Minsheng Education Group Company Limited
民生教育集团有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1569)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2019

FINANCIAL HIGHLIGHTS

	Six months ended 30 June			
	2019	2018	**Change**	Percentage
	RMB'000	*RMB'000*	***RMB'000***	Change
	(Unaudited)	(Unaudited)		
Revenue	**526,397**	316,253	**210,144**	**+66.4%**
Gross profit	**306,529**	188,545	**117,984**	**+62.6%**
Profit for the period	**203,674**	220,992	**(17,318)**	**-7.8%**
Adjusted net profit *(Note 1)*	**232,818**	227,223	**5,595**	**+2.5%**

	As at 30 June			Percentage
	2019	2018	**Change**	Change
Total number of students enrolled	**74,450**	43,344	**31,106**	**+71.8%**

Note:

1. Adjusted net profit is defined as profit for the Reporting Period of the Group after adjusting for those items which are not indicative of the Group's operating performances. For details, please refer to the section headed "Management Discussion and Analysis – Financial Review" in this announcement.

The board (the "**Board**") of directors (the "**Directors**") of Minsheng Education Group Company Limited (the "**Company**") is pleased to announce the unaudited interim condensed consolidated financial statements of the Company and its subsidiaries (collectively referred to as the "**Group**" or "**We**") for the six months ended 30 June 2019 (the "**Reporting Period**") together with the comparative figures for the corresponding period in 2018.

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

For the six months ended 30 June 2019

		Six months ended 30 June	
		2019	2018
	Notes	***RMB'000***	*RMB'000*
		(Unaudited)	(Unaudited)
REVENUE	*4*	**526,397**	316,253
Cost of sales		**(219,868)**	(127,708)
Gross profit		**306,529**	188,545
Other income and gains	*4*	**39,258**	44,924
Selling and distribution expenses		**(5,554)**	(6,453)
Administrative expenses		**(83,129)**	(54,952)
Other expenses, net		**(10,536)**	(3,379)
Finance costs		**(36,821)**	(2,356)
Share of loss of an associate		**(341)**	(39)
Fair value gain from an equity investment at fair value through profit or loss		**905**	60,254
PROFIT BEFORE TAX	*5*	**210,311**	226,544
Income tax expense	*6*	**(6,637)**	(5,552)
PROFIT FOR THE PERIOD		**203,674**	220,992
Attributable to:			
Owners of the parent		**207,125**	217,914
Non-controlling interests		**(3,451)**	3,078
		203,674	220,992
Earnings per share attributable to ordinary equity holders of the parent:	*8*		
Basic		**RMB0.0516**	RMB0.0542
Diluted		**RMB0.0515**	RMB0.0542

	Notes	Six months ended 30 June **2019** ***RMB'000*** **(Unaudited)**	 2018 *RMB'000* (Unaudited)
PROFIT FOR THE PERIOD		**203,674**	220,992
OTHER COMPREHENSIVE INCOME			
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of financial statements		**(1,259)**	(549)
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods		**(1,259)**	(549)
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of financial statements		**1,664**	13,452
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods		**1,664**	13,452
OTHER COMPREHENSIVE INCOME FOR THE PERIOD		**405**	12,903
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**204,079**	233,895
Total comprehensive income attributable to:			
Owners of the parent		**207,530**	230,817
Non-controlling interests		**(3,451)**	3,078
		204,079	233,895

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

	Notes	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**2,203,340**	2,157,994
Right-of-use assets		**753,635**	–
Prepaid land lease payments		**–**	744,785
Goodwill		**1,685,099**	1,685,099
Other intangible assets		**5,967**	6,257
Investments in associates		**1,687**	2,030
Equity investment at fair value through other comprehensive income	*9*	**6,380**	6,380
Equity investment at fair value through profit or loss	*9*	**62,509**	61,347
Other non-current assets	*10*	**771,910**	382,559
Total non-current assets		**5,490,527**	5,046,451
CURRENT ASSETS			
Inventories		**1,258**	1,381
Trade receivables	*11*	**6,768**	5,510
Prepayments, other receivables and other assets		**76,011**	62,986
Cash and bank balances		**752,789**	1,505,820
Restricted bank balances		**6**	2,324
Total current assets		**836,832**	1,578,021
CURRENT LIABILITIES			
Contract liabilities	*12*	**27,914**	534,097
Other payables and accruals	*13*	**485,405**	697,349
Deferred income – current		**21,218**	19,937
Interest-bearing bank and other borrowings		**260,560**	244,635
Tax payable		**15,648**	11,063
Total current liabilities		**810,745**	1,507,081
NET CURRENT ASSETS		**26,087**	70,940
TOTAL ASSETS LESS CURRENT LIABILITIES		**5,516,614**	5,117,391

	Notes	**30 June 2019** *RMB'000* **(Unaudited)**	31 December 2018 *RMB'000* (Audited)
NON-CURRENT LIABILITIES			
Deferred income – non-current		**340,636**	282,027
Interest-bearing bank and other borrowings		**330,499**	214,099
Other long term liability		**302,225**	310,538
Put option liability		**800,074**	781,332
Total non-current liabilities		**1,773,434**	1,587,996
Net assets		**3,743,180**	3,529,395
EQUITY			
Equity attributable to owners of the parent			
Share capital		**307**	307
Reserves		**3,625,337**	3,408,101
		3,625,644	3,408,408
Non-controlling interests		**117,536**	120,987
Total equity		**3,743,180**	3,529,395

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE AND GROUP INFORMATION

The Company was incorporated in the Cayman Islands on 13 December 2005 as an exempted company with limited liability under the laws of the Cayman Islands. The address of the registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The Company is an investment holding company. During the period, the Group were principally engaged in providing educational services in the People's Republic of China (the "**PRC**").

2.1 BASIS OF PREPARATION

These unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 June 2019 (the "**Report Period**") have been prepared in accordance with International Accounting Standard ("**IAS**") 34 *Interim Financial Reporting* issued by the International Accounting Standards Board. These financial statements are presented in Renminbi ("**RMB**"), and all values are rounded to the nearest thousand except otherwise indicated.

The accounting policies and basis of preparation used in the preparation of these unaudited interim condensed consolidated financial statements are the same as those used in the Group's annual consolidated financial statements for the year ended 31 December 2018, except for the adoption of the new and revised International Financial Reporting Standards ("**IFRSs**") (which also include IASs and Interpretations) as disclosed in note 2.2 below.

These unaudited interim condensed consolidated financial statements do not include all information and disclosures required in the Group's annual consolidated 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 Group has adopted the following new and revised IFRSs for the first time for the Reporting Period's financial statements:

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

Other than as further explained below, the application of these new and revised IFRSs in the Reporting Period has had no material impact on the Group's financial performance and positions for the current and prior periods and/or on the disclosures set out in these unaudited interim condensed consolidated financial statements.

IFRS 16

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 for leases where the Group is the lessor.

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

New definition of a lease

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

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

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of IFRS 16

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

Impacts on transition

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

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

The Group has used the following elective practical expedient 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

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

	Increase/ (decrease) *RMB'000* **(Unaudited)**
Assets	
Increase in right-of-use assets	762,829
Decrease in prepaid land lease payments	(744,785)
Decrease in prepayments, other receivables and other assets	(18,044)
Increase in total assets	–
Liabilities	
Increase in interest-bearing bank and other borrowings	–
Increase in total liabilities	–

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

	RMB'000
	(Unaudited)
Operating lease commitments as at 31 December 2018	9,713
Weighted average incremental borrowing rate as at 1 January 2019	4.9%
Discounted operating lease commitments at 1 January 2019	8,377
Less:	
Commitments relating to short-term leases and those leases with a remaining lease term ending on or before 31 December 2019	1,959
Adjustments relating to variable lease payments linked to future performance of an underlying asset	6,418
Lease liabilities as at 1 January 2019	–

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. When the right-of-use assets relate to interests in leasehold land held as inventories, they are subsequently measured at the lower of cost and net realisable value in accordance with the Group's policy for "inventories". The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term. When a right-of-use asset meets the definition of investment property, it is included in investment properties. The corresponding right-of-use asset is initially measured at cost, and subsequently measured at fair value, in accordance with the Group's policy for 'investment properties'.

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.

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

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

	Right-of-use assets			
	Buildings	**Prepaid land lease payments**	**Total**	**Lease liabilities**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
As at 1 January 2019	2,175	760,654	762,829	–
Additions	–	–	–	–
Depreciation expense	(900)	(8,294)	(9,194)	–
Interest expense	–	–	–	–
Payments	–	–	–	–
As at 30 June 2019	1,275	752,360	753,635	–

The Group recognised rent expense from short-term leases of RMB3,217,000 and leases of low-value assets of RMB251,000 for the six months ended 30 June 2019.

IFRIC 23

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 includes requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. Upon adoption of the interpretation, the Group considered whether it has any uncertain tax positions arising from the transfer pricing on its intergroup sales. Upon adoption of the interpretation, the directors considered the interpretation did not have any significant impact on the Group's unaudited interim condensed consolidated financial information.

3. OPERATING SEGMENT INFORMATION

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

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 reviewed the financial results of the Group as a whole. Therefore, no further information about operating segments is presented.

Geographical information

During the Reporting Period, the Group operated within one geographical segment because all of its revenue was generated in the PRC and over 90% of its long-term assets/capital expenditure were located/incurred in the PRC. Accordingly, no geographical segment information is presented.

Information about major customers

No service provided to a single customer contributes 10% or more of the total revenue of the Group during the Reporting Period.

4. REVENUE, OTHER INCOME AND GAINS

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

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Revenue from contracts with customers		
Tuition fees	**487,673**	291,430
Boarding fees	**38,724**	24,823
	526,397	316,253
Other income and gains		
Investment income from short-term investments measured at amortised cost and short-term investments measured at fair value through profit or loss	**1,285**	6,236
Rental income	**6,390**	519
Bank interest income	**6,013**	10,222
Interest income from a company controlled by the former shareholders of a subsidiary	**4,037**	–
Government grants		
– Related to assets	**10,210**	9,262
– Related to income	**7,700**	16,672
Others	**3,623**	2,013
	39,258	44,924

The government grants were related to the subsidies received from the local government for the purpose of compensating the operating expenses arising from the schools' teaching activities and expenditures on teaching facilities. There are no unfulfilled conditions or contingencies relating to such government grants recognised.

5. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Depreciation of property, plant and equipment	**57,730**	35,783
Amortisation of other intangible assets	**865**	521
Minimum lease payments under operating leases	**3,468**	3,675
Depreciation of right-of-use assets/recognition of prepaid land lease payments	**9,194**	3,620
Auditor's remuneration	**1,180**	1,000
Employee benefit expense (excluding directors' remuneration):		
Wages and salaries	**100,350**	58,583
Equity-settled share option expense	**2,414**	270
Pension scheme contributions (defined contribution schemes)	**22,559**	20,726
	125,323	79,579
Foreign exchange differences, net	**2,919**	1,283
Impairment of financial assets:		
Impairment of financial assets included in prepayments, other receivables and other assets	**6,450**	47
Reversal of impairment of financial assets included in prepayments, other receivables and other assets	**–**	(500)
	6,450	(453)
Investment income from short-term investments measured at amortised cost and short-term investments measured at fair value through profit or loss	**(1,285)**	(6,236)
Bank interest income	**(6,013)**	(10,222)
Interest income from a company controlled by the former shareholders of a subsidiary	**(4,037)**	–
Fair value gain from an equity investment at fair value through profit or loss	**(905)**	(60,254)
Loss on disposal of items of property, plant and equipment, net	**–**	6
Donation expense	**621**	1,029

6. INCOME TAX

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Current – Mainland China		
Charge for the Period	**6,637**	5,552

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

The Company, Minsheng Education Company Limited, Minsheng Education Services Company Limited, Minsheng Education Development Company Limited, Minsheng Vocational Education Company Limited, Minsheng Secondary Education Company Limited, Minsheng Education Technology Company Limited, Minsheng Education Investment Company Limited (previously known as Minsheng Education Information Company Limited) and Leed International Education Group Inc. which were incorporated in the Cayman Islands, are not subject to income tax.

Minsheng Education Development (Hong Kong) Company Limited, Hong Kong College of Technology and Business Limited and Leed International Education Group (China) Limited which were incorporated in Hong Kong, were subject to profits tax at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the Reporting Period.

No provision for Hong Kong profits tax has been made as the Group had no assessable profits derived from or earned in Hong Kong during the Reporting Period.

Pursuant to the PRC Corporate Income Tax Law and the respective regulations, except for the preferential tax rate of 15% under the Western Development Tax Incentive Scheme available to Chongqing Li'ang Education Services Company Limited and Chongqing Pass Education Services Company Limited, the companies of the Group which operate in Mainland China are subject to Corporate Income Tax ("**CIT**") at a rate of 25% on their respective taxable income.

According to the Implementation Rules for the Law for Promoting Private Education (the "**Implementation Rules**"), private schools, whether requiring reasonable returns or not, may enjoy preferential tax treatments. Private schools for which the school sponsors do not require reasonable returns are eligible to enjoy the same preferential tax treatment as public schools. It is stated in the Implementation Rules that the relevant authorities under the State Council may introduce preferential tax treatments and related policies applicable to private schools requiring reasonable returns. During the Reporting Period and up to the date of this announcement, no separate policies, regulations or rules have been introduced by the authorities in this regard. In accordance with the historical tax returns filed to the relevant tax authorities, except for Laoling Minsheng Education High School Company Limited which was incorporated as a limited company, the Group's schools which require reasonable returns did not pay corporate income tax and had enjoyed the preferential corporate income tax exemption treatments in the Reporting Period.

7. INTERIM DIVIDEND

The Board does not declare any interim dividend for the six months ended 30 June 2019 (for the six months ended 30 June 2018: nil).

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

The calculation of the basic earnings per share amount is based on the profit for the Reporting Period attributable to ordinary equity holders of the parent of RMB207,125,000 (2018: RMB217,914,000), and the weighted average number of ordinary shares of 4,017,720,000 (30 June 2018: 4,017,720,000) in issue during the Reporting Period, as adjusted to reflect the rights issue during the Period.

The calculation of the diluted earnings per share amount is based on the profit for the Reporting Period attributable to ordinary equity holders of the parent of RMB207,125,000 (2018: RMB217,914,000). The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the period, as used in the basic earnings per share calculation of 4,017,720,000 shares (30 June 2018: 4,017,720,000 shares), and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of share options into ordinary shares of 5,344,483 (30 June 2018: 6,234,118).

9. OTHER INVESTMENTS

	30 June 2019	31 December 2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Non-current assets		
Equity investments measured at		
– Fair value through other comprehensive income *(i)*	**6,380**	6,380
– Fair value through profit or loss *(ii)*	**62,509**	61,347
	68,889	67,727

(i) Equity investment at fair value through other comprehensive income

Equity investment at fair value through other comprehensive income comprises unlisted security. The fair value of the unlisted security is measured using a valuation technique with unobservable inputs and hence categorized within level 3 of the fair value hierarchy.

(ii) Equity investment at fair value through profit or loss

Equity investment at fair value through profit or loss represents a listed security. The fair value of the listed security is determined based on the closing prices quoted in active markets. It is accounted for using its fair value based on quoted market prices (level 1: quoted price (unadjusted) in active markets) without deduction for transaction costs.

10. OTHER NON-CURRENT ASSETS

	30 June 2019	31 December 2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Prepayments for acquisition of land use rights	**193,074**	193,074
Prepayments for property, plant and equipment	**126,492**	136,043
Long-term prepayments, other receivables and other assets	**8,534**	9,632
Loan to an associate - Hong Kong Nang Yan College of Higher Education Limited	**43,810**	43,810
Loan to a company controlled by the former shareholders of a subsidiary	**400,000**	-
	771,910	382,559

11. TRADE RECEIVABLES

An aging analysis of the trade receivables as at the end of the Reporting Period, based on the transaction date and net of provisions, is as follows:

	30 June 2019	31 December 2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Within 1 year	**6,255**	5,162
1 to 2 years	**405**	309
2 to 3 years	**108**	39
	6,768	5,510

12. CONTRACT LIABILITIES

Details of contract liabilities are as follows:

	30 June 2019 *RMB'000* **(Unaudited)**	31 December 2018 *RMB'000* (Audited)
Short-term advances received from customers		
Tuition fees	**15,324**	486,752
Boarding fees	**12,590**	47,345
	27,914	534,097

Contract liabilities include short-term advances received from students in relation to the proportionate service not yet provided. The Group receives tuition and boarding fees from students in advance prior to the beginning of each academic year. Tuition and boarding fees are recognised proportionately over the relevant period of the applicable program. The students are entitled to refund of the payment in relation to the proportionate service not yet provided.

13. OTHER PAYABLES AND ACCRUALS

	30 June 2019 *RMB'000* **(Unaudited)**	31 December 2018 *RMB'000* (Audited)
Accrued bonuses and other employee benefits	**44,244**	50,553
Payables for catering services	**27,365**	13,794
Payables for purchase of property, plant and equipment	**137,092**	158,290
Payables for management fee	**46,644**	68,469
Miscellaneous expenses received from students *(note (i))*	**56,475**	32,502
Other tax payable	**660**	1,131
Payables for audit fee	**1,180**	3,960
Payables for interest	**7,092**	6,426
Consideration payable for business combination	**91,730**	91,730
Payables to companies controlled by the former shareholders of a subsidiary	**–**	193,638
Other payables*	**72,923**	76,856
	485,405	697,349

* Payables of RMB20,000,000 (31 December 2018: RMB20,000,000) to the non-controlling shareholder of Chongqing Electronic Information College is included within other payables. Other payables are non-interest-bearing and repayable on demand.

Note (i): The amounts represent the miscellaneous expenses received from students which will be paid out on behalf of students.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Overview

Our primary focus is to provide high-quality private higher education and vocational education in China dedicated to nurturing application-oriented professionals. We offer a comprehensive range of diverse majors and courses, including through our collaborative relationships and cooperative education programs with local businesses and government agencies, we strive to improve our students' theoretical literacy, practical technique and increase the employment rate. As a result, we have achieved high graduate employment rates for our graduates from the schools we operate and/or manage. We attribute the relatively high graduate employment rates to the effectiveness of our education programmes, which we believe will continue to elevate our brand reputation and help us attract talented students.

On 22 March 2017, the Company launched a public offering on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"), becoming the first listed private higher education group in China. The Company is one of the largest private higher education providers in China, as measured by total number of student enrollment. Beside the Group's organic growth, it was mainly benefitting from the continuous implementation of external mergers and acquisitions, the Group had enrollment of 74,450 students in aggregate as at 30 June 2019, representing a significant increase of 71.8% as compared with that as at 30 June 2018.

The Group currently operates and/or manages 11 schools, in Chongqing, Yunnan and Shandong province, and Inner Mongolia, the PRC, the Group has signed to acquire a new school in Jiangxi province in the first half of 2019, further increasing the number of the Group's schools and expanding the Group's coverage. Our 11 schools include:

(i) **Seven higher education schools –** Chongqing College of Humanities, Science and Technology, Dianchi College of Yunnan University, Pass College of Chongqing Technology and Business University, Chongqing Vocational College of Applied Technology, Chongqing Electronic Information College, Inner Mongolia Fengzhou Vocational College (Qingcheng Branch), and Qufu Fareast Vocational and Technical College;

(ii) **Two secondary vocational schools –** Laoling Minsheng Secondary Vocational School and Laoling Secondary Vocational and Technical School managed and operated under an entrustment management arrangement; and

(iii) **Two high schools –** Shouguang Bohai Experimental School and Laoling Senior High School Affiliated with Minsheng Education Group.

Business Review during the Reporting Period

1. **The Group has continued its external mergers and acquisition strategy.** During the Reporting Period, the Group has continued its external mergers and acquisitions strategy, which has laid down a solid foundation for the future development of the Group. During the Reporting Period, (i) the Group entered into an equity transfer agreement for an indirect acquisition of 51% of the school sponsor interest in Nanchang Vocational University (formerly known as Nanchang Vocational College (Undergraduate)) ("**Nanchang Vocational University**"); and (ii) Chongqing Yuecheng Zhiyuan Education Technology Co., Ltd.* (重慶悦誠智遠教育科技有限公司) ("**Chongqing Yuecheng**"), a consolidated affiliated entity of the Company, has commenced its comprehensive management of Qufu Fareast Vocational and Technical College ("**Fareast College**"). Please refer to the sub-section headed "Acquisitions in progress during the Reporting Period" below for details.

2. **The Group's student enrollment quota has been growing steadily.** In May 2019, the Group's higher education schools have received the student enrollment quota from the education authorities of each respective provinces, the student enrollment quota for the degree and junior college level of 2019-2020 school year recorded an increase of approximately 7.3% and 27.9%, respectively as compared to 2018-2019 school year.

3. **The Group continued its expansion in adult continuing education and on-job certification training.** (i) During the Reporting Period, Pass College of Chongqing Technology and Business University has commenced the adult continuing education, the school currently offers three undergraduate majors, namely business administration, marketing and accounting. During the Reporting Period, there were a total of 3,704 adult students for degree and junior college programs; and (ii)During the Reporting Period, Chongqing College of Humanities, Science and Technology has commenced the teachers' certification training. An accumulative of 4,652 teachers have been trained as of 30 June 2019.

4. **The Group has further upgraded its teaching conditions and enhanced the learning environment.** In 2019, the Group further improved the schools' educational and teaching hardware conditions, such as (i) Chongqing College of Humanities, Science and Technology has expanded the existing student accommodation facilities. After the completion of the expansion, an additional 2,150 beds will be added, which are expected to be officially opened in September 2019; and (ii) Chongqing Vocational College of Applied Technology has expanded its existing student accommodation facilities and will add an additional 1,200 beds after the completion of the expansion, which are expected to be officially opened in September 2019.

5. **The Company has included in the MSCI Index.** With effect after the close of market on 28 May 2019, the Company has been included in the MSCI China All Shares Small Cap Index, one of the benchmark indexes commonly used as stock selection criteria for investment among global investors.

Our schools in China

Eleven schools in the PRC were operated and/or managed by the Group as at 30 June 2019, four of which are located in Chongqing, five are located in Shandong, one is situated in Inner Mongolia and one in Yunnan, through which, we primarily offer higher education, including undergraduate and junior college education. Set forth below are certain particulars of the eleven schools of the Group:

Undergraduate Schools

Chongqing College of Humanities, Science and Technology

Chongqing College of Humanities, Science and Technology is a formal university-level higher education school located in Chongqing, the PRC. Its predecessor, Southwest University Yucai College, was recognized by the Ministry of Education of the PRC (the "**MOE**") as an independent college in March 2003. In April 2013, the college was approved by the MOE to convert to a private independently organised university-level education school and was the first and only one private higher education school in Chongqing obtaining such approval for conversion. Chongqing College of Humanities, Science and Technology mainly provides undergraduate education and certain junior college education. The college has 15 second-level colleges and currently offers 43 undergraduate majors and 1 junior college major, covering 9 subject categories.

The tuition fee for Chongqing College of Humanities, Science and Technology for the 2018-2019 school year is approximately RMB12,000 to RMB18,000, depends on the major.

During the Reporting Period, Chongqing College of Humanities, Science and Technology has commenced the teachers' certification training. An accumulative of 4,652 teachers have been trained as of 30 June 2019.

Dianchi College of Yunnan University

Dianchi College of Yunnan University is an independent college located in Kunming city, Yunnan Province, the PRC, which was established in 2001. Dianchi College of Yunnan University offers formal undergraduate education. The college currently offers 48 undergraduate majors, covering 8 subject categories.

The tuition fee for Dianchi College of Yunnan University for the 2018-2019 school year is approximately RMB16,000 to RMB24,500, depends on the major.

Pass College of Chongqing Technology and Business University

Pass College of Chongqing Technology and Business University is an independent college located in Chongqing, the PRC, which was certified by the MOE in December 2003. This college mainly provides undergraduate education and certain junior college education and currently offers 24 undergraduate majors and 3 junior college majors.

The tuition fee for Pass College of Chongqing Technology and Business University for the 2018-2019 school year is approximately RMB12,000 to RMB16,000, depends on the major.

During the Reporting Period, Pass College of Chongqing Technology and Business University has commenced the adult continuing education, the school currently offers three undergraduate majors, namely business administration, marketing and accounting. During the Reporting Period, there were a total of 3,704 adult students for degree and junior college programs. The tuition fee for adult continuing education is approximately RMB2,600 to RMB2,800, depends on the major.

Higher Vocational Schools

Chongqing Electronic Information College

Chongqing Electronic Information College is a full-time ordinary higher education institution located in Chongqing, the PRC, providing junior college education. The college currently offers 21 majors.

The tuition fee for Chongqing Electronic Information College for the 2018-2019 school year is approximately RMB8,800 to RMB12,000, depends on the major.

Fareast College

Fareast College is a full-time ordinary higher education institution located in Qufu city, Shandong province, the PRC, providing junior college education. The college currently offers 28 majors.

Since February 2019, Fareast College has been entrusted to Chongqing Yuecheng for management and 51% of the net profit of Fareast College will be paid to Chongqing Yuecheng as management fee.

The tuition fee for Fareast College for the 2018-2019 school year is approximately RMB4,300 to RMB9,680, depends on the major.

Chongqing Vocational College of Applied Technology

Chongqing Vocational College of Applied Technology is a full-time ordinary higher education institution located in Chongqing, the PRC, providing junior college education. This college obtained approval as a higher vocational school by the People's Government of Chongqing in April 2005 and was registered with the Civil Affairs Department of Chongqing in December 2006. The college currently offers 20 majors.

The tuition fee for Chongqing Vocational College of Applied Technology for the 2018-2019 school year is approximately RMB9,000 to RMB9,800, depends on the major.

Inner Mongolia Fengzhou Vocational College (Qingcheng Branch)

Inner Mongolia Fengzhou Vocational College (Qingcheng Branch) is a full-time ordinary higher education institution located in Hohhot city, Inner Mongolia, the PRC, providing junior college education. We became one of its school sponsors and have been entitled to the entire interest in Inner Mongolia Fengzhou Vocational College (Qingcheng Branch) in 2008. The college currently offers 12 majors.

The tuition fee for Inner Mongolia Fengzhou Vocational College (Qingcheng Branch) for the 2018-2019 school year is approximately RMB7,000 for all majors.

Secondary vocational schools

Laoling Minsheng Secondary Vocational School

Laoling Minsheng Secondary Vocational School is a full-time regular specialized secondary school located in Laoling city, Shandong province, the PRC, providing secondary vocational education, and the first batch of students enrolled has commenced the school year in September 2018. The school currently offers 8 majors.

Laoling Secondary Vocational and Technical School

Laoling Secondary Vocational and Technical School is a full-time regular specialized secondary school located in Laoling city, Shandong Province, the PRC, providing secondary vocational education. Pursuant to certain cooperation agreements entered into among the Group, the People's Government of Laoling and the Bureau of Education of Laoling, Laoling Secondary Vocational and Technical School is managed and operated by Laoling Minsheng Secondary Vocational School under an entrustment management arrangement. The school currently offers 12 majors.

High schools

Shouguang Bohai Experimental School

Shouguang Bohai Experimental School is a high school located in Shouguang city, Shandong province, the PRC, offering grade 10 to grade 12 secondary education programs.

Laoling Senior High School Affiliated with Minsheng Education Group

Laoling Senior High School Affiliated with Minsheng Education Group is a high school located in Laoling city, Shandong province, the PRC, and the first batch of enrolled students have started the school year in September 2018.

Our investments in overseas schools

In addition to our schools in the PRC, we have invested in Top Education Group Ltd. ("**Top Education**"), a private higher education provider in Australia whose shares are listed on the Stock Exchange (Stock Code: 1752), the Group has also invested in Beacon International College PTE. LTD. ("**Beacon International College**") in Singapore and Hong Kong Nang Yan College of Higher Education Limited ("**Hong Kong Nang Yan College**"), a company limited by guarantee established under the laws of Hong Kong, in Hong Kong.

As at 30 June 2019, we directly owned approximately 8.17% of equity interest in Top Education and approximately 22.9% of equity interest in Beacon International College, and were one of the two members of Hong Kong Nang Yan College.

Total number of student enrollment

As at 30 June 2019, the total number of student enrollment of the Group amounted to 74,450, representing an increase of approximately 71.8% as compared to that of 30 June 2018.

	Number of Enrolled Students as at 30 June	
Schools	**2019**	2018
Chongqing College of Humanities, Science and Technology	**20,673**	19,481
Dianchi College of Yunnan University	**18,928**	– *(Note 1)*
Pass College of Chongqing Technology and Business University	**14,495**	10,447
Chongqing Electronic Information College	**6,003**	5,791
Fareast College *(Note 2)*	**5,561**	– *(Note 1)*
Chongqing Vocational College of Applied Technology	**3,138**	2,857
Inner Mongolia Fengzhou Vocational College (Qingcheng Branch)	**2,030**	2,267
Laoling Minsheng Secondary Vocational School	**226**	– *(Note 1)*
Laoling Secondary Vocational and Technical School	**387**	– *(Note 1)*
Shouguang Bohai Experimental School	**2,562**	2,501
Laoling Senior High School Affiliated with Minsheng Education Group	**447**	– *(Note 1)*
Total	**74,450**	43,344

Note:

(1) Dianchi College of Yunnan University, Fareast College, and Laoling Secondary Vocational and Technical School were not operated by the Group as at 30 June 2018. No students had been enrolled in Laoling Minsheng Secondary Vocational School and Laoling Senior High School Affiliated with Minsheng Education Group as at 30 June 2018.

(2) Since February 2019, Fareast College has been entrusted to Chongqing Yuecheng for management.

Acquisitions in progress during the Reporting Period

Nanchang Vocational University

Nanchang Vocational University is a full-time ordinary private higher vocational undergraduate college located in Nanchang city, Jiangxi province, PRC, and is one of the first 15 pilot vocational undergraduate institutions in the PRC.

On 15 March 2019, Chongqing Yiersheng Education Technology Company Limited ("**Chongqing Yiersheng**"), a wholly-owned subsidiary of Chongqing Yuecheng (a consolidated affiliate entity of the Company), a third party ("**Mr. Zhang**"), as vendor, Nanchang Hezhitong Education Consulting Company Limited* (南昌合至同教育諮詢有限公司) ("**Nanchang Hezhitong**") and Nanchang Vocational University entered into an equity transfer agreement, pursuant to which Chongqing Yiersheng conditionally agreed to acquire, and Mr. Zhang conditionally agreed to sell, 51% of the equity interest of Nanchang Hezhitong, at a total consideration of RMB510 million, which is to be satisfied in cash by instalments. Upon the completion, Chongqing Yiersheng will hold 51% of equity interest in Nanchang Hezhitong and indirectly hold 51% of school sponsor interest in Nanchang Vocational University through Nanchang Hezhitong.

For details, please refer to the announcement of the Company dated 15 March 2019.

Fareast College

Fareast College is a full-time ordinary higher education institution located in Qufu city, Shandong province, the PRC.

On 23 November 2018, Chongqing Yuecheng, as purchaser, and a third party ("**Ms. Pan**"), as vendor, entered into a share transfer agreement (the "**Share Transfer Agreement**"), pursuant to which Ms. Pan agreed to sell to Chongqing Yuecheng, and Chongqing Yuecheng agreed to acquire, 51% of the equity interest of Qufu Changyong Corporate Management Consulting Company Limited ("**Qufu Changyong**"), at a total consideration of RMB91.8 million. Upon the completion, Chongqing Yuecheng will hold 51% of equity interest in Qufu Changyong and indirectly hold 51% of school sponsor interest in Fareast College through Qufu Changyong.

Subsequent to the execution of the Share Transfer Agreement, on 23 November 2018, Chongqing Yuecheng, Ms. Pan, Qufu Changyong and Fareast College signed an entrustment agreement (the "**Fareast College Entrustment Agreement**"), pursuant to which, with effect from the date of completion of the payment of the first instalment until the date of completion, Fareast College will be entrusted to Chongqing Yuecheng for management. During the entrustment period, 51% of the net profit of Fareast College will be paid to Chongqing Yuecheng as management fee.

Since February 2019, Fareast College has been entrusted to Chongqing Yuecheng for management.

For details, please refer to announcements of the Company dated 25 November 2018 and 15 January 2019.

Hebei University of Technology City College

Hebei University of Technology City College* (河北工業大學城市學院) ("**City College**") is a full time independent college offering undergraduate studies located in Tianjin city, the PRC.

On 9 July 2018, the Company entered into a framework agreement (the "**Framework Agreement**") with the Zhangjiakou Municipal People's Government (張家口市人民政府) (the "**Zhangjiakou Government**") and Hebei University of Technology (河北工業大學), together with the Zhangjiakou Government, the ("**Parties**") in relation to the proposed cooperation (the "**Proposed Cooperation**") regarding the operation of the City College. Pursuant to the Framework Agreement, with the support of Zhangjiakou Government, Hebei University of Technology and the Company will co-operate the City College in Zhangjiakou city of Hebei province. By taking advantage of the respective strengths, the parties strive to make the City College the best private undergraduate college in Hebei province and the application-oriented training base for talents in Hebei province through the opportunity of organizing the 2022 Winter Olympic Games, with around 10,000 undergraduate and junior college students in total.

On 22 August 2018, Chongqing Yuecheng entered into (i) a cooperation agreement with Hebei University of Technology in relation to the cooperation of sponsoring the City College; and (ii) a framework agreement with Hebei University of Technology in relation to the conversion of the City College into an independently organised private undergraduate higher education institution. On 23 August 2018, Chongqing Yuecheng entered into an agreement with the Zhangjiakou Government and Zhangjiakou Economic Development Zone Management Committee* (張家口經濟開發區管理委員會) in relation the cooperation of construction and development of City College. For details on the above agreements, please refer to the announcement of the Company dated 24 August 2018.

For details, please refer to the announcements of the Company dated 9 July 2018 and 24 August 2018.

Anhui Wonder University of Information Engineering

Anhui Wonder University of Information Engineering* (安徽文達信息工程學院) ("**Wonder University**") is an independently organised private undergraduate higher education institution located in Hefei city, Anhui province, the PRC, which was established in 2001, offering courses and programs leading to higher education degrees.

On 30 August 2017, Chongqing Yuecheng entered into an acquisition agreement with the current school sponsor of Wonder University pursuant to which Chongqing Yuecheng agreed to acquire 51% of the school sponsor's interest in Wonder University for a total consideration of RMB500 million.

For details, please refer to the announcements of the Company dated 30 August 2017 and 27 September 2017.

As at 30 June 2019, the abovementioned acquisitions in progress during the Reporting Period were going through the approval procedures of government authorities. The Company is closely following up the progress of approval procedures and will publish further announcement(s) in respect of such matter pursuant to the Listing Rules as and when appropriate.

Expansion of financing channels during the Reporting Period

During the Reporting Period, the Group proactively expanded financing channels through bank loans, with a view to provide regular and long-term financial support for the business development of the Company.

Loan from Bank of China (Hong Kong) Company Limited

In February 2019, according to a USD50 million banking facilities agreement (the "**Facilities Agreement**") signed between the Company and Bank of China (Hong Kong) Company Limited, the Company withdrew HKD250 million for 5 years, which was mainly used for the Company's mergers and acquisitions activities.

Provision of loan during the Reporting Period

On 27 June 2019, Chongqing Yuecheng, as the lender, Leed National Education Technology (Beijing) Limited* (勵德國教教育科技(北京)有限公司) ("**Leed National**"), as the borrower designated by the vendors of Leed International Education Group Inc. ("**Leed International**"), Minsheng Vocational Education Company Limited and the vendors of Leed International entered into a loan agreement, pursuant to which, Chongqing Yuecheng agreed to lend to Leed National, and Leed National agreed to borrow from Chongqing Yuecheng, a loan in the principal amount of RMB200 million. The abovementioned loan has been released in accordance to the terms of the loan agreement during the Reporting Period.

For further details of the loan, please refer to the announcement dated 27 June 2019.

Outlook

Organic growth

Our schools have always committed at cultivating outstanding professionals with application-orientated skills. During the first half of 2019, the Chinese government promulgated a series of policies and documents in promoting the integration of production and education, encouraging the cultivation of application-orientated talents and the operation of diversified vocational schools. Our schools have also been benefited by the large scale expansion of one million people in higher vocational colleges this year as mentioned in the State Council Government Work Report 2019* (2019年國務院政府工作報告) released by the State Council of the PRC on 5 March 2019. It is expected that the new student enrolment quota of the 2019-2020 school year in our higher education schools will record a considerable growth.

Mergers and acquisitions

According to the 2018 National Education Operation and Development Statistics* (2018年全國教育事業發展統計公報) issued by the MOE, there are 750 private colleges and universities (including 265 independent colleges) in China, since these private colleges and universities are relatively fragmented and the sector are less concentrated, the Group relies on its management team's accumulated experience in business operation and mergers and acquisitions in the higher education industry, grasping the development opportunities brought by the China's policy to further expand and enhance the Group's school network and number of students through acquisition(s) of high-quality private universities, and continuing to strive to cultivate high-end application-orientated talents which will lay a foundation for the Group's long-term development.

Financial Review

Revenue

Revenue represents the value of services rendered during the Reporting Period. The Group derives revenue primarily from tuition fees and boarding fees our schools collected from students.

The revenue of the Group increased by approximately 66.4% from approximately RMB316.3 million for the six months ended 30 June 2018 to approximately RMB526.4 million for the six months ended 30 June 2019. This increase was primarily due to the increase of the Group's student enrolment of approximately 71.8% since the end of the corresponding period in 2018.

Cost of sales

Cost of sales consists primarily of staff costs, depreciation and amortization, cost of cooperative education, utilities, and other costs.

The cost of sales increased by approximately 72.2% from RMB127.7 million for the six months ended 30 June 2018 to approximately RMB219.9 million for the six months ended 30 June 2019. This increase was primarily due to (i) the increase of teaching staff as compared to 30 June 2018; (ii) the increase in the teachers remuneration and benefits as detailed in the sub-section headed "Financial and Liquidity Position – Salary increment for employees, training and development" below; and (iii) the increase in depreciation costs as a result of consolidation of the newly acquired schools into the Group since the end of the corresponding period in 2018.

Gross profit

The gross profit increased by approximately 62.6% from approximately RMB188.5 million for the six months ended 30 June 2018 to approximately RMB306.5 million for the six months ended 30 June 2019, and gross profit margin slightly decreased from approximately 59.6% to approximately 58.2%, which was mainly due to the increase in number and salary of teaching staff and the increase in depreciation of new schools newly consolidated to the Group since the end of the corresponding period in 2018.

Other income and gains

Other income and gains consist primarily of government grants, interest income from National Education, bank interest income, rental income and etc.

Other income and gains decreased by approximately 12.5% from approximately RMB44.9 million for the six months ended 30 June 2018 to approximately RMB39.3 million for the six months ended 30 June 2019. This decrease was primarily due to the decrease of the investment income from short-term investments and the bank interest income.

Selling and distribution expenses

Selling and distribution expenses consist primarily of salaries and other benefits for our staff who are in charge of student recruitment and advertising, advertising expenses and student recruitment expenses.

Selling and distribution expenses decreased by approximately 13.8% from approximately RMB6.5 million for the six months ended 30 June 2018 to approximately RMB5.6 million for the six months ended 30 June 2019, which was primarily due to the Group has implemented a stringent cost control on the advertising and marketing cost in relation to the student recruitment during the Reporting Period.

Administrative expenses

Administrative expenses primarily consist of the salaries and other benefits for general and administrative staff, office-related expenses, depreciation of office buildings and equipment, environment and health expenses, travel and transportation expenses and rental expenses.

Administrative expenses increased significantly by approximately 51.1% from approximately RMB55.0 million for the six months ended 30 June 2018 to approximately RMB83.1 million for the six months ended 30 June 2019 due to the administrative expenses of Dianchi College of Yunnan University have fully consolidation to the Group during the Reporting Period.

Other expenses

Other expenses consist primarily of expenses relating to donations made to third-party educational and other institutions, loss on disposal of property, plant and equipment and the provision of bad debts.

Other expenses increased substantially from approximately RMB3.4 million for the six months ended 30 June 2018 to approximately RMB10.5 million for the six months ended 30 June 2019. This increase was primarily attributable to the provision of bad debts of approximately RMB6.5 million.

Finance costs

Finance costs mainly include (i) interests on bank loans and other borrowings; and (ii) the interest on the put option liability in connection with the put option (the "**Put Option**") granted by the vendors of the Leed International.

Finance costs has increased significantly from approximately RMB2.4 million for the six months ended 30 June 2018 to approximately RMB36.8 million for the six months ended 30 June 2019, which was mainly due to (i) interests on bank loans and other borrowings which were borne by the schools we newly acquired through merger and acquisitions, and (ii) interest on the Put Option liability arose from the acquisition of Leed International in August 2018.

Fair value gain from an equity investment at fair value through profit or loss

Fair value gain from an equity investment at fair value through profit or loss decreased significantly by approximately 98.5% from approximately RMB60.3 million for the six months ended 30 June 2018 to approximately RMB0.9 million for the six months ended 30 June 2019, which was mainly due to substantial decrease in the fair value of the equity investment in Top Education.

Profit for the period

As a result of the above factors, profit for the period of the Group decreased by approximately 7.8% from approximately RMB221.0 million for the six months ended 30 June 2018 to approximately RMB203.7 million for the six months ended 30 June 2019.

Adjusted net profit

The Group defines its adjusted net profit as its profit for the period after adjusting for those items which are not indicative of the Group's operating performances (as presented in the table below). This is not a IFRSs measure. The Group has presented this item because the Group considers it an important supplemental measure of the Group's operational performance used by the Group's management as well as analysts or investors. The following table shows profit and adjusted net profit of the Group for the periods presented below:

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Profit for the period	**203,674**	220,992
Add:		
Unrealised exchange loss	**696**	1.283
Share option expenses	**9,706**	4,948
Interest of the Put Option liability arose from the acquisition	**18,742**	–
Adjusted net profit	**232,818**	227,223

Adjusted net profit for the six months ended 30 June 2019 increased by approximately RMB5.6 million or approximately 2.5% as compared with the corresponding period in 2018. Adjusted net profit margin decreased from approximately 71.8% for the six months ended 30 June 2018 to approximately 44.2% for the six months ended 30 June 2019.

Financial and Liquidity Position

Net current assets

As at 30 June 2019, the Group had net current assets of approximately RMB26.1 million, which primarily consisted of cash and bank balances. The current assets as at 30 June 2019 decreased to approximately RMB836.8 million from approximately RMB1,578.0 million as at 31 December 2018. The decrease in current assets primarily attributable to a decrease in cash and bank balances, which decreased from approximately RMB1,505.8 million as at 31 December 2018 to approximately RMB752.8 million as at 30 June 2019, mainly due to (a) the provision of loan of RMB200 million during the Reporting Period; (b) approximately RMB150 million of repayment on behalf of Leed International to China Education Holdings Limited in relation to the acquisition of Leed International; (c) approximately RMB150 million has been used for daily operating purposes; and (d) approximately RMB115 million has been used on purchasing on fixed assets and software.

The current liabilities decreased from approximately RMB1,507.1 million as at 31 December 2018 to approximately RMB810.7 million as at 30 June 2019, mainly reflecting (i) a decrease of approximately RMB506.2 million in contract liabilities as at 30 June 2019; and (ii) a decrease of approximately RMB211.9 million in other payables and accruals.

Indebtedness

The Group's interest-bearing bank and other borrowings primarily consisted of short-term working capital loans to supplement our working capital and finance our expenditure and long-term project loans for the continuous development of our school buildings and facilities.

The bank loans and other borrowings amounted to approximately RMB591.1 million as at 30 June 2019, dominated in Renminbi and Hong Kong dollar ("**HK$**"). As at 30 June 2019, our bank loans and other borrowings bore effective interest rates ranging from 2.5% to 24.0% per annum.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of internally generated cash flows from operations and other borrowings. The Group regularly reviews its major funding positions to ensure that it has adequate financial resources in meeting its financial obligations.

Contingent liabilities

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

Pledge of assets

As at 30 June 2019, certain of the Group's buildings and land with a net carrying amount of approximately RMB337.5 million (31 December 2018: RMB342.0 million) were pledged to secure bank loans and other borrowings.

Foreign exchange exposure

The majority of the Group's revenue and expenditures are denominated in RMB. As at 30 June 2019, certain bank balances were denominated in United States dollar and HK$. The Group currently does not have any foreign currency hedging policies. The management will continue to monitor the Group's foreign exchange risk exposure and consider adopting prudent measures as appropriate.

Gearing ratio

The gearing ratio, which is calculated by dividing total borrowings by total equity, increased to approximately 15.8% as at 30 June 2019 from approximately 13.0% as at 31 December 2018, which was due to the increase in newly-borrowed bank loans during Reporting Period.

Salary increment for employees, training and development

In 2019, in order to motivate our faculty staff for better work performance, the Group has reviewed and increased the salaries of employees. The increment in salaries is based on their performance, experience and prevailing industry practices, with all compensation policies and packages reviewed on a regular basis. As required by the PRC laws and regulations, we participate in various employee social security plans for our employees that are administered by local governments, including pension, medical, maternity, work-related injury, unemployment insurance and housing provident fund.

In addition, the Group provides comprehensive training programs to its existing and newly recruited employees and/or sponsors its employees to attend various job-related training courses and also support some excellent teachers to study, receive training and academic exchange with famous universities abroad.

OTHER INFORMATION

Events after the Reporting Period

In July 2019, according to the Facilities Agreement signed between the Company and the Bank of China (Hong Kong) Company Limited, the Company withdrew borrowings of HKD140 million for 5 years, which was mainly used for the Company's merges and acquisition activities and daily operating purposes.

Dividend

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

Purchase, sale or redemption of listed securities of the Company

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities for the six months ended 30 June 2019.

Corporate Governance Code

For the six months ended 30 June 2019, the Company has complied with all code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as the code of conduct governing Directors' securities transactions. The Company confirms that, having made specific enquiries of all the Directors, each of them has complied with the required standard as set out in the Model Code for the six months ended 30 June 2019.

Audit committee and review of interim financial information

The audit committee of the Board has reviewed together with the management the accounting principles and policies adopted by the Group and the unaudited interim consolidated financial statements and the interim report of the Group for the six months ended 30 June 2019.

Publication of interim results announcement and interim report

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

Acknowledgement

On behalf of the Board, I would like to express my sincere gratitude to the Group's management and staff members for their dedication and hard work and our shareholders for their trust and support.

By order of the Board
Minsheng Education Group Company Limited
Li Xuechun
Chairman

Hong Kong, 16 August 2019

In this announcement, the English translation of company or entity names in Chinese which are marked with "" is for identification purpose only.*

As at the date of this announcement, the executive Directors are Mr. Li Xuechun, Ms. Zhang Weiping, Mr. Zuo Yichen and Mr. Lam Ngai Lung, the non-executive Directors are Mr. Lin Kaihua and Ms. Li Yanping, and the independent non-executive Directors are Mr. Chan Ngai Sang, Kenny, Mr. Yu Huangcheng and Mr. Wang Wei Hung, Andrew.