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Bojun Education Company Limited

博駿教育有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1758)

Interim Results Announcement For The Six Months Ended 29 February 2020

HIGHLIGHTS

	As at			
	29 February 2020	28 February 2019	Change	Change Percentage
Total number of students	11,985	10,325	+1,660	+16.1%
	For the six months ended			
	29 February 2020	28 February 2019	Change	Change
	RMB'000	RMB'000	RMB'000	Percentage
	(unaudited)	(unaudited)		
Revenue	197,951	168,300	+29,651	+17.62%
Gross profit	43,927	42,881	+1,046	+2.44%
Profit for the period attributable to owners of the Company	7,779	9,441	-1,662	-17.60%
Adjusted net profit <i>(note)</i>	11,150	10,027	+1,123	+11.20%
Basic earnings per Share (RMB cents)	0.95	1.15	-0.20	-17.39%

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

INTERIM RESULTS FOR THE SIX MONTHS ENDED 29 FEBRUARY 2020

The board (the “**Board**”) of directors (the “**Directors**”) of Bojun Education Company Limited (the “**Company**”, together with its subsidiaries and consolidated affiliated entities, the “**Group**”) is pleased to announce the unaudited condensed consolidated interim results of the Group for the six months ended 29 February 2020 (the “**Reporting Period**”).

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 29 FEBRUARY 2020

		For the six months ended	
		29 February 2020	28 February 2019
	NOTES	RMB'000 (unaudited)	RMB'000 (unaudited)
Revenue from provision of education services	4	197,951	168,300
Cost of services		(154,024)	(125,419)
Gross profit		43,927	42,881
Other income (expenses)	5	274	2,603
Other gains and (losses)	6	2,111	(1,448)
Gain (or loss) from changes in fair value	7	1,273	–
Administrative expenses		(27,973)	(30,583)
Finance costs	8	(4,967)	(2,548)
Profit before taxation	10	14,645	10,905
Income tax expenses	9	(3,495)	(878)
Profit for the period		11,150	10,027
<i>Other comprehensive income that will not be reclassified subsequently to profit or loss</i>			
– Remeasurement of defined benefit obligation		–	114
Total comprehensive income for the period		11,150	10,141
Profit for the period attributable to			
– owners of the Company		7,779	9,441
– non-controlling interests		3,371	586
		11,150	10,027
Total comprehensive income for the period attributable to			
– owners of the Company		7,779	9,555
– non-controlling interests		3,371	586
		11,150	10,141
Earnings per Share – Basic (RMB)	11	0.01	0.01

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 29 FEBRUARY 2020

		As at	
		29 February 2020	31 August 2019
		<i>RMB'000</i>	<i>RMB'000</i>
	<i>NOTES</i>	(unaudited)	(audited)
NON-CURRENT ASSETS			
Property, plant and equipment		1,108,714	1,106,109
Prepaid lease payments		178,442	178,042
Deferred tax assets		17,275	16,354
Deposits	12	23,958	24,958
Prepayments for purchase of property, plant and equipment		64,067	45,426
		1,392,456	1,370,899
CURRENT ASSETS			
Prepaid lease payments		3,451	3,922
Other receivables, deposits and prepayments	12	100,065	96,555
Amounts due from related companies		646	343
Financial assets at fair value through profit or loss		16,528	–
Bank balances and cash		213,428	336,647
		334,118	437,467
TOTAL ASSETS		1,726,574	1,808,366
CURRENT LIABILITIES			
Other payables and accruals	13	200,104	377,190
Contract liabilities	14	181,964	350,837
Borrowings	15	210,000	140,000
Income tax payable		34,401	31,049
		626,469	899,076
Net current (liabilities) assets		(292,351)	(461,609)
TOTAL ASSETS LESS CURRENT LIABILITIES		1,100,105	909,290

		As at	
		29 February	31 August
		2020	2019
		RMB'000	RMB'000
	<i>NOTES</i>	(unaudited)	(audited)
NON-CURRENT LIABILITIES			
Long-term borrowings	<i>15</i>	180,000	–
Defined benefit obligations		4,621	4,302
Deferred income	<i>16</i>	64,764	65,418
		<u>249,385</u>	<u>69,720</u>
NET ASSETS		<u>850,720</u>	<u>839,570</u>
CAPITAL AND RESERVES			
Share capital		7,138	7,138
Reserves		<u>838,580</u>	<u>830,801</u>
Equity attributable to owners of the Company		845,718	837,939
Non-controlling interests		<u>5,002</u>	<u>1,631</u>
		<u>850,720</u>	<u>839,570</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 29 FEBRUARY 2020

1. CORPORATE INFORMATION

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

The registered office and principal place of business of the Company are located at Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands and No. 288 Jingan Road, Jinjiang District, Chengdu, Sichuan Province, the PRC, respectively. The Company is an investment holding company. The subsidiaries of the Group are mainly engaged in the provision of full spectrum private fundamental education, including preschool, primary, middle and high schools in the People's Republic of China (the "**PRC**" or "**China**").

The functional currency of the Company is Renminbi ("**RMB**"), which is also the presentation currency of the consolidated financial statements.

2. BASIS OF PREPARATION

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

As at 29 February 2020, the Group recorded net current liabilities of approximately RMB110,387,000 (after excluding the non-payment of contract liabilities of RMB181,964,000). In view of these circumstances, the Directors have given consideration to the future liquidity and performance of the Group and its available sources of financing in assessing whether the Group will have sufficient financial resources to continue as a going concern. The condensed consolidated financial statements have been prepared on a going concern basis because the Directors are satisfied that the Group will have sufficient financial resources to meet its financial obligations as they fall due for the next twelve months by taking into account the Group's cash flow projection, unutilised banking facilities and the Group's future capital expenditure under non-cancellable capital commitments.

3. PRINCIPAL ACCOUNTING POLICIES

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

Other than changes in accounting policies resulting from application of additions and amendments to the HKFRSs and an interpretation, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 29 February 2020 are the same as those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 August 2019.

Application of additions and amendments to HKFRSs and an interpretation

In the current interim period, the Group has applied, for the first time, the following additions and amendments to the HKFRSs and an interpretation issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 September 2019 for the preparation of the Group's condensed consolidated financial statements:

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

4. REVENUE AND SEGMENT INFORMATION

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

Segment revenue and segment results

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

Information reported to the CODM, for the purposes of resources allocation and assessment of segment performance, focuses on types of services provided. CODM considers the business from service perspectives whereby assesses the performance of preschool education provided by Chengdu Youshi Experimental Kindergarten* (成都幼師實驗幼兒園) (the “**Youshi Kindergarten**”), Chengdu Youshi Lidu Experimental Kindergarten* (成都幼師麗都實驗幼兒園) (the “**Lidu Kindergarten**”), Chengdu Youshi Riverside Impression Experimental Kindergarten* (成都幼師河濱印象實驗幼兒園) (the “**Riverside Kindergarten**”), Chengdu Youshi Longquan Dongshan Experimental Kindergarten* (成都幼師龍泉東山實驗幼兒園) (the “**Longquan Kindergarten**”), Chengdu Qingyang Youshi Jingjie Experimental Kindergarten* (成都青羊幼師境界實驗幼兒園) (the “**Qingyang Kindergarten**”) and Chengdu High and New District Youshi Peninsula City Centre Kindergarten* (成都高新區幼獅半島城邦幼兒園) (the “**Peninsula Kindergarten**”) (collectively referred to as “**Preschool Education**”), and the degree education provided by Chengdu Jinjiang District No. 1 Experimental Middle School Attached to Sichuan Normal University* (成都市錦江區四川師大附屬第一實驗中學) (the “**Jinjiang School**”), Chengdu Longquanyi District No. 1 Experimental Middle School Attached to Sichuan Normal University* (成都市龍泉驛區四川師大附屬第一實驗中學) (the “**Longquan School**”), Chengdu New Tianfu District No. 1 Experimental Middle School Attached to Sichuan Normal University* (成都市天府新區四川師大附屬第一實驗中學) (the “**Tianfu School**”), Nanjiang Bojun School* (南江博駿學校) (the “**Nanjiang School**”), Wangcang Bojun School* (旺蒼博駿公學) (the “**Wangcang School**”), Pengzhou City Bojun School* (彭州市博駿學校) (being the Chengdu School as defined in the prospectus of the Company dated 19 July 2018) (the “**Chengdu School**”), Lezhi Bojun School* (樂至博駿公學學校) (the “**Lezhi School**”) (collectively referred to as “**Degree Education**”), based on revenue generated in the course of the ordinary activities of a recurring nature. The services provided and type of customers are similar to those schools providing Preschool Education and Degree Education respectively and they are subject to similar regulatory environment. Accordingly, their segment information is aggregated as two reportable segments, i.e. Preschool Education and Degree Education. The accounting policies of the reportable segments are the same as the Group's accounting policies described in Note 3.

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

	Preschool Education RMB'000	Degree Education RMB'000	Total RMB'000
Six months ended 29 February 2020			
Tuition fees	26,447	166,022	192,469
Boarding fees	–	5,482	5,482
Total (unaudited)	26,477	171,504	197,951
Six months ended 28 February 2019			
Tuition fees	26,096	137,402	163,498
Boarding fees	–	4,802	4,802
Total (unaudited)	26,096	142,204	168,300

5. OTHER INCOME (EXPENSES)

	Six months ended	
	29.2.2020	28.2.2019
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Interest income from banks	274	2,121
Imputed interest income from advances to Directors	–	–
Imputed interest income from advances to related companies	–	–
Amounts received for provision of ancillary services ⁽ⁱ⁾	23,982	20,193
Less: relevant expenses	(23,982)	(20,193)
Others, net	–	482
	274	2,603

Note:

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

6. OTHER GAINS AND (LOSSES)

	Six months ended	
	29.2.2020	28.2.2019
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Loss arising on disposal of property, plant and equipment, net	–	(3)
Net exchange loss	2,118	(1,960)
Others	(7)	515
	2,111	(1,448)

7. GAIN AND (LOSS) FROM CHANGES IN FAIR VALUE

	Six months ended	
	29.2.2020	28.2.2019
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Financial asset at fair value credit to profit or loss account –		
(1) Gain and (loss) from changes in fair value	1273	–

8. FINANCE COSTS

	Six months ended	
	29.2.2020	28.2.2019
	RMB'000	RMB'000
	(unaudited)	(unaudited)
<i>Interest on:</i>		
Bank borrowings	4,734	2,548
Others	233	–
	4,967	2,548

9. INCOME TAX EXPENSES

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

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

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

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

	For the six months ended	
	29.2.2020	28.2.2019
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Tax expense comprises:		
Current tax – PRC EIT	4,416	3,357
Deferred tax	(921)	(2,479)
	3,495	878

10. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at after charging:

	Six months ended	
	29.2.2020	28.2.2019
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Directors' and chief executive's remuneration	797	814
Other staff costs		
– Salaries and other benefits	87,219	80,569
– Staff welfare	15,346	12,664
– Retirement benefit schemes		
– defined contributions benefits	12,066	6,449
– defined benefits	319	498
Total staff costs	115,747	100,994
Royalty fee (included in “costs of services”)	14,280	7,255
Depreciation of property, plant and equipment	18,824	11,791
Release of prepaid lease payments	1,780	1,821
Auditor's remuneration	812	1,340

11. EARNINGS PER SHARE

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

	For the six months ended	
	29.2.2020	28.2.2019
	(unaudited)	(unaudited)
Profit for the period attributable to the owners of the Company	<u>7,779</u>	<u>9,441</u>
Weighted average number of ordinary Shares issued	<u>821,856</u>	<u>823,510</u>

During the six months ended 29 February 2020 and 28 February 2019, no diluted earnings per Share was presented as there were no potential dilutive Shares outstanding.

12. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	29.2.2020	31.08.2019
	RMB'000	RMB'000
	(unaudited)	(audited)
Deposits ⁽ⁱ⁾	23,958	25,084
Prepayments	79,498	77,308
Loan to a non-controlling shareholder of a subsidiary ⁽ⁱⁱ⁾	8,000	8,000
Advances to staff	5,145	4,524
Others	<u>7,422</u>	<u>6,597</u>
Total	<u>124,023</u>	<u>121,513</u>
Less: deposits presented under non-current assets	<u>(23,958)</u>	<u>(24,958)</u>
Presented under current assets	<u>100,065</u>	<u>96,555</u>

Notes:

- i. As at 29 February 2020, the balance mainly represents the RMB for the non-interesting bearing deposits placed to local government authorities for the purpose of establishment of a new school campus.
- ii. The balance is non-interesting bearing, unsecured and without a fixed repayment term.

13. OTHER PAYABLES AND ACCRUALS

	29.2.2020 RMB'000 (unaudited)	31.8.2019 RMB'000 (audited)
Payables for property, plant and equipment	19,534	229,389
Miscellaneous expenses received from students ⁽ⁱ⁾	65,633	63,396
Royalty fees payable	65,499	50,985
Advance from a third party	–	–
Payroll payable	23,357	19,702
Accrued expenses	17,180	8,198
Other tax payable	443	1,226
Others	8,458	4,294
	<u>200,104</u>	<u>377,190</u>

Note:

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

14. CONTRACT LIABILITIES

	29.2.2020 RMB'000 (unaudited)	31.8.2019 ⁽ⁱ⁾ RMB'000 (audited)
Tuition fees	176,636	342,118
Boarding fees	5,328	8,719
	<u>181,964</u>	<u>350,837</u>

15. BORROWINGS

	29.2.2020 RMB'000 (unaudited)	31.8.2019 RMB'000 (audited)
Unsecured bank borrowings with corporate guarantee ⁽ⁱ⁾	390,000	110,000
Unsecured and unguaranteed bank borrowings	<u>–</u>	<u>30,000</u>
<i>Analysed as:</i>		
Carrying amount repayable within one year	210,000	140,000
Carrying amount repayable within seven years	<u>180,000</u>	<u>–</u>

Note:

- i. As at 29 February 2020 and 31 August 2019, the unsecured bank borrowings with corporate guarantee of RMB210 million bear variable interest at 110%-140% of the benchmark interest rate of the People's Bank of China, shall be repayable within one year after the end of the Reporting Period. At the same time, the unsecured long-term bank borrowings of RMB180 million bear variable interest at 130% of the benchmark interest rate of the People's Bank of China, shall be repayable within 7 years after the end of the Reporting Period.

16. DEFERRED INCOME

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Overview

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

We are one of the leading private education service providers in Chengdu, Sichuan Province, China, with a track record of providing private education services for over 19 years. We offer education services to students in different age groups ranging from kindergarten to high school at our schools. The core curriculums of our primary schools to our middle and high schools are designed based on the standards set by the PRC national and provincial educational authorities in China. The curriculums are primarily formulated towards the Senior High School Entrance Examination for middle-school students and the National Higher Education Entrance Examination for high-school students. At the same time, in order to promote the individualised development of our students, we have developed a variety of school-based courses, which are characterised by “one unique curriculum, all-rounded talents” (「一生一課表，兩走兩擅長」).

We adhere to the concepts of “Combination of Chinese and Western, Arts and Science” (「融貫中西，文理並蓄」) and “Learn intently in pursuit of knowledge and caring for the world” (「靜學問道，天下關懷」), we strengthen the study of basic subjects according to the education rules and the law of growth of people. Meanwhile, we provide high-quality and all-round education services to our students through customised course design. We follow the future development trend of education and create education that adapts to the development of students. We believe the success of our education services facilitates the development of our students' skills in communication, creativity and collaboration, and thereby helping them achieve academic excellence and other achievements.

Business development during the Reporting Period

In September 2019, Lezhi Bojun School* (樂至博駿公學學校) (“**Lezhi School**”) officially commenced operation. This which was established by us by way of acquisition of land use rights and it comprises a primary school, a middle school and a high school operated in a “through-train” mode under the brand of “Bojun School”. As at the date of this announcement, Lezhi School recruited students in the primary school, middle school and high school. Lezhi Bojun School with an estimated total student enrolment of approximately 3,200 students.

In November 2018, we entered into an education cooperation agreement with Neijiang High and New Technology Industrial Zone Management Committee* (內江高新技術產業園區管理委員會), in relation to establish, by way of the acquisition of land use rights, Neijiang Bojun School* (內江博駿學校) (“**Neijiang Bojun School**”). Neijiang Bojun School will comprise a primary school, a middle school and a high school operated in a “through-train” mode under the brand of “Bojun School”. Neijiang Bojun School is expected to commence operation in September 2021 with initial intake of students for the primary school and grade seven (in the middle school section). The high school is expected to commence operation in September 2024. Neijiang Bojun School is expected to have a final total student enrolment of approximately 4,000 students.

We entered into an agreement of intent in November 2019 (the “**Agreement of Intent**”) and an acquisition agreement in April 2020 (the “**Acquisition Agreement**”) in relation to the acquisition of equity transfer with Sichuan Jiuzhou Taoyuan Eco-tourism Development Limited* (四川九洲桃源裡生態旅遊開發有限公司) (“**Taoyuan Company**”), pursuant to which, we would acquire 100% equity interest in the Taoyuan Company upon completion of the equity transfer. After completion of the equity transfer, we will re-plan and re-operate the 4th Division, Shuangquan Village, Wan’an Town, Chengdu City* (成都市萬安鎮雙泉村四組) with a total area of 4,645.9 square metre for the expansion of the campus of Tianfu School, which is expected to commence operation of high school and primary school. A deposit of RMB2.18 million was paid pursuant to the Agreement of Intent.

Our Schools

As at 29 February 2020, we operated 13 schools in Sichuan Province which include six kindergartens, one primary and middle school, two middle schools and one middle and high school in Chengdu, one primary and middle school in each of Bazhong City (巴中市) and Guangyuan City (廣元市) respectively, and a primary, middle and high school in Ziyang City (資陽市).

	Number of schools			
	As at 29 February 2020	As at 28 February 2019	Change	Change Percentage
Kindergarten section	6	6	—	—
Primary school section	4	3	+1	+33%
Middle school section	7	6	+1	+17%
High school section	2	1	+1	+100%
Total	19	16	+3	+19%

Our Students

As at 29 February 2020, we had an aggregate enrolment of 11,985 students, including 1,274 kindergarten students, 1,943 primary school students, 8,087 middle school students and 681 high school students. The following table sets forth information relating to the student enrolment of our schools at different educational stages as at the dates indicated:

	Number of students		Change	Change Percentage
	As at 29 February 2020	As at 28 February 2019		
Kindergartens	1,274	1,355	-81	-5.98%
Primary schools	1,943	1,304	+639	+49.00%
Middle schools	8,087	7,110	+977	+13.74%
High schools	681	556	+125	+22.48%
Total	11,985	10,325	+1,660	+16.08%

Note: The student enrolment information is based on the internal records of our schools.

Teachers and Teacher Recruitment

As at 29 February 2020, we had an aggregate of 975 teachers, including 111 kindergarten teachers, 152 primary school teachers, 644 middle school teachers and 68 high school teachers. The following table sets forth the comparative information relating to the number of teachers at our schools at different educational stages as at the dates indicated:

	Number of teachers		Change	Change Percentage
	As at 29 February 2020	As at 28 February 2019		
Kindergartens	111	121	-10	-8.3%
Primary schools	152	111	+41	36.9%
Middle schools	644	618	+26	4.2%
High schools	68	53	+15	28.3%
Total	975	903	+72	8.0%

Note: Excluding teachers engaged in administrative duties only.

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

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

	Teacher-to-student ratio	
	As at 29 February 2020	As at 28 February 2019
Kindergartens	1:11.48	1:11.20
Primary schools	1:12.78	1:11.75
Middle schools	1:12.56	1:11.50
High schools	1:10.01	1:10.49

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

Teacher Retention Rate

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

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

	Teacher retention rate For the six months ended	
	29 February 2020	28 February 2019
Kindergartens	88.8%	94.4%
Primary schools	93.83%	100.0%
Middle schools	96.70%	97.4%
High schools	100.0%	100.0%

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

Tuition and Boarding Fees

For primary, middle and high schools, our annual tuition fees for the 2018/2019 school year and the 2019/2020 school year ranged from RMB22,000 to RMB42,000 per student. For boarding students, an annual boarding fee of RMB1,200 to RMB1,400 per student was also charged. The annual tuition fees of the kindergartens for the 2018/2019 school year and the 2019/2020 school year ranged from RMB26,160 to RMB56,160 per student. The following table sets forth the average tuition fee and boarding fee per student of our schools at different educational stages for the periods indicated:

	Average tuition and boarding fee For the six months ended			
	29 February 2020	28 February 2019	Change	Change Percentage
	RMB per student	RMB per student		
Kindergartens	20,759	19,755	+1,004	+5.1%
Primary schools	13,962	13,573	+389	+2.9%
Middle schools	16,510	16,430	+80	+0.5%
High schools	15,946	14,800	+1,146	+7.7%

School Capacity and Utilisation Rate

Enrolment and Capacity

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

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

	Capacity ⁽²⁾ and utilisation rate					
	Enrolment ⁽¹⁾		Student capacity ⁽²⁾		School utilisation rate ⁽³⁾ (%)	
	29 February 2020	28 February 2019	29 February 2020	28 February 2019	29 February 2020	28 February 2019
Kindergartens	1,274	1,355	1,865	1,865	68.3	72.7
Primary schools	1,943	1,304	2,220	1,680	87.5	77.6
Middle schools	8,087	7,110	8,235	7,155	98.2	99.4
High schools	681	556	810	630	84.1	88.3
Total	11,985	10,325	13,130	11,330	91.3	91.1

Notes:

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

OUTLOOK

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

- As residents' income continues to increase, parents' investment in quality education increases. The demand for quality private fundamental education in Sichuan Province and Chengdu is likely to increase in the coming future. Parents from the younger generation put a special emphasis on all-round development in their children's education, and private schools that possess abundant resources to offer a wide array of extra-curricular activities and programmes are expected to benefit from this trend. More parents will choose to enrol their children at private schools because of the improving quality of teaching in private education brand in Sichuan Province and Chengdu in recent years.
- With continuous development in the private fundamental education market in Sichuan Province and Chengdu, coupled with the adjustment of student recruitment policies for private schools, will bring new challenges and opportunities to private schools. Premium branded private schools will have stronger competitiveness than general private schools and the competition among private schools and between private schools and public schools is expected to further intensify. In the future, quality private education is expected to develop more unique features, such as various foreign languages, sports, art programmes, artificial intelligence courses and an international environment.

OUR BUSINESS DEVELOPMENT STRATEGIES AND PLANS

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

(a) Extend our geographic coverage in Sichuan Province, China through further expansion of our school network by way of market penetration and market diversification

- 1) Establishing new schools by purchasing land use rights in Sichuan Province: We intend to expand our school network by purchasing land use rights in Sichuan Province and establishing new schools when we identify appropriate opportunities.
 - In September 2018, we established Nanjiang School, named as Nanjiang Bojun School* (南江博駿學校) in Nanjiang County (南江縣), Bazhong City (巴中市), Sichuan Province after acquisition of land use right. Nanjiang Bojun School comprises a primary school, a middle school and a high school with initial intake of primary school and middle school students. The high school is expected to commence operation in September 2021. The estimated total student enrolment of such school is approximately 3,200 students.
 - In September 2018, we established Wangcang School, named as Wangcang Bojun School* (旺蒼博駿公學) in Wangcang County (旺蒼縣), Guangyuan City (廣元市), Sichuan Province after acquisition of land use rights. Wangcang Bojun School comprises a primary school, a middle school and a high school with initial intake of primary school and middle school students. The high school is expected to commence operation in September 2021. The estimated total student enrolment of such school is approximately 4,000 students.
 - In September 2019, we established Lezhi School in Lezhi County (樂至縣) of Ziyang City (資陽市), Sichuan Province after the acquisition of land use rights. Lezhi School comprises a primary school, a middle school and a high school which commenced operation in September 2019. The estimated total student enrolment of such school is approximately 3,200 students.
 - In November 2018, we entered into an educational project investment agreement with Neijiang High and New Technology Industrial Zone Management Committee* (內江高新技術產業園區管理委員會), pursuant to which we established, by way of the acquisition of land use rights, Neijiang School in Neijiang High and New Technology Zone, Sichuan Province. Neijiang Bojun School comprises a primary school, a middle school and a high school. Neijiang Bojun School is expected to commence operation in September 2021 with initial intake of students for the primary school and grade seven (in the middle school section). The high school is expected to commence operation in September 2024. The estimated total student enrolment of such school is approximately 4,000 students.

- 2) In addition to developing new schools by acquiring land use rights, we also establish new schools through cooperation with third-party business partners:
- In July 2017, we entered into a cooperation agreement with the Shuangquan Village Committee of Wanan Street of Tianfu New District* (天府新區萬安街道雙泉村村民委員會) in Chengdu in relation to a joint project for the expansion of Tianfu School campus and school premises. We will also start a primary school section and a high school section at Tianfu School with an estimated enrolment of approximately 1,500 students. Subject to approval by and registration with the relevant PRC authorities, the new primary school section and high school section are expected to commence operation on 1 September 2021.
 - In September 2018, we jointly established the Chengdu Bojun School with an independent third party (the “**School Investor**”) with initial intake of primary school and middle school students. The high school is expected to commence operation in September 2021. The estimated total student enrolment of such school is approximately 4,000 students. Chengdu Mingxian Education Investment Company Limited* (成都銘賢教育投資有限公司), a consolidated affiliated entity of our Company, and the School Investor act as the joint school sponsors of Chengdu School and own 51% and 49% of sponsor interests, respectively.
 - In January 2018, we entered into a memorandum of understanding with Excelsior School System Inc. (the “**US Partner**”) to expand our school network abroad. The US Partner is engaged in the provision of private high school education services in California for grades 9 to 12 students and is an accredited school of the Western Association of Schools and Colleges. Pursuant to such memorandum of understanding, our Group and the US Partner will set up a joint venture to establish a school (the “**US School**”), being a for-profit private international school in Los Angeles area offering grades 7 to 12 education service. The joint venture will be owned by our Group as to 70% and the US Partner as to 30%. We will provide funding for the operation and purchase of facilities and will be involved in the planning of teaching programmes to be offered by the US School. The US Partner will provide management services to the US School, assist our Group in identifying school premises and recruit teachers for the US School. The US School is expected to commence operation in September 2021.

The following table provides a summary of the estimated capacities of the new school premises to be commence operation in September 2021:

School premises	Date of commencement⁽¹⁾	Estimated capacities for students
Tianfu School (Primary school section and high school section)	September 2021	1,500
Neijiang School	September 2021	4,000
US School	September 2021	240
Total		5,740

Note:

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

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

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

The following table provides a summary of enrolment of our schools in operation as at 29 February 2020 and their estimated capacity:

School premises	Enrolment as at 29 February 2020	Estimated capacity for students
Jinjiang School	3,148	3,300
Longquan School	2,784	3,500
Tianfu School ⁽¹⁾	1,654	3,500
Nanjiang School ⁽²⁾	622	3,200
Wangcang School ⁽²⁾	646	4,000
Chengdu School ⁽²⁾	1,400	4,000
Lezhi School ⁽³⁾	457	3,200
Affiliated kindergartens ⁽⁴⁾	1,274	1,865
Total	11,985	26,565

Notes:

- (1) The primary school section and high school section will commence operation in September 2021.
- (2) New schools opened in September 2018
- (3) New schools opened in September 2019
- (4) Including 6 kindergartens in Chengdu, namely, Youshi Kindergarten, Lidu Kindergarten, Riverside Kindergarten, Longquan Kindergarten, Qingyang Kindergarten and Peninsula Kindergarten.

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

Leveraging on over 19 years’ experience in the private education industry and success in replicating our business model for the management of private schools, we have successfully expanded our school network under our new brand of Bojun School* (博駿公學) by adopting our existing teaching management system and administration system to provide primary school, middle school and high school education services in a “through-train” mode, so that we can increase market opportunities in the private education industry, enhance the continuity of our curriculum and strengthen support for students to the benefit of their growth and development.

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

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

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

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

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

Environment, Health and Safety

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

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

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

Latest Regulatory Developments

- (i) The Implementation Rules for the Law for Promoting Private Education of the PRC (Draft for Review)* (《中華人民共和國民辦教育促進法實施條例(修訂草案)(送審稿)》)

On 10 August 2018, the Ministry of Justice of the PRC published the Implementation Rules for the Law for Promoting Private Education of the PRC (Draft for Review) (the “**Draft**”) for consultation. Article 5 of the Draft provides that “The foreign-invested enterprises established in the PRC and social organisations with foreign party being the de facto controller shall not establish, participate in the establishment or de facto control of private schools implementing compulsory education; the establishment of other types of private schools shall comply with the relevant foreign investment regulations of the State”. This article imposes restrictions on foreign investment in compulsory education, which brings uncertainties to the contractual arrangements under the existing structure of the Company. Article 7 of the Draft provides that “Public schools shall not establish or participate in the establishment of for-profit private schools. If a public school sponsors or participates in the establishment of a not-for-profit private school, it shall be subject to the approval of the competent authorities, and shall not utilise the state's fiscal funds, nor affect the teaching activities of the public school, and shall not obtain income by brand output”. This article brings uncertainty to the cooperation model of public schools and private schools in operating schools. Article 12 of the Draft provides that “prohibits those centrally operates their schools to control not-for-profit private schools by means of merger and acquisition, franchise chain, agreement control and other means, and control by entering an agreement”. “Control by agreement” referred to in such article brings uncertainties to the control of not-for-profit schools by contractual arrangements adopted by us. Article 45 of the Draft provides that “The administrative department of education and the human resources and social security department shall strengthen the supervision on the signing of agreements between not-for-profit private schools and stakeholders, and review and audit the necessity, legality and compliance of agreements involving material interests or long-term and repeated execution”. The contractual arrangements adopted by us may be subject to the supervision of the relevant authorities, but the regulations do not specify specific rules and measures for review and audit. As at the date of this announcement, the Draft has not been approved and has not been formally promulgated, the Group will closely monitor the progress and development of the Draft and take appropriate measures to comply with the requirements.

- (ii) Implementation Opinions of Sichuan Provincial Government on Encouraging the Operation of Education by Social Forces and Promoting the Healthy Development of Private Education* (《四川省政府關於鼓勵社會力量興辦教育促進民辦教育健康發展的實施意見》)

According to the Implementation Opinions on Encouraging the Operation of Education by Social Forces and Promoting the Healthy Development of Private Education (Chuan Fu Fa 2018 No. 37)* (《關於鼓勵社會力量興辦教育促進民辦教育健康發展的實施意見》(川府發2018 37 號)) issued by Sichuan People's Government on 17 September 2018, "The school sponsors of existing private schools shall submit an election of the nature of schools operated in writing to the competent authorities by 1 September 2020, and schools that fail to submit such information by the stipulated timeline shall not be eligible for election as for-profit private schools. Schools that have been elected to be not-for-profit private schools shall complete relevant procedures by 1 September 2021." As at the date of this announcement, all the schools operated by us have been registered as private schools, and the schools have amended their articles of association, improved their corporate governance structure and internal management system in accordance with relevant regulations.

- (iii) Certain Opinions on Deepening the Reform and Regulating the Development of Preschool Education* (《關於學前教育深化改革規範發展的若干意見》)

On 15 November 2018, the Central Committee of the Communist Party of China and the State Council of the PRC jointly issued Certain Opinions on Deepening the Reform and Regulating the Development of Preschool Education* (《關於學前教育深化改革規範發展的若干意見》) (the "**Reform Opinions**"). Pursuant to the Reform Opinions, among other things, private companies should not control not-for-profit kindergartens through contractual arrangements. As at the date of this announcement, the Group operates six not-for-profit kindergartens through contractual arrangements, which account for approximately 13.4% of the Group's revenue for the six months ended 29 February 2020 and approximately 10.6% of the Group's total number of students enrolled as at 29 February 2020. The impact of the Reform Opinions and regulatory policies on the Group's operations and financial position is limited. The Company will closely monitor and seek legal advice on the Reform Opinions in due course, and will take all reasonable measures to comply with the Reform Opinions as it may be advised.

(iv) Foreign Investment Law of the PRC* (《中華人民共和國外商投資法》)

The Foreign Investment Law of the PRC* (《中華人民共和國外商投資法》) (the “**Foreign Investment Law**”) was passed and issued by the National People’s Congress of the PRC on 15 March 2019, and became effective on 1 January 2020. The Foreign Investment Law defines foreign investment as the investment activities conducted by foreign investors directly or indirectly in the PRC, and sets forth the four situations that should be regarded as foreign investment. There is no provision in the Foreign Investment Law that expressly mentions “actual control” or “contractual arrangement”. Nevertheless, whether further laws and regulations will be promulgated in this regard is not certain. Therefore, uncertainties still existed in relation to whether the structure under contractual arrangement will be included in the regulatory scope of foreign investment and, if it is included in the regulatory scope, how it will be regulated. As at the date of this announcement, the Company’s operation has not been affected by the Foreign Investment Law. The Company will closely monitor the developments of the Foreign Investment Law and the relevant laws and regulations.

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

Compliance with the Qualification Requirement

According to the Regulations on Operating Sino-foreign Schools* (《中外合作辦學條例》), the foreign investor in a sino-foreign joint venture private school must be a foreign educational institution which has acquired relevant qualifications and experience (the “**Qualification Requirement**”) in a foreign country. As part of our effort to fulfil the Qualification Requirement, we have adopted specific plans and taken concrete steps reasonably considered by us to be significant to indicate our compliance with the Qualification Requirement. On 19 August 2016, we established USA Bojun as an operating entity in the United States. On 29 January 2018, we entered, through USA Bojun, into a memorandum of understanding with the US Partner, an institution which has extensive experience in the provision of private education services in the US, to expand our school network abroad. Pursuant to the memorandum of understanding, our Group and the US Partner will set up a joint venture for the establishment of the US School in Los Angeles area. The joint venture will be owned by our Group as to 70% and the US Partner as to 30%. We will provide funding for the operation and the purchase of facilities, and will be involved in the design of the education programmes to be offered by the US School. The US Partner will provide management services to the US School, assist our Group in identifying school premises and recruiting teachers for the US School. We intend to allocate approximately US\$3.2 million for the purpose of establishing the US School. We intend to meet part of such capital expenditure by utilising approximately RMB12.9 million (equivalent to approximately US\$1.9 million) from the net proceeds from the Listing and the remainder through equity and/or debt financing and/or with our internal funds, as and when we see fit. As at the date of this announcement, we are actively working on the establishment of the US School, which is expected to commence operation in September 2021.

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

FINANCIAL REVIEW

Revenue

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

	For the six months ended			
	29 February 2020 RMB'000 (unaudited)	Percentage of total revenue %	28 February 2019 RMB'000 (unaudited)	Percentage of total revenue %
Tuition fees				
– Preschool Education	26,447	13.4	26,096	15.5
– Degree Education	166,022	83.9	137,402	81.6
Sub-total	192,469	97.3	163,498	97.1
Boarding fees	5,482	2.7	4,802	2.9
Total	197,951	100.0	168,300	100.0

Our revenue increased by approximately RMB29.6 million or 17.6% from approximately RMB168.3 million for the six months ended 28 February 2019 to approximately RMB197.95 million for the six months ended 29 February 2020. The increase was mainly attributable to the increased total student enrolment level, which resulted in an increase in tuition and boarding fees.

Student enrolment level in our schools increased by approximately 16.8% from 10,325 as at 28 February 2019 to 11,985 as at 29 February 2020, mainly due to the official commencement of Lezhi School and the increase in student enrolment in the existing schools of the Group.

Costs of services

Our costs of services primarily consist of staff costs, depreciation, cost of cooperative education, rental expenses and other costs. For the six months ended 28 February 2019 and 29 February 2020, our costs of services represented approximately 74.5% and 77.8% of our total revenue, respectively. The table below sets forth the breakdown of the major components of our costs of services for the periods indicated:

	For the six months ended	
	29 February	28 February
	2020	2019
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Staff costs	101,730	82,507
Depreciation and amortisation	18,824	11,046
Royalty fees	14,280	7,255
Rental and management fees	7,965	9,666
Office expenses	1,928	7,455
Repair and maintenance	4,727	1,814
Utilities expenses	853	1,243
Training expenses	2,067	1,661
Others	1,650	2,772
Total	154,024	125,419

Our costs of services increased by approximately RMB28.6 million or 22.8% from approximately RMB125.4 million for the six months ended 28 February 2019 to approximately RMB154.0 million for the six months ended 29 February 2020. The increase was primarily attributable to the commencement of Lezhi School, which resulted in the significant increase in the number of schools and number of students, and the commencement and expansion of four new schools, namely Nanjiang School, Wangcang School, Pangzhou School and Lezhi School during the Reporting Period, and hence the increase in the number of teachers we employed, the depreciation and management fees for school buildings, the rental and management fees of the school premises and related operating costs, among which:

- (i) staff costs increased by approximately RMB19.2 million or 23.3% from approximately RMB82.5 million for the six months ended 28 February 2019 to approximately RMB101.7 million for the six months ended 29 February 2020, primarily because (i) the number of teachers and teaching assistants we hired increased significantly during the period ended 29 February 2020; and (ii) we offered more competitive remuneration packages to attract and retain high quality teachers and teaching assistants during the six months ended 29 February 2020;

- (ii) depreciation and amortisation expenses increased by approximately RMB7.8 million or 70.9% from approximately RMB11.0 million for the six months ended 28 February 2019 to approximately RMB18.8 million for the six months ended 29 February 2020;
- (iii) royalty fees increased by approximately RMB7.0 million or 95.9% from approximately RMB7.3 million for the six months ended 28 February 2019 to approximately RMB14.3 million for the six months ended 29 February 2020, due to the increase in tuition fees income as a result of the adjustment of the tuition fees level of Jinjiang School, Longquan School and Tianfu School in the current period and the increased number of students enrolled in the related schools, as well as the increase in applicable royalty rate; and
- (iv) repair and maintenance fees increased by approximately RMB2.9 million or 161.1% from approximately RMB1.8 million for the six months ended 28 February 2019 to approximately RMB4.7 million for the six months ended 29 February 2020, primarily because of the campus and facilities of Jinjiang School and Longquan School have been in use for a long period of time and some of the facilities have become obsolete, resulting in an increase in overhaul and renovation costs for improving the quality of hardware facilities.

In addition, our cost of services such as training fees to improve teaching quality of our teachers increased in line with the expansion in scale of the schools operated by the Group.

Gross profit and gross profit margin

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

	For the six months ended					
	29 February 2020			28 February 2019		
	Segment revenue RMB'000	Gross profit RMB'000	Gross profit margin %	Segment revenue RMB'000	Gross profit RMB'000	Gross profit margin %
Degree Education	171,504	36,915	21.50	142,204	36,941	26.0
Preschool Education	26,447	7,012	26.5	26,096	5,940	22.8
Total	197,951	43,927	22.2	168,300	42,881	25.5

Gross profit margin of Degree Education decreased from approximately 26.0% for the six months ended 28 February 2019 to approximately 21.5% for the six months ended 29 February 2020. The decrease in gross profit margin was mainly because the three new schools, namely Nanjiang School, Wangcang School and Lezhi School, have yet reached the breakeven level in the initial commencement of operation, resulting in costs of services being higher than the tuition fees income and gross profit margin of qualification and education decreased.

Gross profit margin of Preschool Education increased from approximately 22.8% for the six months ended 28 February 2019 to approximately 26.5% for the six months ended 29 February 2020. The increase in gross profit margin was mainly attributable to stable and mature scale of the preschool education schools, strengthened internal management, energy conservation and efficiency enhancement, and cost-saving, resulting in the increase of gross profit margin.

Other income and (expenses)

For the six months ended 29 February 2020, our other income and (expenses) primarily consist of interest income from banks.

Other gains and (losses)

For the six months ended 29 February 2020, our other gains and (losses) primarily comprise net foreign exchange gain.

Administrative expenses

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

Our administrative expenses decreased by approximately RMB2.6 million or 8.5% from approximately RMB30.6 million for the six months ended 28 February 2019 to approximately RMB28.0 million for the six months ended 29 February 2020, mainly attributable to adoption of energy conservation and efficiency enhancement measures, lowering the normal expenses and resulting in the decrease in administrative and office expenses.

Finance costs

Our finance costs primarily consist of interest expenses of bank borrowings.

Our finance costs increased by approximately RMB2.5 million or 100.0% from approximately RMB2.5 million for the six months ended 28 February 2019 to approximately RMB5.0 million for the six months ended 29 February 2020, primarily attributable to the increase in the amount of loan facilities drawn to meet the increase in working capital requirements due to the expansion in scale of our schools for the six months ended 29 February 2020.

Taxation

Our income tax expenses for the six months ended 28 February 2019 and 29 February 2020 amounted to approximately RMB0.9 million and RMB3.5 million, respectively. The main reason for the increase came from the recognition of income tax for Degree Education by the PRC government since 2019.

Profit for the period

Our profit for the Reporting Period increased by approximately RMB1.5 million or 15.0% from approximately RMB10.0 million for the six months ended 28 February 2019 to approximately RMB11.5 million for the six months ended 29 February 2020, which is primarily attributable to the increase in revenue of approximately RMB30.0 million due to the significant increase in the number of student enrolled in the 2019/2020 school year and was partially offset by (i) the initial costs of services of the newly established Nanjiang School and Wangcang School and Lezhi School commencing operation and student enrolment which exceeded the tuition fees by approximately RMB7.7 million; (ii) the increase in service costs by approximately RMB7.8 million due to the expansion in scale of our schools operated by the Group increase in depreciation of fixed assets used for new schools; and (iii) the increase in finance costs by approximately RMB2.5 million to meet the increase in working capital requirements due to the expansion in scale of our schools.

Contract liabilities

We record tuition fees and boarding fees collected initially as the liabilities under contract liabilities and recognise such amounts as revenue proportionately over the relevant period of the applicable programme. Our contract liabilities decreased by approximately RMB168.8 million or 48.1% from approximately RMB350.8 million as at 31 August 2019 to approximately RMB182.0 million as at 29 February 2020. The decrease was primarily due to the completion of provision of education services corresponding to the fees collected by our schools.

Adjusted net profit

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

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

	For the six months ended	
	29 February 2020	28 February 2019
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Profit for the period	11,150	10,027
Less:		
Imputed interest income from advances to related companies	—	—
Imputed interest income from advances to Directors	—	—
Add:		
Listing expenses	—	—
Adjusted net profit	11,150	10,027

LIQUIDITY AND CAPITAL RESOURCES

During the Reporting Period, we have principally financed our operations through a combination of internally generated cash flows from our operations, proceeds from the Listing and short-term bank borrowings. The short-term bank borrowings amounted to RMB210.0 million as at 29 February 2020, and have a variable interest at 110%-140% of the benchmark interest rate of the People's Bank of China. Our cash and cash equivalents amounted to approximately RMB336.6 million and RMB213.4 million as at 31 August 2019 and 29 February 2020, respectively.

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

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

We regularly monitor our liquidity requirements to ensure that we maintain sufficient cash resources for working capital and capital expenditure needs. For the six months ended 29 February 2020, we did not experience any difficulties in settling our obligations in the normal course of business, which would have had a material impact to our business, financial condition or results of operations.

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

	For the six months ended	
	29 February	28 February
	2020	2019
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Net cash used in operating activities	(119,528)	(63,650)
Net cash used in investing activities	(248,957)	(325,199)
Net cash from (used in) financing activities	245,266	27,452
Net increase (decrease) in cash and cash equivalents	(123,219)	(361,397)
Cash and cash equivalents at the beginning of the period	336,647	607,062
Effect of exchange rate changes	–	(3,508)
Cash and cash equivalents at the end of the period, represented by bank balances and cash	213,428	242,157

CAPITAL EXPENDITURES

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

	For the six months ended	
	29 February 2020	28 February 2019
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Payment for property, plant and equipment	(231,274)	(259,798)
Payment for leasehold land	(2,180)	(64,164)
Prepayment for property, plant and equipment	–	(10,254)

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

CAPITAL COMMITMENTS

	29 February 2020	31 August 2019
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(audited)
Capital expenditure in respect of:		
– the acquisition of property, plant and equipment and land use rights contracted for but not provided in the Reporting Period	19,620	82,682

GEARING RATIO

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

Our gearing ratio increased from approximately 16.7% as at 31 August 2019 to approximately 46.1% as at 29 February 2020, as the Group increased its bank borrowings to meet the requirement of working capital after business expansion during the six months ended 29 February 2020.

INTEREST RATE RISK

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

FOREIGN EXCHANGE EXPOSURE

The majority of the Group's revenue and expenditures are denominated in RMB, the functional currency of the Company, except that minimal expenditures are denominated in Hong Kong dollars. As at 29 February 2020, certain bank balances and cash were denominated in Hong Kong dollars. Any material volatility in the exchange rates of these currencies against RMB may affect the financial condition of the Group. The Group has not used any financial instrument to hedge the foreign exchange risk that it is exposed to currently. However, the management of the Group monitors our foreign exchange exposure and will consider hedging significant foreign exchange risk should the need arise.

CHARGES ON THE GROUP'S ASSETS

There were no material charges on the Group's assets as at 29 February 2020.

CONTINGENT LIABILITIES

As at 29 February 2020, the Group did not have any material contingent liabilities (31 August 2019: nil).

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

For the six months ended 29 February 2020, the Group had not have any material acquisitions and disposals of subsidiaries, associates or joint ventures.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

As at 29 February 2020, save as disclosed in this announcement, the Group did not have any other immediate plans for material investments and capital assets.

USE OF PROCEEDS FROM THE LISTING

Net proceeds from the Listing (including the partial exercise of over-allotment option) of approximately HK\$494.0 million (equivalent to approximately RMB428.9 million), after deducting the underwriting fees, commissions and expenses payable by us in connection with the Listing, will be applied in the manners as set out in the section headed “Future plans and use of proceeds” of the Company’s prospectus dated 19 July 2018. As at 29 February 2020, the Company applied the net proceeds in the following manners:

Use of proceeds	% of the net proceeds	Proceeds allocated (RMB million)	Amount utilised (RMB million)	Unutilised balance (RMB million)
I. Establishing Nanjiang School	28%	120.1	120.1	–
II. Establishing Wangcang School	28%	120.1	120.1	–
III. Establishing the high school section of Tianfu School	22%	94.4	94.4	–
IV. Establishing Chengdu School	9%	38.6	38.6	–
V. Establishing Lezhi School	5%	21.4	21.4	–
VI. Establishing US School	3%	12.9	–	12.9
VII. As working capital and for general corporate purpose	5%	21.4	21.4	–
Total	100%	428.9	416.0	12.9

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

SIGNIFICANT INVESTMENT HELD

As at 29 February 2020, the Group did not hold any significant investment.

SIGNIFICANT LEGAL PROCEEDINGS

For the six months ended 29 February 2020, the Group had not been involved in any significant legal proceedings or arbitration. To the best of the knowledge and belief of the Directors, there are no significant legal proceedings or claims pending or threatened against the Group.

EMPLOYEE BENEFITS

As at 29 February 2020, the Group had 1,719 employees (as at 28 February 2019: 1,629). The Group participates in various employee benefit plans, including provident fund, housing, pension, medical insurance and unemployment insurance. The Company has also adopted a share option scheme for its employees and other eligible persons. Salaries and other benefits of the Groups' employees are generally reviewed on a regular basis in accordance with individual qualifications and performance, result performance of the Group and other relevant market conditions. The Group also provides internal and external training programmes to its employees. For the six months ended 29 February 2020, the staff costs (including directors' fees) amounted to approximately RMB115.7 million (28 February 2019: approximately RMB101.0 million).

SHARE OPTION SCHEME

On 12 July 2018, a share option scheme (the “**Share Option Scheme**”) was conditionally approved and adopted pursuant to a written resolution passed by the shareholders. The Share Option Scheme will remain in force for a period of 10 years from the date of its adoption. For the six months ended 29 February 2020, no share options had been granted under the Share Option Scheme by the Company. In addition, as at 29 February 2020, no share options under the Share Option Scheme were outstanding.

INTERIM DIVIDENDS

The Board does not recommend the payment of interim dividends for the six months ended 29 February 2020.

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

During the six months ended 29 February 2020, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any listed securities of the Company.

SUBSEQUENT EVENTS

Changes of Directors, chairman of the Board and the Nomination Committee

As disclosed in the Company's announcement dated 25 March 2020, (i) Mr. Wang Jinglei was appointed as an executive Director, the chairman of the Board and the chairman of the nomination committee of the Company (the “**Nomination Committee**”); (ii) Ms. Liao Rong resigned as an executive Director; and (iii) Mr. Xiong Tao ceased to be the chairman of the Board and the chairman of the Nomination Committee but remained as an executive Director, with effect from 25 March 2020. For further details, please refer to the Company's announcement dated 25 March 2020.

On 13 April 2020, we entered into the Acquisition Agreement in relation to the acquisition of Taoyuan Company at a total consideration of RMB21.8 million. Such acquisition will be financed by the Group's internal resources. For further information about this transaction, please refer to the announcement of the Company dated 28 April 2020.

COMPETITION AND CONFLICT OF INTERESTS

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

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) set out in Appendix 10 to the Listing Rules as the code of conduct for dealings in the Company’s securities by the Directors. Having made specific enquiries to the Directors, all Directors confirmed that they had complied with the required standards set out in the Model Code for the six months ended 29 February 2020.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

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

AUDIT COMMITTEE

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

The Audit Committee has reviewed the unaudited condensed consolidated financial statements of the Group for the six months ended 29 February 2020. The Audit Committee has also held meeting to discuss matters with respect to the accounting policies and practices adopted by the Company. The Audit Committee did not have any different opinions on the accounting policies adopted by the Company. The Audit Committee has also discussed the internal control matters with senior management members of the Company.

PUBLICATION OF THE INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement is published on the website of the Stock Exchange at www.hkexnews.hk and the website of the Company at <http://bojuneducation.com>. The interim report of the Group for the six months ended 29 February 2020 will be published on the aforesaid websites of the Stock Exchange and the Company and will be dispatched to shareholders of the Company in due course.

APPRECIATION

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

By Order of the Board
Bojun Education Company Limited
Wang Jinglei
Chairman and Executive Director

Hong Kong, 28 April 2020

As at the date of this announcement, the executive Directors are Mr. Wang Jinglei, Mr. Xiong Tao and Mr. Ran Tao; the non-executive Directors is Mr. Wu Jiwei; and the independent non-executive Directors are Mr. Cheng Tai Kwan Sunny, Mr. Mao Daowei, Ms. Luo Yunping and Mr. Yang Yuan.

* *For identification purpose only*