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Virscend Education Company Limited
成實外教育有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1565)

ANNOUNCEMENT OF INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2019

The board (the “**Board**”) of directors (the “**Directors**”) of Virscend Education Company Limited (the “**Company**”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries for the six months ended 30 June 2019. This announcement, containing the full text of the 2019 interim report of the Company, complies with the relevant requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited in relation to information to accompany preliminary announcements of interim results.

By order of the Board of
Virscend Education Company Limited
Wang Xiaoying
Chairwoman

Sichuan Province, the PRC, 27 August 2019

As at the date of this announcement, the executive Directors are Ms. Wang Xiaoying, Mr. Ye Jiayu, Mr. Yan Yude and Mr. Deng Bangkai; and the independent non-executive Directors are Mr. Sit Chiu Wing, Mr. Chan Kim Sun and Mr. Wen Ruizheng.



PRESCHOOL EDUCATION



BASIC EDUCATION

INTERIM REPORT 2019



HIGHER EDUCATION



INTERNATIONAL EDUCATION



A **PROFOUND** CHINESE FOUNDATION,
A **PANORAMIC** GLOBAL OUTLOOK,
AN **INNOVATIVE** FUTURE



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COMPANY PROFILE

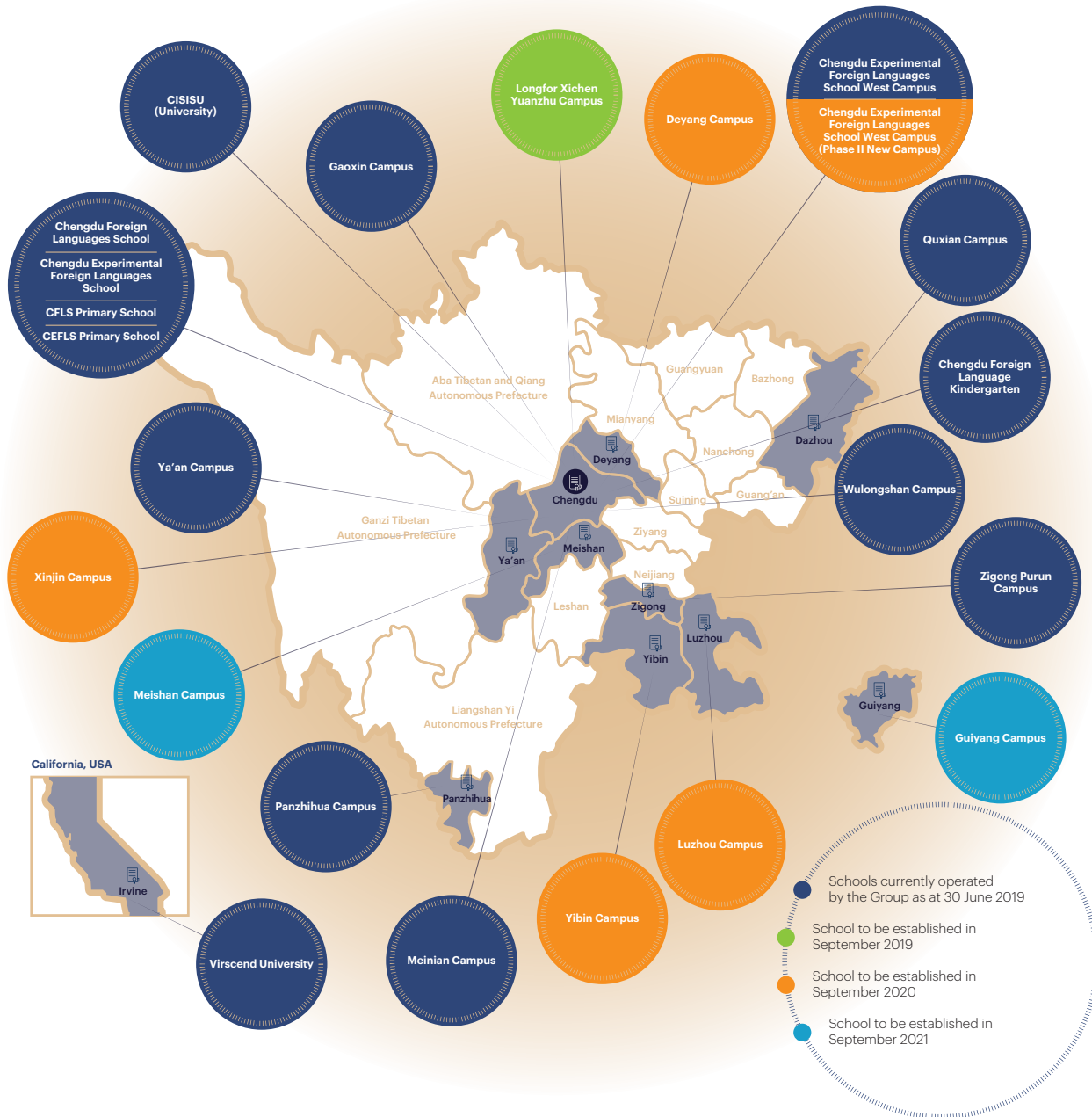
The Group is a leading provider of pre-school to grade 12 (“**K-12**”) and university private education services. Through our schools, we provide education services to students in every age group from kindergarten through university. As at 30 June 2019, we had enrollment of an aggregate number of approximately 45,580 students, including approximately 29,227 students at our K-12 schools and 16,353 students at the university, and we employed an aggregate of approximately 3,013 teachers.

We currently operate eighteen schools in four cities and a county in Sichuan Province, namely Chengdu City, Panzhihua City, Zigong City, Qu County and Ya’an City. Through these schools, we offer formal education with comprehensive education programs from kindergarten through university. We are one of the few private education companies in Southwest China that offer complete K-12 and university education. This allows us to attract students at an early age and create a stable student pipeline for our schools at each grade within the K-12 system. The Group aspires to provide a pathway to first-tier universities in China and reputable colleges and universities abroad for interested students. For the Gaokao administered in 2017, 2018 and 2019, approximately 94.6%, 94.7% and 95.1% of the Group’s graduating high school students who participated in such examinations achieved scores that allowed them to apply to and be accepted by first-tier universities in China.

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

COMPANY PROFILE

OUR SCHOOL NETWORK IN SOUTHWEST CHINA AND USA



CORPORATE INFORMATION

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

Ms. Wang Xiaoying (*Chairwoman of the Board*)

Mr. Yan Yude (*Chief Executive Officer*)

Mr. Ye Jiayu

Mr. Deng Bangkai

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Sit Chiu Wing

Mr. Chan Kim Sun

Mr. Wen Ruizheng

AUDIT COMMITTEE

Mr. Chan Kim Sun (*Chairman*)

Mr. Sit Chiu Wing

Mr. Wen Ruizheng

REMUNERATION COMMITTEE

Mr. Sit Chiu Wing (*Chairman*)

Ms. Wang Xiaoying

Mr. Wen Ruizheng

NOMINATION COMMITTEE

Mr. Sit Chiu Wing (*Chairman*)

Mr. Yan Yude

Mr. Wen Ruizheng

AUTHORISED REPRESENTATIVES

Ms. Wang Xiaoying

Mr. Deng Bangkai

COMPANY SECRETARY

Ms. Ng Sau Mei

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In Association with Morgan, Lewis & Bockius

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AUDITOR

Ernst & Young

Certified Public Accountant

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REGISTERED OFFICE

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Cayman Islands

CORPORATE INFORMATION

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STOCK CODE

1565

DATE OF LISTING

15 January 2016

FINANCIAL HIGHLIGHTS

COMPARISON OF KEY FINANCIAL FIGURES

Result of operation

	For six months ended 30 June			
	2019 RMB'000 Unaudited	2018 RMB'000 Unaudited	Change RMB'000	Percentage Change (%)
Revenue	754,177	590,364	163,813	27.7
Gross profit	339,898	286,476	53,422	18.7
Profit for the period	237,076	219,431	17,645	8.1
Attributable to equity holders of the parent	236,235	212,571	23,664	11.1
Earnings per share Basic and diluted (RMB)	0.08	0.07	—	—

Financial ratio

	For six months ended 30 June	
	2019 Unaudited	2018 Unaudited
Gross profit margin (%)	45.1	48.5
Net profit margin (%)	31.4	37.2

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

REVENUE

During the Reporting Period, the Group has witnessed growth of the schools operated by the Group in terms of revenue. Revenue increased from approximately RMB590.4 million for the six months ended 30 June 2018 to approximately RMB754.2 million for the Reporting Period. The Group typically charges students fees comprising tuition fees, boarding fees and school canteen service fees, and tuition fees remained the major revenue, accounted for approximately 91.3% of the total revenue of the Company for the Reporting Period.

The following table sets forth the gross revenue generated by each of the categories of the schools:

Category of schools	For six months ended 30 June			
	2019 RMB'000 Unaudited	2018 RMB'000 Unaudited	Change RMB'000	Percentage Change (%)
Tuition fees				
High school - international program	22,038	21,606	432	2.0
High school - domestic program	162,251	137,351	24,900	18.1
Middle school	234,210	207,340	26,870	13.0
Primary school	139,880	83,771	56,109	67.0
Kindergarten	7,501	5,540	1,961	35.4
University	122,429	112,184	10,245	9.1
Total tuition fees	688,309	567,792	120,517	21.2
Boarding fees	26,774	22,572	4,202	18.6
Management and consultation service fees	163	—	163	—
School canteen operations ⁽ⁱ⁾	38,931	—	38,931	—
Total	754,177	590,364	163,813	27.7

The increase of the total revenue of the Group was mainly due to the increase of the Group's student enrolment and average tuition fee.

Note:

(i) The canteen operation of certain schools have been consolidated since March 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

AVERAGE TUITION FEES

The following table sets forth the gross and average tuition fees of each of the categories of the schools operated by the Group:

Category of schools	School Year			
	2018/2019 Gross Tuition Fees RMB'000	2018/2019 Average Tuition Fees RMB	2017/2018 Gross Tuition Fees RMB'000	2017/2018 Average Tuition Fees RMB
High school - international program	36,763	95,487	35,067	94,266
High school - domestic program	309,375	35,463	251,063	35,657
Middle school	426,768	34,601	376,627	34,455
Primary school	255,243	34,413	154,056	33,918
Kindergarten	14,418	28,952	11,478	26,447
University	220,151	13,434	202,005	13,071

Note: Average tuition fees are calculated based on the gross tuition fees, which exclude boarding fees, a particular school received for a given school year divided by the total number of students enrolled at such school for the same school year. For the purpose of this calculation, unlike revenue, which is determined after deducting scholarships and refunds, gross tuition fees do not take into account the scholarships given or refunds made by the schools to their students for the relevant school year.

STUDENT ENROLMENT

The table below sets forth information relating to the student enrolment for each of the categories:

	As at 30 June 2019	As at 30 June 2018	Change	Percentage Change (%)
High school students - international program	440	435	5	1.1
High school students - domestic program	8,563	6,942	1,621	23.4
Middle school students	12,252	10,791	1,461	13.5
Primary school students	7,451	4,711	2,740	58.2
Kindergarten students	521	441	80	18.1
K-12 students	29,227	23,320	5,907	25.3
University students	16,353	15,389	964	6.3
Total number of students	45,580	38,709	6,871	17.8

As at 30 June 2019, the aggregate number of students enrolled at the schools of the Group increased to 45,580 from 38,709 as at 30 June 2018. The increase in the aggregate number of students enrolled was attributable to the increase in the capacity of new schools opened in September 2018 and certain existing schools.

MANAGEMENT DISCUSSION AND ANALYSIS

SCHOOL UTILIZATION

Utilization rate is calculated as the number of students enrolled divided by the estimated capacity for a given school. Except for our kindergarten, our schools are generally boarding schools. For our boarding schools, the estimated capacity for students is based on the number of beds available in student dormitories. For our kindergarten, the estimated capacity for students is based on the number of beds used for naps in the schools.

	As at 30 June 2019	As at 30 June 2018
Total number of students enrolled	45,580	38,709
Total student capacity	66,840	59,248
Overall utilization	68.2%	65.3%

STUDENT PLACEMENT

For Gaokao administered in 2019, approximately 95.1% of the Group's graduating high school students who participated in achieved scores that allowed them to apply for and be accepted by first-tier universities in China. 37 of our graduating high school students were admitted into Peking University and Tsinghua University and 81 of our graduating high school students were recommended for admission into first-tier universities without taking the Gaokao.

MARKET REVIEW AND STRATEGY

The PRC formal education industry primarily consists of basic education and higher education. The PRC fundamental education market can be further divided into four phases: pre-school, primary school, middle school and high school. Among the four phases of fundamental education, primary school and middle school constitute the nine years of compulsory education, while the pre-school and high school constitute the non-compulsory education.

The high school market has relatively high entry barriers because the students and parents place more emphasis on the reputation and education quality of high school due to the strong needs of applying for better universities in China. Therefore, as one of the leading K-12 private education providers with reputable high schools in Southwest China, the Group will have more competitive advantages in the K-12 private education market because students and parents tend to enroll in the primary schools operated by such providers at an early age in order to secure the high schools within the same school system in the future. The Group intends to leverage its reputation to expand its school network in Chengdu, other areas in Sichuan Province and elsewhere in Southwest China. Furthermore, with the increase in income and wealth, the middle class families can afford the higher expenditure on high-quality educational service. The Group intends to enhance the Group's profitability by optimizing the pricing of the schools of the Group, diversifying its service offerings and increasing revenue sources. In addition, the Group intends to expand its international programs.

MANAGEMENT DISCUSSION AND ANALYSIS

FUTURE DEVELOPMENT

The Group is optimistic about the strong demand for high-quality private education in Southwest China backed by the strong brand reputation and recognition of our schools. In order to solidify and strengthen its market-leading position in the region, the Group intends to achieve future growth by means of multiple expansion strategies which include asset-light expansions, acquisitions, and increase in the capacity of certain existing schools. The Group's future capital expenditures are mainly financed by its internal resources such as operating cash flow and shareholders' equity, and to a certain extent by bank borrowing or finance lease. Specifically, the Group plans to undertake the following strategies:

- 1) Establish new asset-light schools by collaborating with third-party business partners;
- 2) Collaborate with prestigious overseas schools to open new advanced, innovative and internationalized schools or foundation programs in China;
- 3) Provide to third party owned K-12 schools comprehensive school management service, including, among others, education quality control, curriculum development, daily operation, teachers recruitment and training, branding, teaching methodology support and campus design; and
- 4) Collaborate with certain commercial property owners to establish one-stop comprehensive education program.

(1) ESTABLISHING NEW ASSET-LIGHT SCHOOLS WITH THIRD-PARTY BUSINESS PARTNERS

Longfor Xichen Yuanzhu Campus – commencement of operation expected to be in September 2019

The Group entered into a school establishment agreement with a third party to establish a primary school as the Longfor Xichen Yuanzhu Campus, which will be developed under asset-light business model. The third party shall be responsible for providing and developing the land and building to be used as campus of Longfor Xichen Yuanzhu Campus, and shall lease such premises to the school during the existence of the school. The Longfor Xichen Yuanzhu Campus is expected to accommodate approximately 1,890 students, and to commence its first school year on 1 September 2019.

Ya'an Campus – commencement of operation expected to be in September 2019

On 15 May 2018, the Group has entered into a school establishment agreement with the local government of Yucheng District, Ya'an, Sichuan Province to establish a new middle and high school. The expected student capacity of the school is approximately 2,700 students. Under the agreement, the local government shall be responsible for constructing the facility, land and building and providing such school premises and facility to the school for the operation of Ya'an Campus. The Ya'an Campus is expected to commence its first school year on 1 September 2019. The lease term for the school premises will be 20 years beginning on 1 September 2019 to 31 August 2039. No rental fees will be payable by the Group for the first four years of the rental period.

MANAGEMENT DISCUSSION AND ANALYSIS

Yibin campuses – commencement of operation expected to be before September 2020

- a) On 30 August 2018, the Group entered into a school establishment agreement with a third party to establish a new school providing primary to high school education. The school is expected to accommodate approximately 5,940 students. Under the agreement, the third party shall be responsible for constructing the building and facilities and leasing such school premises to the school for the operation. The campus is expected to commence its first school year before 1 September 2020. The lease term for the school premises will be 20 years after its commencement. No rental fees will be payable by the Group for the first four years of the rental period.
- b) On 17 January 2019, the Group entered into a school establishment agreement with an independent third party to establish another campus of Chengdu Institute Sichuan International Studies University in Yibin City. The campus is expected to accommodate approximately 12,000 students. Under the agreement, the third party shall be responsible for developing the land, buildings and facilities and providing such school premises to the school for its operation. The campus is expected to commence its first school year before 1 September 2020.

Deyang Campus – commencement of operation expected to be in September 2020

The Group entered into a school establishment agreement with a third party to establish a school in the Deyang Campus, providing primary to high school education. The Deyang Campus will be developed under asset-light business model. The third party shall be responsible for providing and developing land and buildings to be used as campus of the Deyang Campus, and shall lease such school premises to the school during the existence of the school. The Deyang Campus is expected to accommodate approximately 6,760 students and to commence its first school year on 1 September 2020.

Luzhou Campus – commencement of operation expected to be in September 2020

The Group entered into a school establishment agreement with a third party to establish a school in Luzhou, Sichuan Province, providing primary to high school education. The Luzhou Campus will be developed under asset-light business model. Under the agreement, the third party shall be responsible for providing and developing the land and buildings, and shall provide such school premises to the school for the operation of Luzhou Campus. The Luzhou Campus is expected to accommodate approximately 5,280 students and to commence its first school year on 1 September 2020.

Xinjin Campus – commencement of operation expected to be in September 2020

The Group entered into a school establishment agreement with a third party, providing primary to high school education. The Xinjin Campus will be developed under asset-light business model. Under the agreement, the third party shall be responsible for providing and developing the land and buildings, and shall provide such school premises to the school for the operation of Xinjin Campus. The Xinjin Campus is expected to accommodate approximately 4,920 students and to commence its first school year on 1 September 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

Guiyang Campus – commencement of operation expected to be in September 2021

The Group entered into a school establishment agreement with a third party to establish a school in Guiyang, Guizhou Province, providing primary to high school education (including an overseas training and education institution). Guiyang Campus will be developed under asset-light business model. Under the agreement, the third party shall be responsible for providing and developing the land and buildings to the school for the operation of Guiyang Campus. The Guiyang Campus is expected to accommodate approximately 4,650 students and to commence its first school year on 1 September 2021.

Meishan Campus - commencement of operation expected to be in September 2021

The Group entered into a school establishment agreement with a third party to establish a school in Meishan, Sichuan Province, providing primary to high school education. Meishan Campus will be developed under asset-light business model. Under the agreement, the third party shall be responsible for providing and developing the land and buildings to the school for the operation of Meishan Campus. The Meishan Campus is expected to accommodate approximately 4,050 students and to commence its first school year on 1 September 2021.

(II) ADVANCED, INNOVATIVE AND INTERNATIONALIZED SCHOOLS AND FOUNDATION PROGRAMS

The Group and Monash College Pty Ltd, a company who provides education courses and programs in Australia and owned by Monash University, entered into an education cooperation agreement on 16 April 2018, pursuant to which both parties agreed to establish a cooperative educational program which mainly covers pre-university education courses through a curriculum exclusive licensing agreement. Both parties agreed to offer such program to students in the PRC. The term of the education cooperation agreement is five years from 2019 to 2023, renewable as agreed by both parties. The Group will start to offer such program to students in the second half of 2019.

In addition, the Group is discussing with other prestigious overseas schools or institutions on exploring the possibility of opening new international schools, foundation programs and deep cooperation in China. As at the date of this interim report, no definitive agreements have been entered into.

MANAGEMENT DISCUSSION AND ANALYSIS

(III) EDUCATION MANAGEMENT AND CONSULTATION SERVICE

In February 2019, the Group entered into school management cooperation agreements with government-owned public schools in Sichuan Province, the PRC, under which the Group will provide school management services including, among others, teacher's trainings, student recruitment, performance review of principal, and marketing activities to the public schools.

(IV) ONE STOP COMPREHENSIVE EDUCATION PROGRAM

The Group has been cooperating with certain commercial property owners to establish one-stop comprehensive education program in commercial complex with a floor area of approximately 5,000 to 10,000 square meters where various types of tailor-made education services will be offered to both the parents and their kids simultaneously. The high-quality education courses offered include, among others, Chinese traditional culture, STEAM (Science, Technology, Engineer, Arts and Mathematics), after-school English tutoring and sports. The first complex is scheduled to open in Chengdu in September 2019.

OTHER DEVELOPMENT

Chengdu Experimental Foreign Languages School West Campus (Phase II New Campus) - commencement of operation expected to be in September 2020

The Group entered into a school establishment agreement with a third party to establish a school in Chengdu City, providing primary to middle school education. The school will be constructed by two parties and the Group will fund the obstruction by internal resources. Under the agreement, two parties shall be responsible for developing the land and buildings, and equipping the school for the operation of Phase II New campus. The campus is expected to accommodate approximately 4,320 students and to commence its first school year on 1 September 2020.

The Group opened two new schools in Ya'an City in April 2019, which will operate in September 2019. The following table sets forth a summary of the estimated student capacity of the new school campus from September 2019 to September 2021:

School Campus	Commencement of school campus	Estimated student capacity
Longfor Xichen Yuanzhu Campus	September 2019	1,890
Ya'an Campus	September 2019	2,700
Yibin Campus - university	September 2020	12,000
Yibin Campus - primary school to high school	September 2020	5,940
		17,940
Deyang Campus	September 2020	6,760
Luzhou Campus	September 2020	5,280
Xinjin Campus	September 2020	4,920
Chengdu Experimental Foreign Languages School West Campus (Phase II New campus)	September 2020	4,320
Guiyang Campus	September 2021	4,650
Meishan Campus	September 2021	4,050
Total		52,510

MANAGEMENT DISCUSSION AND ANALYSIS

The Group had six schools as at the end of the 2016/2017 school year, and added nine new schools in our school network as at the end of the 2017/2018 school year. As at 30 June 2019, there were totally nineteen schools in our school network in China, including Gaoxin Campus which the Group owns 20% of its school sponsor interest. For illustration purpose, the school which provides multi-phases education programs is counted according to the number of the category of such education phases. For example, Chengdu Foreign Languages School which provides middle and high school education phases is counted as one middle school and one high school respectively. The following table shows a summary of the number of our schools by category as of the dates indicated:

Category of schools	Schools operated by the Group as at 30 June 2019	Schools operated by the Group as at 30 June 2018
High school	9*	7*
Middle school	8	6
Primary school	5	5
Kindergarten	2	2
University	2	1
Total	26	21

* Gaoxin Campus, the school sponsor of which is owned as to 20% by the Group, is categorized as high school.

MERGER AND ACQUISITION DURING THE REPORTING PERIOD

On 14 June 2019, the University, being a consolidated affiliated entity of the Company, Chengdu Yanqiang Real Estate Development Co., Ltd* ("**Yanqiang Real Estate**") and Sichuan Derui entered into a merger agreement (the "**Merger Agreement**"), pursuant to which Yanqiang Real Estate will be merged into the University and cease to exist upon the completion of the transactions contemplated under the Merger Agreement, while Sichuan Derui as the selling shareholder will receive a cash consideration of RMB476,000,000.

On 14 June 2019, Chengdu Foreign Languages School, being a consolidated affiliated entity of the Company, and Sichuan Derui entered into an asset transfer agreement (the "**Asset Transfer Agreement**"), pursuant to which Chengdu Foreign Languages School agreed to purchase, and Sichuan Derui agreed to sell, the assets as contemplated under the Asset Transfer Agreement for a total consideration of RMB394,300,000.

Further details of the Merger Agreement and the Asset Transfer Agreement and other transactions contemplated thereunder are set out in the announcement of the Company dated 14 June 2019. As at 30 June 2019, the Group have paid RMB164,169,000 in total to Sichuan Derui. On 22 July 2019, the transactions contemplated under the Merger Agreement and the Asset Transfer Agreement were approved by the Shareholders. As at the date of this interim report, the transactions contemplated under the Merger Agreement and the Asset Transfer Agreement have not completed yet.

Save as disclosed above, the Group did not have any material acquisition or disposals of subsidiaries, consolidated affiliated entities or associated companies during the Reporting Period.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

REVENUE

Revenue, which is also the Group's turnover, represents the value of services rendered, after deducting scholarships and refunds during the Reporting Period. The Group derives revenue from tuition fees, boarding fees and school canteen services fees our schools collected from students, as well as management service fees received by the Group respectively from an associated school.

Revenue increased by approximately RMB163.8 million, or 27.7%, from approximately RMB590.4 million for the six months ended 30 June 2018 to approximately RMB754.2 million for the Reporting Period. This increase was primarily the result of revenue from tuition fees and school canteen operations. The revenue from tuition fees increased by approximately RMB120.5 million, or 21.2%, from approximately RMB567.8 million for the six months ended 30 June 2018 to approximately RMB688.3 million for the Reporting Period. The tuition fees received increased mainly because the Group's student enrollment increased due to the increase in the number of students enrolled in 2018/2019 school year, the increase in the capacity of schools, and the two or more grades of students enrolled in 2018/2019 school year comparing to the 2017/2018 school year. For more information on student enrolment and school utilization, please refer to the sub-section headed "Business Review" above. The revenue from school canteen operations increased by approximately RMB38.9 million for the Reporting Period, primarily as a result of operation canteens of certain schools started to be consolidated since March 2019.

COST OF SALES

Cost of sales primarily consists of staff costs, depreciation and amortization, cost of co-operative education, utilities, cost of repairs, office expense, student subsidies and other costs.

Cost of sales increased by approximately RMB110.4 million, or 36.3%, from approximately RMB303.9 million for the six months ended 30 June 2018 to approximately RMB414.3 million for the Reporting Period. This increase was primarily the result of an increase in staff costs, material consumption, depreciation and amortization. Staff costs increased by approximately RMB40.2 million, or 21.2%, from approximately RMB189.9 million for the six months ended 30 June 2018 to approximately RMB230.1 million for the Reporting Period, primarily as a result of increased salaries and benefits payable to the Group's teachers. Material consumption costs increased by approximately RMB31.0 million as a result of two of our schools started to operate canteens by themselves as mentioned in the sub-section "Financial Review – Revenue" above. Depreciation and amortization increased by approximately 19.1 million, or 34.2%, from approximately RMB55.9 million for the six months ended 30 June 2018 to approximately RMB75.0 million for the Reporting Period, mainly as a result of: (i) transfer of fixed assets at Wenjiang Campus in March 2018; (ii) additional purchases of fixed assets by the schools of the Group in relation to increase in student enrollment; and (iii) the renovation of the schools of the Group incurred in the second half year of 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

GROSS PROFIT AND GROSS PROFIT MARGIN

Gross profit increased by approximately RMB53.4 million or 18.6%, from approximately RMB286.5 million for the six months ended 30 June 2018 to approximately RMB339.9 million for the Reporting Period, which was in line with the growth of the Group's business. Gross profit margin decreased to 45.1% for the Reporting Period from 48.5% for the six months ended 30 June 2018 mainly due to the increase in teacher's salaries and benefits, lower gross profit margin from providing school canteen service, as well as the increase in depreciation costs of fixed assets of the Group.

SELLING AND DISTRIBUTION EXPENSES

Selling and distribution expenses primarily consist of advertising expenses, student admission expenses and business entertainment expenses. Selling and distribution expenses increased by approximately RMB0.5 million, or 38.7%, from approximately RMB1.3 million for the six months ended 30 June 2018 to approximately RMB1.8 million for the Reporting Period. The increase of selling and distribution expenses was mainly due to more advertising expenses incurred for student recruitment promotion.

ADMINISTRATIVE EXPENSES

Administrative expenses primarily consist of the salaries and other benefits for general and administrative staff, office-related expenses, depreciation of office buildings and equipment, travel expenses and other expenses. Administrative expenses increased by approximately RMB14.9 million, or 30.0%, from approximately RMB49.6 million for the six months ended 30 June 2018 to approximately RMB64.5 million for the Reporting Period, primarily due to approximately 300 administrative staff recruited by schools to accommodate the increase in student number.

OTHER INCOME AND GAINS

Other income and gains primarily consist of foreign exchange gain, interest income from bank deposits, and rental income from leasing certain of the properties to independent third parties. Other income and gains increased from approximately RMB10.6 million for the six months ended 30 June 2018 to approximately RMB16.6 million for the Reporting Period. The increase was primarily attributable to i) interest income from third parties of approximately RMB10.2 million recognized for the Reporting Period, while only approximately RMB0.3 million interest income was recognized for the six months ended 30 June 2018; and ii) the decrease in government grants received and foreign exchange gain in 2019.

FINANCE COSTS

Finance costs consist primarily of the interest expenses for interest-bearing bank and other borrowing. Finance costs increased by approximately RMB21.3 million, or 91.8%, from approximately RMB23.2 million for the six months ended 30 June 2018 to approximately RMB44.5 million for the Reporting Period, mainly attributable to the increase of approximately RMB137.5 million in the interest-bearing bank borrowing and increase of approximately RMB282.8 million in the finance saleback lease.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND FINANCIAL RESOURCES

	Six months ended 30 June	
	2019 RMB'000 Unaudited	2018 RMB'000 Unaudited
Net cash flows from operating activities	81,785	311,516
Net cash flows used in investing activities	(631,066)	(106,166)
Net cash flows (used in)/generated from financing activities	381,357	(71,584)
Net (decrease)/increase in cash and cash equivalents	(167,924)	133,766
Cash and cash equivalents at beginning of period	639,392	294,107
Effect of foreign exchange rate changes, net	(24)	(31)
Cash and cash equivalents at end of period	471,444	427,842

	As at 30 June 2019 RMB'000 Unaudited	As at 31 December 2018 RMB'000 Audited
Interest-bearing bank borrowing	1,219,500	1,082,000
Finance saleback leases	282,781	–
	1,502,281	1,082,000

The balance of interest-bearing bank borrowing as at 30 June 2019 was approximately RMB1,219.5 million. The details of maturity profile of interest-bearing bank borrowing were: 1) approximately RMB544.0 million repayable within one year; 2) approximately RMB347.5 million repayable in the second year; and 3) approximately RMB328.0 million repayable within three to five years or above. As at 30 June 2019, our interest-bearing bank borrowing bore effective interest rates ranging from 5.22% to 7.13% per annum. The increase in interest-bearing bank borrowing was primarily used in financing renovation of old campus and cultural construction of all campus.

The balance of finance saleback lease as at 30 June 2019 was approximately RMB282.8 million, with quarterly instalment payments up to the maturity date on 10 March 2024. The loan borrowed is used to finance the Group's acquisition.

The Group had adequate liquidity to meet its daily management and capital expenditure requirements and control internal operating cash flows.

MANAGEMENT DISCUSSION AND ANALYSIS

CAPITAL STRUCTURE

The Group's financial department is responsible for the Group's financial risk management which operates according to policies implemented and approved by the senior management. As at 30 June 2019, all the bank borrowings were settled in RMB, while cash and cash equivalents were primarily held in RMB and HKD. The Group plans to maintain an appropriate mix of financial equity and debt to ensure an efficient capital structure. The outstanding balances of bank borrowings as at 30 June 2019 were at fixed interest rates or floating interest rates for loans denominated in RMB. The Group did not enter into any financial instrument for hedging purpose.

FOREIGN EXCHANGE RISK MANAGEMENT

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

FUTURE PLAN FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

Save as disclosed in this interim report, the Group did not have other future plans for material investments and capital assets.

GEARING RATIO

The gearing ratio of the Group, which was calculated as total interest-bearing bank and other borrowing divided by total equity as at the end of the relevant financial year/period, increased from approximately 38.2% as at 31 December 2018 to approximately 55.8% as at 30 June 2019, primarily due to the increase in the Group's interest-bearing bank borrowings and finance saleback lease.

SIGNIFICANT INVESTMENTS, ACQUISITIONS AND DISPOSALS

There were no significant investments held as at 30 June 2019. For detail of merger and acquisition, please refer to the sub-section headed "Business Review – Merger and Acquisition during the Reporting Period" above.

CONTINGENT LIABILITIES

As at 30 June 2019, the Group had no material contingent liabilities.

MANAGEMENT DISCUSSION AND ANALYSIS

HUMAN RESOURCES

As at 30 June 2019, the Group had 4,358 employees (30 June 2018: 3,656).

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

The total remuneration cost incurred by the Group for the Reporting Period was approximately RMB274.1 million (30 June 2018: RMB225.9 million).

CORPORATE GOVERNANCE/OTHER INFORMATION

CORPORATE GOVERNANCE PRACTICES

The Group is committed to maintaining high standards of corporate governance to safeguard the interests of the Shareholders and to enhance corporate value and accountability. The Company has adopted the CG Code as its own code of corporate governance. The Company has complied with all applicable code provisions under the CG Code during the Reporting Period. The Company will continue to review and monitor its corporate governance practices to ensure compliance with the CG Code.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as its own code of conduct regarding Directors' securities transactions during the Reporting Period. Having made specific enquiry of all the Directors, each of the Directors has confirmed that he/she has complied with the Model Code during the Reporting Period.

At the same time, during the Reporting Period, the Company has also adopted its own code of conduct regarding employees' securities transactions on terms no less exacting than the standard set out in the Model Code for the compliance by its relevant employees who are likely to be in possession of unpublished inside information of the Company in respect of their dealings in the Company's securities.

INTERIM DIVIDEND

The Board has resolved to recommend the payment of interim dividend of HK\$4.0 cents per Share (2018: HK\$4.0 cents per Share) for the six months ended 30 June 2019. Such interim dividend will be declared and paid out of the share premium of the Company and thus is subject to Shareholders' approval. The circular convening the extraordinary general meeting of the Company to be held on 25 October 2019 will be dispatched in due course.

Upon Shareholders' approval, The interim dividend will be payable on or around 20 November 2019 to the shareholders whose names appear on the register of members of the Company on 5 November 2019.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of ascertaining the entitlement to attend and vote at the extraordinary general meeting, the register of members of the Company will be closed from 22 October 2019 to 25 October 2019, both days inclusive, during which period no transfer of the Shares will be registered. In order to be eligible to attend and vote at the extraordinary general meeting, all transfer of the Shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at shops 1712-1716, 17th floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on 21 October 2019.

For the purpose of ascertaining the entitlement to the aforesaid interim dividend (upon approval by Shareholders), the register of members of the Company will be closed from 31 October 2019 to 5 November 2019, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the aforesaid interim dividend, all transfer of shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on 30 October 2019.

CORPORATE GOVERNANCE/OTHER INFORMATION

CHANGES TO DIRECTORS' AND CHIEF EXECUTIVE'S INFORMATION

The Directors confirmed that no information is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the Reporting Period, neither the Company nor its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

STRUCTURED CONTRACTS

The foreign investor in a Sino-foreign joint venture private school for PRC students at the preschool, high school and schools offering higher education must be a foreign educational institution with relevant qualification and high quality of education (the **"Qualification Requirement"**). Foreign portion of the total investment in a Sino-foreign joint venture private school should be below 50% and the establishment of these schools is subject to approval of education authorities at the provincial or national level. We are committed to working towards meeting the Qualification Requirement. We have adopted a specific plan and had taken concrete steps which the Company believes are meaningful endeavors to demonstrate compliance with the Qualification Requirement. During the Reporting Period, we also had made inquiries with relevant educational authorities to understand any regulatory developments, and assess whether we are qualified to meet the Qualification Requirement. As of the date of this interim report, it is currently uncertain as to what specific criteria must be met by a foreign investor (such as length of experience and form and extent of ownership in the foreign jurisdiction) in order to demonstrate to the relevant education authority that it meets the Qualification Requirement. Therefore, it is not practicable for us to seek to apply to reorganize any of the PRC Operating Entities as a Sino-Foreign Joint Venture Private School or convert any of the Kindergarten or the University into a Sino-Foreign Joint Venture Private School. Please also refer to the section headed **"Structured Contracts"** in the Prospectus and our annual report for the year ended 31 December 2018 for our efforts and actions undertaken to comply with the Qualification Requirement. For the Reporting Period, the Board has reviewed the overall performance of the Structured Contracts (as defined in the Prospectus) and believed that the Group has complied with the Structured Contracts in all material respects. We have been advised by our PRC legal advisors that the Structured Contracts do not violate the relevant PRC regulations.

PLAN TO COMPLY WITH THE QUALIFICATION REQUIREMENT

The Company has adopted a specific plan and taken the following concrete steps which the Company reasonably believes are meaningful endeavors to demonstrate compliance with the Qualification Requirement.

As of 30 June 2019, the Company has taken the following steps to implement the Group's plan.

The California Bureau for Private Postsecondary Education (**"BPPE"**) has approved Virscend University to grant two degree programs, namely Bachelor of Science in Business Administration and Master of Business Administration (**"MBA"**) programs on 18 November 2016. Virscend University has 9 MBA graduates in September 2018 and there were 15 MBA students enrolled as of 30 June 2019. Virscend University is in the process of applying for WSCUC accreditation to meet the standard of high quality with higher education offered to students. The Company has a total expenditure of USD210,000 in first half year in connection with the Group's plan for the year of 2019 and up to the date of this interim report.

CORPORATE GOVERNANCE/OTHER INFORMATION

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

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

Name	Capacity/ Nature of Interest	Number of Shares	Long/ short position	Approximate Percentage of Shareholding in the Company (%)
Mr. Yan Yude ⁽¹⁾	Interest in a controlled corporation and, interest of spouse	1,359,956,045	Long Position	44.03
Ms. Wang Xiaoying ⁽²⁾	Interest of spouse and, interest in a controlled corporation	1,359,956,045	Long Position	44.03

Notes:

- (1) Mr. Yan Yude is the sole shareholder and sole director of Virscend Holdings and he is therefore deemed to be interested in 1,292,456,045 Shares held by Virscend Holdings. Mr. Yan Yude is also the husband of Ms. Wang Xiaoying and is therefore deemed to be interested in 67,500,000 Shares held by Ms. Wang Xiaoying through Smart Ally.
- (2) Ms. Wang Xiaoying is the sole shareholder and director of Smart Ally and she is therefore deemed to be interested in 67,500,000 Shares held by Smart Ally. Ms. Wang Xiaoying is also the wife of Mr. Yan Yude and is therefore deemed to be interested in 1,292,456,045 Shares indirectly held by Mr. Yan Yude through Virscend Holdings.

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

CORPORATE GOVERNANCE/OTHER INFORMATION

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the sub-section headed "Share Option Scheme" below, at no time during the Reporting Period was the Company or any of its subsidiaries, a party to any arrangement that would enable the Directors to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the Directors or any of their spouses or children under the age of 18 were granted any right to subscribe for the equity or debt securities of the Company or any other body corporate or had exercised any such right.

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

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

Name	Capacity/ Nature of Interest	Number of Shares	Long/ short position	Approximate Percentage of Shareholding in the Company (%)
Virscend Holdings ⁽¹⁾	Beneficial owner	1,292,456,045	Long Position	41.84
Bank of China Limited	Security interest	458,876,100	Long Position	14.86
China First Capital Group Limited ⁽²⁾	Beneficial owner, Interest in a controlled corporation	407,673,000	Long Position	13.20
Happy Venus Limited ⁽³⁾	Beneficial owner	178,572,129	Long Position	5.78
Ms. Yan Hongjia ⁽³⁾	Interest in a controlled corporation	178,572,129	Long Position	5.78

Notes:

- (1) Mr. Yan Yude is the sole shareholder and sole director of Virscend Holdings and he is therefore deemed to be interested in the Shares held by Virscend Holdings.
- (2) First Capital Asset Management Limited is wholly owned by First Capital Group Limited, which is in turn wholly owned by China First Capital Group Limited. Therefore, China First Capital Group Limited is deemed to be interested in 24,756,000 Shares held by First Capital Asset Management Limited. China First Capital Group Limited is also the beneficial owner of 382,917,000 Shares.
- (3) Ms. Yan Hongjia is the sole shareholder and sole director of Happy Venus Limited and she is therefore deemed to be interested in the Shares held by Happy Venus Limited.

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

CORPORATE GOVERNANCE/OTHER INFORMATION

SHARE OPTION SCHEME

The Company has adopted the Share Option Scheme on 28 December 2015 (“**Adoption Date**”) for the purpose of giving eligible persons an opportunity to have a personal stake in the Company and help motivate them to optimize their future contributions to the Group and/or to reward them for their past contributions, to attract and retain or otherwise maintain on-going relationships with such eligible persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group, and additionally in the case of Executives (as defined below), to enable the Group to attract and retain individuals with experience and ability and/or to reward them for their past contributions.

Eligible persons include (a) any executive director of, manager of, or other employee holding an executive, managerial, supervisory or similar position in any member of our Group (“**Executive**”), any proposed employee, any full-time or part-time employee, or a person for the time being seconded to work full-time or part-time for any member of our Group (“**Employee**”); (b) a director or proposed director (including an independent non-executive director) of any member of our Group; (c) a direct or indirect shareholder of any member of our Group; (d) a supplier of goods or services to any member of our Group; (e) a customer, consultant, business or joint venture partner, franchisee, contractor, agent or representative of any member of our Group; (f) a person or entity that provides design, research, development or other support or any advisory, consultancy, professional or other services to any member of our Group; and (g) an associate of any of the persons referred to in paragraphs (a) to (f) above.

The maximum number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of the Group shall not in aggregate exceed 10% of the Shares in issue as at the Listing Date, which is 300,000,000 Shares excluding Shares which may fall to be issued upon the exercise of the over-allotment option granted by the Company, representing approximately 9.71% of the issued shares as at the date of this interim report.

No option may be granted to any one person such that the total number of Shares issued and to be issued upon exercise of options granted and to be granted to that person in any 12-month period exceeds 1% of the Company’s issued share capital from time to time. Where any further grant of options to such an eligible person would result in the Shares issued and to be issued upon exercise of all options granted and to be granted to such eligible person (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the Shares in issue, such further grant shall be separately approved by the Shareholders in general meeting with such eligible person and his close associates (or his associates if such eligible person is a connected person) abstaining from voting.

The Board shall be entitled at any time within 10 years from the Adoption Date to offer the grant of an option to any eligible person as the Board may in its absolute discretion select to subscribe at the subscription price for such number of Shares as the Board may (subject to the terms of the Share Option Scheme) determine (provided the same shall be a board lot for dealing in the Shares on the Stock Exchange or an integral multiple thereof). Subject to such terms and conditions as the Board may determine (including such terms and conditions in relation to their vesting, exercise or otherwise), there is no minimum period for which an option must be held before it can be exercised and no performance target which need to be achieved by the grantee before the option can be exercised.

CORPORATE GOVERNANCE/OTHER INFORMATION

SHARE OPTION SCHEME – CONTINUED

An offer of the grant of an option shall remain open for acceptance by the eligible person concerned for a period of 28 days from the offer date provided that no such grant of an option may be accepted after the expiry of the effective period of the Share Option Scheme. An option shall be deemed to have been granted and accepted by the eligible person and to have taken effect when the duplicate offer letter comprising acceptance of the offer of the option duly signed by the grantee together with a remittance in favor of the Company of HK\$1.00 by way of consideration for the grant thereof is received by the Company on or before the date upon which an offer of an option must be accepted by the relevant eligible person, being a date no later than 28 days after the offer date.

The subscription price in respect of any particular option shall be such price as the Board may in its absolute discretion determine at the time of grant of the relevant option (and shall be stated in the letter containing the offer of the grant of the option) but the subscription price shall not be less than whichever is the highest of: (a) the nominal value of a Share; (b) the closing price of a Share as stated in the Stock Exchange's daily quotations sheet on the offer date; and (c) the average closing price of a Share as stated in the Stock Exchange's daily quotations sheets for the 5 business days (as defined in the Listing Rules) immediately preceding the offer date.

The Share Option Scheme shall be valid and effective for a period of 10 years from the date on which it becomes unconditional, after which no further options will be granted or offered but the provisions of the Share Option Scheme shall remain in force and effect in all other respects. All options granted prior to such expiry and not then exercised shall continue to be valid and exercisable subject to and in accordance with the Share Option Scheme. The remaining life of the Share Option Scheme is around 6 years and 3 months.

Since the Adoption Date, no options under the Share Option Scheme have been granted, exercised, lapsed or cancelled.

EVENTS AFTER THE REPORTING PERIOD

There was no other important event affecting the Group which has occurred after the Reporting Period and up to the date of this interim report that would cause material impact on the Group.

AUDIT COMMITTEE

The Board has established an audit committee of the Company (the “**Audit Committee**”), which comprises three independent non-executive Directors, namely Mr. Chan Kim Sun (Chairman), Mr. Sit Chiu Wing and Mr. Wen Ruizheng. The primary duties of the Audit Committee are to review and supervise the Company's financial reporting process, internal control and risk management systems.

The Audit Committee, together with management, has reviewed the unaudited interim results, the unaudited interim condensed consolidated financial statements of the Group and this interim report for the Reporting Period.

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2019

	Notes	Six months ended 30 June	
		2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
REVENUE	4	754,177	590,364
Cost of sales		(414,279)	(303,888)
Gross profit		339,898	286,476
Other income and gains	4	16,634	10,646
Selling and distribution expenses		(1,844)	(1,292)
Administrative expenses		(64,545)	(49,626)
Other expenses		(1,034)	(1,281)
Finance costs	5	(44,480)	(23,217)
Share of (loss)/profit of associates		(5,127)	(1,054)
PROFIT BEFORE TAX	6	239,502	220,652
Income tax expense	7	(2,426)	(1,221)
PROFIT FOR THE PERIOD		237,076	219,431
Attributable to:			
Owners of the parent	8	236,235	212,571
Non-controlling interests		841	6,860
		237,076	219,431
Earnings per share attributable to ordinary equity holders of the parent			
– basic and diluted for the period	8	RMB0.08	RMB0.07

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2019

	Six months ended 30 June	
	2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
PROFIT FOR THE PERIOD	237,076	219,431
OTHER COMPREHENSIVE INCOME		
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	20	(31)
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods	20	(31)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX	20	(31)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	237,096	219,400
Attributable to:		
Owners of the parent	236,255	212,551
Non-controlling interests	841	6,849
	230,870	219,400

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

	Notes	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	9	3,532,069	3,543,997
Prepaid land lease payments		362,498	370,465
Intangible assets		2,941	2,247
Investment in associates		53,692	58,818
Right of use asset		178,369	—
Other non-current assets		27,940	30,377
Total non-current assets		4,157,509	4,005,904
CURRENT ASSETS			
Prepayments, deposits and other receivables	10	582,273	231,694
Amounts due from related party	16(A)	7,724	5,874
Time deposits		52,782	52,572
Cash and cash equivalents		471,444	639,392
Total current assets		1,114,223	929,532
CURRENT LIABILITIES			
Other payables and accruals	11	358,849	237,320
Tax payable		26,614	26,975
Interest-bearing bank and other borrowings	13	601,175	474,000
Contract Liabilities	12	490,343	712,163
Deferred income – current		1,128	2,073
Amounts due to related parties	16(A)	5,061	33,228
Total current liabilities		1,483,170	1,485,759
NET CURRENT LIABILITIES		(368,947)	(556,227)
TOTAL ASSETS LESS CURRENT LIABILITIES		3,788,562	3,449,677

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

	Notes	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
TOTAL ASSETS LESS CURRENT LIABILITIES		3,788,562	3,449,677
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	13	1,087,223	608,000
Deferred income – non-current		7,558	8,744
Total non-current liabilities		1,094,781	616,744
Net assets		2,693,781	2,832,933
EQUITY			
Equity attributable to owners of the parent			
Share capital	14	26,051	26,051
Reserves		2,644,875	2,783,761
		2,670,926	2,809,812
Non-controlling interests		22,855	23,121
Total equity		2,693,781	2,832,933

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2019

	Attributable to owners of the parent						Non-controlling interests	Total
	Share capital	Capital reserve	Statutory surplus reserve	Exchange fluctuation reserve	Retained profits	Total		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	Note 11							
At 1 January 2018	26,051	1,857,229	270,190	42	510,236	2,663,748	16,393	2,680,141
Profit for the period	—	—	—	—	212,571	212,571	6,860	219,431
Other comprehensive income for the period:								
Exchange differences on translation of foreign operations	—	—	—	(20)	—	(20)	(11)	(31)
Total comprehensive income for the period	—	—	—	(20)	212,571	212,551	6,849	219,400
Transfer from retained profits	—	—	29,382	—	(29,382)	—	—	—
2017 final dividend declared	—	(102,065)	—	—	—	(102,065)	—	(102,065)
At 30 June 2018 (unaudited)	26,051	1,755,164*	299,572*	22*	693,425*	2,774,234	23,242	2,797,476
At 1 January 2019	26,051	1,647,021	393,184	(57)	743,613	2,809,812	23,121	2,832,933
Profit for the period	—	—	—	—	236,235	236,235	841	237,076
Other comprehensive income for the period:								
Exchange differences on translation of foreign operations	—	—	—	20	—	20	—	20
Total comprehensive income for the period	—	—	—	20	236,235	236,255	841	237,096
Transfer from retained profits	—	—	100	—	(100)	—	—	—
2018 final dividend declared	—	(108,341)	—	—	—	(108,341)	—	(108,341)
Acquisition of non-controlling interests	—	(266,800)	—	—	—	(266,800)	(1,107)	(267,907)
At 30 June 2019 (unaudited)	26,051	1,271,880*	393,284*	(37)*	979,748*	2,670,926	22,855	2,693,781

* These reserve accounts comprise the consolidated reserves of RMB2,644,875,000 (as at 30 June 2018: RMB2,748,183,000) in the interim condensed consolidated statement of financial position.

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2019

	Notes	Six months ended 30 June	
		2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax	6	239,502	220,652
Adjustments for:			
Finance costs	5	44,480	23,217
Net foreign exchange (gains)/losses	4	(186)	(2,293)
Interest income	4	(10,297)	(345)
Share of losses/(gains) of associates		5,126	1,054
Loss on disposal of items of property, plant and equipment	6	53	11
Government grants released		(2,131)	(6,303)
Depreciation of property, plant and equipment	6	65,220	53,341
Amortisation of intangible assets	6	262	138
Recognition of prepaid land lease payments	6	5,505	4,817
Depreciation of right-of-use assets	6	5,676	—
		353,210	294,289
Increase in prepayments, deposits and other receivables		(61,326)	(7,090)
Increase/(decrease) in other payables and accruals		21,905	119,592
Decrease in amounts due to related parties		(30,017)	(3,510)
Decrease in contract liabilities/deferred revenue		(199,740)	(91,309)
Decrease in deferred income		—	1,041
Cash generated from operations		84,032	313,013
Interest received		538	345
Income tax paid		(2,785)	(1,842)
Net cash flows from operating activities		81,785	311,516

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2019

	Notes	Six months ended 30 June	
		2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of items of property, plant and equipment		(72,398)	(106,927)
Proceeds from disposal of property, plant and equipment		—	6
Purchase of intangible asset		(956)	(245)
Increase in amounts due to related parties		—	1,000
Increase in long-term investment measured at amortized cost		—	(75,879)
Deposits for non-current assets		(13,882)	—
Decrease in pledged deposits		—	75,879
Acquisition of subsidiaries	10	(164,169)	—
Acquisition of minority interests		(266,800)	—
Loans to independent third parties - principal		(274,000)	—
Loans to independent third parties - interest		(1,041)	—
Collection of loans from independent third parties - principal		152,400	—
Collection of loans from independent third parties - interest		9,780	—
Net cash flows used in investing activities		(631,066)	(106,166)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank borrowings		333,000	663,000
Repayments of bank borrowings		(195,500)	(709,000)
Interest paid		(38,924)	(25,584)
Principal portion of lease payments		(8,819)	—
New finance lease		291,600	—
Net cash flows (used in)/generated from financing activities		381,357	(71,584)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(167,924)	133,766
Cash and cash equivalents at beginning of period		639,392	294,107
Effect of foreign exchange rate changes, net		(24)	(31)
CASH AND CASH EQUIVALENTS AT END OF PERIOD		471,444	427,842
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		471,444	427,842

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

1. CORPORATE INFORMATION

Virscend Education Company Limited (the “**Company**”) was incorporated in the Cayman Islands on 13 March 2015 as an exempted company with limited liability under the Companies Law (2013 Revision) of the Cayman Islands. The address of the registered office of the Company is Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The shares of the Company were listed on the Main Board of the Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 15 January 2016 (the “**Listing Date**”).

The principal activity of the Company is investment holding. The Company and its subsidiaries (collectively referred to as the “**Group**”) are principally engaged in providing private education services in the People’s Republic of China (the “**PRC**”). There has been no significant change in the Group’s principal activities during the period.

In the opinion of the directors of the Company, as of the date of this report, Mr. Yan Yude and Virscend Holdings Company Limited, which was incorporated in the British Virgin Islands (the “**BVI**”) and fully owned by Mr. Yan Yude, are the Company’s controlling shareholders.

2. BASIS OF PREPARATION

The interim condensed consolidated financial statements for the six months ended 30 June 2019 have been prepared in accordance with IAS 34 Interim Financial Reporting.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements as at 31 December 2018.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of this interim condensed financial information are consistent with those followed in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2018, except for the adoption of the following new standards, interpretations and amendments to a number of International Financial Reporting Standards (“**IFRSs**”) issued by the International Accounting Standards Board for the first time for the financial year beginning 1 January 2019.

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

The adoption of these new standards, interpretations and amendments to IFRSs has had no significant financial effect on the financial position or performance of the Group except for the adoption of IFRS 16, as explained below.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

ADOPTION OF IFRS 16

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

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. For the adoption of IFRS 16, the Group has not restated comparative information and has not recognised any transition adjustments against the opening balance of equity at 1 January 2019.

NEW DEFINITION OF A LEASE

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

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

As a lessee – Leases previously classified as operating leases

NATURE OF THE EFFECT OF ADOPTION OF IFRS 16

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

IMPACTS ON TRANSITION

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

The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019.

All these assets were assessed for any impairment based on IAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position.

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

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

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

Accordingly, the Group recognised right-of-use assets of RMB184,044,688.01 and lease liabilities of RMB187,181,084.23 as at 1 January 2019. Accrued rental expenses of RMB6,952,359.14 were derecognised, resulting in a decrease in other payables and accruals of RMB3,136,396.22 respectively, as at 1 January 2019.

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

	RMB\$'000 (Unaudited)
Operating lease commitments as at 31 December 2018	118,355
Weighted average incremental borrowing rate as at 1 January 2019	6.4%
Discounted operating lease commitments as at 1 January 2019	91,744
Less: Commitments relating to short-term leases and those leases with a remaining lease term ending on or before 31 December 2019	4,626
Add: Payments for optional extension periods not recognized as at 31 December 2018	98,999
Lease liabilities as at 1 January 2019	186,117

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *CONTINUED*

SUMMARY OF NEW ACCOUNTING POLICIES

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

RIGHT-OF-USE ASSETS

Right-of-use assets are recognised at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. When the right-of-use assets relate to interests in leasehold land held as inventories, they are subsequently measured at the lower of cost and net realisable value in accordance with the Group's policy for "inventories". The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received.

Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term. When a right-of-use asset meets the definition of investment property, it is included in investment properties. The corresponding right-of-use asset is initially measured at cost, and subsequently measured at fair value, in accordance with the Group's policy for 'investment properties'.

LEASE LIABILITIES

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in-substance fixed lease payments or a change in assessment to purchase the underlying asset.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

LEASE LIABILITIES – CONTINUED

Significant judgement in determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

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

The Group included the renewal period as part of the lease term for leases of premises due to the significance of these assets to its operations. These leases have a short non-cancellable period and there will be a significant negative effect on schools business if a replacement is not readily available.

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

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

	Right-of-use assets Premises for schools RMB\$'000	Lease liabilities RMB\$'000
As at 1 January 2019	184,045	187,181
Additions	—	—
Depreciation charge	5,676	—
Interest expense	—	5,888
Accrued rental expenses derecognised	—	(6,952)
Increase/(decrease) in fair value	—	—
Payments	—	—
As at 30 June 2019	178,369	186,117

The Group recognised rental expense from short-term leases of RMB1,597,000 for the six months ended 30 June 2019.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

4. REVENUE, OTHER INCOME AND GAINS

Revenue represents the value of services rendered, after deducting scholarships and refunds during the period.

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

		Six months ended 30 June	
	Note	2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
<u>Revenue from contracts with customers</u>			
Tuition fees		688,309	567,792
Boarding fees		26,774	22,572
Management and consultation service fees		163	—
School canteen operations		38,931	—
		<u>754,177</u>	<u>590,364</u>
<u>Other income and gains</u>			
Interest income	6	538	345
Other interest income	6	9,759	—
Fee sharing income		2	182
Government grants			
– related to assets		3,131	2,207
– related to income		411	4,096
Net foreign exchange gains	6	186	2,293
Others		2,607	1,523
		<u>16,634</u>	<u>10,646</u>

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

5. FINANCE COSTS

	Six months ended 30 June	
	2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Interest on interest-bearing bank and other borrowing	47,818	25,473
Less: interest capitalised	(3,338)	(2,256)
	<u>44,480</u>	<u>23,217</u>

6. PROFIT BEFORE TAX

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

	Note	Six months ended 30 June	
		2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Employee benefit expense (excluding directors' and chief executive's remuneration):			
Wages, salaries and other allowances		208,707	201,110
Pension scheme contributions (defined contribution scheme)		29,340	24,707
Depreciation of property, plant and equipment		65,220	53,341
Amortisation of intangible assets		262	138
Amortisation of prepaid land lease payments		5,505	4,817
Minimum lease payments under operating leases		—	9,309
Bank interest income	4	(538)	(345)
Other interest income	4	(9,759)	—
Foreign exchange differences, net	4	(186)	(2,293)
Loss on disposal of items of property, plant and equipment		53	11
Depreciation of right-of-use assets		5,676	—

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

7. INCOME TAX

	Six months ended 30 June	
	2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Current-PRC corporate income tax	2,426	1,221

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

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

Pursuant to the rules and regulations of the British Virgin Islands, the Group is not subject to any tax in the British Virgin Islands.

Hong Kong profits tax has not been provided as the Group did not derive any assessable profits in Hong Kong during the period.

According to the Implementation Rules, private schools for which the school sponsors do not require reasonable returns are eligible to enjoy the same preferential tax treatments as public schools. The preferential tax treatment policies applicable to private schools requiring reasonable returns are to be separately formulated by the relevant authorities under the State Council. Based on the historical tax returns filed to the relevant tax authorities and the confirmations obtained previously from the local tax bureaus and local offices of the State Administration of Taxation, except for the kindergarten, certain schools within the Group were exempted from corporate income tax in the first half year of 2019.

The corporate income tax rate for Tibet Huatai is 15% based on the relevant tax regulations of Tibet Autonomous Region. The Tibet local government has exempted 40% corporate income tax payable by enterprises in Tibet Autonomous Region for a period of four years commencing from 1 January 2018 to 31 December 2021 to the eligible Company. Because the relevant criteria are met, Tibet Huatai is subject to the PRC income tax rate of 9%.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

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

The calculation of the basic earnings per share amount is based on the profit for the period attributable to ordinary equity holders of the parent, and the weighted average numbers of ordinary shares of 3,088,761,000 (six months ended 30 June 2018: 3,088,761,000) in issue during the period.

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

	Six months ended 30 June	
	2019 (Unaudited)	2018 (Unaudited)
Earnings		
Profit attributable to ordinary equity holders of the parent (RMB'000)	236,235	212,571
Shares		
Weighted average number of ordinary shares in issue	3,088,761,000	3,088,761,000
Basic and diluted earnings per share (expressed in RMB per share)	0.08	0.07

9. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2019, the Group acquired assets with a cost of RMB53,345,000 (six months ended 30 June 2018: RMB90,277,000) on additions to property, plant and equipment.

Assets with a net book value of RMB53,000 were disposed of by the group during the six months ended 30 June 2019 (six months ended 30 June 2018: RMB340,000), resulting in RMB52,100 of net loss on disposal of items of property, plant and equipment (six months ended 30 June 2018: RMB11,000).

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

10. REPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Prepaid land lease payments (current portion)	13,491	11,029
Loan and interest receivables (Note (i))	282,653	160,033
Deposits and other receivables	17,589	44,292
Prepayments	18,411	4,348
Advance to staff	3,073	948
Prepayment for merger and acquisition (Note (ii))	164,169	—
Advances paid on behalf of others	82,887	11,044
	582,273	231,694

Notes:

- (i): The amount represents the loan to the third party companies for the daily operation needs. As of 30 June 2019, the total loan and interest receivables amounted to RMB282,653,000.
- (ii): The amount represents the Group paid the consideration of merger and acquisition. As of 30 June 2019, the Group paid totally RMB164,169,000 to Sichuan Derui. For the information of Merger and acquisition, please refer to "Management Discussion and Analysis – Business Review" section in the interim report.

The remaining receivables will be settled within 12 months and have no historical default. The financial assets included in the above balance were categorised in stage 1 for the measurement of expected credit losses at the end of the reporting period. In calculating the expected credit loss rate, the Group considers the historical loss rate and adjusts for forward-looking macroeconomic data. During the current period, the Group estimated the expected loss rate for the other receivables will be minimal.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

11. OTHER PAYABLES AND ACCRUALS

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Payables for purchase of fixed assets and construction	83,805	119,177
Miscellaneous expenses received from students (Note (i))	43,175	20,051
Guarantee deposit and advance for other agencies	28,682	18,125
Accrued payrolls	16,312	15,490
Rental payable	8,876	13,602
Interest payable	13,000	13,000
Accrued expense	6,367	10,869
Dividends payable	117,248	8,872
Acquisition consideration payable for an associate	4,956	4,956
Tax payable	2,935	—
Others	33,493	13,178
	358,849	237,320

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

Other payables are non-interest-bearing and have an average term of six months.

12. CONTRACT LIABILITIES

The following table provides information about contract liabilities from contracts with customers:

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Tuition fees	470,797	681,976
Boarding fees	16,907	30,187
School canteen operations	2,639	—
	490,343	712,163

The contract liabilities primarily relate to the advance consideration received from the students for contracts, for which revenue is recognized when the performance obligation is satisfied through service rendered.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

13 INTEREST-BEARING BANK AND OTHER BORROWING

	Notes	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Non-current			
Secured			
Interest-bearing bank borrowing	a	675,500	608,000
Finance saleback lease	b	242,781	—
Unsecured			
Lease liabilities	c	168,942	—
		<u>1,087,223</u>	<u>608,000</u>
	Notes	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Current			
Secured			
Interest-bearing bank borrowing	a	544,000	474,000
Finance saleback lease	b	40,000	—
Unsecured			
Lease liabilities	c	17,175	—
		<u>601,175</u>	<u>474,000</u>

For the six months ended 30 June 2019

a. More information in bank loans is analysis as follow:

	30 June 2019			31 December 2018		
	Effective interest rate (%)	Maturity	RMB'000 (Unaudited)	Effective interest rate (%)	Maturity	RMB'000 (Audited)
Current						
Interest-bearing bank borrowing – secured	5.22-7.00	30 June 2020	544,000	5.22-7.00	31 December 2019	474,000
			544,000			474,000
Non-current						
Interest-bearing bank borrowing – secured	5.64-7.13	2033	675,500	5.64-7.13	2033	608,000
			675,500			608,000
			1,219,500			1,082,000

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Analysed into:		
Interest-bearing bank borrowing – secured repayable:		
Within one year or on demand	544,000	474,000
In the second year	347,500	190,000
In the third to fifth years, inclusive	328,000	418,000
	<u>1,219,500</u>	<u>1,082,000</u>

The Group's overdraft facilities amounting to RMB700,000,000 (2018:RMB700,000,000), of which RMB200,000,000 (2018: RMB200,000,000) had been utilised as at 30 June 2019, are guaranteed by Mr. Yan Yude amounting to RMB200,000,000.

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

13 INTEREST-BEARING BANK AND OTHER BORROWING – CONTINUED

- b. It represented the other loan borrowed from a third party leasing company by Chengdu Institute Sichuan International Studies University, a consolidated affiliated entity of the Company, by way of sale leaseback arrangement with principal of RMB300,000,000 in 2019, which bears interest at an effective rate of 8.10% per annum with quarterly instalment payments up to the maturity date on 10 March 2024. The loan was secured or guaranteed by Sichuan Derui and Mr. Yan Yude.
- c. Lease liabilities was recognised according to the adoption of IFRS16. For detail of Lease liabilities, please refer to note 3 “Summary of significant accounting policies”.

14. SHARE CAPITAL

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Issued and fully paid:		
3,088,761,000 (2018: 3,088,761,000) ordinary shares of HK\$0.01 each	26,051	26,051

15. COMMITMENTS

CAPITAL COMMITMENTS

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

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Contracted, but not provided for:		
Land and buildings, equipment	12,552	19,741
Capital contributions payable to an associate	6,900	6,900
	19,452	26,641

As at 30 June 2019 and 31 December 2018, the Group did not have any significant authorized, but not contracted capital commitment.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

16. RELATED PARTY TRANSACTIONS

(A) OUTSTANDING BALANCES WITH RELATED PARTIES

AMOUNTS DUE FROM RELATED PARTIES

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Oriental Baby Care	5,147	5,147
Gaoxin Campus	2,577	727
	<u>7,724</u>	<u>5,874</u>

This balance is unsecured, interest-free and has no fixed terms of repayment.

AMOUNTS DUE TO RELATED PARTIES

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Sichuan Derui	—	28,517
USA Tianren Hotel	3,686	3,338
Mr. Yan Yude	1,375	1,373
	<u>5,061</u>	<u>33,228</u>

The amounts due to related parties are unsecured, interest-free and repayable on demand.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

16. RELATED PARTY TRANSACTIONS\ – CONTINUED

(B) OTHER RELATED PARTY TRANSACTIONS

During the period, the Group entered into the following transactions with its related parties:

			Six months ended 30 June	
	Note	Nature of transaction	2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Sichuan Derui	i	Property Lease	—	5,516
Sichuan Derui		Capital contribution paid on behalf of the Company	—	1,000
Chengdu Tianren Property Development Co., Ltd		Property Lease	3	3
Gaoxin Campus		Management service	163	—

- i. Upon the adoption of IFRS 16, above lease was recognised and measured as right of use asset. As at 30 June 2019, the carrying amount of the right of use asset was RMB138 million with leases liabilities amounting to RMB 143 million.

(C) COMPENSATION OF KEY MANAGEMENT PERSONNEL OF THE GROUP:

	30 June 2019 RMB'000 (Unaudited)	30 June 2018 RMB'000 (Unaudited)
Short term employee benefits	2,559	2,328
Pension scheme contributions	47	27

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

17. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

	Carrying amounts		Fair values	
	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Financial Liabilities				
Interest-bearing bank borrowing	1,219,500	1,082,000	1,219,500	1,082,000
Finance saleback lease liabilities	282,781	—	282,781	—
Lease liabilities	186,117	—	186,117	—
	<u>1,688,398</u>	<u>1,082,000</u>	<u>1,688,398</u>	<u>1,082,000</u>

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

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The following methods and assumptions were used to estimate the fair values:

The fair values of the interest-bearing bank borrowing have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for interest-bearing bank borrowing as at 30 June 2019 and 31 December 2018 was assessed to be insignificant.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

18. DIVIDEND

	Six months ended 30 June	
	2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Final - HK\$4.0 cents (2018: HK\$4.0 cents) per ordinary share	108,335	102,065
Proposed Interim - HK\$4.0 cents (2018: HK\$4.0 cents) per ordinary share	111,517	108,314

A final dividend of HK4.0 cents per share in respect of the year ended 31 December 2017 proposed by the Board has been approved by the shareholders at the annual general meeting of the Company and dividends of RMB102,065,000 have been declared by the Company in June 2018, among which RMB104,959,000 have been paid by 30 June 2019.

An interim dividend of HK4.0 cents per share in respect of the period ended 30 June 2018 proposed by the Board has been approved by the shareholders at the extraordinary general meeting of the Company and dividends of RMB108,143,000 have been declared by the Company in October 2018, among which RMB105,780,000 have been paid by 30 June 2019.

A final dividend of HK4.0 cents per share in respect of the year ended 31 December 2018 proposed by the Board has been approved by the shareholders at the annual general meeting of the Company and dividends of RMB108,335,000 have been declared by the Company in June 2019, among which RMB110,801,000 have been paid by the date of this report issued.

The Board has resolved to recommend the payment of interim dividend of HK4.0 cents per share for the six months ended 30 June 2019 and is subject to the approval by the shareholders at the forthcoming extraordinary general meeting of the Company.

19. APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

These interim condensed consolidated financial statements were approved and authorised for issue by the board of directors of the Company on 27 August 2019.

DEFINITION

“associate(s)”	has the meaning ascribed thereto in the Listing Rules
“Board”	the board of Directors
“Chengdu Experimental Foreign Languages School”	Chengdu Experimental Foreign Languages School* (成都市實驗外國語學校), a private middle and high school established under the laws of the PRC, where the school sponsor’s interest is wholly-owned by Sichuan Derui, and a consolidated affiliated entity of the Company
“Chengdu Experimental Foreign Languages School (Western Campus)”	Chengdu Experimental Foreign Languages School (Western Campus)* (成都市實驗外國語學校 (西區)), a private middle and high school established under the laws of the PRC, where the sponsor’s interest is wholly-owned by Sichuan Derui, and a consolidated affiliated entity of the Company
“Chengdu Foreign Languages Kindergarten” or “Kindergarten”	Kindergarten of the Primary School attached to Chengdu Jinniu District Foreign Languages School* (成都市金牛區成外附小幼稚園), a private kindergarten school established under the laws of the PRC, where the school sponsor’s interest is wholly-owned by the Primary School, and a consolidated affiliated entity of the Company
“Chengdu Foreign Languages School”	Chengdu Foreign Languages School* (成都外國語學校), a private school established under the laws of the PRC, where the school sponsor’s interest is wholly-owned by Sichuan Derui, and a consolidated affiliated entity of the Company
“Chengdu Institute Sichuan International Studies University” or “University”	Chengdu Institute Sichuan International Studies University* (四川外國語大學成都學院), a private university established the laws of the PRC and a consolidated affiliated entity of the Company, where the school sponsor’s interest is owned as to 51.87% by Sichuan Derui, 24.3% by Xinhua Winshare Publishing and Media Co., Ltd.* (新華文軒出版傳媒股份有限公司) and 23.83% by Hongming Property, each a school sponsor. Sichuan International Studies University* (四川外國語大學) is named as a school sponsor entitled to the rights stipulated under the articles of the University and the relevant PRC laws
“Company”	Virscend Education Company Limited, a company incorporated in the Cayman Islands whose shares are listed on the Stock Exchange
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented, or otherwise modified from time to time
“connected person(s)”	has the meaning ascribed thereto in the Listing Rules
“Controlling Shareholder(s)”	has the meaning ascribed to it in the Listing Rules and unless the context requires otherwise, refers to the controlling shareholders of the Company, namely Mr. Yan Yude and Virscend Holdings
“CG Code”	the Corporate Governance Code contained in Appendix 14 to the Listing Rules

DEFINITION

"Derui Education Management"	Sichuan Derui Education Management Co., Ltd.* (四川德瑞教育管理有限公司), a company established under the laws of the PRC
"Director(s)"	the director(s) of the Company
"Gaokao"	also known as the National Higher Education Entrance Examinations, an academic examination held annually in the PRC
"Group", "we", "our" or "us"	the Company and its subsidiaries
"HK\$" or "HKD"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	The Hong Kong Special Administrative Region of the PRC
"Listing Date"	15 January 2016, being the date on which dealings in the Shares first commenced on the Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules
"PRC" or "China"	The People's Republic of China
"PRC Operating Entities"	PRC Operating Entities consolidated entities of the Company, namely, Chengdu Foreign Languages School, Chengdu Experimental Foreign Languages School, Chengdu Experimental Foreign Languages School (Western Campus), Chengdu Institute Sichuan International Studies University, Primary School Attached to Chengdu Foreign Languages School, Chengdu Foreign Languages Kindergarten, Primary School Attached to Chengdu Experimental Foreign Languages School, Chengdu Foreign Languages School of Panzhihua, Chengdu Foreign Languages School of Zigong, Kindergarten of the Primary School Attached to Chengdu Foreign Languages School of Zigong, Primary School Attached to Chengdu Foreign Languages School Meinian Campus, Chengdu Foreign Languages High School of Zigong*(自貢成外高級中學有限公司), Virscend High School of Quxian*(渠縣成實外高級中學有限公司), Chengdu Experimental Foreign Languages School of Quxian*(渠縣成都市實驗外國語學校), Wulongshan Campus of Chengdu Experimental Foreign Languages School*(成都市實驗外國語學校五龍山校區), Chengdu Experimental Foreign Languages School of Xindu Wulongshan*(成都實外新都五龍山學校), Virscend High School of Ya'an*(雅安成實外高級中學有限公司), Virscend School of Ya'an*(雅安市雨城區成實外學校)

* For identification purpose only

DEFINITION

"Primary School Attached to Chengdu Foreign Languages School" or "Primary School"	Primary School attached to Chengdu Foreign Languages School* (成都外國語學校附屬小學), a private primary school established under the laws of the PRC, where the school sponsor's interest is wholly-owned by Sichuan Derui, and a consolidated affiliated entity of the Company
"Prospectus"	the prospectus of the Company dated 31 December 2015
"Reporting Period"	the six months ended 30 June 2019
"RMB"	Renminbi, the lawful currency of the PRC
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented, or otherwise modified from time to time
"Share(s)"	share(s) of HK\$0.01 each in the share capital of the Company
"Shareholder(s)"	shareholder(s) of the Company
"Share Option Scheme"	the share option scheme adopted by the Company on 28 December 2015
"Sichuan Derui"	Sichuan Derui Enterprise Development Co., Ltd.* (四川德瑞企業發展有限公司) (previously known as Sichuan Province Derui Enterprise Development Company* (四川省德瑞企業發展總公司)), a company established under the laws of the PRC, which is owned as to 69.44% by Mr. Yan Yude, 18.55% by Ms. Yan Hongjia, 3.00% by Ms. Wang Xiaoying, 2.65% by Ms. Ye Jiaqi, 1.59% by Mr. Ye Jiayu, 1.59% by Ms. Yan Bixian, 1.59% by Ms. Yan Birong and 1.59% by Ms. Yan Bihui
"Smart Ally"	Smart Ally International Limited, a company incorporated in the British Virgin Islands with limited liability on 12 May 2015 and wholly-owned by Ms. Wang Xiaoying, the spouse of Mr. Yan Yude and the step-mother of Ms. Yan Hongjia
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Substantial Shareholder"	has the meaning ascribed thereto in the Listing Rules
"Tibet Huatai"	Tibet Huatai Education Management Consulting Co., Ltd.* (西藏華泰教育管理有限公司), a wholly-foreign owned enterprise established under the laws of PRC and a wholly-owned subsidiary of the Company

DEFINITION

“USD”	United States dollars, the lawful currency of the United States of America
“Virscend Holdings”	Virscend Holdings Company Limited, a company incorporated in the British Virgin Islands with limited liability on 20 March 2015 and wholly-owned by Mr. Yan Yude, an executive Director and one of the Controlling Shareholder
“Virscend University”	Virscend University* (成實外大學), a private university established under the Laws of the United States and a consolidated affiliated entity of the Company, where the school sponsor’s interest is owned as to 51% by Wah Tai (HK) Investment Limited

% per cent

* for identification purpose only