening school-enterprise collaboration and improving practical training building and facilities. The Group aims to establish collaboration programs with more industry-leading enterprises and strengthen its relationships with existing cooperation partners, focusing on collaborative formulation of class plan and course content, customised training majors and courses at its schools and the provision of internship opportunities to its students. The construction of the practical training building of the Guangdong Polytechnic College Gaoyao campus is expected to be completed in the third quarter of 2019 and will provide sufficient space for the operations of practical training programs. The Group plans to use its working capital to fund the construction of the practical training building.

(iv) Further expand service offering and diversify revenue sources

a. Optimise tuition fees and boarding fees

The Group will raise tuition fees and boarding fees for the 2019/2020 school year and plans to further raise the tuition fees and boarding fees as necessary and appropriate to reflect its increased operating costs and the adjustment of its major and curriculum offering. The Group believes its leading position and established reputation enable it to further increase its tuition fees while maintaining competitiveness in student admission.

b. Expand service offering

The Group plans to further expand the course offering of the Qualification Examination Center for Guangdong Polytechnic College to improve students' market competitiveness. It encourages all of its students to obtain at least one occupational qualification upon graduation. In addition, the Group will expand the adult college program by cooperating with more partner education institutions to accommodate various needs of adult college students who might be in the workforce. Furthermore, Guangdong Polytechnic College will start to provide Top-up degree program (專插本項目) starting from 2019/2020 school year and the Group expects that it will enroll more students through this program in the future.

FINANCIAL REVIEW

Revenue

Revenue represents the value of services rendered during the six months ended 30 June 2019. The Group derives revenue from tuition fees and boarding fees its schools collect from students. Revenue increased by RMB75.2 million, or 26.5%, from RMB284.1 million for the six months ended 30 June 2018 to RMB359.3 million for the six months ended 30 June 2019. This increase was primarily the result of: (i) revenue from tuition fees increasing by RMB70.9 million, or 27.5%, from RMB258.3 million for the six months ended 30 June 2018 to RMB329.2 million for the six months ended 30 June 2019; and (ii) revenue from boarding fees increasing by RMB5.5 million, or 24.6%, from RMB22.5 million for the six months ended 30 June 2018 to RMB28.0 million for the six months ended 30 June 2019. The tuition fees increased mainly because: (i) the Group further optimised the program mix and size, while enrollment at other programs remained stable, the number of undergraduate students of Guangdong Polytechnic College increased from 14,900 in the 2017/2018 school year to 19,977 in the 2018/2019 school year; and (ii) the Group raised tuition fees for programs of both its schools for the 2018/2019 school year. The boarding fees increased as a result of the expansion of the student enrollment.

Cost of Sales

Cost of sales consists primarily of staff costs, depreciation and amortisation, utilities, teaching supplies, cost of cooperative education, student study and practice fees, office expenses, training expenses, student subsidies, travel and transportation expenses, cost of repairs, property management fees and others. Cost of sales increased by RMB16.4 million, or 18.1%, from RMB90.5 million for the six months ended 30 June 2018 to RMB106.9 million for the six months ended 30 June 2019. This increase was primarily the result of an increase in staff costs, depreciation and amortisation. Staff costs increased by RMB9.1 million, or 24.9%, from RMB36.5 million for the six months ended 30 June 2018 to RMB45.6 million for the six months ended 30 June 2019, primarily as a result of increased salaries and benefits payable to the Group's teachers. Depreciation and amortisation increased by RMB6.0 million, or 24.6%, from RMB24.4 million for the six months ended 30 June 2018 to RMB30.4 million for the six months ended 30 June 2019, mainly as a result of the increase in school buildings and equipment after the completion of the second phase of the construction of Guangdong Polytechnic College Dinghu campus in September 2018.

Gross Profit and Gross Profit Margin

Gross profit increased by RMB58.8 million, or 30.4% from RMB193.6 million for the six months ended 30 June 2018 to RMB252.4 million for the six months ended 30 June 2019, which was in line with the growth of the Group's business. Gross profit margin increased from 68.2% for the six months ended 30 June 2018 to 70.3% for the six months ended 30 June 2019, which was mainly due to the increase of the Group's student enrollments and average tuition fee.

Other Income and Gains

Other income and gains primarily consist of interest income from bank deposits, foreign exchange gain, rental income from lease of campus properties and venues to independent third parties, and gains relating to change in fair value of the convertible bond which was issued in April 2018 (the "Convertible Bond"). Other income and gains increased significantly by RMB17.9 million, or 63.7%, from RMB28.1 million for the six months ended 30 June 2018 to RMB46.0 million for the six months ended 30 June 2019. This increase was primarily due to: (i) an increase of RMB18.5 million in the fair value gains in the Convertible Bond and short-term investments for the six months ended 30 June 2019; (ii) an increase in bank interest income of RMB9.2 million, from RMB0.7 million for the six months ended 30 June 2018 to RMB9.9 million for the six months ended 30 June 2019 as a result of the increase in bank balance from the proceeds and issuance of the Convertible Bond; and (iii) a decrease in exchange gain of RMB10.8 million from RMB14.0 million for the six months ended 30 June 2018 to RMB3.2 million for the six months ended 30 June 2019 resulting from the depreciation of Renminbi against U.S. dollar in relation to the Group's deposits denominated in U.S. dollars.

Selling and Distribution Expenses

Selling and distribution expenses primarily consist of advertising expenses, student admission expenses and business entertainment expenses. Selling and distribution expenses increased by RMB0.8 million, or 25.6%, from RMB3.3 million for the six months ended 30 June 2018 to RMB4.1 million for the six months ended 30 June 2019, which was due to the increase in advertising and student recruitment expenses resulting from the increase in student enrollment of the PRC School for the incoming 2019/2020 school year.

Administrative Expenses

Administrative expenses primarily consist of the administrative staff salaries, office-related expenses, depreciation of office buildings and equipment, travel expenses, expenses related to the issuance of shares and other expenses. Administrative expenses increased by RMB13.2 million, or 39.8%, from RMB33.2 million for the six months ended 30 June 2018 to RMB46.4 million for the six months ended 30 June 2019. This increase was primarily due to: (i) the expenses related to the issuance of shares increased by RMB11.0 million, or 161.8%, from RMB6.8 million for the six months ended 30 June 2018 to RMB17.8 million for the six months ended 30 June 2019; (ii) the staff costs increased by RMB1.5 million, or 14.2%, from RMB10.9 million for the six months ended 30 June 2018 to RMB12.4 million for the six months ended 30 June 2019, primarily as a result of increased salaries and benefits payable to the administrative staff.

Other Expenses

Other expenses primarily consist of expenses relating to change in fair value of the Convertible Bond, one-off donations to independent third parties, disposal of fixed assets and other costs. Other expense decreased significantly from RMB2.9 million for the six months ended 30 June 2018 to RMB26,000 for the six months ended 30 June 2019. This decrease was primarily due to a loss in fair value of the Convertible Bond of RMB2.7 million recognised during the six months ended 30 June 2018.

Finance Costs

Finance costs primarily consist of the interest expenses for the bank and other borrowings and the Convertible Bond. Due to the decreased average bank loans during the six months ended 30 June 2019, the total interest of the Group decreased by RMB2.7 million compared to that of the six months ended 30 June 2018. While certain bank loans were borrowed for the development of school premises, the corresponding interest was capitalised and resulted in the decrease of finance costs.

Core Net Profit

Core net profit was derived from the profit for the period after adjusting the expenses related to the issuance of shares, change in fair value of the Convertible Bond and the foreign exchange gain, which are not indicatives of the Group's operational performance. This is not a Hong Kong Financial Reporting Standards ("HKFRSs") measure. The Group presents this item because the Group considers it an important supplemental measure of the Group's operational performance used by the Group's management as well as analysts or investors. The following table reconciles from profit for the period to core net profit for both financial periods:

	For six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
Profit for the period	**244,581**	178,153
Add:		
Expenses related to the issuance of shares	**17,840**	6,799
Change in fair value of Convertible Bond	**—**	2,650
Less:		
Change in fair value of Convertible Bond	**13,941**	—
Foreign exchange gain	**3,247**	13,982
Core net profit	**245,233**	173,620

Core net profit increased by RMB71.6 million, or 41.2%, from RMB173.6 million for the six months ended 30 June 2018 to RMB245.2 million for the six months ended 30 June 2019.

Capital Expenditures

Capital expenditures during the six months ended 30 June 2019 primarily related to the establishment of new school premises, maintaining and upgrading existing school premises and purchasing additional educational facilities and equipment for the PRC Schools. For the six months ended 30 June 2019, the Group's capital expenditures were RMB36.0 million.

Liquidity and Financial Resources

The Group's primary uses of cash are to fund its working capital requirements, purchase of property, plant and equipment and loan repayment and related interest expenses. As at the date of this report, the Group has funded its operations principally with the cash generated from its operations, bank borrowings, shareholder contributions and net proceeds from the Listing. In the future, the Group believes that its liquidity requirements will be satisfied with a combination of cash flows generated from its operating activities, bank loans, other borrowings and other funds raised from the capital markets from time to time. As of 30 June 2019, the Group had cash and cash equivalents of RMB1,106.0 million.

The balance of bank loans as at 30 June 2019 was RMB100.0 million. The bank loans of RMB100.0 million are repayable within five years or above. The Group had adequate liquidity to meet its daily management and capital expenditure requirements and control internal operating cash flows.

Capital Structure

The Group's financial department is responsible for its financial risk management which operates according to policies implemented and approved by the senior management. As at 30 June 2019, all the interest-bearing bank loans were denominated in RMB, while cash and cash equivalents were primarily held in RMB, HKD and USD. The Group plans to maintain an appropriate mix of financial equity and debt to ensure an efficient capital structure. The outstanding balances of interest-bearing bank loans as at 30 June 2019 were at floating interest rates for loans denominated in RMB.

Significant Investments, Acquisitions and Disposals

There were no significant investments held by the Company at 30 June 2019, nor other material acquisitions and disposals of subsidiaries and associated companies by the Company.

Future Plan for Material Investments and Capital Assets

Save as disclosed in this report, the Group did not have other plans for material investments and capital assets as at 30 June 2019.

Gearing Ratio

The gearing ratio of the Group, which was calculated as total interest-bearing bank loans divided by total equity as at the end of the relevant financial year/period, decreased from approximately 7.7% as at 31 December 2018 to 3.9% as at 30 June 2019, primarily due to the increase in the Group's total equity resulting from the Listing.

Foreign Exchange Risk Management

The functional currency of the Company is Renminbi (RMB). The majority of the Group's revenue and expenditures are denominated in RMB. As at 30 June 2019, certain bank balances were denominated in HKD and USD. During the six months ended 30 June 2019, the Group did not experience any significant difficulties in or impacts on its operations or liquidity due to fluctuations in currency exchange rates. The directors of the Company (the "Directors") believe that the Group has sufficient foreign exchange to meet its own foreign exchange requirements and will adopt practical and effective measures to prevent exposure to exchange rate risk. The Group did not enter into any financial instrument for hedging purpose.

Contingent Liabilities

As at 30 June 2019, the Group did not have any significant contingent liabilities, guarantees or any litigations or claims of material importance, pending or threatened (as at 31 December 2018: nil).

Pledge of Assets

As at 30 June 2019, the Group did not pledge any of its assets to secure general banking facilities or other source of funding.

Employees and Remuneration Policy

As at 30 June 2019, the Group had 2,122 employees (as at 30 June 2018: 1,785 employees).

The remuneration policy and package of the Group's employees are periodically reviewed in accordance with industry practice and results performance of the Group. The Group provides external and internal training programs to its employees. The Group participates in various employee social security plans for its employees that are administered by local governments, including housing, pension, medical insurance, occupational injury insurance, maternity insurance and unemployment insurance.

The total remuneration cost incurred by the Group for the six months ended 30 June 2019 was RMB58.1 million (for the six months ended 30 June 2018: RMB47.4 million).

Events After the Reporting Period

On 16 August 2019, the Company has been selected as a constituent stock of the index series by the Hang Seng Indexes Company Limited, which include Hang Seng Composite Index, Hang Seng Consumer Goods & Services Index, Hang Seng Stock Connect Hong Kong Index, Hang Seng Stock Connect Hong Kong MidCap & SmallCap Index, Hang Seng Stock Connect Hong Kong SmallCap Index, Hang Seng SCHK Mainland China Companies Index and Hang Seng SCHK ex-AH Companies Index, with effect from 9 September 2019. Please refer to the announcement of the Company dated 16 August 2019 for more details.

The board of directors of the Company (the "Board") is of the view that the Company's inclusion in the market benchmark index represents capital market's recognition of the Company, and is expected to expand shareholder base and increase trading liquidity of the shares of the Company (the "Shares"), resulting in enhanced value of investment and reputation of the Company in the capital market.

Corporate Governance and Other Information

CORPORATE GOVERNANCE PRACTICES

The Group is committed to maintaining high standards of corporate governance to safeguard the interests of the shareholders of the Company and to enhance corporate value and accountability. The Company has adopted the Corporate Governance Code and the Corporate Governance Report (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") as its own code of corporate governance.

The Company has complied with all applicable code provisions under the CG Code during the period from the listing of the Shares on the Stock Exchange on 25 January 2019 (the "Listing Date") to 30 June 2019, save and except for the deviation from code provision A.2.1 of the CG Code as follows:

Code provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual. Mr. Ye Nianqiao is the chairman (the "Chairman") and chief executive officer (the "CEO") of the Company. Mr. Ye is the founder of the Group and has been responsible for managing the operation and overall strategic planning of the Group since its establishment. The Directors believe that vesting the roles of both the Chairman and the CEO in Mr. Ye is beneficial to the business outlook and management of the Group and can ensure consistent leadership within the Group for more effective and efficient overall strategic planning for the Group. After considering all the corporate governance measures that have been taken, the Board considers that the balance of power and authority will not be impaired by the present arrangement and the current structure will enable the Company to make and implement decisions more promptly and effectively. Thus, the Company does not separate the roles of Chairman and CEO. The Board will continue to review the separating and consider separating the roles of Chairman and CEO of the Company when appropriate after taking into account of the then overall circumstances of the Group. The Company will also continue to review and monitor its corporate governance practices to ensure compliance with the CG Code.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the "Model Code for Securities Transactions by Directors of Listed Issuer" (the "Model Code") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions of the Directors. Having made specific enquiry of all the Directors, each of the Directors has confirmed that he/she has complied with the required standard as set out in the Model Code during the period from the Listing Date to 30 June 2019.

INTERIM DIVIDEND

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

AUDIT COMMITTEE

The Board has established an audit committee (the "Audit Committee"), which comprises three members, including two independent non-executive Directors namely Dr. Xu Ming (chairman) and Dr. Deng Feiqi and one non-executive Director namely Mr. Wang Chuanwu. The primary duties of the Audit Committee are to review and supervise the Company's financial reporting system, internal control system and risk management system.

The Audit Committee, together with the Board, has reviewed the unaudited interim condensed results of the Group for the six months ended 30 June 2019 and was of the opinion that the interim results and interim report had been prepared in accordance with the relevant accounting standards and that adequate disclosures had been made in accordance with the requirements of the Listing Rules.

CHANGES TO DIRECTORS' INFORMATION

Save as disclosed herein, the Directors confirm that no information is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the period from the Listing Date to 30 June 2019, neither the Company nor its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

USE OF NET PROCEEDS FROM LISTING

The Company issued 354,132,000 new Shares (after exercising the over-allotment option in February 2019) with par value of USD0.00001 at the issue price of HK$2.48 per Share in connection with the Listing. The net proceeds after deducting underwriting commission and issuing expenses incurred from the Listing were approximately HK$792.3 million (equivalent to approximately RMB686.8 million).

From the Listing Date to the date of this report, the Group has not utilized any of the net proceeds from the Listing. The following sets forth a summary of the utilisation of the net proceeds:

Purpose	Percentage to total amount	Net proceeds RMB (million)	Utilised amount (at 30 June 2019) RMB (million)	Unutilised amount (at 30 June 2019) RMB (million)	Expected timeline
Acquire additional schools	44.9%	308.4	–	308.4	As of the date of this report, the Group had no finalised or definitive agreements for investment or acquisition
Expand the existing schools owned or operated by the Group	37.6%	258.2	–	258.2	2019 to 2020
Repay loans from third-party financial institutions	7.5%	51.5	–	51.5	2019 to 2020
Fund the working capital and general corporate purposes	10.0%	68.7	–	68.7	2019 to 2021
Total	100.0%	686.8	–	686.8	

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2019, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Model Code were as follows:

Name of Director or chief executive	Capacity/Nature of Interest	Number of Shares[2]	Approximate Percentage of Shareholding in the Company[1]
Ye Nianqiao	Interest in a controlled corporation[3]	675,000,000 (L)	33.74%
	Interest of spouse[4]	375,000,000 (L)	18.74%
Ye Xun	Interest in a controlled corporation[5]	300,000,000 (L)	14.99%

Notes:

1. As at 30 June 2019, the total number of issued Shares is 2,000,798,667 Shares.

2. The letter "L" denotes the person's long position in the Shares.

3. Qiaoge Company Limited is wholly-owned by Mr. Ye Nianqiao. By virtue of Part XV of the SFO, Mr. Ye Nianqiao is deemed to be interested in the Shares held by Qiaoge Company Limited.

4. Mr. Ye Nianqiao is the husband of Ms. Shu Liping. By virtue of Part XV of the SFO, Mr. Ye Nianqiao is deemed to be interested in the Shares indirectly held by Ms. Shu Liping through Shuye Company Limited.

5. Chenye Company Limited is beneficially and wholly-owned by Mr. Ye Xun. By virtue of Part XV of the SFO, Mr. Ye Xun is deemed to be interested in the Shares held by Chenye Company Limited.

Save as disclosed above, as at 30 June 2019, none of the Directors or the chief executive of the Company had or was deemed to have any interest or short position in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) that was required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or required to be recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in this report, at no time during the period from the Listing Date to 30 June 2019 was the Company or any of its subsidiaries, a party to any arrangement that would enable the Directors to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the Directors or any of their spouses or children under the age of 18 were granted any right to subscribe for the equity or debt securities of the Company or any other body corporate or had exercised any such right.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2019, to the best knowledge of the Directors, the following persons (other than the Directors or chief executive of the Company) had an interest or a short position in the Shares or underlying Shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Name of Shareholder	Nature of Interest	Number of Shares[2]	Approximate Percentage of Shareholding in the Company[1]
Qiaoge Company Limited	Beneficial owner	675,000,000 (L)	33.74%
Shuye Company Limited	Beneficial owner[3]	375,000,000 (L)	18.74%
Shu Liping	Interest in a controlled corporation[3]	375,000,000 (L)	18.74%
	Interest of spouse[3]	675,000,000 (L)	33.74%
Chenye Company Limited	Beneficial owner	300,000,000 (L)	14.99%
SKYLINE MIRACLE LIMITED	Beneficial owner[4]	146,666,667 (L)	7.33%
Gabriel Li	Interest in a controlled corporation[4]	146,666,667 (L)	7.33%
Lam Lai Ming	Interest in a controlled corporation[4]	146,666,667 (L)	7.33%
AREO HOLDINGS LIMITED	Interest in a controlled corporation[4]	146,666,667 (L)	7.33%
ORCHID ASIA V GROUP, LIMITED	Interest in a controlled corporation[4]	136,400,000 (L)	6.82%
ORCHID ASIA V GROUP MANAGEMENT, LIMITED	Interest in a controlled corporation[4]	136,400,000 (L)	6.82%
ORCHID ASIA VII GP, LIMITED	Interest in a controlled corporation[4]	136,400,000 (L)	6.82%
OAVII HOLDINGS, L.P.	Interest in a controlled corporation[4]	136,400,000 (L)	6.82%
ORCHID ASIA VII, L.P.	Interest in a controlled corporation[4]	136,400,000 (L)	6.82%

Notes:

1. As at 30 June 2019, the total number of issued Shares is 2,000,798,667 Shares.

2. The letter "L" denotes the person's long position in the Shares.

3. Shuye Company Limited is wholly-owned by Ms. Shu Liping. By virtue of Part XV of the SFO, Ms. Shu Liping is deemed to be interested in the Shares held by Shuye Company Limited. Mr. Ye Nianqiao is the husband of Ms. Shu Liping. By virtue of Part XV of the SFO, Ms. Shu Liping is deemed to be interested in the Shares indirectly held by Mr. Ye Nianqiao through Qiaoge Company Limited.

4. Skyline Miracle Limited, was beneficially owned by Orchid Asia VII, L.P. as to 93% and Orchid Asia VII Co-Investment, Limited as to 7%. Orchid Asia VII, L.P. was wholly controlled by OAVII Holdings, L.P. (in its capacity as general partner of Orchid Asia VII, L.P.), which was in turn wholly controlled by Orchid Asia VII GP, Limited (in its capacity as general partner of OAVII Holdings, L.P.), which was in turn wholly owned by Orchid Asia V Group Management, Limited, which was in turn wholly owned by Orchid Asia V Group, Limited, which was in turn wholly owned by Areo Holdings Limited. Areo Holdings Limited was wholly owned by Ms. Lam Lai Ming. Areo Holdings Limited was also controlled by Mr. Gabriel Li by virtue of his directorship therein. Accordingly, Ms. Lam Lai Ming and Mr. Gabriel Li were taken to be interested in the Conversion Shares in which Areo Holdings Limited was interested by virtue of Part XV of the SFO.

Save as disclosed above, as at 30 June 2019, the Directors are not aware of any other person (other than the Directors or chief executive of the Company) who had an interest or short position in the Shares or underlying Shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which would be required pursuant to section 336 of the SFO, to be entered in the register referred to therein.

SHARE OPTION SCHEME

The Company has adopted a share option scheme on 10 January 2019 (the "Share Option Scheme"), under which the Company may issue options to purchase up to a total of 200,000,066 Shares to the Directors, senior management and employees. The Share Option Scheme is valid and effective for a period of ten years commencing on 10 January 2019.

From 10 January 2019 (date of the adoption of the Share Option Scheme) to 30 June 2019, no option under the Share Option Scheme has been granted, exercised, cancelled and lapsed.

Unaudited Interim Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2019

	Notes	Six months ended 30 June 2019 (Unaudited) RMB'000	2018 (Unaudited) RMB'000
REVENUE	4	**359,284**	284,122
Cost of sales		**(106,863)**	(90,486)
Gross profit		**252,421**	193,636
Other income and gains	4	**45,998**	28,106
Selling and distribution expenses		**(4,094)**	(3,259)
Administrative expenses		**(46,429)**	(33,202)
Other expenses		**(26)**	(2,854)
Finance costs		**(1,582)**	(4,270)
Share of losses of a joint venture		**(649)**	(4)
PROFIT BEFORE TAX	5	**245,639**	178,153
Income tax expense	6	**(1,058)**	—
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**244,581**	178,153
Attributable to:			
Owners of the parent		**244,581**	178,153
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	8		
Basic			
— For profit for the period		**0.13**	0.12
Diluted			
— For profit for the period		**0.13**	0.12

Unaudited Interim Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income (continued)

For the six months ended 30 June 2019

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
PROFIT FOR THE PERIOD	**244,581**	178,153
OTHER COMPREHENSIVE INCOME		
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:		
Equity investments designated at fair value through other comprehensive income:		
Changes in fair value	**5,106**	—
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods	**5,106**	—
OTHER COMPREHENSIVE INCOME FOR THE PERIOD	**5,106**	—
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**249,687**	178,153
Attributable to:		
Owners of the parent	**249,687**	178,153

Unaudited Interim Condensed Consolidated Statement of Financial Position

30 June 2019

	Notes	30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	9	**1,279,581**	1,274,380
Right-of-use assets		**211,279**	—
Prepaid land lease payments		**—**	198,104
Investment in a joint venture		**1,299**	1,948
Equity investments designated at fair value through other comprehensive income		**38,993**	—
Prepayments for non-current assets		**151,644**	128,996
Total non-current assets		**1,682,796**	1,603,428
CURRENT ASSETS			
Trade receivables	10	**24,671**	22,650
Prepayments, deposits and other receivables		**14,559**	25,144
Short-term investments measured at fair value through profit or loss		**79,296**	246,106
Cash and cash equivalents		**1,105,987**	432,921
Total current assets		**1,224,513**	726,821
CURRENT LIABILITIES			
Contract liabilities	4	**1,151**	334,564
Other payables and accruals		**103,064**	115,643
Dividend payable		**131,758**	—
Interest-bearing bank loans		**—**	10,000
Convertible redeemable bond	11	**—**	332,700
Tax payable		**1,058**	—
Deferred income		**808**	808
Total current liabilities		**237,839**	793,715
NET CURRENT ASSETS/(LIABILITIES)		**986,674**	(66,894)
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,669,470**	1,536,534

Unaudited Interim Condensed Consolidated Statement of Financial Position (continued)

30 June 2019

	Note	30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,669,470**	1,536,534
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		**111,346**	100,000
Deferred income		**3,565**	3,969
Total non-current liabilities		**114,911**	103,969
Net assets		**2,554,559**	1,432,565
EQUITY			
Equity attributable to owners of the parent			
Share capital	12	**136**	—
Reserves		**2,554,423**	1,432,565
Total equity		**2,554,559**	1,432,565

Unaudited Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2019

	Attributable to owners of the parent						
	Share capital RMB'000 Note 12	Capital reserve – share premium RMB'000	Capital reserve – others RMB'000	Statutory and other surplus reserves RMB'000	Fair value reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2019 (audited)	–	–	14,129	387,255	–	1,031,181	1,432,565
Profit for the period	–	–	–	–	–	244,581	244,581
Other comprehensive income for the period:							
Change in fair value of equity investments at fair value through other comprehensive income	–	–	–	–	5,106	–	5,106
Total comprehensive income for the period	–	–	–	–	5,106	244,581	249,687
Transfer of fair value reserve upon the disposal of equity investments at fair value through other comprehensive income	–	–	–	–	(4,569)	4,569	–
Injection from the shareholders	–	–	102	–	–	–	102
Capitalisation issue of shares	102	(102)	–	–	–	–	–
Conversion of the convertible redeemable bond	10	318,749	–	–	–	–	318,759
Issue of shares for the Initial Public Offering ("IPO")	24	758,720	–	–	–	–	758,744
Issuance of shares under the over-allotment option	–	1,693	–	–	–	–	1,693
Share issue expenses	–	(31,167)	–	–	–	–	(31,167)
Final 2018 dividend declared	–	(175,824)	–	–	–	–	(175,824)
Transfer from retained profits	–	–	–	57,137	–	(57,137)	–
At 30 June 2019 (unaudited)	136	872,069*	14,231*	444,392*	537*	1,223,194*	2,554,559

* These reserve accounts comprise the consolidated reserves of RMB2,554,423,000 in the unaudited interim condensed consolidated statement of financial position as at 30 June 2019.

For the six months ended 30 June 2019

	Attributable to owners of the parent				
	Share capital RMB'000 Note 12	Capital reserve – others RMB'000	Statutory and other surplus reserves RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2018 (audited)	—	92,129	298,750	777,730	1,168,609
Profit for the period	—	—	—	178,153	178,153
Total comprehensive income for the period	—	—	—	178,153	178,153
Demerger of non-Listing Business	—	(78,000)	—	—	(78,000)
Transfer from retained profits	—	—	44,904	(44,904)	—
At 30 June 2018 (unaudited)	—	14,129	343,654	910,979	1,268,762

Unaudited Interim Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2019

	Notes	Six months ended 30 June 2019 (Unaudited) RMB'000	2018 (Unaudited) RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**245,639**	178,153
Adjustments for:			
Finance costs		**1,582**	4,270
Exchange gain, net	4	**(3,247)**	(13,982)
Share of losses of a joint venture		**649**	4
Bank interest income	4	**(9,859)**	(686)
Interest income from short-term investments measured at fair value through profit or loss	4	**(1,652)**	—
Fair value gain of short-term investments measured at fair value through profit or loss	4	**(4,520)**	—
Government grants related to assets released	4	**(404)**	(404)
Loss on disposal of items of property, plant and equipment	5	**26**	3
Fair value adjustment of the convertible redeemable bond	4	**(13,941)**	2,650
Depreciation of property, plant and equipment	5	**30,788**	30,798
Depreciation of right-of-use assets/recognition of prepaid land lease payments	5	**2,861**	1,960
Provision for expected credit losses of trade receivables	5	**1,086**	255
		249,008	203,021
(Increase)/decrease in trade receivables		**(3,107)**	3,476
Increase in prepayments, deposits and other receivables		**(1,743)**	(4,183)
(Decrease)/increase in other payables and accruals		**(8,765)**	19,195
Decrease in contract liabilities		**(333,413)**	(258,091)
Decrease in an amount due to a related party		**—**	(400)
Cash used in operations		**(98,020)**	(36,982)
Bank interest received		**6,569**	686
Net cash flows used in operating activities		**(91,451)**	(36,296)

Unaudited Interim Condensed Consolidated Statement of Cash Flows (continued)

For the six months ended 30 June 2019

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Net cash flows used in operating activities	**(91,451)**	(36,296)
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in prepayments for non-current assets	**(22,648)**	(79,238)
Decrease in an amount due from a director	**—**	178,110
Decrease in amounts due from related parties	**—**	8,143
Addition to prepaid land lease payments	**—**	(48,451)
Purchases of items of property, plant and equipment	**(33,838)**	(271,418)
Proceeds from disposal of items of property, plant and equipment	**34**	34
Purchase of short-term investments measured at fair value through profit or loss	**(104,776)**	—
Proceeds from disposal of short-term investments measured at fair value through profit or loss	**277,758**	500
Purchase of equity investments designated at fair value through other comprehensive income	**(56,613)**	—
Proceeds from disposal of equity investments designated at fair value through other comprehensive income	**22,726**	—
Net cash flows from/(used in) investing activities	**82,643**	(212,320)
CASH FLOWS FROM FINANCING ACTIVITIES		
Injection from the shareholders	**102**	—
Proceeds from issue of shares	**760,437**	—
Share issue expenses	**(20,143)**	—
Proceeds from issue of the convertible redeemable bond	**—**	330,000
New bank loans	**—**	271,121
Repayments of bank loans	**(10,000)**	(275,000)
Interest paid	**(7,607)**	(9,076)
Principal portion of lease payments	**(96)**	—
Dividends paid	**(44,066)**	—
Net cash flows from financing activities	**678,627**	317,045

Unaudited Interim Condensed Consolidated Statement of Cash Flows (continued)

For the six months ended 30 June 2019

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
NET INCREASE IN CASH AND CASH EQUIVALENTS	**669,819**	68,429
Cash and cash equivalents at beginning of period	**432,921**	369,058
Effect of foreign exchange rate changes, net	**3,247**	13,982
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**1,105,987**	451,469
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	**1,105,987**	451,469

Notes to the Unaudited Interim Condensed Consolidated Financial Statements

30 June 2019

1 Corporate Information

China Kepei Education Group Limited was incorporated in the Cayman Islands on 24 August 2017 as an exempted company with limited liability under the Companies Law of the Cayman Islands. The address of the registered office of the Company is P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. The Company was listed on the Main Board of the Stock Exchange on 25 January 2019.

The principal activity of the Company is investment holding. During the period, the Group was principally engaged in providing private education services in the People's Republic of China (the "PRC").

2.1 Basis of preparation

The unaudited interim condensed consolidated financial statements for the six months ended 30 June 2019 have been prepared in accordance with HKAS 34 *Interim Financial Reporting*. The unaudited interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2018.

The unaudited interim condensed consolidated financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

2.2 Changes in accounting policies and disclosures

The accounting policies adopted in the preparation of the unaudited interim condensed consolidated financial statements 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 HKFRSs effective as of 1 January 2019.

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

2.2 Changes in accounting policies and disclosures (continued)

Other than as explained below regarding the impact of HKFRS 16 *Leases* and HK(IFRIC)-Int 23 *Uncertainty over Income Tax Treatments,* the new and revised standards are not relevant to the preparation of the Group's interim condensed consolidated financial statements. The nature and impact of the new and revised HKFRSs are described below:

(a) HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases — Incentives* and HK(SIC)-Int 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 HKFRS 16 is substantially unchanged from HKAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in HKAS 17. Therefore, HKFRS 16 did not have any financial impact for leases where the Group is the lessor.

The Group adopted HKFRS 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 HKAS 17.

New definition of a lease

Under HKFRS 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 HKAS 17 and HK(IFRIC)-Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 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.

2.2 Changes in accounting policies and disclosures (continued)

(a) Adoption of HKFRS 16

As a lessee — Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

The Group has lease contracts for leasehold lands and 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 HKFRS 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; and (ii) leases, that at the commencement date, have a lease term of 12 months or less. Instead, the Group recognises the lease payments associated with those leases as an expense on a straight-line basis over the lease term.

Impacts on transition

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

The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019. All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position. This includes the lease assets of RMB202,698,000 that were reclassified from prepaid land lease payments and prepayments, deposits and other receivables.

The Group has used the following elective practical expedient when applying HKFRS 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

2.2 Changes in accounting policies and disclosures (continued)

(a) Adoption of HKFRS 16 (continued)

The impacts arising from the adoption of HKFRS 16 as at 1 January 2019 are as follows:

	Increase/(decrease) RMB'000 (Unaudited)
Assets	
Increase in right-of-use assets	208,380
Decrease in prepaid land lease payments	(198,104)
Decrease in prepayments, deposits and other receivables	(4,594)
Increase in total assets	5,682
Liabilities	
Increase in interest-bearing bank and other borrowings	5,682
Increase in total liabilities	5,682

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

	RMB'000 (Unaudited)
Operating lease commitments as at 31 December 2018	6,414
Weighted average incremental borrowing rate as at 1 January 2019	4.75%
Discounted operating lease commitments at 1 January 2019	5,682
Lease liabilities as at 1 January 2019	5,682

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 HKFRS 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. When a right-of-use asset meets the definition of investment property, it is included in investment properties. The corresponding right-of-use asset is initially measured at cost, and subsequently measured at fair value, in accordance with the Group's policy for 'investment properties'.

2.2 Changes in accounting policies and disclosures (continued)

(a) Adoption of HKFRS 16 (continued)

Summary of new accounting policies (continued)

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 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.

2.2 Changes in accounting policies and disclosures (continued)

(a) Adoption of HKFRS 16 (continued)

Amounts recognised in the unaudited interim condensed consolidated statement of financial position and profit or loss and other comprehensive income

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

	Right-of-use assets			
	Buildings RMB'000 (Unaudited)	Prepaid land lease payments RMB'000 (Unaudited)	Total RMB'000 (Unaudited)	Lease liabilities RMB'000 (Unaudited)
As at 1 January 2019	5,682	202,698	208,380	5,682
Additions	11,442	—	11,442	11,442
Early termination	(5,682)	—	(5,682)	(5,682)
Depreciation expense	(564)	(2,297)	(2,861)	—
Interest expense	—	—	—	166
Payments	—	—	—	(262)
As at 30 June 2019	10,878	200,401	211,279	11,346

The Group recognised rental expense from short-term leases of RMB122,000 for the six months ended 30 June 2019.

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

3 Operating segment information

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

HKFRS 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 period, the Group operated within one geographical segment because all of its revenue was generated in the PRC and all of its long-term assets/capital expenditures were located/incurred in the PRC. Accordingly, no 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

An analysis of revenue, other income and gains is as follows:

	For the six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Revenue		
Revenue from contracts with customers		
Tuition fees	**329,166**	258,255
Boarding fees	**27,994**	22,460
Other education service fees*	**2,124**	3,407
	359,284	284,122
Other income and gains		
Bank interest income	**9,859**	686
Interest income from short-term investments measured at fair value through profit or loss	**1,652**	—
Rental income	**8,977**	9,227
Government grants		
Related to assets	**404**	404
Related to income	**3,265**	3,807
Fair value gain of short-term investments measured at fair value through profit or loss	**4,520**	—
Fair value adjustment of convertible redeemable bond	**13,941**	—
Exchange gain, net	**3,247**	13,982
Service income	**133**	—
	45,998	28,106

* During the period, other education service fees mainly represented income received from the provision of other education services including training service to the students, which was amortised over the training periods of the services rendered.

4 Revenue, other income and gains (continued)

Contract liabilities

The Group has recognised the following revenue-related contract liabilities, which represented the unsatisfied performance obligation as at 30 June 2019 and will be expected to be recognised within one year:

	30 June 2019	31 December 2018
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Contract liabilities related to tuition fees	**1,050**	306,795
Contract liabilities related to boarding fees	**101**	27,769
	1,151	334,564

The Group receives tuition and boarding fees from students in advance prior to the beginning of each academic year. The performance obligation is satisfied proportionately over the relevant period of the applicable program. The students are entitled to refund of the payment in relation to the proportionate service not yet provided.

Significant changes in the contract liability balances during the period/year are as follows:

	Six months ended	Year ended
	30 June 2019	31 December 2018
	RMB'000	RMB'000
	(Unaudited)	(Audited)
At the beginning of the period/year	**334,564**	258,395
Revenue recognised that was included in the balance of contract liabilities at the beginning of the period/year	**(334,564)**	(258,395)
Increases due to cash received, excluding amounts recognised as revenue during the period/year	**1,151**	334,564
At the end of the period/year	**1,151**	334,564

4 Revenue, other income and gains (continued)

Contract liabilities (continued)

(1) Revenue recognised in relation to contract liabilities

The following table shows the amounts of revenue recognised in the current period that were included in the contract liabilities at the beginning of the reporting period:

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Revenue recognised that was included in the balance of contract liabilities at the beginning of the period		
Tuition fees	**306,795**	236,985
Boarding fees	**27,769**	21,410
	334,564	258,395

(2) Unsatisfied performance obligations

The transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 30 June 2019 are as follows:

	30 June	31 December
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Expected to be recognised within one year		
Tuition fees	**1,050**	306,795
Boarding fees	**101**	27,769
	1,151	334,564

There were no contract assets at the end of the reporting period recognised in the unaudited interim condensed consolidated statement of financial position.

5 Profit before tax

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

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Employee benefit expense (excluding directors' and chief executive's remuneration):		
Wages and salaries	**46,485**	39,782
Pension scheme contributions (defined contribution scheme)	**6,702**	4,986
Depreciation of property, plant and equipment	**30,788**	30,798
Depreciation of right-of-use assets/recognition of prepaid land lease payments	**2,861**	1,960
Provision for expected credit losses of trade receivables*	**1,086**	255
Loss on disposal of items of property, plant and equipment	**26**	3
Donation expenses	**—**	100
Auditor's remuneration	**800**	600
Exchange gain, net	**(3,247)**	(13,982)
Fair value adjustment of the convertible redeemable bond**	**(13,941)**	2,650

* The provision for expected credit losses of trade receivables is included in administrative expenses in the unaudited interim condensed consolidated statement of profit or loss and other comprehensive income.

** The fair value adjustment of the convertible redeemable bond is included in other income for the six months ended 30 June 2019 (other expenses for the six months ended 30 June 2018) in the unaudited interim condensed consolidated statement of profit or loss and other comprehensive income.

6 Income tax

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

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.

6 Income tax (continued)

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

China Kepei Education (Hong Kong) Limited, a subsidiary incorporated in Hong Kong, is subject to income tax at the rate of 16.5%. No provision for Hong Kong profits tax has been made as the Group had no assessable profits derived from or earned in Hong Kong during the period.

According to the Implementation Rules for the Law for Promoting Private Education (the "Implementation Rules"), Private schools of which the sponsors do not require reasonable returns are eligible to enjoy the same preferential tax treatment as public schools. As a result, private schools providing academic qualification education are eligible to enjoy the income tax exemption treatment if the sponsors of such schools do not require reasonable returns.

The sponsor of Guangdong Polytechnic College does not require reasonable returns and therefore Guangdong Polytechnic College has enjoyed the corporate income tax exemption treatment since its establishment and the local tax authorities have agreed to allow Guangdong Polytechnic College to apply the corporate income tax exemption treatment since its establishment based on a confirmation obtained from the local tax authorities.

The sponsor of Zhaoqing Science and Technology Secondary Vocational School requires reasonable returns. The Implementation Rules provide that the relevant authorities under the State Council may introduce preferential tax treatments and related policies applicable to private schools requiring reasonable returns. During the period, no separate policies, regulations or rules have been introduced by the authorities in this regard. In accordance with the historical tax returns filed with the relevant tax authorities and the confirmation obtained therefrom, Zhaoqing Science and Technology Secondary Vocational School has enjoyed the preferential tax treatments since its establishment.

As a result, no income tax expense was recognised for the PRC Schools during the period.

Pursuant to the PRC Corporate Income Tax Law and the respective regulations, the Group's non-school subsidiaries which operate in Mainland China are generally subject to Corporate Income Tax ("CIT") at a rate of 25% on the taxable income.

6 Income tax (continued)

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates.

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current — Mainland China		
Charge for the period	**1,058**	—

7 Dividends

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Final 2018 dividend declared — HK$0.10 per ordinary share	**175,824**	—

Note:

A final dividend of HK$0.10 per share in respect of the year ended 31 December 2018 has been proposed by the board of directors and was approved by the shareholders at the annual general meeting of the Company on 3 June 2019 (six months ended 30 June 2018: Nil).

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 RMB244,581,000 (six months ended 30 June 2018: RMB178,153,000), and the weighted average number of ordinary shares of 1,934,270,976 (six months ended 30 June 2018: 1,500,000,000) in issue during the period, as adjusted to reflect the rights issue during the period.

8 Earnings per share attributable to ordinary equity holders of the parent (continued)

As of 1 January 2018, the Company had 1,000 ordinary shares in issue.

On 10 January 2019, the authorised share capital of the Company was subdivided from US$50,000 divided into 5,000,000 shares of US$0.01 each to US$50,000 divided into 5,000,000,000 shares of US$0.00001 each. Therefore, the number of ordinary shares in issue became 1,000,000 (the "Share Split") (note 12).

On 25 January 2019, the Company was listed on the Stock Exchange by way of issuing 353,334,000 new ordinary shares and capitalisation issue of 1,499,000,000 ordinary shares (the "Capitalisation Issue"). Upon completion of the IPO, the whole principal amount under the convertible redeemable bond was mandatorily and automatically converted into 146,666,667 ordinary shares of the Company (note 11).

On 15 February 2019, the over-allotment option was partially exercised and the Company allotted and issued 798,000 additional shares, which were initially available on 22 February 2019 (the "Over-allotment") (note 12).

The weighted average number of ordinary shares used to calculate the basic earnings per share amounts for the six months ended 30 June 2019 and 2018 was based on 1 ordinary share of the Company issued as of 1 January 2018, 999,000 ordinary shares of the Company issued under the Share Split and 1,499,000,000 ordinary shares of the Company issued under the Capitalisation Issue, as if these additional shares issued under the Share Split and Capitalisation Issue had been completed throughout the six months ended 30 June 2019 and 2018.

The calculation of the diluted earnings per share amounts is based on the profit for the period attributable to ordinary equity holders of the parent, adjusted to reflect the fair value change and interest on the convertible redeemable bond, where applicable. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the period, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at nil consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

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

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**244,581**	178,153
Add: Fair value loss of the convertible redeemable bond	**—**	2,650
Profit attributable to ordinary equity holders of the parent, used in the diluted earnings per share calculation	**244,581**	180,803

8 Earnings per share attributable to ordinary equity holders of the parent (continued)

	Number of shares Six months ended 30 June 2019	2018
Shares		
Number of issued shares on 1 January	**1,000**	1,000
Effect of Share Split on 10 January 2019	**999,000**	999,000
Effect of Capitalisation Issue on 10 January 2019	**1,499,000,000**	1,499,000,000
Effect of conversion of the convertible redeemable bond on 25 January 2019	**102,965,142**	—
Effect of the IPO (excluding shares issued under the over-allotment option) on 25 January 2019	**330,737,094**	—
Effect of the Over-allotment on 22 February 2019	**568,740**	—
Weighted average number of ordinary shares in issue during the period for the purpose of the basic earnings per share calculation	**1,934,270,976**	1,500,000,000
Effect of dilution — weighted average number of ordinary shares		
The convertible redeemable bond	**—**	40,661,394
	1,934,270,976	1,540,661,394
Earnings per share attributable to ordinary equity holders of the parent		
Basic	**RMB0.13**	RMB0.12
Diluted	**RMB0.13**	RMB0.12

9 Property, plant and equipment

During the six months ended 30 June 2019, the Group acquired assets with a cost of RMB36,049,000 (six months ended 30 June 2018: RMB174,838,000) as additions to property, plant and equipment.

Assets with a net book value of RMB60,000 were disposed of by the Group during the six months ended 30 June 2019 (six months ended 30 June 2018: RMB37,000), resulting in a net loss on disposal of RMB26,000 (six months ended 30 June 2018: RMB3,000).

10 Trade receivables

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

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Within 1 year	**17,638**	19,030
1 to 2 years	**4,002**	2,572
2 to 3 years	**1,984**	883
Over 3 years	**1,047**	165
	24,671	22,650

11 Convertible redeemable bond

On 30 April 2018, the Company entered into a convertible redeemable bond subscription agreement (the "Convertible Redeemable Bond Subscription Agreement") with Skyline Miracle Limited (the "Pre-IPO Investor"), Mr. Ye Nianqiao, Orchid Asia VII, L. P. and Orchid Asia VII Co-Investment Limited, which are independent third parties, pursuant to which the Company issued a convertible redeemable bond (the "Convertible Redeemable Bond") with a principal amount of RMB330,000,000 convertible into ordinary shares of the Company to Skyline Miracle Limited. Immediately prior to the initial listing of the shares of the Company on the Stock Exchange, the whole principal amount under the Convertible Redeemable Bond shall be mandatorily and automatically converted into ordinary shares of the Company.

The principal terms of the Convertible Redeemable Bond are set out below:

Interest	The Convertible Redeemable Bond bears interest on its outstanding principal amount from and including 1 November 2018 at the rate of 6% per annum
Maturity date	30 April 2020, unless such date is extended to 30 April 2022 at the bondholder's discretion
Automatic conversion	Immediately prior to the Listing, the whole principal amount under the Convertible Redeemable Bond shall be mandatorily and automatically converted into ordinary shares of the Company. The number of conversion shares to be issued to the Pre-IPO Investor will be determined according to the formula set forth below: A/B x C Where: A = RMB330,000,000 B = RMB4,500,000,000, being the agreed valuation of the Company C = Shares expected to be in issue immediately upon the issue of the conversion shares to the Pre-IPO Investor and Listing (which will not take into account the number of shares to be issued pursuant to the over-allotment option)
Direct shareholding in the Company upon completion of the global offering (assuming the over-allotment option is not exercised)	7.33%

11 Convertible redeemable bond (continued)

The principal terms of the Convertible Redeemable Bond are set out below: (continued)

Repurchase of the Convertible Redeemable Bond	(i) the Company has not submitted the listing application by 31 December 2018; (ii) the Stock Exchange rejects or returns the listing application of the Company; (iii) the Company withdraws the listing application; (iv) the Company fails to take all reasonable actions to resubmit the listing application within 2 months following the lapse of the listing application and if the failure is based on assessment of the Company with a reasonable basis that it would be impracticable to resubmit within such 2 months' period or continued to pursue the Listing; (v) the Company fails to take all reasonable actions to resubmit the listing application within 2 months following the lapse of the listing application and if the failure is not based on assessment of the Company with a reasonable basis that it would be impracticable to resubmit within such 2 months' period or continued to pursue the Listing; (vi) the Listing is not completed on or prior to 31 days prior to the maturity date. the Pre-IPO Investor shall have the right, at any time after the first occurrence of any of the events, to require the Company or Mr. Ye Nianqiao to early redeem or repurchase the Convertible Redeemable Bond at RMB330,000,000 plus interest accrued at 15% per annum from 1 May 2018 (in the case of event (i), (iii) or (v) above) or 1 November 2018 (in the case of event (ii), (iv) or (vi) above) until the date of redemption or repurchase, but in the case where the Pre-IPO Investor only exercises such right on a day which is after 31 days from the date of occurrence, interest from the period from the 32th day until the date of redemption or repurchase will be accrued on the basis of 6% per annum. The above right of the Pre-IPO Investor to requisite a redemption or repurchase will terminate upon the Pre-IPO Investor ceasing to hold the Convertible Redeemable Bond which will occur immediately prior to the Listing.
Guarantors	Mr. Ye Nianqiao is a party to the Convertible Redeemable Bond Subscription Agreement to guarantee the performance by the Company of its obligations under the Convertible Redeemable Bond Subscription Agreement. Orchid Asia VII, L. P. and Orchid Asia VII Co-Investment Limited are parties to the Convertible Redeemable Bond Subscription Agreement to, on a joint and several basis, guarantee the performance of the Pre-IPO Investor of its obligations under the Convertible Redeemable Bond Subscription Agreement.

11 Convertible redeemable bond (continued)

The terms of the Convertible Redeemable Bond allow conversion into a fixed percentage of outstanding shares of the Company at the time of the conversion, so that the absolute number of shares to be issued is not fixed and is not known until conversion occurs. The Group's directors are of view that such a conversion option cannot normally be classified as equity, because the Company's capital structure could change in ways that put the convertible redeemable bond holder into a better economic position relative to other shareholders.

The Convertible Redeemable Bond was designated as a financial liability at fair value through profit or loss on initial recognition. At the end of the reporting period subsequent to initial recognition, the Convertible Redeemable Bond is measured at fair value, with changes in fair value arising on remeasurement recognised directly in profit or loss in the period in which they arise.

On 25 January 2019, the Company was listed on the Main Board of Stock Exchange and made an offering of 353,334,000 ordinary shares (excluding any ordinary shares issued pursuant to the exercise of the over-allotment option) at a price at HK$2.48 per share. Upon completion of the initial public offering on 25 January 2019, the whole principal amount under the Convertible Redeemable Bond was mandatorily and automatically converted into ordinary shares of the Company. The number of conversion shares issued to the Pre-IPO Investor was 146,666,667.

12 Share capital

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Authorised:		
5,000,000,000 ordinary shares of a par value of US$0.00001 each as at 30 June 2019 (31 December 2018: 5,000,000 ordinary shares of a par value of US$0.01 each)	**333**	333
Issued and fully paid:		
2,000,798,667 shares as at 30 June 2019 (31 December 2018: 1,000 ordinary shares)	**136**	—

On 10 January 2019, pursuant to the written resolution of the shareholders of the Company, the authorised share capital of the Company was subdivided from US$50,000 divided into 5,000,000 shares of US$0.01 each to US$50,000 divided into 5,000,000,000 shares of US$0.00001 each. Therefore, the number of shares in issue became 1,000,000 before the Capitalisation Issue.

12 Share capital (continued)

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

	Notes	Number of shares in issue	Issued capital RMB'000
Before the Capitalisation Issue		1,000,000	—
Capitalisation Issue	(a)	1,499,000,000	102
Conversion of the Convertible Redeemable Bond	(b)	146,666,667	10
Global offering (excluding shares issued under the over-allotment option)	(b)	353,334,000	24
Over-allotment	(c)	798,000	—
As at 30 June 2019		2,000,798,667	136

(a) On 10 January 2019, pursuant to the written resolution of the shareholders of the Company, the Directors were authorised to capitalise the amount of USD14,990 of the Company to pay up in full at par 1,499,000,000 shares for allotment and issue to the persons whose names appear on the register of members of the Company of the date of the written resolution (or as they may direct) on a pro rata basis.

(b) On 25 January 2019, the Company was listed on the Main Board of Stock Exchange with the stock code 1890 and made an offering of 353,334,000 ordinary shares (excluding any ordinary shares issued pursuant to the exercise of the over-allotment option) at a price at HK$2.48 per share.

Upon completion of the initial public offering, the whole principal amount under the convertible redeemable bond was mandatorily and automatically converted into 146,666,667 ordinary shares of the Company.

(c) On 15 February 2019, the over-allotment option was partially exercised and the Company allotted and issued 798,000 additional shares, representing approximately 0.23% of the total number of the offer shares initially available under the global offering, at HK$2.48 per share on 22 February 2019.

13 Contingent liabilities

As at 30 June 2019, the Group did not have any significant contingent liabilities, guarantees or any litigations or claims of material importance, pending or threatened (31 December 2018: Nil).

14 Commitments

The Group had the following capital commitments at the end of the reporting period:

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Contracted, but not provided for:		
Buildings	3,493	19,490

At the end of the reporting period, the Group did not have significant capital commitments that are authorised but not contracted for.

15 Related party transactions

Compensation of key management personnel of the Group:

	Six months ended 30 June	
	2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Salaries, allowances and benefits in kind	5,447	3,331
Pension scheme contributions	242	141
	5,689	3,472

16 Fair value and fair value hierarchy of financial instruments

As at 30 June 2019, the fair values of the Group's financial assets or liabilities approximated to their respective carrying amounts.

Management has assessed that the fair values of trade receivables, cash and cash equivalents, financial assets included in prepayments, deposits and other receivables and financial liabilities included in other payables and accruals approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance manager reports directly to the chief financial officer. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer. The Directors review the results of the fair value measurement of financial instruments periodically for annual financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values of those financial assets and liabilities measured at fair value:

The fair values of listed equity investments are based on quoted market prices. The Directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the unaudited interim condensed consolidated statement of financial position, and the related changes in fair values, which are recorded in other comprehensive income, are reasonable, and that they were the most appropriate values at the end of the reporting period.

The Group invests in unlisted investments, which represent fund and wealth management products issued by fund company or bank. The Group has estimated the fair value of these unlisted investments by using a discounted cash flow valuation model based on the market interest rates of instruments with similar terms and risks.

The fair values of the non-current interest-bearing bank and other borrowings have been calculated by discounting the expected future cash flows using rates that reflects the Group's borrowing rates as at the end of the reporting period. The Group's own non-performance risk for interest-bearing bank and other borrowings as at 30 June 2019 was assessed to be insignificant.

The fair value of the Convertible Redeemable Bond is determined by using valuation techniques. The Group has used the discounted cash flow method to determine the underlying equity value of the Company and adopted the scenario analysis method to determine the fair value of the Convertible Redeemable Bond.

16 Fair value and fair value hierarchy of financial instruments (continued)

Below is a summary of significant unobservable inputs to the valuation of financial instruments together with a quantitative sensitivity analysis as at 30 June 2019 and 31 December 2018:

	Valuation technique	Significant unobservable input	Range	Sensitivity of fair value to the input
Unlisted investments	Discounted cash flow method	Interest return rate	Wealth management product: 30 June 2019: 3.75%–4.15% (31 December 2018: 2.75%–3.7%) Fund product: 30 June 2019: 23.92% (31 December 2018: n/a)	30 June 2019: 100 basis point increase/decrease in interest return rate would result in increase/decrease in fair value by RMB489,000. (31 December 2018: 100 basis point increase/decrease in interest return rate would result in increase/decrease in fair value by RMB469,000.)
Convertible Redeemable Bond (note 11)	Option pricing method	Discount rate*	30 June 2019: n/a (31 December 2018: 14%)	30 June 2019: n/a (31 December 2018: 100 basis point increase in discount rate would result in decrease in fair value by RMB25,000,000; 100 basis point decrease in discount rate would result in increase in fair value by RMB28,000,000)
		Probability of scenarios*	30 June 2019: n/a (31 December 2018: Scenario 1:95% Scenario 2:5%	30 June 2019: n/a (31 December 2018: 500 basis point increase in probability of scenario 1 (IPO) would result in decrease in fair value by RMB844,000; 500 basis point decrease in probability of scenario 1 (IPO) would result in increase in fair value by RMB638,000)

16 Fair value and fair value hierarchy of financial instruments (continued)

	Valuation technique	Significant unobservable input	Range	Sensitivity of fair value to the input
		Risk-free interest rate*	30 June 2019: n/a (31 December 2018: 2.02%–2.47%)	30 June 2019: n/a (31 December 2018: 100 basis point increase in risk-free interest rate would result in decrease in fair value by RMB69,000; 100 basis point decrease in risk-free interest rate would result in increase in fair value by RMB450,000)
		Discount for Lack of Marketability ("DLOM")*	30 June 2019: n/a (31 December 2018: 5%)	30 June 2019: n/a (31 December 2018: 100 basis point increase in DLOM would result in decrease in fair value by RMB4,000,000; 100 basis point decrease in DLOM would result in increase in fair value by RMB2,000,000)
		Volatility*	30 June 2019: n/a (31 December 2018: 46%)	30 June 2019: n/a (31 December 2018: 500 basis point increase in volatility would result in increase in fair value by RMB538,000; 500 basis point decrease in volatility would result in decrease in fair value by RMB367,000)

* The discount rate was based on the weighted average cost of capital.

The probability of scenarios was based on management estimation of the Company.

The risk-free interest rate referred to the yields of China Government bond as at the valuation dates.

The DLOM was a factor to be considered in valuing closely held Company is the marketability of an interest in such business. There is usually a cost and a time lag associated with locating interested and capable buyers of interests in privately-held Company, because there is no established market of readily-available buyers and sellers.

Volatility was based on the comparison of historical volatility of comparable companies.

16 Fair value and fair value hierarchy of financial instruments (continued)

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at 30 June 2019

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000 (Unaudited)	Significant observable inputs (Level 2) RMB'000 (Unaudited)	Significant unobservable inputs (Level 3) RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
Equity investments measured at fair value through other comprehensive income	38,993	—	—	38,993
Short-term investments measured at fair value through profit or loss	—	—	79,296	79,296
	38,993	—	79,296	118,289

As at 31 December 2018

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000 (Audited)	Significant observable inputs (Level 2) RMB'000 (Audited)	Significant unobservable inputs (Level 3) RMB'000 (Audited)	Total RMB'000 (Audited)
Short-term investments measured at fair value through profit or loss	—	—	246,106	246,106

16 Fair value and fair value hierarchy of financial instruments (continued)

Fair value hierarchy (continued)

The movements in fair value measurements within Level 3 during the period were as follows:

Unlisted investments

	2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
At 1 January	246,106	78,500
Total gains recognised in the statement of profit or loss and other comprehensive income included in other income and gains	6,172	—
Purchases	104,776	—
Disposals	(277,758)	(78,500)
At 30 June	79,296	—

Liabilities for which fair values are disclosed:

As at 30 June 2019

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000 (Unaudited)	Significant observable inputs (Level 2) RMB'000 (Unaudited)	Significant unobservable inputs (Level 3) RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
Interest-bearing bank and other borrowings	—	111,346	—	111,346

16 Fair value and fair value hierarchy of financial instruments (continued)

Fair value hierarchy (continued)

Liabilities for which fair values are disclosed: (continued)

As at 31 December 2018

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000 (Audited)	Significant observable inputs (Level 2) RMB'000 (Audited)	Significant unobservable inputs (Level 3) RMB'000 (Audited)	Total RMB'000 (Audited)
Interest-bearing bank and other borrowings	—	100,000	—	100,000

Liabilities measured at fair value:

As at 31 December 2018

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000 (Audited)	Significant observable inputs (Level 2) RMB'000 (Audited)	Significant unobservable inputs (Level 3) RMB'000 (Audited)	Total RMB'000 (Audited)
Convertible Redeemable Bond	—	—	332,700	332,700

16 Fair value and fair value hierarchy of financial instruments (continued)

Fair value hierarchy (continued)

Liabilities measured at fair value: (continued)

The movements in fair value measurements within Level 3 during the period were as follows:

	2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
At 1 January	332,700	—
Proceeds from issue of the Convertible Redeemable Bond	—	330,000
Fair value adjustment	(13,941)	2,650
Conversion into ordinary shares of the Company	(318,759)	—
At 30 June	—	332,650

During the period, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities.

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