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Bojun Education Company Limited

博駿教育有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1758)

Interim Results Announcement For The Six Months Ended 28 February 2019

HIGHLIGHTS

	As at			
	28 February 2019	28 February 2018	Change	Change Percentage
Total number of students	10,325	7,121	+3,204	+45.0%
	For the six months ended			
	28 February 2019	28 February 2018	Change	Change
	RMB'000	RMB'000	RMB'000	Percentage
	(unaudited)	(audited)		
Revenue	168,300	115,203	+53,097	+46.1%
Gross profit	42,881	30,190	+12,691	+42.0%
Profit for the period attributable to owners of the Company	9,441	9,601	-160	-1.7%
Adjusted net profit <i>(note)</i>	10,027	13,951	-3,924	-28.1%
Basic earnings per share (RMB cents)	1.15	1.60	-0.45	-28.1%

Note: The adjusted net profit, which is unaudited in nature, is presented because the management of the Group believes such information will be helpful for investors in assessing the level of net profit of the Company by eliminating the effects of certain one-off or non-recurring items. For the details of reconciliation to the most directly comparable financial measure calculated and presented in accordance with HKFRS, which is profit for the period, please refer to the section headed "financial review" in this announcement.

INTERIM RESULTS FOR THE SIX MONTHS ENDED 28 FEBRUARY 2019

The board (the “**Board**”) of directors (the “**Directors**”) of Bojun Education Company Limited (the “**Company**”, together with its subsidiaries and consolidated affiliated entities, the “**Group**”) is pleased to announce the unaudited condensed consolidated interim results of the Group for the six months ended 28 February 2019.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 28 FEBRUARY 2019

		Six months ended 28 February	
	NOTES	2019 RMB'000 (unaudited)	2018 RMB'000 (audited)
Revenue from provision of education services	4	168,300	115,203
Cost of services		(125,419)	(85,013)
Gross profit		42,881	30,190
Other income (expenses)	5	2,603	2,928
Other gains and (losses)	6	(1,448)	(625)
Listing expenses		–	(6,922)
Administrative expenses		(30,583)	(15,090)
Finance costs	7	(2,548)	(53)
Profit before taxation	9	10,905	10,428
Income tax expenses	8	(878)	(827)
Profit for the period		10,027	9,601
<i>Other comprehensive income that will not be reclassified subsequently to profit or loss:</i>			
– Remeasurement of defined benefit obligation		114	145
Total comprehensive income for the period		10,141	9,746
Profit for the period attributable to			
– owners of the Company		9,441	9,601
– non-controlling interests		586	–
		10,027	9,601
Total comprehensive income for the period attributable to			
– owners of the Company		9,555	9,746
– non-controlling interests		586	–
		10,141	9,746
Earnings per share – Basic (RMB)	10	0.01	0.02

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 28 FEBRUARY 2019

		As at 28 February 2019 <i>RMB'000</i> (unaudited)	2018 <i>RMB'000</i> (audited)
	NOTES		
NON-CURRENT ASSETS			
Property, plant and equipment		856,612	671,226
Prepaid lease payments		167,468	106,400
Deferred tax assets		13,017	10,538
Deposits	11	24,958	24,958
Prepayments for purchase of property, plant and equipment		41,499	35,536
		<u>1,103,554</u>	<u>848,658</u>
CURRENT ASSETS			
Prepaid lease payments		3,913	2,638
Other receivables, deposits and prepayments	11	23,896	21,056
Amounts due from related companies		356	371
Bank balances and cash		242,157	607,062
		<u>270,322</u>	<u>631,127</u>
TOTAL ASSETS		<u>1,373,876</u>	<u>1,479,785</u>
CURRENT LIABILITIES			
Other payables and accruals	12	202,015	267,716
Contract liabilities	13	167,243	–
Deferred revenue	13	–	280,481
Borrowings	14	110,000	60,000
Income tax payable		16,181	13,581
		<u>495,439</u>	<u>621,778</u>
Net current (liabilities) assets		<u>(225,117)</u>	<u>9,349</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>878,437</u>	<u>858,007</u>
NON-CURRENT LIABILITIES			
Defined benefit obligations		3,856	3,482
Deferred income	15	52,067	42,152
		<u>55,923</u>	<u>45,634</u>
NET ASSETS		<u>822,514</u>	<u>812,373</u>
CAPITAL AND RESERVES			
Share capital		7,152	7,152
Reserves		815,546	805,991
Equity attributable to owners of the Company		822,698	813,143
Non-controlling interests		(184)	(770)
		<u>822,514</u>	<u>812,373</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 28 FEBRUARY 2019

1. CORPORATE INFORMATION

The Company was incorporated and registered as an exempted company with limited liability in the Cayman Islands under the Companies Law (Chapter 22) (Law 3 of 1961, as consolidated and revised) of the Cayman Islands on 14 June 2016. On 31 July 2018, the Company's shares (the "**Share**") have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

The Company is an investment holding company. The subsidiaries of the Group are mainly engaged in the provision of full spectrum private fundamental education, including preschool, primary, middle and high schools in the People's Republic of China (the "**PRC**").

2. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard (the "**HKAS**") 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (the "**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**").

3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on a historical cost basis, except for defined benefits obligations that are measured using "projected unit credit method", and in accordance with the accounting policies which conform with Hong Kong Financial Reporting Standards (the "**HKFRSs**").

Other than changes in accounting policies resulting from application of additions and amendments to the HKFRSs and an interpretation, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 28 February 2019 are the same as those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 August 2018.

Application of additions and amendments to HKFRSs and an interpretation

In the current interim period, the Group has applied, for the first time, the following additions and amendments to the HKFRSs and an interpretation issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 September 2018 for the preparation of the Group's condensed consolidated financial statements:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK (IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

The additions and amendments to the HKFRSs and the interpretation of which have been applied in accordance with the relevant transition provisions in the respective standards and amendments which results in changes in accounting policies, amounts reported and disclosures as described below.

The application of these additions and amendments to the HKFRSs and the interpretation of which in the current interim period has no significant financial effect on the financial position or performance of the Group set out in these condensed consolidated financial statements except for those described below.

3.1 *Impacts and changes in accounting policies of application on HKFRS 15 Revenue from Contracts with Customers*

The Group has applied HKFRS 15 for the first time in the current interim period. HKFRS 15 superseded HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related interpretations.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, i.e. 1 September 2018. Any difference at the date of initial application is recognised in the opening accumulated profits (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the standard retrospectively only to contracts that are not completed at 1 September 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 *Revenue* and HKAS 8 *Revenue*.

3.1.1 *Key changes in accounting policies resulting from application of HKFRS 15*

Revenue is recognised to depict the transfer of promised services to customers in an amount that reflects the consideration to which the Group expects to be entitled to in exchange for those services. Specifically, the Group uses a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligation(s) in the contract(s)
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligation(s) in the contract
- Step 5: Recognise revenue when (or as) the Group satisfies a performance obligation

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when “control” of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good and service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group’s performance as the Group performs;
- the Group’s performance creates or enhances an asset that the customer controls as the Group performs; or
- the Group’s performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract liability represents the Group’s obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

The Group recognises revenue from the provision of education services. For the provision of education services, revenue, including tuition fee and boarding fee (each being single performance obligations), was recognised over the relevant period of schooling semesters, i.e. over the period of time.

The progress towards complete satisfaction of a performance obligation is measured based on output method, which is to recognise revenue on the basis of direct measurements of the value of the services transferred to the customer to date relative to the remaining services promised under the contract, that best depict the Group’s performance in transferring control of services.

Upon initial application of HKFRS 15, except for certain reclassification of financial statements line items as set out in the below table, there is no other impact on the presentation and measurement or classification on the Group’s condensed consolidated financial statements.

3.1.2 Summary of effect arising from initial application of HKIFRS 15

The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position as at 1 September 2018. Line items that were not affected by the changes have not been included.

	Note	Carrying amounts previously reported as at 31 August 2018 RMB'000	Re-classification RMB'000	Carrying amounts under HKFRS 15 as at 1 September 2018 RMB'000
CURRENT LIABILITIES				
Deferred revenue	(i)	280,481	(280,481)	–
Contract liabilities	(i)	–	280,481	280,481

Note:

- At the date of initial application, the total deferred revenue of approximately RMB280,481,000 related to the consideration received from the students of schools in advance for the provision of education services. The balance was re-classified to “contract liabilities” upon application of HKFRS 15.

The following table summarises the impacts of applying HKFRS 15 on the Group’s condensed consolidated statement of financial position as at 28 February 2019 for each of the line items affected. Line items that were not affected by the changes have not been included.

	As reported RMB'000	Adjustments RMB'000	Amounts without application of HKFRS 15 RMB'000
CURRENT LIABILITIES			
Deferred revenue	–	167,243	167,243
Contract liabilities	167,243	(167,243)	–

3.2 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments

In the current period, the Group has applied HKFRS 9 and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for (i) the classification and measurement of financial assets and financial liabilities; (ii) expected credit losses (“ECL”) for financial assets; and (iii) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at the date of initial application, i.e. 1 September 2018 and has not applied the requirements to instruments that have already been derecognised as at 1 September 2018. The difference between carrying amounts as at 31 August 2018 and the carrying amounts as at 1 September 2018 are recognised in the opening accumulated profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 Financial Instruments: Recognition and Measurement.

3.2.1 Key changes in accounting policies resulting from application of HKFRS 9

Classification and measurement of financial assets

Trade receivables arising from contracts with customers are initially measured in accordance with HKFRS 15.

All recognised financial assets that are within the scope of HKFRS 9 are subsequently measured at amortised cost or fair value.

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments that meet the following conditions are subsequently measured at fair value through other comprehensive income (“**FVTOCI**”):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at fair value through profit or loss (“**FVTPL**”).

In addition, the Group may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

All recognised financial assets that are within the scope of HKFRS 9 (including other receivables, amounts due from related companies, bank balance and cash) are subsequently measured at amortised costs.

The Directors reviewed and assessed the Group’s financial assets as at 1 September 2018 based on the facts and circumstances that existed at that date and considered that there is no changes in classification and measurement of the Group’s financial assets.

Impairment under ECL model

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 including other receivables, amounts due from related companies, bank balance and cash. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL (“**12m ECL**”) represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date.

The Group measures the loss allowance equal to 12m ECL for all the financial assets, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instruments as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor’s ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor’s ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if (i) the financial instrument has a low risk of default (i.e. no default history); (ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term; and (iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Group considers that default has occurred when the instrument is more than 90 days past due, unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

As at 1 September 2018, the Directors reviewed and assessed the Group's existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirement of HKFRS 9. No additional impairment loss is recognised as at 1 September 2018.

4. REVENUE AND SEGMENT INFORMATION

The Group's revenue represents service income comprising tuition fees and boarding fees. The nature and effect of initially applying HKFRS 15 on the Group's condensed consolidated financial statements are disclosed in Note 3. For the provision of education services, revenue, including tuition fee and boarding fee (each being single performance obligations), was recognised over the relevant period of schooling semesters, i.e. over the period of time. All the contracts with customers are agreed at fixed price for a term no longer than twelve months. Tuition fees and boarding fees are generally paid in advance prior to the beginning of each school semesters.

Segment revenue and segment results

The Group's chief operating decision maker ("CODM") has been identified as the chief executive officer who reviews revenue analysis of the Group as a whole.

Information reported to the CODM, for the purposes of resources allocation and assessment of segment performance focuses on types of services provided. CODM considers the business from service perspectives whereby assesses the performance of preschool education provided by Chengdu Youshi Experimental Kindergarten* (成都幼師實驗幼兒園) (the "**Youshi Kindergarten**"), Chengdu Youshi Lidu Experimental Kindergarten* (成都幼師麗都實驗幼兒園) (the "**Lidu Kindergarten**"), Chengdu Youshi Riverside Impression Experimental Kindergarten* (成都幼師河濱印象實驗幼兒園) (the "**Riverside Kindergarten**"), Chengdu Youshi Longquan Dongshan Experimental Kindergarten* (成都幼師龍泉東山實驗幼兒園) (the "**Longquan Kindergarten**"), Chengdu Qingyang Youshi Jingjie Experimental Kindergarten* (成都青羊幼師境界實驗幼兒園) (the "**Qingyang Kindergarten**") and Chengdu High and New District Youshi Peninsula City Center Kindergarten* (成都高新區幼獅半島城邦幼兒園) (the "**Peninsula Kindergarten**") (Collectively referred to as "**Preschool Education**"), and the degree education provided by Chengdu Jinjiang District No. 1 Experimental Middle School Attached to Sichuan Normal University* (成都市錦江區四川師大附屬第一實驗中學) (the "**Jinjiang School**"), Chengdu Longquanyi District No. 1 Experimental Middle School Attached to Sichuan Normal University* (成都市龍泉驛區四川師大附屬第一實驗中學) (the "**Longquan School**"), Chengdu New Tianfu District No. 1 Experimental Middle School Attached to Sichuan Normal University ("Tianfu School"), Nanjiang Bojun School* (南江博駿學校) (the "**Nanjiang School**"), Wangcang Bojun School* (旺蒼博駿公學) (the "**Wangcang School**"), Pengzhou City Bojun School* (彭州市博駿學校) (being the Chengdu School as defined in the prospectus of the Company dated 19 July 2018) (the "**Chengdu School**") (collectively referred to as "**Degree Education**"), based on revenue generated in the course of the ordinary activities of a recurring nature. The services provided and type of customers are similar to those schools providing Preschool Education and Degree Education respectively and they are subject to similar regulatory environment. Accordingly, their segment information is aggregated as two reportable segments, i.e. Preschool Education and Degree Education. The accounting policies of the reportable segment are the same as the Group's accounting policies described in Note 3. No analysis of the Group's results nor assets and liabilities is regularly provided to the CODM for review.

The segment information provided to the CODM in respect of revenue from respective segment is as follows:

	Preschool Education RMB'000	Degree Education RMB'000	Total RMB'000
Six months ended 28 February 2019			
Tuition fees	26,096	137,402	163,498
Boarding fees	–	4,802	4,802
Total (unaudited)	26,096	142,204	168,300
Six months ended 28 February 2018			
Tuition fees	28,248	84,329	112,577
Boarding fees	–	2,626	2,626
Total (audited)	28,248	86,955	115,203

5. OTHER INCOME (EXPENSES)

	Six months ended	
	28.2.2019	28.2.2018
	RMB'000	RMB'000
	(unaudited)	(audited)
Interest income from banks	2,121	474
Imputed interest income from advances to Directors	–	1,284
Imputed interest income from advances to related companies	–	1,288
Amounts received for provision of ancillary services ⁽ⁱ⁾	20,193	14,968
Less: relevant expenses	(20,193)	(14,968)
Others, net	482	(118)
	2,603	2,928

Note:

- i. Income from ancillary services represents the services provided at the on-campus canteens.

6. OTHER GAINS AND (LOSSES)

	Six months ended	
	28.2.2019	28.2.2018
	RMB'000	RMB'000
	(unaudited)	(audited)
Loss arising on disposal of property, plant and equipment, net	(3)	(1)
Net exchange loss	(1,960)	(674)
Others	515	50
	(1,448)	(625)

7. FINANCE COSTS

	Six months ended	
	28.2.2019	28.2.2018
	RMB'000	RMB'000
	(unaudited)	(audited)
<i>Interest on:</i>		
Bank borrowings	2,548	–
Obligation under finance leases	–	53
	<u>2,548</u>	<u>53</u>

8. INCOME TAX EXPENSES

The Company and Bojun Education Investment Holdings Company Limited (the “**Bojun Investment**”) are incorporated in the Cayman Islands and BVI respectively, both jurisdictions are tax exempted.

No provision for Hong Kong Profits Tax has been made as the Group’s operation in Hong Kong had no assessable profit during the reporting period. Chengdu Tianfu Bojun Education Management Company Limited (the “**Chengdu Bojun**”) and USA Bojun Education, Inc. (the “**USA Bojun**”) had no assessable profit subject to the PRC Enterprise Income Tax (the “**PRC EIT**”) of 25% and corporate tax in the United States (the “**USA**”) respectively, since their establishment.

The Preschool Education is subject to the PRC EIT of 25%. According to announcement of the State Administration of Taxation on issues concerning Enterprise Income Tax about enhancing the Western Region Development Strategy, all preschools registered with the local tax authority are eligible to the reduced 15% PRC EIT rate.

Pursuant to the PRC Income Tax Law and the respective regulations, the other companies of the Group which operate in the PRC are subject to the PRC EIT at a rate of 25% on its taxable income.

	Six months ended	
	28.2.2019	28.2.2018
	RMB'000	RMB'000
	(unaudited)	(audited)
Tax expense comprises:		
Current tax – PRC EIT	3,357	11,472
Deferred tax	(2,479)	(10,645)
	<u>878</u>	<u>827</u>

9. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at after charging:

	Six months ended	
	28.2.2019	28.2.2018
	RMB'000	RMB'000
	(unaudited)	(audited)
Directors' and chief executive's remuneration	814	507
Other staff costs		
– Salaries and other benefits	80,569	46,809
– Staff welfare	12,664	6,969
– Retirement benefit schemes		
– defined contributions benefits	6,449	4,095
– defined benefits	498	588
Total staff costs	100,994	58,968
Royalty fee (included in “costs of services”)	7,255	5,262
Depreciation of property, plant and equipment	11,791	10,831
Release of prepaid lease payments	1,821	887
Auditor's remuneration	1,340	1,172

10. EARNINGS PER SHARE

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

	Six months ended	
	28.2.2019	28.2.2018
	RMB'000	RMB'000
	(unaudited)	(audited)
Profit for the period attributable to the owners of the Company	9,441	9,601
Weighted average number of ordinary Shares issued	823,510	600,000

During the six months ended 28 February 2019 and 2018, no diluted earnings per share was presented as there were no potential dilutive Shares outstanding.

11. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

Trade and other receivables comprise the following:

	28.2.2019 RMB'000 (unaudited)	31.8.2018 RMB'000 (audited)
Deposits ⁽ⁱ⁾	25,130	25,321
Prepayments	11,431	10,195
Loan to a non-controlling shareholder of a subsidiary ⁽ⁱⁱ⁾	9,500	8,000
Advances to staff	1,968	2,439
Others	825	59
Total	48,854	46,014
Less: deposits presented under non-current assets	(24,958)	(24,958)
Presented under current assets	23,896	21,056

Notes:

- i. As at 28 February 2019, the balance mainly represents the non-interesting bearing deposits placed to local government authorities for the purpose of establishment of a new school campus amounting to approximately RMB9,145,000 (31 August 2018: approximately RMB6,761,000) and refundable deposits placed to a local government authority for acquisition of a parcel of land for the purposes of establishment and development of new school campus amounting to approximately RMB12,500,000 (31 August 2018: approximately RMB12,500,000).
- ii. The balance is non-interesting bearing, unsecured and without a fixed repayment term.

12. OTHER PAYABLES AND ACCRUALS

	28.2.2019 RMB'000 (unaudited)	31.8.2018 RMB'000 (audited)
Payables for property, plant and equipment	71,597	138,306
Miscellaneous expenses received from students ⁽ⁱ⁾	53,324	45,734
Royalty fees payable	44,620	37,364
Advance from a third party	–	20,000
Payroll payable	16,920	12,209
Accrued expenses	7,446	6,184
Other tax payable	1,073	990
Others	7,035	6,929
	202,015	267,716

Note:

- i. The amount represents miscellaneous expenses received from students which will be paid out on behalf of students or refund for any excess.

13. CONTRACT LIABILITIES

	28.2.2019 RMB'000 (unaudited)	1.9.2018 ⁽ⁱ⁾ RMB'000 (audited)
Tuition fees	162,608	273,358
Boarding fees	4,635	7,123
	167,243	280,481

Note:

- i. The amounts in the column are after adjustment from the application of HKFRS 15 (Note 3.1.1). The amount with the same nature as at 31 August 2018 is presented as deferred revenue on the face of the condensed consolidated statement of financial position.

14. BORROWINGS

	28.2.2019 RMB'000 (unaudited)	31.8.2018 RMB'000 (audited)
Unsecured bank borrowings with corporate guarantee ⁽ⁱ⁾	110,000	60,000
<i>Analyzed as:</i>		
Carrying amount repayable within one year	110,000	60,000

Note:

- i. As at 28 February 2019 and 31 August 2018, the unsecured bank borrowings bear variable interest at 140% of the benchmark interest rate of the People's Bank of China.

15. DEFERRED INCOME

The carrying amounts represents a government subsidy received for the compensation of capital expenditures incurred for the prepaid lease payment. The amount is deferred and amortised over the estimated useful lives of the respective assets.

SCOPE OF WORK OF DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's condensed consolidated statement of financial position, condensed consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the six months ended 28 February 2019 as set out in this announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's condensed consolidated financial statements for the period. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Deloitte Touche Tohmatsu on the preliminary announcement.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Overview

Rising number of births in China coupled with parents' stronger willingness and financial ability to spend on their children's education have continued to provide driving force for the demand for private education services and the development of the market of private education. In recent years, the total student enrolment of private fundamental education in Sichuan Province has maintained a stable increasing trend.

We are one of the leading private education service providers in Chengdu, Sichuan Province, China, with a track record of providing private education services for over 17 years. We offer education services to students in different age groups ranging from kindergarten to high school at our schools. The core educational curriculums of our primary schools to our middle and high schools are designed based on the standards set by the PRC national and provincial educational authorities in China. The curriculums are primarily formulated towards the Senior High School Entrance Examination for middle-school students and the National Higher Education Entrance Examination for high-school students.

We aim to provide all-round quality education services to our students and nurture them to excel in academics by offering them with vibrant learning opportunities. We also develop our students' skills in communication, creativity and collaboration.

Business development during the reporting period

In September 2018, we had a total of three new schools comprising a primary school, a middle school and a high school operated in a "through-train" mode under the brand of "Bojun School", namely Nanjiang School, Wangcang School, and Chengdu School. These schools commenced operation with initial intake of students mainly in the primary school and middle school. Among them, Nanjiang School and Wangcang School were newly established and wholly-owned by the Group, while Chengdu School was jointly operated with an independent third party.

In September and November 2018, we entered into cooperation agreements with the local governments of Sichuan Province, including (i) the local government of Zhongjiang County (中江縣) of Deyang City (德陽市); and (ii) Neijiang High and New Technology Industrial Zone Management Committee* (內江高新技術產業園區管理委員會), respectively, to establish new schools by way of acquisition of land. For further details, please refer to the Company's announcements dated 2 October 2018 and 7 November 2018.

Our Schools

As at 28 February 2019, we operated six kindergartens, one primary and middle school, two middle schools and one middle and high school in Chengdu, Sichuan Province, and operated one primary and middle school in each of Bazhong City (巴中市) and Guangyuan City (廣元市) of Sichuan Province, respectively.

	Number of schools As at 28 February			
	2019	2018	Change	Change Percentage
Kindergarten division	6	6	–	–
Primary school division	3	–	+3	N/A
Middle school division	6	3	+3	100%
High school division	1	1	–	–
Total	16	10	+6	+60%

Our Students

As at 28 February 2019, we had an aggregate enrolment of 10,325 students, including 1,355 kindergarten students, 1,304 primary school students, 7,110 middle school students and 556 high school students. The following table sets forth information relating to the student enrolment of our schools at different educational stages as at the dates indicated:

	Number of students As at 28 February			
	2019	2018	Change	Change Percentage
Kindergartens	1,355	1,525	–170	–11.1%
Primary schools	1,304	–	+1,304	N/A
Middle schools	7,110	5,269	+1,841	34.9%
High schools	556	327	+229	70.0%
Total	10,325	7,121	+3,204	45.0%

Teachers and Teacher Recruitment

As at 28 February 2019, we had an aggregate of 903 teachers, including 121 kindergarten teachers, 111 primary school teachers, 618 middle school teachers and 53 high school teachers. The following table sets forth the comparative information relating to the number of teachers at our schools at different educational stages as at the dates indicated:

	Number of teachers		Change	Change Percentage
	As at 28 February 2019	2018		
Kindergartens	121	137	-16	-11.7%
Primary schools	111	-	+111	N/A
Middle schools	618	411	+207	50.4%
High schools	53	32	+21	65.6%
Total	903	580	+323	55.7%

Note: Excluding teachers engaged in administrative duties only.

We manage our teacher-to-student ratio based on the level of our student enrolments, our education plans and activities and the needs of our students. We review the teacher-to-student ratio of each of our schools from time to time to ensure that we can maintain high-quality educational programmes and services.

The following table sets forth the teacher-to-student ratio of our schools at different educational stages as at the dates indicated:

	Teacher-to-student ratio	
	As at 28 February 2019	2018
Kindergartens	1:11.20	1:11.13
Primary schools	1:11.75	N/A
Middle schools	1:11.50	1:12.82
High schools	1:10.49	1:10.22

Note:

The teacher-to-student ratio is arrived at by dividing the student enrolment of a school by the number of teachers employed by such school.

Teacher Retention Rate

In order to retain high-caliber teachers, we offer competitive remuneration package and our teachers are also entitled to performance bonuses, which are determined based on the quality of teaching as assessed by the Group. We believe we have maintained a good working relationship with our teachers and enjoyed a high retention rate.

The following table sets forth the teacher retention rate of our schools at different period:

	Teacher retention rate Six months ended 28 February	
	2019	2018
Kindergartens	94.4%	86.8%
Primary schools	100.0%	N/A
Middle schools	97.4%	98.0%
High schools	100.0%	97.1%

Note:

The retention rate is calculated based on the total number of teachers at our schools at the beginning of a school year minus the total number of teachers who voluntarily resign from our schools during the corresponding period, divided by the total number of teachers at our schools at the beginning of a school year.

Tuition and Boarding Fees

For the primary, middle and high schools, our tuition fees for the 2017/2018 school year and the 2018/2019 school year ranged from RMB22,000 to RMB46,000 per student per year. For boarding students, a boarding fee of RMB1,200 per student per year was also charged. The tuition fees of the kindergartens for the 2017/2018 school year and the 2018/2019 school year ranged from RMB26,160 to RMB56,160 per student per year. The following table sets forth the average tuition fee and boarding fee per student of our schools at different educational stages for the periods indicated:

	Average fee Six months ended 28 February			
	2019	2018	Change	Change Percentage
	<i>RMB per student</i>	<i>RMB per student</i>		
Kindergartens	19,755	18,337	+1,418	+7.7%
Primary schools	13,573	N/A	N/A	N/A
Middle schools	16,430	15,547	+883	+5.7%
High schools	14,800	14,005	+795	+5.7%

School Capacity and Utilisation Rate

Enrolment and Capacity

With increasing demand for quality private education from parents in China, our schools experienced significant growth in capacity and enrolment in recent years.

The utilisation rate of our schools is affected by a number of factors, such as the number of applications received by our schools, the availability of our facilities, the marketing activities of our schools and competition from public and private schools in Sichuan Province. The following table sets forth information relating to student enrolment, capacity and school utilisation rates of our schools at different educational stages as at the dates indicated:

School capacity⁽¹⁾ and utilisation rate						
As at 28 February						
	Enrolment⁽¹⁾		Student capacity⁽²⁾		School utilisation rate⁽³⁾(%)	
	2019	2018	2019	2018	2019	2018
Kindergartens	1,355	1,525	1,865	1,865	72.7	81.8
Primary schools	1,304	N/A	1,680	N/A	77.6	N/A
Middle schools	7,110	5,269	7,155	5,762	99.4	91.4
High schools	556	327	630	360	88.3	90.8
Total	10,325	7,121	11,330	7,987	91.1	89.2

Notes:

- (1) The student enrolment information was based on the internal records of our schools.
- (2) For our primary schools, middle schools and high schools, the capacity is calculated based on the number of classrooms (excluding special-purpose rooms) in each school and the number of students that each classroom can accommodate or the capacity of the student dormitories. For the kindergartens, the capacity is calculated based on the number of classrooms (excluding special-purpose rooms) of each kindergarten and the class size determined by our Group with reference to the maximum number of students to be accommodated by each classroom for first-tier kindergartens as stipulated by the education authorities in Chengdu.
- (3) The school utilisation rate is calculated by dividing the number of students enrolled at a school by the capacity for students of the school.

OUTLOOK

Development Trends in the Private Fundamental Education Industry in Sichuan Province and Chengdu

- **Increasing Penetration:** The demand for private fundamental education in Sichuan Province and Chengdu is likely to increase in the coming future. Parents from the younger generation put a special emphasis on all-round development in their children's education, and private schools that possess abundant resources to offer a wide array of extra-curricular activities and programmes are expected to benefit from this trend. Meanwhile, more students choose to enrol in private schools because of the improving quality of teaching in private education in Sichuan Province and Chengdu.

- **Local Brand Development:** Another key trend is the expected rise of more strong local education brands. Sichuan Province and Chengdu lag behind developed regions in the development of private fundamental education. Hence, the local private education market has been rather fragmented. However, along with economic development, improvements in policy environment and the increasing experience gained by local educational institutions, local brands are expected to rapidly develop with the rise of local market leaders that are highly competitive in resource integration and commercial operations.
- **Differentiation:** With continuous development in the private fundamental education market in Sichuan Province and Chengdu, the competition among private schools and between private schools and public schools is expected to further intensify. Compared with developed markets such as Beijing and Shanghai, private fundamental education in Sichuan Province and Chengdu lacks differentiation from public education. In the future, private education is expected to develop more unique features, such as foreign language, sports and art programmes and an international environment.
- **Industry Consolidation:** The education market in Sichuan Province and Chengdu is also undergoing reform. A large number of ownership transfers and mergers and acquisitions have been taking place and increasing consolidation is expected in the market. The rise and further development of leading private education operators are based primarily on a strategy of organic growth.

OUR BUSINESS DEVELOPMENT STRATEGIES AND PLANS

Our aim is to maintain and cement our leading position in the private education market in Chengdu and further expand the geographic coverage of our school network in Sichuan Province, China. To achieve this aim, we plan to pursue the following business strategies:

- (a) **Extend our geographic coverage in Sichuan Province, China through the further expansion of our school network by way of market penetration and market diversification**
 - 1) Establishing new schools by purchasing land use rights in Sichuan Province: We intend to expand our school network by purchasing land use rights in Sichuan Province and establishing new schools when we identify appropriate opportunities.
 - In September 2018, we established Nanjiang School, named as Nanjiang Bojun School* (南江博駿學校) in Nanjiang County (南江縣), Bazhong City (巴中市), Sichuan Province with initial intake of primary school and middle school students, after acquisition of land use rights. The high school is expected to commence operation in September 2021. The estimated total student enrolment of such school is approximately 3,200 students.
 - In September 2018, we established Wangcang School, named as Wangcang Bojun School* (旺蒼博駿公學) in Wangcang County (旺蒼縣), Guangyuan City (廣元市), Sichuan Province with initial intake of primary school and middle school students, after acquisition of land use rights. The high school is expected to commence operation in September 2021. The estimated total student enrolment of such school is approximately 4,000 students.

- In December 2017, we entered into an educational project investment agreement with the local government of Lezhi County (樂至縣) of Ziyang City (資陽市), a prefecture-level city of Sichuan Province, pursuant to which we established, by way of the acquisition of land use rights, Lezhi Bojun School* (樂至博駿公學) (the “**Lezhi School**”). Lezhi School comprises a kindergarten, a primary school, a middle school and a high school operated in a “through-train” mode under the brand of “Bojun School”. Lezhi School is expected to commence operation in September 2019 with intake of students for the primary school and grade seven (in the middle school division). The high school is expected to commence operation in September 2022. The estimated total student enrolment of such school is approximately 3,200 students.
 - In September 2018, we entered into an educational project investment agreement with the local government of Zhongjiang County (中江縣) of Deyang City (德陽市), a prefecture-level city of Sichuan Province, pursuant to which we established, by way of the acquisition of land use rights, Zhongjiang School. Zhongjiang School comprises a primary school, a middle school and a high school operated in a “through-train” mode under the brand of “Bojun School”. Zhongjiang School is expected to commence operation in September 2020 with intake of students for the primary school and grade seven (in the middle school division). The high school is expected to commence operation in September 2023. The estimated total student enrolment of such school is approximately 4,500 students.
 - In November 2018, we entered into an educational project investment agreement with Neijiang High and New Technology Industrial Zone Management Committee* (內江高新技術產業園區管理委員會), pursuant to which we established, by way of the acquisition of land use rights, Neijiang School in Neijiang High and New Technology Zone, Sichuan Province. Neijiang School comprises a primary school, a middle school and a high school operated in a “through-train” mode under the brand of “Bojun School”. Neijiang School is expected to commence operation in September 2020 with intake of students for the primary school and grade seven (in the middle school division). The high school is expected to commence operation in September 2023. The estimated total student enrolment of such school is approximately 4,000 students.
- 2) In addition to developing new schools by acquiring land use rights, we also establish new schools through cooperation with third-party business partners:
- In July 2017, we entered into a cooperation agreement with the Shuangquan Village Committee of Wanan Street of Tianfu New District (天府新區萬安街道雙泉村村民委員會) in Chengdu in relation to a joint project for the expansion of Tianfu School campus and school premises. We will also start a high school section at Tianfu School with an estimated enrolment of approximately 960 students. Subject to approval by and registration with relevant PRC authorities, the new high school section is expected to commence operation on 1 September 2019.

- In September 2018, we jointly established the Chengdu School with an independent third party (the “**School Investor**”) with initial intake of primary school and middle school students. The high school is expected to commence operation in September 2021. The estimated total student enrolment of such school is approximately 4,000 students. Chengdu Mingxian Education Investment Company Limited* (成都銘賢教育投資有限公司), a consolidated affiliated entity of our Company, and the School Investor act as the joint school sponsors of Chengdu School and own 51% and 49% of sponsor interests, respectively.
- In January 2018, we entered into a memorandum of understanding with Excelsior School System Inc. (the “**US Partner**”) to expand our school network abroad. The US Partner is engaged in the provision of private high school education services in California for grades 9-12 students and is an accredited school of the Western Association of Schools and Colleges. Pursuant to the memorandum of understanding, our Group and the US Partner will set up a joint venture to establish a school (the “**US School**”), being a for-profit private international school in the Los Angeles area offering grades 7-12 education service. The joint venture will be owned by our Group as to 70% and the US Partner as to 30%. We will provide funding for the operation and purchase of facilities and will be involved in the planning of teaching programmes to be offered by the US School. The US Partner will provide management services to the US School, assist our Group in identifying school premises and recruit teachers for the US School.

The following table provides a summary of the estimated capacities of the new school premises to be opened in September 2019 and September 2020:

School premises	Date of commencement⁽¹⁾	Estimated capacities for students
Tianfu School (High school division)	September 2019	960
Lezhi School	September 2019	3,200
Zhongjiang School	September 2020	4,500
Neijiang School	September 2020	4,000
US School	September 2020	240
Total		12,900

Note:

- (1) The commencement of schools is subject to, among other things, successful acquisition of land (where applicable), approval by registration with relevant authorities and the progress of construction work. Therefore, the aforesaid new schools may or may not be opened according to our plans.

(b) Increase the student enrolment level of our existing schools

We intend to increase the student enrolment level of our existing schools, in particular the schools newly established in recent years. Since certain of our construction investments and operation costs are fixed, we believe that our financial results would be significantly improved if we are able to enrol more students at such schools. To achieve this objective, we plan to continue to publish our application information and admission requirements on the Internet and social media platforms.

The following table provides a summary of our schools in operation as at 28 February 2019 and their estimated capacity:

School premises	Student at school February 2019	Estimated capacity for students
Jinjiang School	3,038	3,300
Longquan School	2,465	3,500
Tianfu School ⁽³⁾	1,637	2,000
Nanjiang School ⁽¹⁾	400	3,200
Wangcang School ⁽¹⁾	466	4,000
Chengdu School ⁽¹⁾	964	4,000
Affiliated kindergartens ⁽²⁾	1,355	1,865
Total	10,325	21,865

Notes:

(1) New schools opened in September 2018

(2) Including 6 kindergartens in Chengdu, namely, Youshi Kindergarten, Lidu Kindergarten, Riverside Kindergarten, Longquan Kindergarten, Qingyang Kindergarten and Peninsula Kindergarten.

(3) Middle school section

(c) Provide private education services in a “through-train” mode under our new brand of Bojun School (博駿公學)

Leveraging on over 17 years’ experience in the private education industry and success in replicating our business model for the management of private schools, we have successfully expanded our school network under our new brand of Bojun School (博駿公學) by adopting our existing teaching management system and administration system to provide primary school, middle school and high school education services in a “through-train” mode, so that we could increase market opportunities in the private education industry, enhance the continuity of our curriculum and strengthen support for students to the benefit of their growth and development.

(d) Consistently provide high-quality education services and maintain a strong team of experienced and qualified teaching team

We plan to consistently provide high-quality education services to our students and continue to focus on the quality of the education services we provide. We will broaden the knowledge base and enrich the learning experience of our students, so as to achieve outstanding academic performance.

Accordingly, the quality of our teaching team is crucial for maintaining and enhancing the quality of our education services. We will retain a strong team of experienced and qualified teachers and other teaching staff and improve their teaching quality by arranging various training for them in respect of teaching theories and methodologies. We also intend to attract and retain well-qualified teachers by providing sound career advancement opportunities and competitive remuneration packages.

(e) Enhance our profitability by optimizing our pricing ability and improving our services

In order to optimise our pricing ability, we will enhance our services by upgrading and improving the campus facilities and increasing the variety of our extra-curricular activities. We will proactively apply for adjustment of our tuition fees level after taking into account the general market conditions and the costs of our operations. Such adjustment is subject to approval by the relevant PRC regulatory authorities.

Environment, Health and Safety

The Group's business has not violated applicable environmental laws and regulations of the PRC in any material aspect.

The Group is dedicated to protecting the health and safety of our students. The Group has onsite medical staff or health care personnel at each of our schools to deal with minor medical situations involving our students. For any serious emergency medical situations, we will promptly send our students to local hospitals for medical treatment. Regarding security at our schools, we have employed qualified property management companies to provide property security services at our school premises.

So far as the Board and the Company's management are aware of, the Group is in compliance with the relevant laws and regulations that have a significant impact on the Group's businesses and operations in all material aspects. There was no material violation of or non-compliance with applicable laws and regulations by the Group during the reporting period.

Latest Regulatory Developments

- (i) On 20 April 2018, the Ministry of Education of the PRC issued the “Implementation Rules for the Private Education Law of the PRC (Amendment Bill) (Draft for Comment)”* (《中華人民共和國民辦教育促進法實施條例(修訂草案)(徵求意見稿)》) (the “**Draft for Comment**”) to solicit public views. On 10 August 2018, the Ministry of Justice of the PRC announced the “Implementation Rules for the Private Education Law of the PRC (Amendment Bill) (Submission Draft)”* (《中華人民共和國民辦教育促進法實施條例(修訂草案)(送審稿)》) (the “**Amendment Bill**”) for consultation on the basis of the Draft for Comment. As advised by our PRC legal advisor in respect of PRC laws, the Amendment Bill has yet to be promulgated or enacted in the PRC. The Company will continue to monitor developments of the Amendment Bill and related laws and regulations.
- (ii) In the “Implementation Opinions on Encouraging the Operation of Education by Social Forces and Promoting the Healthy Development of Private Education” (Chuan Fu Fa 2018 No. 37)* (《關於鼓勵社會力量興辦教育促進民辦教育健康發展的實施意見》(川府發2018 37 號)) (the “**Sichuan Implementation Opinion**”) announced by Sichuan People’s Government on 17 September 2018, it is stipulated that the school sponsors of existing private schools shall submit an election of the nature of schools operated in writing to the competent authorities by 1 September 2020, and schools that fail to submit such information by the stipulated timeline shall not be eligible for election as for-profit private schools. Schools that have elected to be not-for-profit private schools shall complete relevant procedures by 1 September 2021. Schools that have elected to be for-profit private schools shall complete relevant procedures by 1 September 2023 in case of private schools offering tertiary formal education, or by 1 September 2022 in case of other schools. Currently/As at the date of this announcement, all the schools operated by us have been registered as not-for-profit private schools. As the Sichuan Implementation Opinion does not provide for any specific procedures or rules relating to the conversion of existing private schools to for-profit schools or not-for-profit schools and the relevant authorities in Sichuan Province has not promulgated other implementation rules or detailed guidance, the Group’s schools have yet to complete the new election and registration procedures under the Sichuan Implementation Opinion as at the date of this announcement. The Company’s PRC legal advisor is of the view that our schools in operation will not violate the Sichuan Implementation Opinion and related laws and regulations as a result of not electing and registering their types for the time being.
- (iii) On 15 November 2018, the Central Committee of the Communist Party of China and the State Council of the PRC jointly issued “Certain Opinions on Deepening the Reform and Regulating the Development of Pre-school Education”* (《關於學前教育深化改革規範發展的若干意見》) (the “**Opinions**”). Pursuant to the Opinions, among other things, private companies should not control not-for-profit kindergartens through contractual arrangements. As at the date of this announcement, the Group operates six not-for-profit kindergartens through contractual arrangements, which account for approximately 15.5% of the Group’s revenue for the six months ended 28 February 2019 and approximately 13.1% of the Group’s total number of students enrolled as at 28 February 2019. The Company is closely monitoring and seeking legal advice on the Opinions and will take all reasonable steps to comply with the Opinions as it may be advised.

As at the date of this announcement, the Group's operations have not been affected by the above Opinions and regulatory policies. Based on the current conditions and Company's preliminary assessment, the Board is of the view that above Opinions and regulations do not have an immediate material adverse impact on the Group's operation and financial conditions.

In addition, the Foreign Investment Law of the PRC* (《中華人民共和國外商投資法》) (the “**Foreign Investment Law**”) was passed and issued by the National People's Congress of the PRC on 15 March 2019, and will become effective on 1 January 2020. The Foreign Investment Law defines foreign investment as the investment activities conducted by foreign investors directly or indirectly in the PRC, and sets forth the situations that should be regarded as foreign investment. Meanwhile, it introduces pre-establishment national treatment with a negative list for foreign investment. Foreign investors shall not invest in any field prohibited by the negative list for foreign investment, while for any field with investment restricted by the negative list, foreign investors shall meet the investment conditions stipulated under the negative list. Any field that does not fall within the negative list shall be administered under the principle of equal treatment to domestic and foreign investment. There is no provision in the Foreign Investment Law that expressly mentions “actual control” or “contractual arrangement”. Nevertheless, whether further laws and regulations will be promulgated in this regard is not certain. Therefore, there exist uncertainties in relation to whether the structure under contractual arrangement will be included in the regulatory scope of foreign investment and, if it is included in the regulatory scope, how it will be regulated. As at the date of this announcement, the Company's operation has not been affected by the Foreign Investment Law. The Company will closely monitor the developments of the Foreign Investment Law and the relevant laws and regulations.

The Company will continue to monitor developments of above Opinions and related laws and regulations, and will make further announcements in respect thereof in accordance with the requirements of the Listing Rules as and when appropriate.

Compliance with the Qualification Requirement

According to the Regulations on Operating Sino-foreign Schools* (《中外合作辦學條例》), the foreign investor in a sino-foreign joint venture private school must be a foreign educational institution which has acquired relevant qualifications and experience in a foreign country (the “**Qualification Requirement**”). As part of our effort to fulfill the Qualification Requirement, we have adopted specific plans and taken concrete steps reasonably considered by us to be significant to indicate our compliance with the Qualification Requirement. On 19 August 2016, we established US Bojun as an operating entity in the United States. On 29 January 2018, we entered, through US Bojun, into a memorandum of understanding with the US Partner, an institution which has extensive experience in the provision of private education services in the US, to expand our school network abroad. Pursuant to the memorandum of understanding, our Group and the US Partner will set up a joint venture for the establishment of the US School in the Los Angeles area. The joint venture will be owned by our Group as to 70% and the US Partner as to 30%. We will provide funding for the operation and the purchase of facilities, and will be involved in the design of the education programmes to be offered by the US School. The US Partner will provide management services to the US School, assist our Group in identifying school premises and recruiting teachers for the US School. We intend to allocate approximately US\$3.2 million for the purpose of establishing the US School. We

intend to meet part of such capital expenditure by utilising approximately RMB12.9 million (equivalent to approximately US\$1.9 million) from the net proceeds from the listing of the Share on the Main Board of the Stock Exchange (the “**Listing**”) and the remainder through equity and/or debt financing and/or with our internal funds, as and when we see fit. As at the date of this announcement, we were in the process of identifying a suitable site for the US School.

The Group’s PRC legal advisor indicated to the Group that the relevant regulatory developments and guidance related to the Qualification Requirement have not changed as at the date of this announcement.

FINANCIAL REVIEW

Revenue

We derive revenue from tuition fees and boarding fees our schools collected from our students. The following table sets forth the breakdown of major components of the revenue for the periods indicated:

	Six months ended 28 February			
	Percentage of		Percentage of	
	2019	total	2018	total
	RMB’000	%	RMB’000	%
	(unaudited)		(audited)	
Tuition fees				
– Preschool Education	26,096	15.5	28,248	24.5
– Degree Education	137,402	81.6	84,329	73.2
Sub-total	163,498	97.1	112,577	97.7
Boarding fees	4,802	2.9	2,626	2.3
Total	168,300	100.0	115,203	100.0

Our revenue increased by approximately RMB53.1 million or 46.1% from approximately RMB115.2 million for the six months ended 28 February 2018 to approximately RMB168.3 million for the six months ended 28 February 2019. The increase was mainly attributable to the increased total student enrolment level, which resulted in an increase in tuition and boarding fees.

Student enrolment level in our schools increased by approximately 45% from 7,121 as at 28 February 2018 to 10,325 as at 28 February 2019, mainly due to the official commencement of Nanjiang School, Wangcang School and Chengdu School with intake of students in the current school year, and the increase in student enrolment in the existing schools of the Group.

Costs of services

Our costs of services primarily consist of staff costs, depreciation, cost of cooperative education, rental expenses and other costs. For the six months ended 28 February 2018 and 2019, our costs of services represented approximately 73.8% and 74.5% of our total revenue, respectively. The table below sets forth the breakdown of the major components of our costs of services for the periods indicated:

	Six months ended	
	28 February	
	2019	2018
	RMB'000	RMB'000
	(unaudited)	(audited)
Staff costs	82,507	49,751
Depreciation and amortisation	11,046	10,583
Royalty fees	7,255	5,262
Rental and management fees	9,666	10,945
Office expenses	7,455	3,304
Repair and maintenance	1,814	279
Utilities expenses	1,243	1,362
Training expenses	1,661	1,236
Others	2,772	2,291
Total	125,419	85,013

Our costs of services increased by approximately RMB40.4 million or 47.5% from approximately RMB85.0 million for the six months ended 28 February 2018 to approximately RMB125.4 million for the six months ended 28 February 2019. The increase was primarily attributable to the commencement and expansion of three new schools, namely Nanjiang School, Wangcang School and Chengdu School during the current period, which resulted in the significant increase in the number of schools and number of students, and hence the increase in the number of teachers we employed, the depreciation and management fees for school buildings, the rental and management fees of the school premises and related operating costs, among which:

- (i) staff costs increased by approximately RMB32.7 million or 65.7% from approximately RMB49.8 million for the six months ended 28 February 2018 to approximately RMB82.5 million for the six months ended 28 February 2019, primarily because (i) the number of teachers and teaching assistants we hired increased significantly during the period ended 28 February 2019; and (ii) we offered more competitive remuneration packages to attract and retain high quality teachers and teaching assistants during the six months ended 28 February 2019.
- (ii) depreciation and amortisation expenses increased by approximately RMB0.4 million or 3.8% from approximately RMB10.6 million for the six months ended 28 February 2018 to approximately RMB11.0 million for the six months ended 28 February 2019.

- (iii) royalty fees increased by approximately RMB2.0 million or 37.7% from approximately RMB5.3 million for the six months ended 28 February 2018 to approximately RMB7.3 million for the six months ended 28 February 2019, due to the increase in tuition fees income as a result of the adjustment of the tuition fees level of Jinjiang School, Longquan School and Tianfu School in the current period and the increased number of students enrolled in the related schools, as well as the increase in applicable royalty rate.
- (iv) rental and management fees decreased by approximately RMB1.2 million or 11.0% from approximately RMB10.9 million for the six months ended 28 February 2018 to approximately RMB9.7 million for the six months ended 28 February 2019, primarily because of the decrease in property rental expenses which Tianfu School incurred for student residence in the current period.

In addition, our costs of services such as office expenses, utilities expenses and training expenses increased in line with the expansion in scale of the schools operated by the Group.

Gross profit and gross profit margin

The following table sets forth the breakdown of the segment revenue, gross profits and gross profit margins for the periods indicated:

	Six months ended 28 February					
	2019			2018		
	Segment revenue RMB'000	Gross profit RMB'000	Gross profit margin %	Segment revenue RMB'000	Gross profit RMB'000	Gross profit margin %
Degree Education	142,204	36,941	26.0	86,955	22,705	26.1
Preschool Education	26,096	5,940	22.8	28,248	7,485	26.5
Total	<u>168,300</u>	<u>42,881</u>	<u>25.5</u>	<u>115,203</u>	<u>30,190</u>	<u>26.2</u>

Gross profit margin of Degree Education decreased from approximately 26.1% for the six months ended 28 February 2018 to approximately 26.0% for the six months ended 28 February 2019. The decrease in gross profit margin was mainly because (i) gross profit margin of Jinjiang School, Longquan School and Tianfu School increased steadily as the tuition fees and student enrolment of these schools further increased; which was partially offset by (ii) the student enrolment level of the two new schools, being Nanjiang School and Wangcang School, has yet reached the breakeven level in the initial commencement of operation, resulting in costs of services being higher than the tuition fees income.

Gross profit margin of Preschool Education decreased from approximately 26.5% for the six months ended 28 February 2018 to approximately 22.8% for the six months ended 28 February 2019. The decrease in gross profit margin was mainly attributable to (i) the decrease in revenue as a result of the decrease in the number of students; and (ii) higher remuneration package offered to retain high quality teaching staff of our kindergartens which resulted in an increase in the staff costs of our kindergartens for the six months ended 28 February 2019.

Other income and (expenses)

For the six months ended 28 February 2019, our other income and (expenses) primarily consist of interest income from banks.

Other gain and (losses)

For the six months ended 28 February 2019, our other gain and (losses) primarily comprise net foreign exchange loss.

Administrative expenses

Administrative expenses primarily consist of administrative staff costs, office expenses, entertainment expenses, motor vehicle expenses, depreciation, handling charges and certain other administrative expenses. Other administrative expenses generally include staff travel expenses, management meetings expenses and welfare expenses.

Our administrative expenses increased by approximately RMB15.5 million or 102.6% from approximately RMB15.1 million for the six months ended 28 February 2018 to approximately RMB30.6 million for the six months ended 28 February 2019, mainly attributable to the staff costs arising from the expansion of the Group's business scale and the increase in the number of administrative staff, and the increase in administrative operating expenses.

Finance costs

Our finance costs primarily consist of bank borrowings and obligation under finance leases.

Our finance costs increased by approximately RMB2.4 million or 2,400.0% from approximately RMB0.1 million for the six months ended 28 February 2018 to approximately RMB2.5 million for the six months ended 28 February 2019, primarily attributable to the increase in size of loan facilities to meet the increase in working capital requirements due to the expansion in scale of our schools for the six months ended 28 February 2019.

Taxation

Our income tax expenses for the six months ended 28 February 2018 and 2019 amounted to approximately RMB0.8 million and RMB0.9 million, respectively.

Profit for the period

Our profit for the period increased by approximately RMB0.4 million or 4.2% from approximately RMB9.6 million for the six months ended 28 February 2018 to approximately RMB10.0 million for the six months ended 28 February 2019, which is primarily attributable to (i) the increase in revenue due to the significant increase in the number of student enrolled in the 2018/2019 school year and was partially offset by the initial costs of services of the newly established Nanjiang School and Wangcang School commencing operation and student

enrolment which exceeded the tuition fees by approximately RMB4.5 million; (ii) the increase in management staff costs and administrative expenses by approximately RMB15.5 million due to the expansion in scale of our schools operated by the Group; and (iii) the increase in finance costs by approximately RMB2.5 million to meet the increase in working capital requirements due to the expansion in scale of our schools.

Contract liabilities

We record tuition fees and boarding fees collected initially as a liability under contract liabilities and recognise such amounts as revenue proportionately over the relevant period of the applicable programme. Our contract liabilities decreased by approximately RMB113.3 million or 40.4% from approximately RMB280.5 million as at 31 August 2018 to approximately RMB167.2 million as at 28 February 2019. The decrease was primarily due to the completion of provision of education services corresponding to the fees collected by our schools.

Adjusted net profit

The adjusted net profit eliminates the effect of certain non-cash or one-off items, including imputed interest income from advances to related companies, imputed interest income from advances to Directors and the listing expenses. The term adjusted net profit is not defined under the HKFRS. As a non-HKFRS measure, adjusted net profit is presented because our management believes such information will be helpful for investors in assessing the effect of imputed interest income and listing expenses on our net profit.

The following table reconciles our adjusted net profit for the periods presented to the most directly comparable financial measure calculated and presented in accordance with the HKFRS:

	Six months ended	
	28 February	
	2019	2018
	RMB'000	RMB'000
	(unaudited)	(audited)
Profit for the period	10,027	9,601
Less:		
Imputed interest income from advances to related companies	–	(1,288)
Imputed interest income from advances to Directors	–	(1,284)
Add:		
Listing expenses	–	6,922
Adjusted net profit	10,027	13,951

LIQUIDITY AND CAPITAL RESOURCES

During the reporting period, we have principally financed our operations through a combination of internally generated cash flows from our operations, proceeds from the Listing and short-term bank borrowings. The short-term bank borrowings amounted to RMB110.0 million as at 28 February 2019, and have a variable interest at 140% of the benchmark interest

rate of the People's Bank of China. Our cash and cash equivalents amounted to approximately RMB607.1 million and RMB242.2 million as at 31 August 2018 and 28 February 2019, respectively.

We generally deposit our excess cash in interest-bearing bank accounts.

Our principal uses of cash have been for funding working capital, purchase of property, plant and equipment and other recurring expenses to support the expansion of our operations. Going forward, we believe our liquidity requirements will be satisfied by using fund from a combination of internally generated cash, external borrowings and other funds raised from the capital markets from time to time.

We regularly monitor our liquidity requirements to ensure that we maintain sufficient cash resources for working capital and capital expenditure needs. For the six months ended 28 February 2019, we did not experience any difficulties in settling our obligations in the normal course of business, which would have had a material impact to our business, financial condition or results of operations.

The following table sets forth a summary of our cash flows for the periods indicated:

	Six months ended	
	28 February	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(audited)
Net cash (used in) operating activities	(63,650)	(86,120)
Net cash (used in) investing activities	(325,199)	(115,243)
Net cash from (used in) financing activities	27,452	(3,715)
Net (decrease) in cash and cash equivalents	(361,397)	(205,078)
Cash and cash equivalents at the beginning of the period	607,062	332,531
Effect of exchange rate changes	(3,508)	–
Cash and cash equivalents at the end of the period, represented by bank balances and cash	242,157	127,453

CAPITAL EXPENDITURES

Our capital expenditures were primarily related to (i) development and construction of new schools; (ii) purchase of leasehold land and buildings for our schools; (iii) maintenance, renovation, expansion and upgrade of our existing schools; and (iv) purchase of education facilities and equipment. The following table sets forth our additions of property, plant and equipment and leasehold land, for the periods indicated:

	Six months ended	
	28 February	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(audited)
Payment for property, plant and equipment	(259,798)	(75,369)
Payment for leasehold land	(64,164)	(82,586)
Prepayment for property, plant and equipment	(10,254)	–

We plan to satisfy such capital expenditures with a combination of our existing cash, cash generated from our operations, proceeds from the Listing and/or bank borrowing and other funds raised from the capital markets from time to time.

CAPITAL COMMITMENTS

	28 February	31 August
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(audited)
Capital expenditure in respect of:		
– the acquisition of property, plant and equipment and land use rights contracted for but not provided in the reporting period	243,008	53,506

GEARING RATIO

Gearing ratio is calculated by dividing total debts (which equal interest-bearing bank borrowings and obligation under finance leases) by total equity as at the respective period end date.

Our gearing ratio increased from approximately 7.4% as at 31 August 2018 to approximately 13.4% as at 28 February 2019, as the Group increased its bank borrowings to meet the requirement of working capital after business expansion during the six months ended 28 February 2019.

INTEREST RATE RISK

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group is exposed to cash flow interest rate risk on the variable rate of interest earned on the bank balances and incurred by bank borrowings. The Group currently does not use any financial instrument to hedge interest rate risk exposure. However, the management of the Group monitors interest rate risk and will consider hedging significant interest rate exposure should the need arise.

FOREIGN EXCHANGE EXPOSURE

The majority of the Group's revenue and expenditures are denominated in RMB, the functional currency of the Company, except that certain expenditures are denominated in Hong Kong dollars. As at 28 February 2019, certain bank balances and cash were denominated in Hong Kong dollars. Any material volatility in the exchange rates of these currencies against RMB may affect the financial condition of the Group. The Group has not used any financial instrument to hedge the foreign exchange risk that it is exposed to currently. However, the management of the Group monitors our foreign exchange exposure and will consider hedging significant foreign exchange risk should the need arise.

CHARGES ON THE GROUP'S ASSETS

There were no material charges on the Group's assets as at 28 February 2019.

CONTINGENT LIABILITIES

As at 28 February 2019, the Group did not have any material contingent liabilities (31 August 2018: nil).

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

For the six months ended 28 February 2019, the Group did not have any material acquisitions and disposals of subsidiaries, associates or joint ventures.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

As at 28 February 2019, save as disclosed in this announcement, the Group did not have any other immediate plans for material investments and capital assets.

USE OF PROCEEDS FROM THE LISTING

Net proceeds from the Listing (including the partial exercise of over-allotment option) of approximately HK\$494.0 million (equivalent to approximately RMB428.9 million), after deducting the underwriting fees, commissions and expenses payable by us in connection with the Listing, will be applied in the manner as set out in the section headed “Future plans and use of proceeds” of the Company’s prospectus dated 19 July 2018. As at 28 February 2019, the Company applied the net proceeds in the following manner:

Use of proceeds	% of the net proceeds	Proceeds allocated (RMB million)	Amount utilised (RMB million)	Unutilised balance (RMB million)
I. Establishing Nanjiang School	28%	120.1	120.1	–
II. Establishing Wangcang School	28%	120.1	120.1	–
III. Establishing the high school section of Tianfu School	22%	94.4	54.5	39.9
IV. Establishing Chengdu School	9%	38.6	38.6	–
V. Establishing Lezhi School	5%	21.4	21.4	–
VI. Establishing US School	3%	12.9	–	12.9
VII. As working capital and for general corporate purpose	5%	21.4	21.4	–
Total	100%	428.9	376.1	52.8

The unutilised net proceeds are generally placed in licensed financial institutions as short-term interest-bearing deposits.

SIGNIFICANT INVESTMENT HELD

As at 28 February 2019, the Group did not hold any significant investment.

SIGNIFICANT LEGAL PROCEEDINGS

For the six months ended 28 February 2019, the Group had not been involved in any significant legal proceedings or arbitration. To the best of the knowledge and belief of the Directors, there are no significant legal proceedings or claims pending or threatened against the Group.

EMPLOYEE BENEFITS

As at 28 February 2019, the Group had 1,629 employees (as at 28 February 2018: 1,099). The Group participates in various employee benefit plans, including provident fund, housing, pension, medical insurance and unemployment insurance. The Company has also adopted a share option scheme for its employees and other eligible persons. Salaries and other benefits of the Groups' employees are generally reviewed on a regular basis in accordance with individual qualifications and performance, result performance of the Group and other relevant market conditions. The Group also provides internal and external training programmes to its employees. For the six months ended 28 February 2019, the staff costs (including directors' fees) amounted to approximately RMB101.0 million (28 February 2018: approximately RMB59.0 million).

SHARE OPTION SCHEME

On 12 July 2018, a share option scheme (the “**Share Option Scheme**”) was conditionally approved and adopted pursuant to a written resolution passed by the shareholders. The Share Option Scheme will remain in force for a period of 10 years from the date of its adoption. For the six months ended 28 February 2019, no share options had been granted under the Share Option Scheme by the Company. In addition, as at 28 February 2019, no share options under the Share Option Scheme were outstanding.

INTERIM DIVIDENDS

The Board does not recommend the payment of interim dividends for the six months ended 28 February 2019.

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

For the six months ended 28 February 2019, neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed securities of the Company.

SUBSEQUENT EVENTS

During the period from 20 to 28 March 2019, the Company purchased a total of 1,654,000 Shares for an aggregate purchase price (net of expenses) of HK\$2,106,540 on the Stock Exchange. Details of the purchase of such Shares are set out below:

Month of purchase	Number of Shares purchased	Highest price per Share paid (HK\$)	Lowest price per Share paid (HK\$)	Aggregate purchase price (HK\$)
March 2019	<u>1,654,000</u>	<u>1.32</u>	<u>1.13</u>	<u>2,106,540</u>

COMPETITION AND CONFLICT OF INTERESTS

As at the date of this announcement, none of the Directors has, either directly or indirectly, any interest in any business which causes or may cause any significant competition with the business of the Group or has any other conflict of interests with the Group.

COMPLIANCE WITH THE 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**”) set out in Appendix 10 to the Listing Rules as the code of conduct for dealings in the Company’s securities by the Directors. Having made specific enquiries to the Directors, all Directors confirmed that they had complied with the required standards set out in the Model Code for the six months ended 28 February 2019.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Board has committed to achieving high corporate governance standards in order to safeguard the interests of shareholders of the Company and to enhance corporate value and accountability. Since 31 July 2018, the date on which our Shares are listed and from which dealings therein are permitted to take place on the Stock Exchange, the Company has applied the Corporate Governance Code and Corporate Governance Report (the “**CG Code**”) contained in Appendix 14 to the Listing Rules and has complied with all the applicable code provisions. The Board will continue to review and monitor the corporate governance practices of the Company for the purpose of maintaining high corporate governance standards.

AUDIT COMMITTEE

The Company has established an audit committee (the “**Audit Committee**”) with written terms of reference in accordance with the Listing Rules and the CG Code. The primary duties of the Audit Committee are to assist the Board by providing an independent view of the effectiveness of the financial reporting process, internal control procedures and risk management system of the Group, overseeing the audit process and performing other duties and responsibilities as assigned by the Board. The Audit Committee comprises three members, namely, Mr. Cheng Tai Kwan Sunny, Mr. Mao Daowei and Ms. Luo Yunping, all being independent non-executive Directors. Mr. Cheng Tai Kwan Sunny is the chairman of the Audit Committee.

The Audit Committee has reviewed the unaudited condensed consolidated financial statements of the Group for the six months ended 28 February 2019 and has met with the independent auditor of the Company, Deloitte Touche Tohmatsu, who has reviewed the interim financial statements in accordance with the International Standard on Review Engagements 2410. The Audit Committee has also discussed matters with respect to the accounting policies and practices adopted by the Company and internal control with senior management members of the Company.

PUBLICATION OF THE INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement is published on the website of the Stock Exchange at www.hkexnews.hk and the website of the Company at <http://bojuneducation.com>. The interim report of the Group for the six months ended 28 February 2019 will be published on the aforesaid websites of the Stock Exchange and the Company and will be dispatched to shareholders in due course.

APPRECIATION

The Company would like to express its sincere appreciation for the unremitting effort and dedication made by the Board, the management and all of its staff members, as well as the continuous support to the Group from the shareholders of the Company, the government, business partners, professional advisers and loyal customers.

By Order of the Board
Bojun Education Company Limited
Xiong Tao
Chairman and Executive Director

Hong Kong, 29 April 2019

As at the date of this announcement, the executive Directors are Mr. Xiong Tao, Mr. Ran Tao and Ms. Liao Rong; the non-executive Directors are Mr. Bai Zimin and Mr. Wang Ping; and the independent non-executive Directors are Mr. Cheng Tai Kwan Sunny, Mr. Mao Daowei and Ms. Luo Yunping.

* *For identification purpose only*