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CHINA EAST EDUCATION HOLDINGS LIMITED

中國東方教育控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 667)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2020

| HIGHLIGHTS | | | |
|---|---------------------------------|-------------------------|---------------------------------|
| | Six months ended 30 June | | Change |
| | 2020 | 2019 | Increase/ (Decrease) |
| Number of new students enrollments and new customers registered | 60,798 | 76,208 | (20.2%) |
| Average number of students enrolled and customers registered | 128,004 | 133,047 | (3.8%) |
| Revenue (RMB million) | 1,517 | 1,821 | (16.7%) |
| Gross profit (RMB million) | 872 | 1,107 | (21.3%) |
| Net profit (RMB million) | 243 | 312 | (22.4%) |
| Adjusted net profit (RMB million) <i>(Note)</i> | 212 | 408 | (48.0%) |
| | As at | As at | Change |
| | 30 June 2020 | 31 December 2019 | Increase/ (Decrease) |
| Number of schools and centers | 194 | 177 | 17 |
| Net assets (RMB million) | 5,981 | 6,120 | (2.3%) |
| Total assets (RMB million) | 9,241 | 9,678 | (4.5%) |

Note: Adjusted net profit was derived from the unaudited net profit for the respective periods excluding the effect of (i) the non-cash share-based payment expenses; (ii) the net foreign exchange gains; and (iii) the non-recurring listing expenses. This is not Hong Kong Financial Reporting Standard measure. For details, please refer to the section headed “Management Discussion and Analysis – Financial Review – Adjusted Net Profit” in this announcement.

The board (the “**Board**”) of directors (the “**Director(s)**”) of China East Education Holdings Limited (the “**Company**”) is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (the “**Group**”) for the six months ended 30 June 2020 together with the comparative figures for the corresponding period in 2019. Deloitte Touche Tohmatsu, the Company’s auditor, has conducted its review on the unaudited condensed consolidated financial statements for the six months ended 30 June 2020 in accordance with the Hong Kong Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2020

| | Notes | Six months ended 30 June | |
|--|-------|--------------------------------|--------------------------------|
| | | 2020 RMB’000 (Unaudited) | 2019 RMB’000 (Unaudited) |
| Revenue | 3 | 1,516,875 | 1,821,082 |
| Cost of revenue | | <u>(645,204)</u> | <u>(713,970)</u> |
| Gross profit | | 871,671 | 1,107,112 |
| Other income and expenses | 4 | 108,219 | 26,698 |
| Other gains and losses | 5 | 87,441 | 11,142 |
| Selling expenses | | (367,709) | (319,431) |
| Administrative expenses | | (265,684) | (283,750) |
| Listing expenses | | – | (19,435) |
| Research and development expenses | | (18,092) | (14,931) |
| Finance costs | 6 | <u>(69,954)</u> | <u>(61,841)</u> |
| Profit before taxation | | 345,892 | 445,564 |
| Income tax expense | 7 | <u>(103,375)</u> | <u>(133,077)</u> |
| Profit and total comprehensive income for the period | 8 | <u><u>242,517</u></u> | <u><u>312,487</u></u> |
| Earnings per share | 10 | | |
| – Basic (RMB cents) | | <u><u>11.07</u></u> | <u><u>17.47</u></u> |
| – Diluted (RMB cents) | | <u><u>10.64</u></u> | <u><u>16.77</u></u> |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

| | <i>Notes</i> | As at 30 June 2020 <i>RMB'000</i> (Unaudited) | As at 31 December 2019 <i>RMB'000</i> (Audited) |
|---|--------------|---|---|
| NON-CURRENT ASSETS | | | |
| Property and equipment | | 1,370,385 | 1,405,915 |
| Right-of-use assets | | 1,761,765 | 1,712,262 |
| Deferred tax assets | | 4,628 | 3,642 |
| Deposit paid for acquisition of leasehold lands | | 81,265 | 21,708 |
| Deposits for rental | | 21,532 | 24,022 |
| Deposits for utilities and others | | 10,204 | 12,230 |
| | | 3,249,779 | 3,179,779 |
| CURRENT ASSETS | | | |
| Inventories | | 53,496 | 51,713 |
| Trade and other receivables | 11 | 189,939 | 203,236 |
| Other financial assets | 12 | | |
| – measured at fair value through profit or loss (“FVTPL”) | | 1,241,825 | 418,013 |
| – measured at amortised cost | | – | 49,500 |
| Tax recoverable | | 1,605 | 1,068 |
| Time deposit | | 1,187,420 | 1,891,600 |
| Bank balances and cash | | 3,316,608 | 3,882,953 |
| | | 5,990,893 | 6,498,083 |
| CURRENT LIABILITIES | | | |
| Trade and other payables | 13 | 415,626 | 443,134 |
| Tax liabilities | | 83,238 | 138,142 |
| Lease liabilities | | 308,547 | 307,391 |
| Contract liabilities | | 1,183,378 | 1,383,298 |
| | | 1,990,789 | 2,271,965 |
| NET CURRENT ASSETS | | 4,000,104 | 4,226,118 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 7,249,883 | 7,405,897 |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)*As at 30 June 2020*

| | | As at 30 June 2020 <i>RMB'000</i> (Unaudited) | As at 31 December 2019 <i>RMB'000</i> (Audited) |
|--------------------------------|--------------|---|---|
| | <i>Notes</i> | | |
| NON-CURRENT LIABILITIES | | | |
| Lease liabilities | | 1,208,936 | 1,206,840 |
| Contract liabilities | | 54,076 | 72,316 |
| Government grants | | 5,827 | 6,339 |
| | | <u>1,268,839</u> | <u>1,285,495</u> |
| NET ASSETS | | | |
| | | <u>5,981,044</u> | <u>6,120,402</u> |
| CAPITAL AND RESERVES | | | |
| Share capital | 14 | 193 | 193 |
| Reserves | | 5,980,851 | 6,120,209 |
| | | <u>5,981,044</u> | <u>6,120,402</u> |
| TOTAL EQUITY | | | |
| | | <u>5,981,044</u> | <u>6,120,402</u> |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands and registered as an exempted company with limited liability under the Companies Law (Chapter 22) of the Cayman Islands on 4 October 2018. Its shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) since 12 June 2019. Its ultimate controlling parties are Mr. Wu Junbao, Mr. Wu Wei and Mr. Xiao Guoqing, collectively referred as the “**Controlling Equity Holders**”. The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands and the principal place of business in the People’s Republic of China (the “**PRC**”) is No. 1009 Xuelin Road, Vocational Education Town, Yaohai District, Hefei City, Anhui Province, the PRC.

The Company is an investment holding company. The principal activities of its subsidiaries are mainly engaged in the operation of vocational education institutions.

The condensed consolidated financial statements are presented in Renminbi (“**RMB**”), which is the functional currency of the Company and its subsidiaries.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”).

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values.

Other than changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards (“**HKFRSs**”) and application of certain accounting policies which became relevant to the Group, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2020 are the same as those presented in the Group’s annual financial statements for the year ended 31 December 2019.

Application of new and amendments to HKFRSs

In the current interim period, the Group has applied the Amendments to References to the Conceptual Framework in the HKFRSs and the following new and amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the Group’s condensed consolidated financial statements:

| | |
|--|--------------------------------|
| Amendments to HKAS 1 and HKAS 8 | Definition of Material |
| Amendments to HKFRS 3 | Definition of a Business |
| Amendments to HKFRS 9, HKAS 39 and HKFRS 7 | Interest Rate Benchmark Reform |

In addition, the Group has early applied the Amendment to HKFRS 16 “Covid-19-Related Rent Concessions”.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Except as described below, the application of the Amendments to References to the Conceptual Framework in HKFRS Standards and the amendments to HKFRSs in the current period has had no material impact on the Group's financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

2.1 Impacts and accounting policies on early application of Amendment to HKFRS 16 “Covid-19 – Related Rent Concessions”

2.1.1 Accounting policies

Leases

Covid-19-related rent concessions

Rent concessions relating to lease contracts that occurred as a direct consequence of the Covid-19 pandemic, the Group has elected to apply the practical expedient not to assess whether the change is a lease modification if all of the following conditions are met:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- any reduction in lease payments affects only payments originally due on or before 30 June 2021; and
- there is no substantive change to other terms and conditions of the lease.

A lessee applying the practical expedient accounts for changes in lease payments resulting from rent concessions the same way it would account for the changes applying HKFRS 16 “Leases” if the changes were not a lease modification. Forgiveness or waiver of lease payments are accounted for as variable lease payments. The related lease liabilities are adjusted to reflect the amounts forgiven or waived with a corresponding adjustment recognised in the profit or loss in the period in which the event occurs.

2.1.2 Transition and summary of effects arising from initial application of HKFRS 16

The Group has early applied the amendment in the current interim period. The application has no impact to the opening retained profits at 1 January 2020. The Group recognised changes in lease payments that resulted from rent concessions of RMB22,622,000 in the profit or loss for the current interim period.

3. REVENUE AND SEGMENT INFORMATION

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

Revenue represents service income from tuition fees and service fees less sales related tax, and is recognised over time.

Transaction price allocated to the remaining performance obligation for contracts with customers

The majority of the contracts for provision of vocational education services are for periods of one year or less. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

The Group's operating segments are based on information prepared and reported to the chief operating decision makers, the Board, for the purposes of resource allocation and performance assessment. The Group is organised into the following segments:

- (a) New East Culinary Education: providing comprehensive culinary training programs to students who pursue a career in becoming professional chefs;
- (b) Xinhua Internet Technology Education: providing a wide range of information technology-related training to students;
- (c) Wontone Automotive Education: providing hands-on auto repair skill training as well as practical knowledge of automobile commerce;
- (d) Omick Education of Western Cuisine and Pastry: offering a variety of courses, including baking, desserts, western cuisines, bartending and barista training;
- (e) Wisezone Data Technology Education: providing short-term programs to junior college and university students who have already had the basic theoretical knowledge and seek to further develop relevant practical skills;
- (f) Cuisine Academy: providing people with culinary skill training on small-class settings and/or individual classes that are delivered on an one-on-one basis; and
- (g) Other miscellaneous businesses.

These segments are the basis on which the Group reports its segment information.

Segment results represent the profits earned by each segment and excluding certain other income and expenses, other gains and losses, corporate administrative expenses, listing expenses and income tax expense. No analysis of the Group's assets and liabilities is regularly provided to the management of the Group for review. Inter-segment sales are charged at cost plus approach.

3. REVENUE AND SEGMENT INFORMATION (CONTINUED)

The following is an analysis of the Group's revenue for the six months ended 30 June 2020 and 2019:

Six months ended 30 June 2020 (unaudited)

| | New East Culinary Education RMB'000 (unaudited) | Xinhua Internet Technology Education RMB'000 (unaudited) | Wontone Automotive Education RMB'000 (unaudited) | Omick Education of Western Cuisine and Pastry RMB'000 (unaudited) | Wiszone Data Technology Education RMB'000 (unaudited) | Cuisine Academy RMB'000 (unaudited) | Other miscellaneous businesses RMB'000 (unaudited) | Elimination RMB'000 (unaudited) | Total RMB'000 (unaudited) |
|-----------------------------------|---|---|--|---|--|--|--|---------------------------------------|---------------------------------|
| Revenue | | | | | | | | | |
| External sales | 833,103 | 323,803 | 195,445 | 115,962 | 14,347 | 21,935 | 12,280 | - | 1,516,875 |
| Inter-segment sales | - | - | - | - | 5,000 | - | 33,000 | (38,000) | - |
| Segment revenue | <u>833,103</u> | <u>323,803</u> | <u>195,445</u> | <u>115,962</u> | <u>19,347</u> | <u>21,935</u> | <u>45,280</u> | <u>(38,000)</u> | <u>1,516,875</u> |
| Results | | | | | | | | | |
| Segment results | <u>297,834</u> | <u>101,206</u> | <u>(41,284)</u> | <u>(51,268)</u> | <u>(9,442)</u> | <u>(10,567)</u> | <u>(14,416)</u> | <u>-</u> | <u>272,063</u> |
| Unallocated | | | | | | | | | |
| Other income and expenses | | | | | | | | | 62,794 |
| Other gains and losses | | | | | | | | | 87,441 |
| Corporate administrative expenses | | | | | | | | | <u>(76,406)</u> |
| Profit before taxation | | | | | | | | | 345,892 |
| Income tax expense | | | | | | | | | <u>(103,375)</u> |
| Profit for the period | | | | | | | | | <u>242,517</u> |

3. REVENUE AND SEGMENT INFORMATION (CONTINUED)

Six months ended 30 June 2019 (unaudited)

| | New East Culinary Education RMB'000 (unaudited) | Xinhua Internet Technology Education RMB'000 (unaudited) | Wontone Automotive Education RMB'000 (unaudited) | Omick Education of Western Cuisine and Pastry RMB'000 (unaudited) | Wiszone Data Technology Education RMB'000 (unaudited) | Cuisine Academy RMB'000 (unaudited) | Other miscellaneous businesses RMB'000 (unaudited) | Elimination RMB'000 (unaudited) | Total RMB'000 (unaudited) |
|-----------------------------------|---|---|--|---|--|--|--|---------------------------------------|---------------------------------|
| Revenue | | | | | | | | | |
| External sales | 1,013,662 | 348,639 | 246,418 | 154,902 | 34,751 | 18,677 | 4,033 | - | 1,821,082 |
| Inter-segment sales | - | - | - | - | 4,717 | - | 23,821 | (28,538) | - |
| Segment revenue | <u>1,013,662</u> | <u>348,639</u> | <u>246,418</u> | <u>154,902</u> | <u>39,468</u> | <u>18,677</u> | <u>27,854</u> | <u>(28,538)</u> | <u>1,821,082</u> |
| Results | | | | | | | | | |
| Segment results | <u>414,529</u> | <u>138,757</u> | <u>18,842</u> | <u>(2,401)</u> | <u>(20,442)</u> | <u>(11,280)</u> | <u>(17,375)</u> | <u>-</u> | <u>520,630</u> |
| Unallocated | | | | | | | | | |
| Other income and expenses | | | | | | | | | 10,508 |
| Other gains and losses | | | | | | | | | 11,142 |
| Corporate administrative expenses | | | | | | | | | (77,281) |
| Listing expenses | | | | | | | | | (19,435) |
| Profit before taxation | | | | | | | | | 445,564 |
| Income tax expense | | | | | | | | | (133,077) |
| Profit for the period | | | | | | | | | <u>312,487</u> |

Geographical information

The Group primarily operates in the PRC. Substantially all of the non-current assets of the Group are located in the PRC.

Information about major customers

No single customer contributes over 10% of total revenue of the Group during the six months ended 30 June 2020 and 2019.

4. OTHER INCOME AND EXPENSES

| | Six months ended 30 June | |
|-----------------------------------|--------------------------|----------------|
| | 2020 | 2019 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| | (unaudited) | (unaudited) |
| Asset-related government grants | 1,358 | 558 |
| Unconditional government grants | 21,445 | 15,632 |
| Interest income from banks | 62,871 | 8,403 |
| Covid-19-related rent concessions | 22,622 | — |
| Others | (77) | 2,105 |
| | <u>108,219</u> | <u>26,698</u> |

5. OTHER GAINS AND LOSSES

| | Six months ended 30 June | |
|---|--------------------------|----------------|
| | 2020 | 2019 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| | (unaudited) | (unaudited) |
| Net gains on other financial assets measured at FVTPL | 19,778 | 14,234 |
| Losses on disposals of property and equipment | (35) | (84) |
| Losses on termination of lease agreements | (749) | — |
| Net foreign exchange gains (losses) | 68,447 | (3,008) |
| | <u>87,441</u> | <u>11,142</u> |

6. FINANCE COSTS

| | Six months ended 30 June | |
|--|--------------------------|----------------|
| | 2020 | 2019 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| | (unaudited) | (unaudited) |
| Interest expenses on lease liabilities | <u>69,954</u> | <u>61,841</u> |

7. INCOME TAX EXPENSE

| | Six months ended 30 June | |
|----------------------------------|--------------------------|--------------------|
| | 2020 | 2019 |
| | RMB'000 | RMB'000 |
| | (unaudited) | (unaudited) |
| PRC Enterprise Income Tax | | |
| – Current tax | 95,085 | 134,014 |
| – Under provision in prior years | 9,276 | – |
| Deferred tax credit | (986) | (937) |
| | <u>103,375</u> | <u>133,077</u> |

8. PROFIT FOR THE PERIOD

| | Six months ended 30 June | |
|--|--------------------------|--------------------|
| | 2020 | 2019 |
| | RMB'000 | RMB'000 |
| | (unaudited) | (unaudited) |
| Profit for the period | | |
| has been arrived at after charging: | | |
| Directors' remuneration | 1,767 | 772 |
| Other staff costs | | |
| — salaries and other allowances | 549,498 | 463,430 |
| — retirement benefit scheme contributions | 36,465 | 65,317 |
| — equity-settled share-based payments expenses | 37,776 | 75,690 |
| | <u>625,506</u> | <u>605,209</u> |
| Total staff costs | | |
| | <u>625,506</u> | <u>605,209</u> |
| Depreciation of property and equipment | 153,332 | 180,420 |
| Depreciation of right-of-use assets | 135,966 | 123,012 |
| | <u>135,966</u> | <u>123,012</u> |

During the six months ended 30 June 2020, the Group recognised total expenses of approximately RMB38,083,000 (six months ended 30 June 2019: approximately RMB75,690,000) in relation to share options granted by the Company.

9. DIVIDENDS

During the current interim period, a final dividend in respect of the year ended 31 December 2019 of HK\$0.21 (approximately equivalent to RMB0.19) (six months ended 30 June 2019: Nil) per ordinary share was declared to the owners of the Company. The aggregate amount of the final dividend declared in the interim period amounted to approximately HK\$460,000,000 (approximately RMB422,139,000) (six months ended 30 June 2019: Nil).

Subsequent to the end of the current interim period, the Directors have determined that no dividend will be paid in respect of the interim period for the six months ended 30 June 2020 (six months ended 30 June 2019: Nil).

10. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

| | Six months ended 30 June | |
|--|---------------------------------|----------------|
| | 2020 | 2019 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| | (unaudited) | (unaudited) |
| Earnings: | | |
| Earnings for the purpose of calculating basic and diluted earnings per share | | |
| – attributable to the owners of the Company | 242,517 | 312,487 |
| Number of shares: | | |
| Weighted average number of ordinary shares for the purpose | | |
| of calculating basic earnings per share | 2,191,733,959 | 1,788,946,961 |
| Effect of dilutive potential ordinary shares: | | |
| – share options | 88,517,348 | 73,826,821 |
| – over-allotment options | – | 122,986 |
| Weighted average number of ordinary shares for the purpose | | |
| of calculating diluted earnings per share | 2,280,251,307 | 1,862,896,768 |

11. TRADE AND OTHER RECEIVABLES

| | As at 30 June 2020 <i>RMB'000</i> (unaudited) | As at 31 December 2019 <i>RMB'000</i> (audited) |
|--|--|--|
| Trade receivables | | |
| – from government (<i>note i</i>) | 32,316 | 36,743 |
| – from others (<i>note ii</i>) | 15,392 | 10,206 |
| | <u>47,708</u> | <u>46,949</u> |
| Other receivables | | |
| Prepayments for consumables | 22,266 | 22,526 |
| Prepayments for rental | 7,923 | 8,529 |
| Prepayments for services | 21,840 | 21,737 |
| Prepayments for advertisement | 58,069 | 44,063 |
| Value added tax recoverable | 7,551 | 2,068 |
| Advance to staff | 11,705 | 7,480 |
| Interest receivables from time deposit and bank balances | 4,265 | 42,090 |
| Other receivables | 8,612 | 7,794 |
| | <u>142,231</u> | <u>156,287</u> |
| | <u>189,939</u> | <u>203,236</u> |

Notes:

- i. The amounts represent receivables from the PRC local governments, which purchased vocational education services for students.
- ii. The amounts mainly represent receivables from customers, which purchased ancillary services other than vocational education services.

11. TRADE AND OTHER RECEIVABLES (CONTINUED)

The following is an aged analysis of trade receivables net of allowance for doubtful debts presented based on revenue recognition dates:

| | As at 30 June 2020 <i>RMB'000</i> (unaudited) | As at 31 December 2019 <i>RMB'000</i> (audited) |
|------------------------------------|--|--|
| Within 3 months | 20,486 | 22,906 |
| Over 3 months but within 12 months | 25,782 | 19,146 |
| Over 1 year | 1,440 | 4,897 |
| | <u>47,708</u> | <u>46,949</u> |

In order to minimise credit risk on trade receivables and other receivables, the management of the Group makes individual assessment on the historical default experience and considers various external sources of actual and forecast economic information, as appropriate.

The expected loss rates are estimated based on historical observed default rates over the expected life of the receivables and are adjusted for forward-looking information that is available without undue cost or effort.

In the opinion of the management of the Group, all of the trade receivable balances at the end of each reporting period which have been past due over 90 days are not considered as in default as these are contributed by PRC local governments with extremely low credit risks. The management of the Group considered that the impairment loss was insignificant as there has not been a significant change in credit quality and amounts are considered recoverable and no impairment loss on expected credit losses is recognised during the current interim period.

12. OTHER FINANCIAL ASSETS

| | As at 30 June 2020 <i>RMB'000</i> (unaudited) | As at 31 December 2019 <i>RMB'000</i> (audited) |
|--|--|--|
| Other financial assets measured at FVTPL (<i>note i</i>) | <u>1,241,825</u> | <u>418,013</u> |
| Other financial assets measured at amortised cost (<i>note ii</i>) | <u>–</u> | <u>49,500</u> |

Notes:

- i. The other financial assets measured at FVTPL are short-term investments issued by banks and financial institutions with no predetermined or guaranteed return and are not principal protected. These financial assets are with expected rates of return (not guaranteed), depending on the market price of underlying financial instruments, including listed shares, bonds, debentures and other financial assets.
- ii. The other financial assets measured at amortised cost are short-term investments issued by a bank with predetermined return and principal protected.

13. TRADE AND OTHER PAYABLES

| | As at 30 June 2020 <i>RMB'000</i> (unaudited) | As at 31 December 2019 <i>RMB'000</i> (audited) |
|--|--|--|
| Trade payables | 81,045 | 79,699 |
| Payable for property and equipment | 70,615 | 77,773 |
| Value added tax and other taxes payable | 2,831 | 8,364 |
| Payroll payable | 132,690 | 155,989 |
| Discretionary subsidies received on behalf of students | 18,919 | 20,473 |
| Miscellaneous deposits received from students | | |
| – within 12 months | 70,408 | 68,685 |
| Other payables | 39,118 | 32,151 |
| | <u>415,626</u> | <u>443,134</u> |

The credit period of trade creditors is normally 90 days. The following is an aged analysis of trade payables presented based on the dates of delivery of goods:

| | As at 30 June 2020 <i>RMB'000</i> (unaudited) | As at 31 December 2019 <i>RMB'000</i> (audited) |
|----------------|--|--|
| Within 90 days | <u>81,045</u> | <u>79,699</u> |

14. SHARE CAPITAL

| | <i>Notes</i> | Number of shares | Share Capital HK\$ | Shown in the condensed consolidated financial statements RMB'000 |
|---|--------------|---------------------|--------------------------|---|
| <i>Ordinary shares of HK\$0.0001 each</i> | | | | |
| Authorised: | | | | |
| At 1 January 2019, 30 June 2019, 1 January 2020 and 30 June 2020 | <i>i</i> | 3,800,000,000 | 380,000 | - |
| Issued: | | | | |
| At 31 December 2018 (audited) | | 1,000,030 | 100 | - |
| Capitalisation Issue | <i>ii</i> | 1,742,199,970 | 174,220 | 154 |
| Issue of new shares by ways of global offering | <i>iii</i> | 435,800,000 | 43,580 | 38 |
| At 30 June 2019 (unaudited) | | 2,179,000,000 | 217,900 | 192 |
| Issue of new shares upon exercise of the over-allotment option | <i>iv</i> | 4,894,000 | 489 | - |
| Issue of new shares upon the exercise of share options | <i>v</i> | 7,198,104 | 720 | 1 |
| At 31 December 2019 (audited) | | 2,191,092,104 | 219,109 | 193 |
| Issue of new shares upon the exercise of share options | <i>vi</i> | 1,067,102 | 107 | - |
| At 30 June 2020 (unaudited) | | 2,192,159,206 | 219,216 | 193 |

Notes:

- i. The Company was incorporated in the Cayman Islands on 4 October 2018 with an authorised share capital of HK\$380,000 divided into 3,800,000,000 shares with a par value of HK\$0.0001 each.
- ii. On 12 June 2019, the Company capitalised the sum of HK\$174,220 (approximately equivalent to RMB154,000) standing to the credit of the share premium account of the Company and applied the amount towards paying up in full 1,742,199,970 shares of nominal value of HK\$0.0001 each for allotment to the shareholders as appearing on the register of members of the Company immediately before the listing of the shares of the Company on the Stock Exchange (“**Capitalisation Issue**”).
- iii. On 12 June 2019, the Company issued 435,800,000 ordinary shares of nominal value of HK\$0.0001 each pursuant to the global offering at the price of HK\$11.25 per ordinary share (equivalent to approximately RMB9.9 per ordinary share) and the Company’s share were listed on the Stock Exchange on the same date.

14. SHARE CAPITAL (CONTINUED)

- iv. On 4 July 2019, 4,894,000 ordinary shares of par value of HK\$0.0001 each were issued at a price of HK\$11.25 per ordinary share (approximately equivalent to RMB9.90 per ordinary share) pursuant to the exercise of over-allotment option. The proceeds of HK\$489 (approximately equivalent to RMB432) representing the par value of the shares of the Company, were credited to the Company's share capital. The remaining proceeds of approximately HK\$55,057,000 (equivalent to RMB48,583,000), before issuing expenses, were credited to the share premium amount.
- v. During the year ended 31 December 2019, 7,090,194 and 107,910 share options were exercised at a subscription price of HK\$2.25 and HK\$11.25 per share (equivalent to approximately RMB2.02 and RMB10.10 per share) respectively, resulting in the issue of aggregately 7,198,104 ordinary shares of par value of HK\$0.0001 each in the Company. These shares rank pari passu with other shares in issue in all respect.
- vi. During the six months ended 30 June 2020, 1,067,102 share options were exercised at a subscription price of HK\$2.25 per share (equivalent to approximately RMB2.06 per share), resulting in the issue of 1,067,102 ordinary shares of par value of HK\$0.0001 each in the Company. These shares rank pari passu with other shares in issue in all respect.

15. CAPITAL COMMITMENTS

| | As at 30 June 2020 <i>RMB'000</i> (unaudited) | As at 31 December 2019 <i>RMB'000</i> (audited) |
|--|--|--|
| Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of acquisition of property and equipment and leasehold lands | <u>72,529</u> | <u>63,379</u> |

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW

We have a leading position in vocational training education segment in China. Moreover, we also have a leading position in China in providing vocational training education in three segments, namely, culinary arts, information technology and internet technology, as well as auto services. Headquartered in Hefei, Anhui province, we have established a nationwide school network consisting of 194 schools and centers in operation as of 30 June 2020, spanning 29 of the 31 provinces in mainland China and Hong Kong. We operate our business and establish our schools and centers under seven school brands, namely, New East Culinary Education, Omick Education of Western Cuisine and Pastry, Cuisine Academy, Xinhua Internet Technology Education, Wisezone Data Technology Education, Wontone Automotive Education and On-mind Fashion & Beauty Education.

We focus in providing vocational training education in China in culinary arts, information technology and internet technology, auto services as well as fashion & beauty education. These industry sectors are areas in China where there is significant unmet demand for vocational training education to bridge the supply and demand gap between employers and students. Our primary goal is to provide students with solid knowledge and practical skills in their chosen profession that are tailored to the needs of employers with a view to increasing graduates' employability and their average compensation levels.

OUR BUSINESS SEGMENTS

As at 30 June 2020, we operated 194 vocational education institutions under the following brand names:

| Segments and Brands | No. of schools/ centers | Description |
|---|--------------------------------|--|
| CULINARY ARTS | | |
| New East Culinary Education (“ New East ”) | 59 | New East Culinary Education has been providing comprehensive culinary training programs to students who pursue a career in becoming professional chefs. We teach our students the cooking traditions and practices of diversified Chinese cuisines, including the well-known and widely recognized eight regional cuisines in China, supported by an integration of classic Chinese and Western culinary skills. Each of our schools under New East Culinary Education offers various culinary training programs with different program lengths to meet students' differentiated learning focuses and demands. |

| Segments and Brands | No. of schools/ centers | Description |
|--|--------------------------------|---|
| Omick Education of Western Cuisine and Pastry (“ Omick ”) | 31 | Omick Education of Western Cuisine and Pastry offers high-quality western style catering education, which is committed to providing specialized culinary training to students with a focus on western pastry and western food. We offer a variety of courses, including baking, desserts, western cuisines, bartending, and barista training. |
| Cuisine Academy | 19 | Cuisine Academy has been providing customized catering experience services to customers who are interested in cooking or who plan to establish their own businesses in the catering industry. Cuisine Academy primarily providing customers with customized catering experience programs. |

INFORMATION TECHNOLOGY AND INTERNET TECHNOLOGY

| | | |
|---|----|--|
| Xinhua Internet Technology Education (“ Xinhua Internet ”) | 30 | We provide information technology and internet technology-related training programs under Xinhua Internet Technology Education. We provide a wide range of information technology and internet technology-related training to students with different course lengths. |
| Wisezone Data Technology Education (“ Wisezone ”) | 22 | Wisezone Data Technology Education primarily provides short-term programs to junior college and university students who have possessed the basic knowledge and seek to further develop relevant practical skills. By cooperating with a number of technology enterprises and higher education institutions, we train professional data technology engineers. |

AUTO SERVICES

| | | |
|---|----|--|
| Wontone Automotive Education (“ Wontone ”) | 32 | We focus on providing hands-on auto repair skill training as well as practical training of other auto services, such as automobile commerce. |
|---|----|--|

FASHION & BEAUTY

| | | |
|---|---|---|
| On-mind Fashion & Beauty Education (“ On-mind ”) | 1 | We focus on cultivating high skills fashion and beauty professionals. |
|---|---|---|

SUMMARY OF OUR OPERATING DATA

The following table sets forth the number of new students enrollments/new customers registered under each school/center brand for the six months ended 30 June 2020 and 2019:

| Segments and Brands | New Students Enrollment ⁽¹⁾ / New Customers Registered ⁽²⁾ | Six months ended 30 June | | Change Increase/ (Decrease) |
|---|---|--------------------------|--------|-----------------------------------|
| | | 2020 | 2019 | |
| CULINARY ARTS | | | | |
| New East | Long-term | 12,183 | 17,340 | (29.7%) |
| | – One to less than two years | 1,957 | 3,641 | (46.3%) |
| | – Two to less than three years | 6,728 | 10,471 | (35.7%) |
| | – Three years | 3,498 | 3,228 | 8.4% |
| | Short-term | 16,928 | 21,886 | (22.7%) |
| | Subtotal | 29,111 | 39,226 | (25.8%) |
| Omick | One year | 197 | – | N/A |
| | Short-term | 6,786 | 6,583 | 3.1% |
| | Subtotal | 6,983 | 6,583 | 6.1% |
| Cuisine Academy | Short-term | 4,846 | 4,175 | 16.1% |
| CULINARY ARTS | Subtotal | 40,940 | 49,984 | (18.1%) |
| INFORMATION TECHNOLOGY AND INTERNET TECHNOLOGY | | | | |
| Xinhua Internet | Long-term | 8,135 | 11,814 | (31.1%) |
| | – One to less than two years | 241 | 889 | (72.9%) |
| | – Two to less than three years | 3,339 | 6,812 | (51.0%) |
| | – Three years | 4,555 | 4,113 | 10.7% |
| | Short-term | 1,080 | 1,580 | (31.6%) |
| | Subtotal | 9,215 | 13,394 | (31.2%) |
| Wisezone | Short-term | 1,784 | 2,172 | (17.9%) |
| INFORMATION TECHNOLOGY AND INTERNET TECHNOLOGY | Subtotal | 10,999 | 15,566 | (29.3%) |

| Segments and Brands | New Students Enrollment ⁽¹⁾ / New Customers Registered ⁽²⁾ | Six months ended 30 June | | Change Increase/ (Decrease) |
|-----------------------------|---|--------------------------|--------|-----------------------------------|
| | | 2020 | 2019 | |
| AUTO SERVICES | | | | |
| Wontone | Long-term | 3,670 | 4,649 | (21.1%) |
| | – One to less than two years | 430 | 1,056 | (59.3%) |
| | – Two to less than three years | 1,098 | 1,308 | (16.1%) |
| | – Three years | 2,142 | 2,285 | (6.3%) |
| | Short-term | 4,942 | 6,009 | (17.8%) |
| AUTO SERVICES | Subtotal | 8,612 | 10,658 | (19.2%) |
| FASHION & BEAUTY | | | | |
| On-mind | Long-term | 28 | – | N/A |
| | – One to less than two years | 5 | – | N/A |
| | – Two to less than three years | 3 | – | N/A |
| | – Three years | 20 | – | N/A |
| | Short-term | 219 | – | N/A |
| FASHION & BEAUTY | Subtotal | 247 | – | N/A |
| THE GROUP | | | | |
| | Long-term | 24,213 | 33,803 | (28.4%) |
| | – One to less than two years | 2,830 | 5,586 | (49.3%) |
| | – Two to less than three years | 11,168 | 18,591 | (39.9%) |
| | – Three years | 10,215 | 9,626 | 6.1% |
| | Short-term | 36,585 | 42,405 | (13.7%) |
| THE GROUP | TOTAL | 60,798 | 76,208 | (20.2%) |

Notes:

- (1) New students enrollment represents the total number of students newly enrolled at our operating schools in a certain period. We use new students enrollment to reflect our ability of student recruitment and the popularity of our programs.
- (2) We commenced operations of Cuisine Academy in 2017. Number of new customers registered represents the total number of new customers attending our customized catering experience programs of Cuisine Academy in a certain period.

The following table sets forth the average number of students enrolled and customers registered under each school/center brand for the six months ended 30 June 2020 and 2019:

| Segments and Brands | Average Number of Students Enrolled ⁽¹⁾ / Customers Registered ⁽²⁾ | Six months ended 30 June | | Change Increase/ (Decrease) |
|---|--|--------------------------|--------|-----------------------------------|
| | | 2020 | 2019 | |
| CULINARY ARTS | | | | |
| New East | Long-term | 57,658 | 62,527 | (7.8%) |
| | – One to less than two years | 4,448 | 6,854 | (35.1%) |
| | – Two to less than three years | 38,539 | 46,137 | (16.5%) |
| | – Three years | 14,671 | 9,536 | 53.8% |
| | Short-term | 5,183 | 5,702 | (9.1%) |
| | Subtotal | 62,841 | 68,229 | (7.9%) |
| Omick | One year | 175 | – | N/A |
| | Short-term | 3,309 | 4,220 | (21.6%) |
| | Subtotal | 3,484 | 4,220 | (17.4%) |
| Cuisine Academy | Short-term | 555 | 779 | (28.8%) |
| CULINARY ARTS | Subtotal | 66,880 | 73,228 | (8.7%) |
| INFORMATION TECHNOLOGY AND INTERNET TECHNOLOGY | | | | |
| Xinhua Internet | Long-term | 40,081 | 37,018 | 8.3% |
| | – One to less than two years | 1,128 | 1,174 | (3.9%) |
| | – Two to less than three years | 18,855 | 19,143 | (1.5%) |
| | – Three years | 20,098 | 16,701 | 20.3% |
| | Short-term | 580 | 684 | (15.2%) |
| | Subtotal | 40,661 | 37,702 | 7.8% |
| Wisezone | Short-term | 409 | 1,154 | (64.6%) |
| INFORMATION TECHNOLOGY AND INTERNET TECHNOLOGY | Subtotal | 41,070 | 38,856 | 5.7% |

| Segments and Brands | Average Number of Students Enrolled ⁽¹⁾ / Customers Registered ⁽²⁾ | Six months ended 30 June | | Change Increase/ (Decrease) |
|-----------------------------|--|--------------------------|---------|-----------------------------------|
| | | 2020 | 2019 | |
| AUTO SERVICES | | | | |
| Wontone | Long-term | 18,468 | 18,909 | (2.3%) |
| | – One to less than two years | 1,611 | 2,522 | (36.1%) |
| | – Two to less than three years | 7,461 | 9,833 | (24.1%) |
| | – Three years | 9,396 | 6,554 | 43.4% |
| | Short-term | 1,500 | 2,054 | (27.0%) |
| AUTO SERVICES | Subtotal | 19,968 | 20,963 | (4.7%) |
| FASHION & BEAUTY | | | | |
| On-mind | Long-term | 11 | – | N/A |
| | – One to less than two years | 2 | – | N/A |
| | – Two to less than three years | 2 | – | N/A |
| | – Three years | 7 | – | N/A |
| | Short-term | 75 | – | N/A |
| FASHION & BEAUTY | Subtotal | 86 | – | N/A |
| THE GROUP | | | | |
| | Long-term | 116,393 | 118,454 | (1.7%) |
| | – One to less than two years | 7,364 | 10,550 | (30.2%) |
| | – Two to less than three years | 64,857 | 75,113 | (13.7%) |
| | – Three years | 44,172 | 32,791 | 34.7% |
| | Short-term | 11,611 | 14,593 | (20.4%) |
| THE GROUP | TOTAL | 128,004 | 133,047 | (3.8%) |

Notes:

- (1) As our schools provide various vocational training education programs during a period and the course length and the program commencement date varies for our different long-term and short-term programs, we believe that the average number of students enrolled is a measure that is comparable to that of our competitors and therefore can fairly present our ranking and market position in the industry. Our average number of students enrolled for a period is only an approximation of the average number of students enrolled during a certain period, representing the sum of the number of students enrolled at our operating schools at the end of each month divided by the number of months during such period, without taking into account any transfer or withdrawal.
- (2) Our average number of customers registered for a period represents the sum of the number of customers registered at Cuisine Academy at the end of each month divided by the number of months during such period, without taking into account any withdrawal. The courses for one month or shorter are regarded as one-month programs for the calculation.

Tuition/Service Fees

The following table sets forth ranges of our tuition fee and service fee rate under each school/center brand for the six months ended 30 June 2020 and 2019:

| Segments and Brands | Program ⁽¹⁾ | Tuition/Service fee Six months ended 30 June | |
|---|---|---|--------------|
| | | 2020 | 2019 |
| CULINARY ARTS | | | |
| New East | Long-term | 10,400-97,580 | 5,600-76,000 |
| | Short-term ⁽²⁾ | 380-82,000 | 800-58,000 |
| Omick | Short-term ⁽²⁾ and one year | 5,000-72,000 | 5,000-72,000 |
| Cuisine Academy ⁽³⁾ | Customized catering experience program | 800-29,800 | 800-29,800 |
| INFORMATION TECHNOLOGY AND INTERNET TECHNOLOGY | | | |
| Xinhua Internet | Long-term | 16,800-38,800 | 6,680-38,800 |
| | Short-term ⁽²⁾ | 15,800-32,800 | 800-26,800 |
| Wisezone | Short-term ⁽²⁾ | 999-26,800 | 999-26,800 |
| AUTO SERVICES | | | |
| Wontone | Long-term | 6,800-38,800 | 4,800-38,800 |
| | Short-term ⁽²⁾ | 800-37,400 | 800-37,400 |
| FASHION & BEAUTY | | | |
| On-mind | Long-term | 11,800-27,800 | N/A |
| | Short-term ⁽²⁾ | 3,800-15,800 | N/A |

Notes:

- (1) We charge tuition fee to students enrolled at our schools. Tuition fee of our long-term programs is typically charged based on the yearly tuition standards of different programs that students enrolled in such period.
- (2) Tuition fee of our short-term programs is typically charged by each program that students enrolled in.
- (3) We typically charge customers service fees by each program that customers registered in Cuisine Academy.

Recommended Employment Rate

We are committed to assisting our students in developing their careers. Our average recommended employment rate of our long-term program graduates from New East reached over 90%, while Xinhua Internet and Wontone reached over 95% for the six months ended 30 June 2020. The following table sets forth the recommended employment rate of our long-term program graduates by brands for the six months ended 30 June 2020:

| Brands⁽¹⁾ | Recommended employment rate⁽²⁾ |
|-----------------------------|--|
| New East | 93.5% |
| Xinhua Internet | 96.0% |
| Wontone | 95.7% |

Notes:

- (1) We also provide graduate placement service to students of our short-term programs. However, students enrolled in our short-term programs generally have different study goals and expectations, such as to enhance a specific skill or with a view to setting up their own business, as compared to students of our long-term programs who are generally more focused on seeking long-term employment or to begin a new career. As a result, we do not keep record of the recommended employment rate of graduates from our short-term program.
- (2) We provide graduate placement service to all students of our long-term programs. The recommended employment rate represents the total number of students of long-term programs who are hired through our graduate placement service program in a certain period, excluding students who start their own business ventures or are employed through other channels divided by the total number of graduates of long-term programs during such period.

FINANCIAL REVIEW

Revenue

For the six months ended 30 June 2020, due to an outbreak of novel coronavirus (COVID-19) (the “Epidemic”) and the subsequent quarantine measures imposed by the PRC government, the physical classes of our schools located in mainland China had been temporarily suspended in February 2020 and were gradually resumed during the period according to the instruction of the PRC government. As a result, there was a decrease in the number of new students enrollments and new customers registered and a delay in the back-to-school of our students due to the Epidemic during the six months ended 30 June 2020. Accordingly, the Group recorded a decrease in revenue from RMB1,821 million for the six months ended 30 June 2019, to RMB1,517 million for the six months ended 30 June 2020, representing a decrease of 16.7%.

The following table sets forth a breakdown of our revenue and annualised average tuition/service fee per student/customer by segments and brands for the periods indicated:

| | Six months ended 30 June | | | | Change | |
|---|---------------------------|---|---------------------------|---|------------------------------|---|
| | 2020 | | 2019 | | Revenue Increase/ (Decrease) | Annualised Average Tuition/ Service Fee per Student/ Customer |
| | Revenue <i>RMB'000</i> | Annualised Average Tuition/ Service Fee per Student/ Customer <i>RMB'000</i> | Revenue <i>RMB'000</i> | Annualised Average Tuition/ Service Fee per Student/ Customer <i>RMB'000</i> | | |
| CULINARY ARTS | | | | | | |
| New East | 833,103 | 26.5 | 1,013,662 | 29.7 | (17.8%) | (10.8%) |
| Omick | 115,962 | 66.6 | 154,902 | 73.4 | (25.1%) | (9.3%) |
| Cuisine Academy ⁽²⁾ | 21,935 | 79.0 | 18,677 | 48.0 | 17.4% | 64.8% |
| | <u>971,000</u> | <u>29.0</u> | <u>1,187,241</u> | <u>32.4</u> | <u>(18.2%)</u> | <u>(10.5%)</u> |
| INFORMATION TECHNOLOGY AND INTERNET TECHNOLOGY | | | | | | |
| Xinhua Internet | 323,803 | 15.9 | 348,639 | 18.5 | (7.1%) | (13.9%) |
| Wisezone | 14,347 | 70.2 | 34,751 | 60.2 | (58.7%) | 16.5% |
| | <u>338,150</u> | <u>16.5</u> | <u>383,390</u> | <u>19.7</u> | <u>(11.8%)</u> | <u>(16.6%)</u> |
| AUTO SERVICES | | | | | | |
| Wontone | 195,445 | 19.6 | 246,418 | 23.5 | (20.7%) | (16.7%) |
| Other Micellaneous Businesses ⁽³⁾ | 12,280 | N/A | 4,033 | N/A | 204.5% | N/A |
| Total ⁽⁴⁾ | <u>1,516,875</u> | <u>23.5</u> | <u>1,821,082</u> | <u>27.3</u> | <u>(16.7%)</u> | <u>(13.9%)</u> |

Notes:

- (1) For illustration purposes only, the annualised average tuition/service fee per student/customer for the six months ended 30 June 2020 and 2019 is calculated on an annualised basis as revenue generated from tuition or service fees for the period divided by the average number of students enrolled and customers registered in the corresponding periods.
- (2) During the six months ended 30 June 2020 and 2019, revenue generated from Cuisine Academy mainly represents service fees we collected from customers who attended our customized catering experience programs.
- (3) Other miscellaneous businesses primarily include revenue from the fashion & beauty business and the internet technology solution and staff outsourcing services provided to independent third parties.
- (4) The total revenue and percentages do not include inter-segment sales which are eliminated upon consolidation.

Cost of Revenue

Our cost of revenue consists of teaching staff salaries and benefits, teaching related consumables and other costs, leasing expenses and depreciation of right-of-use assets, campus maintenance and depreciation, utilities and office expenses. The cost of revenue decreased from approximately RMB714 million for the six months ended 30 June 2019 to approximately RMB645 million for the six months ended 30 June 2020, representing a decrease of 9.6%.

The following table sets forth a breakdown of our cost of revenue for the periods indicated:

| | Six months ended 30 June | | | |
|---|---------------------------------|----------------------|-----------------------|----------------------|
| | 2020 | | 2019 | |
| | Cost | % of | Cost | % of |
| | RMB'000 | Total | RMB'000 | Total |
| Teaching staff salaries and benefits | 230,618 | 35.7% | 248,163 | 34.8% |
| Teaching related consumables and other costs | 93,391 | 14.5% | 158,000 | 22.1% |
| Leasing expenses and depreciation of right-of-use assets | 139,404 | 21.6% | 119,134 | 16.7% |
| Campus maintenance and depreciation | 141,764 | 22.0% | 136,862 | 19.2% |
| Utilities | 22,150 | 3.4% | 33,784 | 4.7% |
| Office expenses | 17,877 | 2.8% | 18,027 | 2.5% |
| Total | <u>645,204</u> | <u>100.0%</u> | <u>713,970</u> | <u>100.0%</u> |

Gross Profit and Gross Profit Margin

The Group's gross profit was RMB872 million for the six months ended 30 June 2020 as compared to RMB1,107 million for the corresponding period of 2019. The gross profit margin was 57.5% for the six months ended 30 June 2020 as compared to 60.8% for the corresponding period of 2019. The decrease in gross profit margin was mainly due to the decrease in revenue for the six months ended 30 June 2020 as a result of the Epidemic.

The following table sets forth a breakdown of our gross profit and gross profit margin by major segments and brands for the periods indicated:

| | Six months ended 30 June | | 2019 | |
|---|--------------------------|---------------------|-------------------------|---------------------|
| | 2020 | | 2019 | |
| | Gross profit | Gross profit | Gross profit | Gross profit |
| | margin | margin | margin | margin |
| | <i>RMB'000</i> | <i>percentage</i> | <i>RMB'000</i> | <i>percentage</i> |
| CULINARY ARTS | | | | |
| New East | 532,352 | 63.9% | 652,043 | 64.3% |
| Omick | 42,856 | 37.0% | 79,007 | 51.0% |
| Cuisine Academy | 5,624 | 25.6% | 1,815 | 9.7% |
| | <u>580,832</u> | <u>59.8%</u> | <u>732,865</u> | <u>61.7%</u> |
| INFORMATION TECHNOLOGY AND INTERNET TECHNOLOGY | | | | |
| Xinhua Internet | 203,778 | 62.9% | 235,685 | 67.6% |
| Wisezone | 2,190 | 15.3% | 5,207 | 15.0% |
| | <u>205,968</u> | <u>60.9%</u> | <u>240,892</u> | <u>62.8%</u> |
| AUTO SERVICES | | | | |
| Wontone | 80,785 | 41.3% | 132,340 | 53.7% |
| Other Miscellaneous Businesses ⁽²⁾ | 4,086 | 33.3% | 1,015 | 25.2% |
| Total | <u><u>871,671</u></u> | <u><u>57.5%</u></u> | <u><u>1,107,112</u></u> | <u><u>60.8%</u></u> |

Notes:

- (1) The establishment of new schools and centers under a segment/brand has a negative impact on our gross profit margin for the relevant segment/brand. During the initial ramp-up period after a new school or center commences operations, we incur substantial fixed costs for teaching staff salaries and benefits, leasing expenses, and other fixed costs while initial revenue from the new schools and centers are limited due to the relatively small number of student enrollment or customer registration in the ramp-up period of the schools and centers.
- (2) Other miscellaneous businesses primarily include gross profit derived from the fashion & beauty business and the internet technology solution and staff outsourcing services provided to independent third parties.

Selling Expenses

The Group's selling expenses was RMB368 million for the six months ended 30 June 2020 as compared to RMB319 million for the six months ended 30 June 2019. The increase in selling expenses incurred for the six months ended 30 June 2020 was mainly related to the inclusion of the selling expenses of newly established schools and centers.

Administrative Expenses

The Group's administrative expenses was RMB266 million for the six months ended 30 June 2020 as compared to RMB284 million for the six months ended 30 June 2019. It represented about 17.5% of the revenue for the six months ended 30 June 2020. The decrease in administrative expenses was mainly due to the decrease of equity-settled share-based payment expenses from RMB76 million for the six months ended 30 June 2019 to RMB38 million for the six months ended 30 June 2020.

Finance Costs

The finance costs of RMB70 million for the six months ended 30 June 2020 represented the interest expenses of lease liabilities recognised following the adoption of HKFRS 16 – Leases (six months ended 30 June 2019: RMB62 million).

Adjusted Net Profit

To supplement this interim results announcement which is presented in accordance with HKFRSs, we also presented the following unaudited non-HKFRSs adjusted net profit as an additional financial measure which we believes that it can also provide useful information to help investors and others understand and evaluate the Company's financial performance:

| | Six months ended 30 June | |
|--|---------------------------------------|---------------------------------------|
| | 2020 <i>RMB'000</i> (unaudited) | 2019 <i>RMB'000</i> (unaudited) |
| Net profit | 242,517 | 312,487 |
| Adjustments for: Non-cash share-based payments | 38,083 | 75,690 |
| Net foreign exchange gains | (68,447) | – |
| Non-recurring listing expenses | – | 19,435 |
| Adjusted net profit | <u>212,153</u> | <u>407,612</u> |

Note: Non-HKFRSs financial measure does not have a standardised meaning prescribed by HKFRSs and therefore may not be comparable to similar measures presented by other companies.

Property and Equipment

Property and equipment as at 30 June 2020 decreased by 2.5% to approximately RMB1,370 million from approximately RMB1,406 million as at 31 December 2019. Decrease in property, plant and equipment was mainly due to the depreciation expenses during the period.

Capital Structure, Liquidity, Financial Resources and Gearing Ratio

As at 30 June 2020, the Company's issued share capital was approximately RMB193,000 divided into 2,192,159,206 shares of HK\$0.0001 each, and the total equity of the Group was approximately RMB5,981 million (31 December 2019: RMB6,120 million).

As at 30 June 2020, the current ratio of the Group, representing current assets divided by current liabilities, was 3.0 times (31 December 2019: 2.9 times) while the gearing ratio of the Group, representing total liabilities divided by total assets, was 35.3% (31 December 2019: 36.8%).

As at 30 June 2020, the total of time deposit and bank balances and cash of the Group amounted to approximately RMB4,504 million (31 December 2019: RMB5,775 million), representing 48.7% (31 December 2019: 59.7%) of the total assets of the Group of approximately RMB9,241 million (31 December 2019: RMB9,678 million).

For the six months ended 30 June 2020, our capital expenditures were approximately RMB317 million (six months ended 30 June 2019: RMB220 million) and were primarily related to acquisition of property and equipment and right-of-use assets for upgrading the existing school premises and construction of new campuses.

It is believed that the Group has sufficient capital to meet its commitment and working capital requirements for future operations and for general business expansion and development.

Other financial assets

As at 30 June 2020, the Group held other financial assets measured at FVTPL of approximately RMB1,242 million, particulars of which are set out below:

| Name of other financial assets measured at FVTPL | Fair value as at 30 June 2020 <i>RMB'000</i> | Realised gains/(losses) for the six months ended 30 June 2020 <i>RMB'000</i> | Unrealised gains for the six months ended 30 June 2020 <i>RMB'000</i> | % of total assets of the Group as at 30 June 2020 |
|--|---|--|--|---|
| Bank of Hangzhou | | | | |
| “Tian Li Bao” Structured Deposits | 81,026 | – | 1,026 | 0.9% |
| “Happiness 99” Bu Bu Jin Xin Institutional Financial Plan | 100,053 | – | 53 | 1.1% |
| China CITIC Bank | | | | |
| Win-win Interest Rate Structured Deposit Products | 152,821 | – | 2,821 | 1.7% |
| Guo Yuan Securities Company Limited | | | | |
| Guo Yuan Yuanying No. 28 | 153,422 | – | 3,422 | 1.7% |
| Haitong Securities Company Limited | | | | |
| Zhonghai Trust–Seagull No. 1 Collective Fund Trust | 204,714 | – | 4,714 | 2.2% |
| Hefei Science & Technology Rural Commercial Bank | | | | |
| RMB Structured Deposits | 101,879 | – | 1,879 | 1.1% |
| Huarong Securities Company Limited | | | | |
| Huarong Tong Zhi Ya Bao Series Collective Asset Management Plan | 10,250 | – | 250 | 0.1% |

| Name of other financial assets measured at FVTPL | Fair value as at 30 June 2020 <i>RMB'000</i> | Realised | Unrealised | % of total assets of the Group as at 30 June 2020 |
|--|---|--|--|---|
| | | gains/(losses) for the six months ended 30 June 2020 <i>RMB'000</i> | gains for the six months ended 30 June 2020 <i>RMB'000</i> | |
| Industrial and Commercial Bank of China Limited | | | | |
| ICBC Wealth Capital Guarantee “Sui Xin e” | 28,029 | – | 29 | 0.3% |
| Corporation “Tian Li Bao” Net Value Financial Products | 107,773 | – | 773 | 1.2% |
| Quan Xin Quan Yi | 100,525 | – | 525 | 1.1% |
| Shanghai Pudong Development Bank | | | | |
| Tian Ti Tian Li Enterprising No. 1 | 100,711 | – | 711 | 1.1% |
| Li Duo Duo Structured Deposits | 100,622 | – | 622 | 1.1% |

Investment Strategy and Future Prospects

The Group’s investments in other financial assets have been conducted on the premise that such investments would not affect our business operation or capital expenditures so as to generate a relatively higher return from such investments than fixed-term bank deposits.

The Group has implemented a set of internal control and risk management measures to manage our risks related to investments in other financial assets. These measures include, among other things, the followings:

- the term of the other financial investments must not exceed 12 months;
- we analyze the other financial assets regularly and keep track of their performance and redemption status;
- the other financial assets should be issued by a reputable bank or financial institution; and
- the investment portfolio of the other financial assets should generally bear relatively low-risk or principal protected.

In view of the above, we believe that our internal policies regarding investment in other financial assets and the related risk management mechanism are adequate. It is expected that the Group would continue to improve our capital usage efficiency by investing in such low-risk or principal protected other financial assets using our temporarily idle funds.

Foreign Exchange Risk Management

The majority of the Group's revenue and expenditures are denominated in Renminbi, the functional currency of the Company, except that certain expenditures are denominated in Hong Kong dollars. The Group also has certain bank balances and other payables denominated in Hong Kong dollars and United States dollars, which would expose the Group to foreign exchange risk. The Group did not use any financial instruments for hedging purposes during the six months ended 30 June 2020. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure when the need arises.

Charges on the Group's Assets

As at 30 June 2020 and 31 December 2019, the Group pledged its rental deposits to secure outstanding unpaid contractual lease payments.

Contingent Liabilities

As at 30 June 2020 and 31 December 2019, the Group did not have any material contingent liabilities, guarantees or any litigations or claims of material importance, pending or threatened against any member of the Group.

OUTLOOK

Our mission is to provide the best vocational training education in China. We intend to continue to expand our business, school and center network and enhance our market position. To achieve these goals, we plan to pursue the following business strategies:

Firstly, we plan to establish five self-owned regional centers in China's five major geographical regions (the "**Regional Centers**"), namely, Beijing, Shanghai, Guangzhou, Chengdu and Xi'an. The Regional Centers are expected to be equipped with advanced teaching and practical training facilities for all of our seven school/center brands, namely, New East, Omick, Cuisine Academy, Xinhua Internet, Wisezone, Wontone as well as On-mind. The Regional Centers will also house our research and development centers, human resources and marketing centers and serve as the continuing education and training centers for our teaching staff, in each case in their respective designated regions. For the six months ended 30 June 2020, a land parcel located at Chengdu had been acquired by the Group for the development of the regional center. It is expected that the construction of phase I of regional center of Chengdu can be completed by year 2022.

Secondly, our extensive school network covers most of the provincial capital cities in China. We intend to further expand our school network to cover all of the provincial capital cities in China. We plan to establish our presence in cities which have a population of over five million in densely populated provinces including, among others, Guangdong, Zhejiang, Jiangsu, Hunan, Hebei, Sichuan, Inner Mongolia and Heilongjiang, which we believe have significant unmet demand for skilled workers in culinary arts, information technology and internet technology, auto services as well as fashion & beauty.

Thirdly, in the four industry sectors we currently operate in, namely, culinary arts, information technology and internet technology, auto services as well as fashion & beauty, we plan to continue to expand and diversify our course offerings in response to industry trends and market demand. We are also conducting research on potential new industry sectors that we may establish new schools in, with reference to the developments in market demand and anticipated future trends. For example, we are exploring the market for vocational training education in the service industry and new economy, such as artificial intelligence and healthcare. Based on our research, we expect market demand for talent in certain industry sectors to grow in the foreseeable future, we will establish corresponding programs to capture opportunities presented by the market developments.

We believe that with our over 30 years experience in vocational training industry, we are well-positioned to tailor our service offerings to capture growth opportunities in industrial upgrades and to react promptly to the changes in the market. Also, our highly scalable business model and centralized and standardized management approach will accelerate the process to establish new programs and ensure the quality of the future program offerings. It is believed that the Group will further strengthen its market leadership and reputation by having the above strategies.

USE OF NET PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

As at 30 June 2020, the Company has utilised the net proceeds of approximately RMB437 million and the net proceeds have been applied in the manner as set out in the section headed "Future Plans and Use of Proceeds" of the Company's prospectus dated 30 May 2019. The unutilised net proceeds are placed in licensed financial institutions as short-term deposits and time deposits.

The following sets forth a summary of the utilisation of the net proceeds from Company's initial public offering as at 30 June 2020:

| Purpose | Percentage to total amount | Net proceeds amount* RMB'000 | Utilised amount RMB'000 | Unutilised amount RMB'000 |
|--|-----------------------------------|---|------------------------------------|--------------------------------------|
| Acquisition of land and construction facilities to establish our five geographical regional centers in Beijing, Shanghai, Guangzhou, Chengdu and Xi'an | 45% | 1,900,433 | (43,089) | 1,857,344 |
| Establishment of schools in selected markets | 15% | 633,478 | (129,944) | 503,534 |
| Establishment of new majors in both existing and new industry sectors, and conducting research to further innovate our curriculums | 15% | 633,478 | (30,027) | 603,451 |
| Construction and upgrade of our school facilities as well as purchase teaching equipment; and | 15% | 633,478 | (220,758) | 412,720 |
| Funding of our working capital and general corporate purposes | 10% | 422,318 | (13,657) | 408,661 |
| | 100% | 4,223,185 | (437,475) | 3,785,710 |

* Net proceeds after deducting underwriting commission and issuing expenses incurred from the listing.

The Company will utilize the remaining proceeds in accordance with the progress of the above expansion of our school network and the business development. It is expected that the proceeds will be fully utilised in the next 5 to 10 years but there is no detailed schedule for the utilisation of the remaining proceeds. In particular, it is subject to, among others, negotiations and governmental approvals for the Group to acquire land parcels or establish schools.

EMPLOYEES AND REMUNERATION POLICIES

Employees

As at 30 June 2020, we had a total of 10,935 employees. The following table sets forth the numbers of our employees, categorized by function, as at 30 June 2020:

| Function | Number of Full-Time Employees | % of Total |
|---|-------------------------------|------------|
| Executive Directors and core management | 333 | 3.0% |
| Full-time teachers and instructors | 4,651 | 42.5% |
| Student accommodation staff | 85 | 0.8% |
| Logistic personnel | 652 | 6.0% |
| Administrative staff | 3,411 | 31.2% |
| Accounting and finance staff | 373 | 3.4% |
| Others | 1,430 | 13.1% |
| Total ^(Note) | 10,935 | 100.0% |

Note: Among 10,935 employees, we had 16 employees in Hong Kong and 10,919 employees in mainland China.

Remuneration Policies

The remuneration packages of the employees of the Group are determined with reference to individual qualification, experience, performance, contribution to the Group and prevailing market rate.

We remunerate our employees with basic salaries as well as performance-based bonuses. We determine employee compensation based on each employee's performance and qualifications. We plan to hire additional teachers, instructors and other employees as we expand. Our employee recruiting channels include word-of-mouth referrals, on-campus recruiting and online recruiting.

Our full-time employees in China participate in a variety of social security plans that are administered by PRC local governments, including but not limited to, pension benefits, medical care, unemployment insurance, maternity insurance, work injury insurance and housing provident funds. Chinese labor regulations require that our PRC subsidiaries make contributions to the government for these benefits based on a fixed percentage of the employees' average salaries of last year.

Our full-time employees in Hong Kong participate in a Mandatory Provident Fund Scheme (the “**MPF Scheme**”) which the assets of the MPF Scheme are held separately from those of the Group in funds under the control of independent trustees. Under the MPF Scheme, contributions are made based on a percentage of the participating employees’ relevant income from the Group and the only obligation of the Group with respect to the MPF Scheme is to make the required contributions under the MPF Scheme.

DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2020 (six months ended 30 June 2019: Nil).

The Board proposed a final dividend of HK\$460 million (approximately RMB422 million), representing HK\$0.21 per ordinary share in respect of the year ended 31 December 2019. The proposed dividend was approved by the shareholders of the Company (the “**Shareholders**”) on the annual general meeting of the Company dated 27 May 2020 and paid on 23 June 2020.

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

Neither the Company, nor any of its subsidiaries had purchased, sold or redeemed any of the Company’s listed securities during the six months ended 30 June 2020.

CORPORATE GOVERNANCE PRACTICES

The Company has applied the principles of the code provisions set out in the the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules (the “**CG Code**”). During the six months ended 30 June 2020, the Company has complied with all the code provisions set out in the CG Code.

The Board believes that good corporate governance is essential to the development of the Group and to safeguard the interests of the Shareholders, potential investors and business partners and is consistent with the Board’s pursuit of value creation for the Shareholders. The Company is committed to enhancing its corporate governance practices appropriate to the conduct and the development of the Group and will review such practices from time to time to ensure that the Company complies with statutory and professional standards and aligns with the latest development.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 to the Listing Rules as the Group’s code of conduct to regulate the securities transactions of the Directors and the relevant employees. Having made specific enquiries, all Directors confirmed that they have complied with the required standards set out in the Model Code throughout the six months ended 30 June 2020.

AUDIT COMMITTEE AND REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The audit committee of the Company (the “**Audit Committee**”) consists of three independent non-executive Directors, namely Mr. HUNG Ka Hai, Clement, Mr. CHEUNG Tsun Yung, Thomas and Dr. ZHU Guobin. The main duties of the Audit Committee are to assist the Board in providing an independent review of the completeness, accuracy and fairness of the unaudited condensed consolidated financial statements for the six months ended 30 June 2020 of the Group, as well as the efficiency and effectiveness of the Group’s operations and internal controls. The Audit Committee has reviewed the unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2020, including the accounting principles and practices adopted by the Group. The Audit Committee is in the opinion that the unaudited condensed consolidated financial statements have been prepared in accordance with the applicable accounting standards, the Listing Rules and the statutory requirements and that adequate disclosures have been made in the interim results announcement.

Deloitte Touche Tohmatsu, the Company’s auditor, had carried out review of the unaudited interim results of the Group for the six months ended 30 June 2020 in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA.

PUBLICATION OF THE INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.chinaeastedu.com). The interim report of the Company for the six months ended 30 June 2020 will be despatched to the Shareholders and made available on the aforesaid websites in due course.

By order of the Board
China East Education Holdings Limited
WU Wei
Chairman

Hong Kong, 19 August 2020

As at the date of this announcement, the Board comprises Mr. WU Wei and Mr. XIAO Guoqing as executive Directors; Mr. WU Junbao and Mr. LU Zhen as non-executive Directors; and Mr. HUNG Ka Hai, Clement, Mr. CHEUNG Tsun Yung, Thomas and Dr. ZHU Guobin as independent non-executive Directors.