



卓越教育集团

China Beststudy Education Group

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 3978



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卓越教育集团

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Junjing Tang (Chairman)
Mr. Junying Tang
Mr. Gui Zhou

Non-executive Directors

Mr. Wenhui Xu
Ms. Wen Li

Independent Non-executive Directors

Mr. Yingmin Wu
Ms. Yu Long
Mr. Peng Xue

AUDIT COMMITTEE

Mr. Peng Xue (Chairman)
Ms. Yu Long
Mr. Wenhui Xu

REMUNERATION COMMITTEE

Ms. Yu Long (Chairlady)
Mr. Junjing Tang
Mr. Peng Xue

NOMINATION COMMITTEE

Mr. Junjing Tang (Chairman)
Mr. Yingmin Wu
Ms. Yu Long

JOINT COMPANY SECRETARIES

Mr. Changxu Zhu
Ms. Hing Ling Chau (LLM, FCIS, FCS)

AUTHORIZED REPRESENTATIVES

Mr. Junjing Tang
Ms. Hing Ling Chau (LLM, FCIS, FCS)

AUDITOR

Ernst & Young
Certified Public Accountant

LEGAL ADVISER

Shearman & Sterling

COMPLIANCE ADVISER

Central China International Capital Limited

PRINCIPAL BANKS

China Merchants Bank Guangzhou Liwan Branch
Industrial and Commercial Bank of China Guangzhou
Nanfeng Branch
CITIC Bank Guangzhou Huangpu Branch

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LISTING DATE

27 December 2018

COMPANY PROFILE

As the largest K-12 after-school education service provider in southern China and the fifth largest nationwide¹, China Beststudy Education Group (the “**Company**” and, together with its subsidiaries, collectively the “**Group**”) has been adhering to the “all for children” since our establishment 22 years ago. We provide quality and diversified education products and services to students and parents. Our Group mainly offers after-school education-related courses, including Small Group Tutoring, Individualised Tutoring, Talent Education and Full-time Test Preparation Program.

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

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

¹ According to an industry report prepared by Frost & Sullivan (Beijing) Inc., Shanghai Branch Co (弗若斯特沙利文(北京)諮詢有限公司上海分公司) based on 2017 statistics.

FINANCIAL AND KEY OPERATING DATA HIGHLIGHTS

	For the six months ended		
	30 June		
	2019	2018	% Change
	RMB'000	RMB'000	
Revenue	867,401	723,116	+20.0%
Gross Profit	358,762	305,901	+17.3%
Net Profit	75,256¹	82,823	-9.1%
Number of Enrollments	343,277	289,204	+18.7%
Number of Tutoring Hours	6,737,299	6,003,399	+12.2%
Number of Education Centres	260	213	
Number of Newly Established Education Centres	30²	34	

Notes:

- Net profit for the Reporting Period (as defined below) was RMB75.3 million. The particular factors significantly impacting net profit for the Reporting Period included: (i) following the adoption of new IFRS (as defined below) 16 *Leases* on 1 January 2019, the Group has recognised depreciation of right-of-use assets and interest expense on lease liabilities, additionally decreasing net profit by RMB7.5 million; (ii) our initial investment made in online small group tutoring business amounted to a net expense after offsetting with tax impact of RMB25.8 million. In light of the resource input associates with business expansion plan for online small group tutoring and considering its impact on the Group's net profit, we plan to adjust our strategy and to divest the controlling stake of existing online small group tutoring business. For details, please refer to Page 9 of this interim report; and (iii) a decrease in the fair value of unlisted equity investments in the amount of RMB5.7 million.
- As of 31 December 2018, the Group had 242 education centres. During the Reporting Period, 30 new education centres were established and three education centres were separated from existing education centres and managed independently thereafter. In order to continuously improve our operation efficiency, we continue to expand new education centres as well as optimise the structure of our education centres at the same time. We upgraded and replaced six old education centres, closed three education centres pursuant to adjustment of our business strategy, closed three education centres in order to meet the compliance requirement and closed three old education centres in order to optimise our resources as these centres did not achieve our performance target.

MANAGEMENT DISCUSSION AND ANALYSIS

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

- During the six months ended 30 June 2019 (the “**Reporting Period**”), our Group had a revenue of RMB867.4 million, achieving an increase of approximately 20.0% compared to the six months ended 30 June 2018.
- During the Reporting Period, our student enrollment number was 343,277 and the total tutoring hours were approximately 6,737,299 hours, representing an increase of approximately 18.7% and 12.2%, respectively, as compared to the six months ended 30 June 2018.
- Our Group has achieved a continuing increase in terms of regional expansion and market share. As of 30 June 2019, the number of our education centres is 260. During the Reporting Period, we added 30 new education centres, 28 of which are located in major cities in the “Greater Bay Area” such as Guangzhou, Foshan, Dongguan, Zhongshan, Huizhou and Shenzhen, demonstrating the Group’s strategy of continuing and steady expansion of our Group’s business regions. In order to continuously improve our operation efficiency, we continue to expand new education centres as well as optimise the structure of our education centres at the same time. We upgraded and replaced six old education centres, closed three education centres pursuant to adjustment of our business strategy, closed three education centres in order to meet the compliance requirement and closed three old education centres in order to optimise our resources as these centres did not achieve our performance target.
- The operation conditions of our education centres newly opened in 2018 were satisfactory. The revenue and gross profit have achieved substantial growth in the Reporting Period. Most of the education centres have broken even in line with our schedule and some of which have achieved profitability and contributed to our operating results. This reflects the effectiveness of our Group’s regional expansion strategy and demonstrates a positive growth trend.
- The one-on-three individualised course we introduced to the market in 2018 was widely appreciated by the customers. During the Reporting Period, our student enrollment number and total tutoring hours for the one-on-three individualised course achieved a substantial increase of approximately 71.7% and 91.4% as compared to the six months ended 30 June 2018.
- With respect to operational indicators, our student retention rate² was approximately 80.4% during the Reporting Period, representing a steady increase from 74.5% for the six months ended 30 June 2018. Despite many new education centres were added during the Reporting Period, the department of Small Group Tutoring has reached a 62.5% full class rate³, maintaining a relatively stable level.
- We were committed to continually improving our research and development capabilities by continually researching and developing, updating and improving our curricula, teaching materials and information technology system. As of 30 June 2019, we had an in-house research and development team of 582 employees. During the Reporting Period, our research and development expenses amounted to RMB82.3 million. We will keep our level of investment in research and development to maintain and improve our education quality in order to ensure future potential for business growth.

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

³ “Full class rate” of the Small Group Tutoring and Talent Education is the ratio of the actual enrollment number to the maximum enrollment number of Small Group Tutoring and Talent Education.

- Our selling expenses to revenue ratio remained at a steady level. During the Reporting Period, the percentage of selling expenses in terms of revenue was approximately 7.0%. We primarily employ word-of-mouth referrals by users as our marketing strategy to focus our resources on research and development as well as training of our teachers in order to attract students through high quality education services. In line with continuous expansion of our education centres, we will increase our marketing expenses.
- We will continue to commit to building a high-quality teaching team. As of 30 June 2019, our Group had 3,271 full-time teachers. We placed and will continue to place strong emphasis on providing comprehensive and systematic training for our teachers by establishing a training and career development department, which we named “Zhuoyue Academy”, to develop and provide comprehensive training programs for our teachers, which is critical to the consistency of the quality of our education products and services.

Prospects

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

1. Increase existing market penetration and expand our geographic coverage

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

2. Continue to optimise and diversify our service offerings

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

- (ii) **We also plan to continually optimise and upgrade our one-on-three course offerings under our individualised tutoring program.** As an important component of our individualised tutoring program, our one-on-three courses will focus on high quality and prime services as a guideline for development. Since the introduction of our one-on-three course offerings in 2018, we have continually invested our resources in developing good quality teaching substance, maintained the teaching principle of training student's knowledge, quality and overall ability, improved the one-on-three class mode and upgraded education services. The number of students increased continuously and we have established good reputation among our students and parents. During the Reporting Period, our one-on-three course offerings achieved outstanding increase. Both the number of student enrollment and tutoring hours recorded substantial increases. We expect our one-on-three course offerings will maintain a continuous growth and its proportion in our individualised tutoring program will continue to increase. We also expect our student retention rate will steadily increase.
- (iii) **Continue to develop the art major candidate market.** In view of the surge in the number of art major candidates in southern China, we provided Gaokao preparation course to art major candidates and established a specialised art major school from 2017 and plan to further expand our market in Guangzhou and Shenzhen. Currently, our senior teaching and research team has published a series of textbooks and curriculum systems specifically for art major candidates. In the future, we will continue to invest in research and development of resources, optimise and upgrade standardised products, create smart classrooms and establish and improve independent curriculum systems and specialised teachers team.

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

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

4. Explore online education

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

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

5. Pursue selective strategic alliances and acquisitions

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

FINANCIAL REVIEW

Revenue

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

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

(i) Number of enrollments

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

(ii) Tutoring hours

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

(iii) Per-hour charges

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

Cost of Sales

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

Gross Profit and Gross Profit Margin

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

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

Other Income and Gains

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

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

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

Selling Expenses

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

MANAGEMENT DISCUSSION AND ANALYSIS

Administrative Expenses

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

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

Research and Development Expenses

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

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

Other Expenses

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

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

Finance Costs

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

Income Tax Expense

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

Profit for the Period

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

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

To supplement our unaudited interim condensed consolidated financial statements, which are presented in accordance with International Financial Reporting Standards ("IFRSs"), we also use adjusted net profit and net profit from core business as additional financial measurements. We present these financial measures because they are used by our management to evaluate our financial performance by eliminating the impact of items that we do not consider indicative of the performance of our business. We also believe these non-GAAP measurements provide additional information to investors and others in understanding and evaluating our results of operations.

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

The following table reconciles adjusted net profit and net profit from core business for the periods presented to net profit for the periods, the most directly comparable financial measurement calculated and presented in accordance with IFRSs.

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

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

Liquidity and Financial Resources

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

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

Current and Gearing Ratio

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

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

Future Plans for Material Investments and Capital Assets

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

Significant Investment, Acquisition and Disposal of Subsidiaries

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

As at 30 June 2019, the Group held financial assets at fair value through profit or loss (“FVTPL”) comprising (i) debt investments of RMB531.8 million (31 December 2018: RMB517.9 million), in aggregate accounted for 21.51% of the Group’s total assets as at 30 June 2019, representing investments in various types of short-term wealth management products issued by licensed banks and unlisted trust plans and bond funds; and (ii) equity investments of RMB126.7 million (31 December 2018: RMB71.7 million), in aggregate accounted for 5.12% of the Group’s total assets as at 30 June 2019, representing investment portfolio of unlisted companies and listed companies. The Board considers that any single investments with fair value accounting for more than 5% of the Group’s total assets as significant investments. As there is no investment on a single basis accounted for 5% or more of the Group’s total assets as at 30 June 2019, there is no significant investment held by the Group (31 December 2018: three).

Financial assets at FVTPL held by the Group as of 31 December 2018

Set forth below is a breakdown of the financial assets at FVTPL held by the Group as of 31 December 2018, including the fair value of such investment as at 31 December 2018 and its size as compared to the Company’s total assets, and its performance during 2018.

Nature of investments	As of 31 December 2018		For the year ended 31 December 2018		
	Fair value/ Carrying amount (RMB'000)	Approximate percentage as compared to the Company's total assets (%)	Fair value gain/(loss) (RMB'000)	Dividends received (RMB'000)	Interest income received (RMB'000)
Equity investments at FVTPL:					
Unlisted equity investments ⁽³⁾	71,299	4.95%	6,622	— ⁽¹⁾	N/A
Listed equity investments ⁽⁴⁾	412	0.03%	(1,783)	— ⁽¹⁾	N/A
Sub-total	71,711	4.98%	4,839	—⁽¹⁾	N/A
Debt investments at FVTPL:					
Short-term wealth management product A ^{(5)&(9)}	203,896	14.16%	3,896	N/A	— ⁽²⁾
Short-term wealth management product B ^{(6)&(9)}	80,631	5.60%	631	N/A	— ⁽²⁾
Short-term wealth management product C ^{(7)&(9)}	100,660	6.99%	660	N/A	— ⁽²⁾
Others ⁽⁸⁾	132,720	9.23%	2,220	N/A	— ⁽²⁾
Sub-total	517,907	35.98%	7,407	N/A	—⁽²⁾

MANAGEMENT DISCUSSION AND ANALYSIS

Notes:

1. No dividend was declared by the underlying investee companies for the year ended 31 December 2018.
2. Pursuant to the terms of the debt instrument subscribed by the Company, the Company shall receive interest income upon maturity or redemption. As of 31 December 2018, none of such debt instrument was expired or redeemed by the Company.
3. Unlisted equity investments comprised the Group's investment of minority equity interests in four unlisted companies.
4. Listed equity investments comprised the Group's investment of minority equity interests in one listed company.
5. Short-term wealth management product A refers to a non-principal guaranteed floating income product, which primarily invested in (i) money market assets; (ii) fixed income assets; and (iii) non-standardised creditor assets such as asset management plans, trust plans, RMB interest rate swap or forward contracts, subscribed by the Group from China Citic Bank for aggregate principal amount of RMB200.0 million in August 2018. As of 30 June 2019, the Company has fully redeemed all of the principal amount of the short-term wealth management product A and received an aggregate interest income of RMB4.8 million.
6. Short-term wealth management product B refers to a principal guaranteed floating income product, which primarily invested in money market assets (such as bank deposits, interbank assets, etc.) and bonds (such as government bonds and notes, corporate bonds, etc.), where the investment return will be linked to the exchange rate of the US dollar against the Hong Kong dollar, subscribed by the Group from China Guangfa Bank for the principal amount of RMB80.0 million in October 2018. As of 30 June 2019, the Company has fully redeemed the principal amount of the short-term wealth management product B and received an aggregate interest income of RMB1.8 million.
7. Short-term wealth management product C refers to a principal guaranteed floating income product, which primarily invested in money market assets (such as bank deposits, interbank assets, etc.) and bonds (such as government bonds and notes, corporate bonds, etc.), where the investment return will be linked to the 3-month US dollar London interbank lending rate, subscribed by the Group from China Guangfa Bank for the principal amount of RMB100.0 million in November 2018. As of 30 June 2019, the Company has fully redeemed the principal amount of the short-term wealth management product C and received an aggregate interest income of RMB1.3 million.
8. Including two short-term wealth management products issued by licensed banks in the PRC and one loan receivable from a business partner of the Group.
9. As each of such wealth management products accounted for more than 5% of the Group's total assets as at 31 December 2018, they are regarded as significant investment held by the Group for the relevant year (the "**Significant Investment**").

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

Contingent Liabilities

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

Pledge of Assets

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

Bank Loans and Other Borrowings

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

Foreign Exchange Exposure

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

SUBSEQUENT EVENT

Subsequent to the end of the Reporting Period, the Group had no significant event occurred.

HUMAN RESOURCES

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

INTERIM DIVIDEND

The board (the "**Board**") of directors (the "**Directors**") of the Company does not recommend the payment of an interim dividend to the shareholders of the Company for the Reporting Period.

MANAGEMENT DISCUSSION AND ANALYSIS

USE OF PROCEEDS FROM THE LISTING

The net proceeds from the listing of ordinary shares of the Company (the “**Shares**”) on the Main Board of the Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 27 December 2018 with issuance of 151,400,000 Shares (the “**Listing**”) (including from the partial exercise of the over-allotment option) amounted to HK\$299.5 million, after deducting the underwriting fees and other listing expenses borne by the Company. HK\$113.7 million of the net proceeds raised from the Listing were applied as at 30 June 2019 in accordance with the planned use of the proceeds as set out in the section headed “Future Plans and Use of Proceeds” in the prospectus of the Company dated 12 December 2018 (the “**Prospectus**”). The Directors are not aware of any material change to such planned use of the proceeds. The Company will continue to use the proceeds raised from the Listing in accordance with its development strategies, market conditions and intended use of such proceeds set forth in the Prospectus.

An analysis of the planned usage of net proceeds as stated in the Prospectus and the actual utilization of the net proceeds from 27 December 2018 (being the date of the Listing (the “**Listing Date**”)) up to 30 June 2019 and the intended use of the proceeds and the expected timeline are set out as below:

Business objective as stated in the Prospectus	Percentage use of proceeds as stated in the Prospectus	Planned use of net proceeds from the Listing Date to 30 June 2019 ⁽¹⁾ HK\$'million	Actual use of net proceeds during the period from the Listing Date to 30 June 2019 HK\$'million	Proceeds unused ⁽²⁾ HK\$'million	Intended use of the unused proceeds HK\$'million	Expected timeline
For expansion of the business network	50%	149.7	41.6 ⁽³⁾	108.1	108.1	2019-2020
For seeking strategic alliances and acquisitions to support and expand the operations	30%	89.9	37.5 ⁽⁴⁾	52.4	52.4	For the remaining unused proceeds, as at the date of this interim report, we had no finalised or definitive understandings, commitments or agreements for investment or acquisition and had not engaged in any related negotiations.
For investments to improve the teaching quality	20%	59.9	34.6	25.3	25.3	2019-2020

Notes:

- The actual proceeds allocated for each business objectives stated in the table have been adjusted and recalculated with reference to (i) the actual net proceeds of HK\$299.5 million received by the Company from the Listing (including from the partial exercise of the over-allotment option and after deducting the underwriting fees and other listing expenses borne by the Company); and (ii) the percentage of use of proceeds allocated to each business objective as disclosed in the Prospectus.
- As at 30 June 2019, the unused net proceeds were deposited into current deposits.
- Mainly used to establish our new education centres.
- Mainly used to acquire equity interests in associates.

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CORPORATE GOVERNANCE PRACTICES

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

In the opinion of the Directors, the Company has complied with the relevant code provisions contained in the CG Code during the Reporting Period, except for the deviation from code provision A.2.1.

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules (the “**Model Code**”) as its own code of conduct regarding dealings in the securities of the Company by the Directors and the Group’s senior management who, because of his/her office or employment, is likely to possess inside information in relation to the Company or its securities.

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

OTHER INFORMATION

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

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

REVIEW OF FINANCIAL INFORMATION

Audit Committee

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

CHANGES IN THE BOARD AND THE DIRECTORS' INFORMATION

There was no change in the Board and the information of Directors since the date of the Annual Report 2018 of the Company which is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

CONTINUING DISCLOSURE OBLIGATION PURSUANT TO THE LISTING RULES

The Company does not have any disclosure obligations under Rules 13.20, 13.21 and 13.22 of the Listing Rules.

INTERESTS OF THE DIRECTORS AND CHIEF EXECUTIVE IN SECURITIES

As at 30 June 2019, the interests or short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (the “SFO”), which (a) 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 and short positions which he/she was taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein; or (c) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

Long position in ordinary shares

Name of Director	Capacity	Number of ordinary shares interested ⁽¹⁾	Approximate percentage ⁺ of the Company's issued share capital
Mr. Junjing Tang ⁽²⁾	Beneficial owner	446,000 (L)	0.052%
	Interest in a controlled corporation	171,165,101 (L)	20.14%
	Interest held jointly with another person	286,259,130 (L)	33.69%
Mr. Junying Tang ⁽³⁾	Interest in a controlled corporation	143,510,888 (L)	16.89%
	Interest held jointly with another person	314,359,343 (L)	37.00%
Mr. Gui Zhou ⁽⁴⁾	Beneficial owner	490,000 (L)	0.058%
	Interest in a controlled corporation	142,258,242 (L)	16.74%
	Interest held jointly with another person	315,121,989 (L)	37.09%
Mr. Wenhui Xu ⁽⁵⁾	Interest in a controlled corporation	49,531,366 (L)	5.83%

Notes:

- (1) The letter “L” denotes the person's long position in the Shares.
- (2) Under the SFO, Mr. Junjing Tang is deemed to be interested in all Shares held by Elite Education Investment Co. Ltd., a company which is wholly-owned by him. He is also deemed to be interested in all Shares held by Mr. Junying Tang and Mr. Gui Zhou as they are parties acting in concert.
- (3) Under the SFO, Mr. Junying Tang is deemed to be interested in all Shares held by Texcellence Holding Company Limited, a company which is wholly-owned by him. He is also deemed to be interested in all Shares held by Mr. Junjing Tang and Mr. Gui Zhou as they are parties acting in concert.
- (4) Under the SFO, Mr. Gui Zhou is deemed to be interested in all Shares held by Jameson Ying Industrial Co. Ltd., a company which is wholly-owned by him. He is also deemed to be interested in all Shares held by Mr. Junjing Tang and Mr. Junying Tang as they are parties acting in concert.
- (5) Under the SFO, Mr. Wenhui Xu is deemed to be interested in all Shares held by Commqua Holding Co. Ltd., a company which is wholly-owned by him.

⁺ The percentage represents the number of ordinary shares interested divided by the number of the Company's issued shares as at 30 June 2019.

Save as disclosed in this interim report and to the best knowledge of the Directors, as at 30 June 2019, none of the Directors or the chief executive of the Company has any interests and/or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of 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 and short positions which they are taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

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SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

So far as is known to any Director or chief executive of the Company, as at 30 June 2019, the following corporations/ persons (other than the Directors or the chief executive of the Company) had interests of 5% or more in the issued shares of the Company according to the register of interests required to be kept by the Company under section 336 of the SFO:

Name	Capacity	Number of ordinary shares interested ⁽¹⁾	Approximate percentage* of the Company's issued share capital
Ms. Yanyun Huang ⁽²⁾	Spouse interest	457,870,231 (L)	53.88%
Elite Education Investment Co. Ltd.	Beneficial owner	171,165,101 (L)	20.14%
	Interest held jointly with another person	285,769,130 (L)	33.63%
Ms. Hua Yu ⁽³⁾	Spouse interest	457,870,231 (L)	53.88%
Texcellence Holding Company Limited	Beneficial owner	143,510,888 (L)	16.89%
	Interest held jointly with another person	313,423,343 (L)	36.89%
Ms. Xiaoying Zhang ⁽⁴⁾	Spouse interest	457,870,231 (L)	53.88%
Jameson Ying Industrial Co. Ltd.	Beneficial owner	142,258,242 (L)	16.74%
	Interest held jointly with another person	314,675,989 (L)	37.03%
Commqua Holding Co. Ltd.	Beneficial owner	49,531,366 (L)	5.83%
Soarise Bulex Limited ⁽⁵⁾	Nominee for another person (other than a bare trustee)	70,832,396 (L)	8.34%
Ms. Huojuan Zhou ⁽⁵⁾	Trustee	70,832,396 (L)	8.34%

Notes:

- (1) The letter "L" denotes the person's long position in the Shares.
- (2) Ms. Yanyun Huang is the spouse of Mr. Junjing Tang and she is therefore deemed to be interested in the Shares in which Mr. Junjing Tang is interested by the virtue of the SFO.
- (3) Ms. Hua Yu is the spouse of Mr. Junying Tang and she is therefore deemed to be interested in the Shares in which Mr. Junying Tang is interested by the virtue of the SFO.
- (4) Ms. Xiaoying Zhang is the spouse of Mr. Gui Zhou and she is therefore deemed to be interested in the Shares in which Mr. Gui Zhou is interested by the virtue of the SFO.
- (5) Pursuant to the RSU Scheme (as defined below), (i) 27,292,396 existing Shares were reserved and (ii) 43,540,000 new Shares were allotted and issued at par value to Soarise Bulex Limited on the Listing Date will be reserved for the vesting of RSUs granted under the RSU Scheme. Ms. Huojuan Zhou has been appointed as the trustee of the RSU Scheme and Soarise Bulex Limited has been appointed as the nominee of the RSU Scheme. To the extent permitted under applicable laws and regulations, the trustee shall procure the nominee to exercise the voting rights attached to the underlying Shares in accordance with the instructions of the Board. As at 30 June 2019, no RSU (as defined below) has been granted under the RSU Scheme.

* The percentage represents the number of ordinary Shares interested divided by the number of the issued Shares as at 30 June 2019.

Save as disclosed above and to the best knowledge of the Directors, as at 30 June 2019, no person (other than the Directors or chief executives of the Company) had registered an interest or a short position in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO.

STRUCTURED CONTRACTS

Reference is made to the section headed “Structured Contracts” in the Prospectus in relation to the Structured Contracts (as defined in the Prospectus), through which the Company obtains control over and derives the economic benefits from its PRC Operating Entities (as defined in the Prospectus). All capitalised terms used herein below shall have the same meanings as those defined in the Prospectus unless otherwise stated in this interim report.

The Board hereby provides updated information in relation to the business operations of the PRC Operating Entities through the Structured Contracts and the implications thereof as follows:

(a) Particulars and principal activities of the PRC Operating Entities:

The Company currently conducts its K-12 after-school education business through its PRC Operating Entities in the PRC as PRC laws and regulations generally restrict foreign ownership in the K-12 education industry in the PRC.

(b) Summary of material terms of the Structured Contracts:

(1) Exclusive Management Consultancy and Business Cooperation Agreement (dated 18 June 2018):

- (i) Parties: WFOE; Guangzhou Beststudy; Foshan Beststudy Culture Communication Co., Ltd, Shenzhen Zhuoyue Education Training Co., Ltd., Dongguan Zhuoyue Education Consulting Services Co., Ltd, and Zhongshan Zhuoyue Consulting Management Co., Ltd., being the four important PRC Operating Entities of the Company given their importance in terms of revenue contribution; and the shareholders of Guangzhou Beststudy (including the Registered Shareholders and Mr. Hua Wang).
- (ii) WFOE has the exclusive right to provide each of the PRC Operating Entities with corporate and education management consulting services, intellectual property licensing services as well as technical and business support services. All of the existing PRC Operating Entities are listed as the service recipients to receive such services provided by WFOE, and Guangzhou Beststudy and its shareholders are obligated to cause all the PRC Operating Entities to appoint WFOE as the exclusive services provider under the Exclusive Management Consultancy and Business Cooperation Agreement.

A summary of the material terms of the Exclusive Management Consultancy and Business Cooperation Agreement has been set out in the section headed “Structured Contracts” in the Prospectus.

(2) Exclusive Call Option Agreement I and the Exclusive Call Option Agreement II (collectively, the “Exclusive Call Option Agreements”) (dated 18 June 2018):

- (i) Parties (Exclusive Call Option Agreement I): WFOE, Guangzhou Beststudy and the Registered Shareholders
- (ii) Parties (Exclusive Call Option Agreement II): WFOE, Guangzhou Beststudy and the wholly-owned subsidiaries of Guangzhou Beststudy

OTHER INFORMATION

- (iii) Under the Exclusive Call Option Agreement I, the Registered Shareholders irrevocably agreed to grant WFOE or its designated third party an exclusive option to purchase all or part of the equity interests in Guangzhou Beststudy held by Registered Shareholders, for nil consideration or the minimum amount of consideration permitted by the applicable PRC laws and regulations, under circumstances in which WFOE or its designated third party is permitted under PRC laws and regulations to own all or part of the equity interests of Guangzhou Beststudy. Where the purchase price is required by the relevant PRC laws and regulations to be an amount other than nil consideration, the Registered Shareholders shall, according to the instruction of WFOE, return the amount of purchase price they have received to WFOE or its designated third party, or Guangzhou Beststudy.

Under the Exclusive Call Option Agreement II, Guangzhou Beststudy unconditionally and irrevocably agreed to grant WFOE or its designated third party an exclusive option to purchase all or part of the equity interests, as applicable, in the subsidiaries directly-wholly-owned by Guangzhou Beststudy, for nil consideration or the minimum amount of consideration permitted by applicable PRC laws and regulations, under circumstances in which WFOE or its designated third party is permitted under PRC laws and regulations to own all or part of the equity interests, as applicable, of the subsidiaries directly-wholly-owned by Guangzhou Beststudy. Where the purchase price is required by the relevant PRC laws and regulations to be an amount other than nil consideration, Guangzhou Beststudy shall, according to the instruction of WFOE, return the amount of purchase price they have received to WFOE or its designated third party or the subsidiaries directly-wholly-owned by Guangzhou Beststudy.

A summary of the material terms of the Exclusive Call Option Agreements has been set out in the section headed "Structured Contracts" in the Prospectus.

(3) Equity Pledge Agreement (dated 18 June 2018):

- (i) Parties: WFOE, Guangzhou Beststudy, and the Registered Shareholders
- (ii) Assets pledged: All of the equity interests in Guangzhou Beststudy to WFOE as security.
- (iii) Under the Equity Pledge Agreement, the Registered Shareholders have agreed that, without the prior written consent of WFOE, they will not transfer or dispose of the pledged equity interests or create or allow any third party to create any encumbrance on the pledged equity interests that would prejudice WFOE's interest.

The Equity Pledge Agreement shall remain valid until (i) the satisfaction of all the contractual obligations of Guangzhou Beststudy and their respective subsidiaries and the Registered Shareholders in full under the Exclusive Management Consultancy and Business Cooperation Agreement, Exclusive Call Option Agreements and the Powers of Attorney, or (ii) the nullification or termination of the Exclusive Management Consultancy and Business Cooperation Agreement, the Exclusive Call Option Agreements and the Powers of Attorney, whichever is later.

A summary of the material terms of the Equity Pledge Agreement has been set out in the section headed "Structured Contracts" in the Prospectus.

(4) Powers of Attorney (dated 18 June 2018):

- (i) Parties: Registered Shareholders; and WFOE
- (ii) It is an irrevocable power of attorney under which WFOE shall be the sole attorney of the Registered Shareholders. Each of the Registered Shareholders has exclusively appointing WFOE, or any person designated by WFOE or their successors or liquidators (excluding the Registered Shareholders or persons who may give rise to conflicts of interests), as his or her attorney-in-fact to appoint directors and vote on his or her behalf on all matters of Guangzhou Beststudy requiring shareholders' approval under its articles of associations and under the relevant PRC laws and regulations. These Powers of Attorney remain effective until the nullification or termination of the Exclusive Management Consultancy and Business Cooperation Agreement.

A summary of the material terms of the Powers of Attorney has been set out in the section headed "Structured Contracts" in the Prospectus.

(5) Spouse Undertakings (dated 6 June 2018 or 18 June 2018):

- (i) Parties: Spouse of each of the Registered Shareholders
- (ii) The spouse of each of the Registered Shareholders, has full knowledge of and has consented unconditionally and irrevocably to the entering into of the Structured Contracts by the respective Registered Shareholders, and in particular, the arrangement as set out in the Structured Contracts in relation to the restrictions imposed on the direct or indirect equity interest in the Group, pledge or transfer the direct or indirect equity interest in the Group, or the disposal of the direct or indirect equity interest in the Group in any other forms. The spouse shall not take any actions to prevent the performances under Structured Contracts. The terms that are not stated in the Spouse Undertakings such as governing law and dispute resolution shall be interpreted pursuant to the terms of the Exclusive Management Consultancy and Business Cooperation Agreement.

A summary of the material terms of the Spouse Undertakings has been set out in the section headed "Structured Contracts" in the Prospectus.

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(c) Significance of business activities of the PRC Operating Entities to the Group:

- According to the Structured Contract, the Group has obtained control of the PRC operating entities and obtained economic benefits from it.

(d) Financial impact of the Structured Contracts on the Group:

- The following table sets forth the financial contributions of the PRC operating entities to the Group:

	Financial Contribution to the Group		
	Revenue as at 30 June 2019	Net Profit as at 30 June 2019	Total Asset as at 30 June 2019
PRC Operating Entities	100%	74.62%	64.58%

(e) Extent to which the Structured Contracts relate to requirement of applicable laws, rules and regulations other than the foreign ownership restriction:

- the Structured Contracts as a whole and each of the agreements comprising the Structured Contracts are legal, valid and binding on the parties thereto, enforceable under PRC laws and regulations, and in particular, the Structured Contracts do not violate the provisions of the PRC Contract Law including “concealing illegal intentions with a lawful form,” the General Principles of the PRC Civil Law and other applicable PRC laws and regulations; upon signing, the Structured Contracts will be valid and effective under PRC laws and regulations; each of the Structured Contracts is not in violation of provisions of the articles of association of our PRC Operating Entities; entering into and the performance of the Structured Contracts are not required to obtain any approvals or authorizations from the PRC governmental authorities except that (1) the pledge of any equity interest in company in favor of WFOE is subject to registration requirements with relevant Administration of Industry and Commerce; (2) the transfer of the equity interests in the Company contemplated under the Structured Contracts is subject to applicable approval and/or registration requirements under the then applicable PRC laws; and (3) any arbitral awards in relation to the performance of the Structured Contracts are subject to application to competent PRC courts for recognition and enforcement.

(f) Reasons for using the Structured Contracts and the risks associated therewith including actions taken to mitigate such risks:

- We currently conduct our K-12 after-school education business through our PRC Operating Entities in the PRC as PRC laws and regulations generally restrict foreign ownership in the K-12 education industry in the PRC. PRC laws and regulations currently restrict the operation of education institutions that provides K-12 after-school education to Sino-foreign cooperation ownership, in addition to imposing qualification requirements on the foreign owners.

For the risks associated with structured contracts, please refer to the prospectus "Risk factors – Risks relating to our structured contracts"

Our Group has adopted the following measures to ensure the effective operation of our Group with the implementation of the Structured Contracts and our compliance with the Structured Contracts:

- major issues arising from the implementation and compliance with the Structured Contracts or any regulatory enquiries from government authorities will be submitted to our Board, if necessary, for review and discussion on an occurrence basis;
- our Board will review the overall performance of and compliance with the Structured Contracts at least once a year;
- our Company will disclose the overall performance and compliance with the Structured Contracts in its annual and interim reports to update the Shareholders and potential investors;
- our Company and our Directors undertake to provide periodic updates in our annual and interim reports regarding the Qualification Requirement and our status of compliance with the Draft Foreign Investment Law and its accompanying explanatory notes as stipulated under the section headed "Structured Contracts – Background of the Structured Contracts" and the latest development of the Draft Foreign Investment Law and its accompanying explanatory notes as disclosed under the section headed "Structured Contracts – Development in the PRC Legislation on Foreign Investment," including the latest relevant regulatory development as well as our plan and progress in acquiring the relevant experience to meet the Qualification Requirement;
- our Company will disclose, as soon as possible (i) any updates of changes to the Draft Foreign Investment Law that will materially and adversely affect our Company as and when they occur; and (ii) a clear description and analysis of the final Foreign Investment Law as implemented, specific measures taken by us to fully comply with the final Foreign Investment Law supported by a PRC legal opinion and any material impact of the final Foreign Investment Law on our operations and financial position; and
- our Company will engage external legal advisers or other professional advisers, if necessary, to assist the Board to review the implementation of the Structured Contracts, review the legal compliance of WFOE and our PRC Operating Entities to deal with specific issues or matters arising from the Structured Contracts.

OTHER INFORMATION

(g) Material change in the Structured Contracts:

No Structured Contract has been supplemented or modified since the date of execution of all such Structured Contracts.

(h) Unwinding of the Structured Contracts:

No Structured Contract has been unwound since the date of execution all such Structured Contracts. None of the Structured Contract is to be unwound until and unless the PRC regulatory environment changes and all of the Qualification Requirement, the Foreign Ownership Restriction and the Foreign Control Restriction are removed (and assuming there are no other changes in the relevant PRC laws and regulations), the WFOE will exercise the call option granted under the Exclusive Call Option Agreements (the **"Equity Call Option"**) in full to hold all of the interest except for the 0.07% portion held by Mr. Wang Hua in the PRC Operating Entities and unwind the Structured Contracts accordingly.

RSU SCHEME AND SHARE OPTION SCHEME

RSU Scheme

The Company approved and adopted the restricted share unit scheme (the **"RSU Scheme"**) on 3 December 2018, the principal terms of which are set out in the section headed "Statutory and General Information – D. Share Incentive Schemes – 1. RSU Scheme" in Appendix IV of the Prospectus.

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

We have appointed Ms. Huojuan Zhou as the trustee to assist in the administration of the RSU Scheme, pursuant to which, (i) 27,292,396 existing Shares were reserved and (ii) 43,540,000 new Shares were allotted and issued at par value to Soarise Bulex Limited (the **"RSU Nominee"**) on the Listing Date will be reserved for the vesting of restricted share units (the **"RSUs"**) granted under the RSU Scheme. As the RSU Scheme does not involve the grant of options by the Company to subscribe for new Shares, the RSU Scheme is not subject to the provisions of Chapter 17 of the Listing Rules.

As at 30 June 2019, no RSUs have been granted under the RSU Scheme.

Share Option Scheme

On 3 December 2018, the Company adopted the share option scheme (the “**Share Option Scheme**”), which falls within the ambit of, and is subject to, the regulations under Chapter 17 of the Listing Rules. The purpose of the Share Option Scheme is to attract, retain and motivate employees, Directors and such other participant, and to provide a means of compensating them through the grant of options pursuant to the terms of the Share Option Scheme for their contribution to the growth and profits of the Group, and to allow such employees, Directors and other persons to participate in the growth and profitability of the Group.

The Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and other share option schemes of the Company (and to which the provisions of the Listing Rules are applicable) shall not exceed 84,804,000 Shares, (i.e. 10% of the aggregate of the Shares in issue on the Listing Date (“**Scheme Mandate Limit**”)). Options lapsed in accordance with the terms of the Share Option Scheme shall not be counted for the purpose of calculating this Scheme Mandate Limit.

The total number of Shares issued and to be issued upon the exercise of the options granted to or to be granted to each eligible person under the Share Option Scheme (including exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the Shares in issue.

The Share Option Scheme will remain in force for a period of 10 years from 3 December 2018 and the options granted have a 10-year exercise period. Options may be vested over such period(s) as determined by the Board in its absolute discretion subject to compliance with the requirements under any applicable laws, regulations or rules.

The exercise price of the option shall be such price as determined by the Board in its absolute discretion at the time of the grant of the relevant option (and shall be stated in the letter containing the offer of the grant of the option), but in any case the subscription price shall not be less than the higher of (a) the closing price of the Shares as stated in the daily quotation sheet of the Stock Exchange on the date of grant, which must be a business day, (b) the average closing price of the Shares as stated in the daily quotation sheets of the Stock Exchange for the five (5) business days immediately preceding the date of grant, and (c) the nominal value of a Share.

No options were granted, exercised, cancelled or lapsed by the Company under the Share Option Scheme during the Reporting Period and there were no outstanding share options under the Share Option Scheme as at 30 June 2019 and up to the date of this interim report.

A summary of the terms of the Share Option Scheme has been set out in the section headed “D. Share Incentive Schemes – 2. Share Option Scheme” in Appendix IV of the Prospectus.

On behalf of the Board

Junjing Tang

Chairman

Hong Kong, 21 August, 2019

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2019

	Notes	2019 RMB'000 (Unaudited)	2018 RMB'000 (Audited)
CONTINUING OPERATIONS			
Revenue	4	867,401	723,116
Cost of sales		(508,639)	(417,215)
Gross profit		358,762	305,901
Other income and gains, net	4	10,466	4,047
Investment income		1	164
Selling expenses		(60,699)	(54,901)
Research and development expenses		(82,260)	(78,656)
Administrative expenses		(95,805)	(79,009)
Share of profit of a joint venture		90	89
Share of losses of associates		(209)	(1,128)
Fair value changes on investments at fair value through profit or loss		23,451	33,331
Finance costs	2.2	(25,102)	–
Other expenses		(37,970)	(16,538)
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS		90,725	113,300
Income tax expense	6	(15,469)	(31,391)
PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS		75,256	81,909
DISCONTINUED OPERATIONS			
Profit for the period from discontinued operations	7	–	914
PROFIT FOR THE PERIOD		75,256	82,823
Attributable to:			
Owners of the parent		75,755	60,054
Non-controlling interests		(499)	22,769
		75,256	82,823
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted	9		
– For profit for the period		RMB9.7 cents	RMB9.6 cents
– For profit from continuing operations		RMB9.7 cents	RMB9.5 cents

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2019

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

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2019

	Notes	30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	10	163,073	160,768
Right-of-use assets	2.2	933,768	–
Intangible assets		9,334	9,586
Investment in a joint venture		5,612	5,512
Investments in associates		47,589	14,997
Equity investments at fair value through profit or loss	11	66,678	71,299
Prepayments for purchases of property, plant and equipment		34,868	29,179
Deferred tax assets		15,276	10,817
Total non-current assets		1,276,198	302,158
CURRENT ASSETS			
Short-term investment measured at amortised cost	11	299	–
Short-term debt investments measured at fair value through profit or loss	11	531,838	517,907
Short-term equity investments measured at fair value through profit or loss	11	60,011	412
Prepayments, deposits and other receivables	12	107,568	147,539
Restricted cash		4,252	2,347
Cash and cash equivalents		490,520	468,041
Other current assets		1,876	1,218
Total current assets		1,196,364	1,137,464
CURRENT LIABILITIES			
Other payables and accruals	13	156,890	192,079
Lease liabilities	2.2	211,555	–
Contract liabilities	14	598,475	562,841
Tax payable		30,664	21,410
Total current liabilities		997,584	776,330

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UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2019

	Notes	30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
NET CURRENT ASSETS		198,780	361,134
TOTAL ASSETS LESS CURRENT LIABILITIES		1,474,978	663,292
NON-CURRENT LIABILITIES			
Rental payables		–	41,210
Lease liabilities	2.2	773,027	–
Total non-current liabilities		773,027	41,210
Net assets		701,951	622,082
EQUITY			
Equity attributable to owners of the parent			
Share capital	15	304	303
Reserves		702,663	622,821
		702,967	623,124
Non-controlling interests		(1,016)	(1,042)
Total equity		701,951	622,082

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	Share premium*	Shares held for the RSU scheme*	Share-based payment reserve*	Statutory surplus reserve*	Other reserve*	Exchange fluctuation reserve*	Retained profits*	Total	Non-controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	Note 15										
At 1 January 2019 (audited)	303	298,066	(24)	41,496	98,452	226,302	(21,725)	(19,746)	623,124	(1,042)	622,082
Profit for the period	-	-	-	-	-	-	-	75,755	75,755	(499)	75,256
Other comprehensive income for the period:											
Exchange differences on translation of financial statements	-	-	-	-	-	-	622	-	622	-	622
Total comprehensive income for the period	-	-	-	-	-	-	622	75,755	76,377	(499)	75,878
Issue of shares	1	3,475	-	-	-	-	-	-	3,476	-	3,476
Share issue expenses	-	(10)	-	-	-	-	-	-	(10)	-	(10)
Contributions from minority shareholders	-	-	-	-	-	-	-	-	-	525	525
At 30 June 2019 (unaudited)	304	301,531	(24)	41,496	98,452	226,302	(21,103)	56,009	702,967	(1,016)	701,951

* These reserve accounts comprise the reserves of RMB702,663,000 in the unaudited interim condensed consolidated statement of financial position as at 30 June 2019.

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UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2019

	Note	Attributable to owners of the parent										
		Share capital	Share premium	Shares held for the RSU scheme	Share-based payment reserve	Statutory surplus reserve	Other reserve	Exchange fluctuation reserve	Retained profits	Total	Non-controlling interests	Total equity
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2018 (audited)		164	-	-	35,015	80,183	117,406	(21,868)	43,624	254,524	83,243	337,767
Profit for the period		-	-	-	-	-	-	-	60,054	60,054	22,769	82,823
Other comprehensive income for the period:												
Exchange differences on translation of financial statements		-	-	-	-	-	-	149	-	149	37	186
Total comprehensive income for the period		-	-	-	-	-	-	149	60,054	60,203	22,806	83,009
Issue of shares		72	-	-	-	-	-	-	-	72	-	72
Equity-settled share option arrangements		-	-	-	1,959	-	-	-	-	1,959	-	1,959
Acquisition of non-controlling interests		-	-	-	-	-	2,283	-	-	2,283	(2,793)	(510)
Disposal of subsidiaries with non-controlling interests		-	-	-	-	-	-	-	-	-	5,562	5,562
Dividends paid	8	-	-	-	-	-	-	-	(100,000)	(100,000)	-	(100,000)
Reorganisation		-	-	-	-	-	106,613	-	-	106,613	(106,613)	-
At 30 June 2018 (audited)		236	-	-	36,974	80,183	226,302	(21,719)	3,678	325,654	2,205	327,859

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2019

	Notes	2019 (Unaudited) RMB'000	2018 (Audited) RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax			
From continuing operations		90,725	113,300
From discontinued operations	7	–	965
Adjustments for:			
Finance costs		25,102	524
Interest income	4	(2,968)	(617)
Investment income		(1)	(164)
Gain on disposal of an associate	4	(848)	–
(Gain)/loss on disposal of items of property, plant and equipment	5	(147)	200
Loss on disposal of intangible assets	5	63	–
Equity-settled share compensation costs	5	–	1,959
Depreciation of property, plant and equipment	5	30,575	17,152
Depreciation of right-of-use assets	2.2	98,702	–
Amortisation of intangible assets	5	1,137	1,029
Share of profit of a joint venture		(90)	(89)
Share of losses of associates		209	1,128
Change in fair value of investments measured at fair value through profit or loss		(23,451)	(33,331)
Gain on disposal of subsidiaries		–	(9,298)
		219,008	92,758
Increase in prepayments, deposits and other receivables		(16,747)	(23,800)
(Increase)/decrease in other current assets		(658)	174
(Decrease)/increase in other payables and accruals		(40,125)	37,845
Increase in contract liabilities		35,634	1,432
Increase in rental payables		–	15,194
Cash generated from operations		197,112	123,603
Interest received		2,968	740
Corporate income tax paid		(10,674)	(21,941)
Net cash flows from operating activities		189,406	102,402

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UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2019

	Note	2019 (Unaudited) RMB'000	2018 (Audited) RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment income received		17,651	2,806
Purchases of items of property, plant and equipment		(34,719)	(57,409)
Purchases of items of intangible assets		(948)	(1,239)
Proceeds from disposal of items of property, plant and equipment and intangible assets		1,233	105
Disposal of subsidiaries		-	11,015
Acquisition of associates		(34,050)	-
Disposal of an associate		1,000	-
Purchase of equity investments at fair value through profit or loss		(1,037)	-
Purchase of short-term investment measured at amortised cost		(299)	-
Receipt from maturity of short-term investment measured at amortised cost		-	10,000
Purchases of short-term debt investments measured at fair value through profit or loss		(747,480)	(1,019,670)
Receipt from maturity of short-term debt investments measured at fair value through profit or loss		726,000	945,809
Purchases of short-term equity investments measured at fair value through profit or loss		(40,587)	-
Net cash flows used in investing activities		(113,236)	(108,583)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares on initial public offering		40,094	-
Proceeds from issue of shares on over-allotment option		3,476	-
Share issue expenses		(10)	-
Capital contribution		525	72
Principal portion of lease payments		(73,282)	-
Interest portion of lease payments		(25,102)	-
Dividends paid	8	-	(100,000)
Interest paid		-	(524)
Acquisition of non-controlling interests of subsidiaries		-	(510)
Net cash flows used in financing activities		(54,299)	(100,962)

continued/...

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2019

	2019 (Unaudited) RMB'000	2018 (Audited) RMB'000
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	21,871	(107,143)
Cash and cash equivalents at beginning of period	468,041	169,813
Effect of foreign exchange rate changes, net	608	306
CASH AND CASH EQUIVALENTS AT END OF PERIOD	490,520	62,976
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and cash equivalents as stated in the statement of financial position	490,520	62,976
Cash and cash equivalents as stated in the statement of cash flows	490,520	62,976

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2019

1. CORPORATE AND GROUP INFORMATION

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

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

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

2.1 BASIS OF PREPARATION

The unaudited interim condensed consolidated financial information for the Reporting Period has been prepared in accordance with IAS 34 *Interim Financial Reporting*. The unaudited interim condensed consolidated financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual consolidated financial statements for the year ended 31 December 2018.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the unaudited interim condensed consolidated financial information are consistent with those applied in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2018, except for the adoption of the new and revised IFRSs effective as of 1 January 2019.

Amendments to IFRS 9	<i>Prepayment Features with Negative Compensation</i>
IFRS 16	<i>Leases</i>
Amendments to IAS 19	<i>Plan Amendment, Curtailment or Settlement</i>
Amendments to IAS 28	<i>Long-term Interests in Associates and Joint Ventures</i>
IFRIC 23	<i>Uncertainty over Income Tax Treatments</i>
<i>Annual Improvements 2015–2017 Cycle</i>	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2019

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

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

- (a) IFRS 16 replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC 15 *Operating Leases – Incentives* and SIC 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model. Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have any financial impact on leases where the Group is the lessor.

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

New definition of a lease

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(a) Adoption of IFRS 16

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of IFRS 16

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

Impacts on transition

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

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

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

- Applied the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application
- Used hindsight in determining the lease term where the contract contains options to extend/terminate the lease

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

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2019

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(a) Adoption of IFRS 16 (continued)

As a lessee – Leases previously classified as operating leases (continued)

Impacts on transition (continued)

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

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

Summary of new accounting policies

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

Right-of-use assets

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(a) Adoption of IFRS 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 has the option, under some of its leases, to lease properties for additional terms. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. It considers all relevant factors that create an economic incentive for it to exercise the renewal. After the lease commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within the control of the Group and affects its ability to exercise the option to renew.

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2019

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(a) Adoption of IFRS 16 (continued)

Summary of new accounting policies (continued)

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

The carrying amounts of the Group's right-of-use assets and lease liabilities, and the movement during the period are as follow:

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

- (b) Amendments to IAS 28 clarify that the scope exclusion of IFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies IFRS 9, rather than IAS 28, including the impairment requirements under IFRS 9, in accounting for such long-term interests. IAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group assessed its business model for its long-term interests in associates and joint ventures upon adoption of the amendments on 1 January 2019 and concluded that the long-term interests in associates and joint ventures continue to be measured at amortised cost in accordance with IFRS 9. Accordingly, the amendments did not have any impact on the Group's unaudited interim condensed consolidated financial information.
- (c) IFRIC 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of IAS 12 (often referred to as "**uncertain tax positions**"). The interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. Upon adoption of the interpretation, the Group considered whether it has any uncertain tax positions. Based on the Group's tax compliance, the interpretation did not have any significant impact on the Group's unaudited interim condensed consolidated financial information.

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2019

3. OPERATING SEGMENT INFORMATION

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

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

Geographical information

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

Information about major customers

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

4. REVENUE, OTHER INCOME AND GAINS, NET

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

An analysis of revenue is as follows:

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

4. REVENUE, OTHER INCOME AND GAINS, NET (continued)

Revenue from contracts with customers
(i) Disaggregated revenue information
For the six months ended 30 June 2019

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

For the six months ended 30 June 2018

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

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2019

4. REVENUE, OTHER INCOME AND GAINS, NET (continued)

Revenue from contracts with customers (continued)

(ii) Performance obligations

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

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

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

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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5. PROFIT BEFORE TAX

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

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

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2019

6. INCOME TAX

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

Hong Kong Profits Tax

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the period.

PRC Corporate Income Tax (“CIT”)

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

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

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

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

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2019

6. INCOME TAX (continued)

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

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

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2019

7. DISCONTINUED OPERATIONS

On 5 December 2017, the Company announced the decision of its board of directors to dispose of the entire equity interests of 7 entities held by the Group, namely Guangdong Zhuoyue Qiancheng Education Services Co., Ltd. 廣東卓越前程教育服務有限公司, Shenzhen Beststudy Animation Technology Co., Ltd. 深圳市卓越動漫科技有限公司, Dongguan Frontline Enterprise Management Consulting Co., Ltd. 東莞市前線企業管理諮詢有限公司, Guangzhou Mite Information Technology Co., Ltd. 廣州米特信息技術有限公司, Guangzhou Zhuoben Investment Management Co., Ltd. 廣州卓本投資管理有限公司, Guangzhou Baizhuo Education Consulting Co., Ltd. 廣州百卓教育諮詢有限公司 and Guangzhou ZhuoYu Education Consulting Co., Ltd. 廣州市卓瑜教育諮詢有限公司. The disposals were completed on 30 June 2018.

The results of the disposal groups for the period are presented below:

	For the six months ended 30 June 2018 RMB'000 (Audited)
Revenue	9,771
Cost of sales	(12,761)
Other income, net	67
Other expense	–
Gain from disposal of subsidiaries	9,298
Selling and distribution expenses	(266)
Administrative expenses	(4,620)
Finance costs	(524)
Profit before tax from the discontinued operations	965
Income tax expense	(51)
Profit for the period from the discontinued operations	914

8. DIVIDENDS

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

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

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

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

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

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

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

	For the six months ended 30 June	
	2019 RMB'000 (Unaudited)	2018 RMB'000 (Audited)
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation:		
From continuing operations	75,755	59,140
From discontinued operations	-	914
Profit attributable to ordinary equity holders of the parent	75,755	60,054
	Number of shares for the six months ended 30 June	
	2019	2018
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	778,748,377	625,793,254

10. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2019, the Group acquired assets with a cost of RMB33,966,000 (30 June 2018: RMB70,636,000).

Assets with a net book value of RMB1,086,000 were disposed of by the Group during the six months ended 30 June 2019 (30 June 2018: RMB40,000), resulting in a net gain on disposal of RMB147,000 (30 June 2018: net loss of RMB200,000).

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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11. OTHER INVESTMENTS

		30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Non-current assets			
Equity investments at fair value through profit or loss			
– Unlisted equity investments	(i)	66,678	71,299
Current assets			
Short-term investment measured at amortised cost			
– National debt	(ii)	299	–
Short-term debt investments measured at fair value through profit or loss			
– Wealth management products issued by banks	(iii)	387,285	517,907
– Unlisted trust plans	(iii)	60,989	–
– Bond funds	(iv)	83,564	–
		531,838	517,907
Short-term equity investments measured at fair value through profit or loss			
– Listed equity investments	(iv)	60,011	412
		592,148	518,319

- (i) The fair values of the unlisted securities are measured using a valuation technique with unobservable inputs and hence categorised within level 3 of the fair value hierarchy. The major assumptions used in the valuation for investments in private companies are set out in note 19 to the financial statements.
- (ii) Short-term investment measured at amortised cost is national debt with guaranteed returns. It is denominated in RMB. This investment is not past due.
- (iii) Wealth management products issued by banks and unlisted trust plans issued by financial institutions in Mainland China were denominated in RMB, with an expected rate of return ranging from 3.40% to 8.00% (2018: 4.20% to 4.80%) per annum for the period.

None of these investments are past due. The fair values are based on cash flows discounted using the expected return based on management judgement and are within level 2 of fair value hierarchy.

- (iv) The fair values of the bond funds and listed securities are determined based on the closing prices quoted in active markets. They are accounted for using their fair values based on the quoted market prices (level 1: quoted price (unadjusted) in active markets) without deduction for transaction costs.

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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12. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Prepaid operation expenses	23,041	29,620
Rental and other deposits	53,144	49,218
Receivables from payment channels	14,294	10,353
Loans to employees	12,135	14,716
Proceeds receivable	–	40,094
Staff advances	1,168	502
Receivable from disposal of an associate	1,096	–
Others	2,690	3,036
	107,568	147,539

The above balances, except for loans to employees and receivable from disposal of an associate, are interest-free and are not secured with collateral.

Included in the balance above, rental and other deposits, receivables from payment channels, loans to employees, proceeds receivable, receivable from disposal of an associate and others are financial assets. None of the above financial assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

The Group applies the general approach to provide for the expected credit loss (“ECL”) of the financial assets measured at amortised cost including rental and other deposits, receivables from payment channels, loans to employees, proceeds receivable, receivable from disposal of an associate and others prescribed by IFRS 9. The Group assessed that the credit standing of the government and the payment agents is very strong, and the tenor of such receivables is short. For the loans to employees and the rental deposits, in the situation of a default, the Group might reduce the loss by negotiating settlement based on obtaining services or a right of use over lease assets. No ECLs were provided as it is assessed that the overall ECL rate for the above financial assets measured at amortised cost is less than 1%.

As at 30 June 2019, financial assets included in prepayments, deposits and other receivables were in Stage 1, and the provisions for impairment were assessed to be immaterial.

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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13. OTHER PAYABLES AND ACCRUALS

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Accrued staff benefits and payroll	107,293	120,571
Other tax payables	8,380	7,195
Refund liabilities	836	3,648
Payable for operating activities	31,122	30,008
Payable for listing expenses	6,039	21,439
Deposits	2,780	3,096
Others	440	6,122
	156,890	192,079

The above balances are unsecured and non-interest-bearing. The carrying amounts of other payables and accruals as at the end of the Reporting Period approximated to their fair values due to their short-term maturities.

14. CONTRACT LIABILITIES

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

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

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

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

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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15. SHARE CAPITAL

Shares

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

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

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

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

16. CONTINGENT LIABILITIES

As at the end of the Reporting Period, the Group did not have any significant contingent liabilities.

17. COMMITMENTS

As at the end of the Reporting Period, the Group did not have any significant commitments.

18. RELATED PARTY TRANSACTIONS

(a) Name and relationship of related parties

Name	Relationship
Guangzhou Haite Sports Development Co., Ltd. 廣州市海特體育發展有限公司 (“Guangzhou Haite”)	Associate of the Group
Huerguosi Lexue Venture Capital Co., Ltd. 霍爾果斯樂學創業投資有限公司 (“Lexue Venture Capital”)	Controlled by Mr. Junjing Tang, Mr. Junying Tang and Mr. Gui Zhou
Guangzhou Lexue Equity Investment Management Co., Ltd. 廣州市樂學股權投資管理有限公司 (“Guangzhou Lexue Equity Investment”)	Controlled by Mr. Junjing Tang, Mr. Junying Tang and Mr. Gui Zhou

(b) Transactions with related parties

The Group had the following material transactions with related parties during the period:

(1) Purchase of consulting services from a related party

	For the six months ended 30 June	
	2019 RMB'000 (Unaudited)	2018 RMB'000 (Audited)
Guangzhou Haite	192	–

The prices for the above services were determined according to the published prices and conditions offered to other customers of the Group.

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2019

18. RELATED PARTY TRANSACTIONS (continued)

(b) Transactions with related parties (continued)

(2) Transfers of investments to related parties

	For the six months ended 30 June	
	2019 RMB'000 (Unaudited)	2018 RMB'000 (Audited)
Lexue Venture Capital	-	3,776
Guangzhou Lexue Equity Investment	-	13,945
	-	17,721

(3) Purchase of an investment from a related party

	For the six months ended 30 June	
	2019 RMB'000 (Unaudited)	2018 RMB'000 (Audited)
Lexue Venture Capital	23,050	-

The Group purchased 8.66% of shares of Beijing Tengyue Zhihui Network Technology Co., Ltd. from Lexue Venture Capital for a consideration of RMB23,050,000.

(c) Compensation of key management personnel of the Group

	For the six months ended 30 June	
	2019 RMB'000 (Unaudited)	2018 RMB'000 (Audited)
Short term employee benefits	4,110	8,156
Pension scheme contributions	84	169
Equity-settled share option expense	-	1,275
Total compensation paid to key management personnel	4,194	9,600

19. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	Carrying amounts		Fair values	
	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Financial assets				
Equity investments at fair value through profit or loss	66,678	71,299	66,678	71,299
Short-term debt investments measured at fair value through profit or loss	531,838	517,907	531,838	517,907
Short-term equity investments measured at fair value through profit or loss	60,011	412	60,011	412
	658,527	589,618	658,527	589,618

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

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2019

19. 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			Total RMB'000 (Unaudited)
	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)	
Equity investments at fair value through profit or loss	–	–	66,678	66,678
Short-term debt investments measured at fair value through profit or loss				
– Wealth management products issued by banks	–	387,285	–	387,285
– Unlisted trust plans	–	60,989	–	60,989
– Bond funds	83,564	–	–	83,564
Short-term equity investments measured at fair value through profit or loss				
– Listed equity investments	60,011	–	–	60,011
	143,575	448,274	66,678	658,527

19. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy (continued)

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

Assets measured at fair value (continued):

As at 31 December 2018

	Fair value measurement using			Total RMB'000 (Audited)
	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)	
Equity investments at fair value through profit or loss	–	–	71,299	71,299
Short-term debt investments measured at fair value through profit or loss – Wealth management products	–	517,907	–	517,907
Short-term equity investments measured at fair value through profit or loss – Listed equity investments	412	–	–	412
	412	517,907	71,299	589,618

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

	2019 RMB'000 (Unaudited)	2018 RMB'000 (Audited)
Equity investments at fair value through profit or loss:		
At 1 January	71,299	64,581
Total (losses)/gains recognised in the statement of profit or loss	(5,662)	18,758
Additions	1,037	–
Exchange realignment	4	24
At 30 June	66,678	83,363

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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19. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy (continued)

The fair values of equity investments at fair value through profit or loss have been estimated using the market approach. This method primarily requires research of comparable companies' benchmark multiples and proper selection of a suitable multiple to derive the fair value of the investee company. It is considered that the suitable multiple in this valuation is leading P/S ratio, which is used to compare a stock's market value to its sales. It is calculated by dividing the current market cap of the security by the forward 12 months sales estimated provided.

As at 30 June 2019, it is estimated that if the forward 12 months sales, as a significant unobservable input to the valuation of equity investments, increase or decrease by 5%, the fair values of the unlisted investments at fair value through profit or loss would have been increased or decreased by RMB3,181,000.

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.

20. EVENTS AFTER THE REPORTING PERIOD

Subsequent to the end of the Reporting Period, the Group had no significant events occurred.