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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 2021

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 2021. This announcement, containing the full text of the 2021 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

Hong Kong, 30 August 2021

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.

A Profound Chinese Foundation,
A Panoramic Global Outlook,
An Innovative Future



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2021 | INTERIM
REPORT

CONTENTS

2	Company Profile
4	Corporate Information
6	Financial Highlights
7	Management Discussion and Analysis
20	Corporate Governance/Other Information
28	Unaudited Interim Condensed Consolidated Statement of Profit or Loss
29	Unaudited Interim Condensed Consolidated Statement of Comprehensive Income
30	Unaudited Interim Condensed Consolidated Statement of Financial Position
32	Unaudited Interim Condensed Consolidated Statement of Changes in Equity
33	Unaudited Interim Condensed Consolidated Statement of Cash Flows
35	Notes to Interim Condensed Consolidated Financial Statements
52	Definition

COMPANY PROFILE

The Group is a leading provider of pre-school to grade 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 2021, we had enrolment of an aggregate number of approximately 63,773 students including 57,083 students enrolled in schools owned by the Group and 6,690 students enrolled in other schools the Group provides management and consultancy services, and we employed an aggregate of approximately 3,940 teachers in China. In addition, the Group operates the Virscend University located in Irvine, California, the United States. In March 2021, Virscend University received “Candidacy” status from WASC and expects to receive full accreditation in September 2022. Virscend University currently offers MBA program and 29 students has graduated since 2019.

As at 30 June 2021, we operate twenty-seven schools in six cities in Sichuan Province, namely Chengdu City, Panzhihua City, Ya’an City, Deyang City, Yi’bin City and Dazhou City. Through these schools, we offer formal education with comprehensive education programs from kindergarten through university. In September 2021, the Group will commence operation of one high school in Deyang City, one K-9 school in Meishan City and one high school in Chengdu City while Chengdu Foreign Languages School of Xinjin will offer high school education. Besides, the Group will start to provide education management service to one K-9 school and one kindergarten in Meidshan City and two kindergartens in Chengdu City. 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 2019, 2020 and 2021, approximately 95.1%, 96.6% and 87.5% of the graduating students from three of our long standing high schools who participated in such examinations achieved scores that allowed them to be accepted by first-tier universities in China, including Peking University, Tsinghua University, Fudan University, Zhejiang University and Shanghai Jiaotong University, among others respectively.

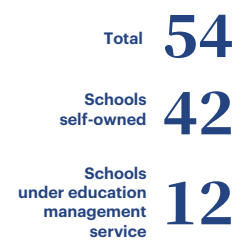
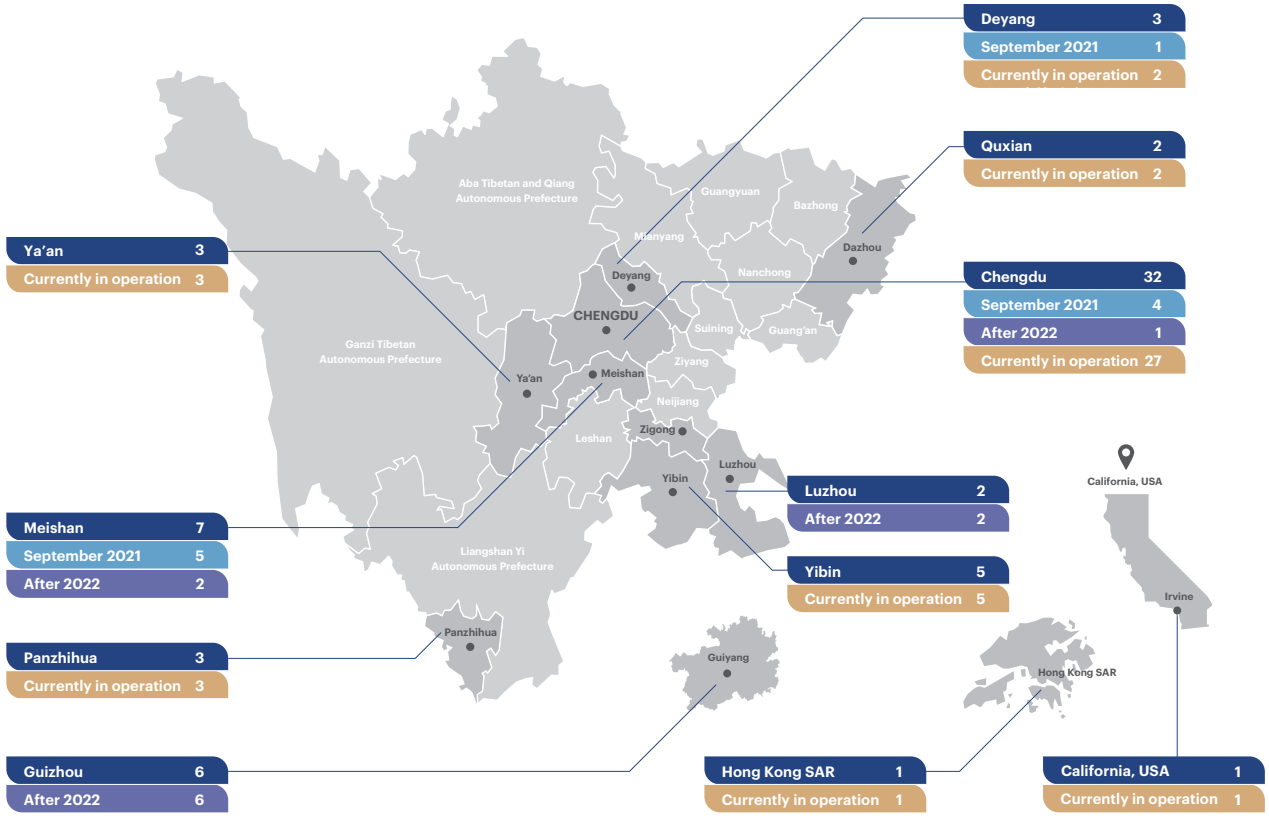
Time and time again the Group has proved with actual results that high-quality education standard and sophisticated teaching mode have helped many students with average grades and below realize their dream of attending prestigious universities.

The University currently offers 29 bachelor programs and 21 college programs. In 2021, according to WuSulian’s “China Independent College Rankings”, the University ranked 15th among all 181 independent colleges and second among independent colleges specializing in literature. The quality of our undergraduates and the rate of our undergraduates’ pursuing further study both ranked fourth among all 399 independent colleges and private universities collectively (measured by the ratio of our graduates pursuing further study and starting salary of our graduates). In 2021, in the competition of Airuishen alumni network “Five-star Class Independent College”, the University ranked first among independent college specialising in language.

Through over 20 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 education industry in China.

COMPANY PROFILE

OUR SCHOOL NETWORK



CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Mr. Deng Bangkai

Mr. Ye Jiayu

Mr. Yan Yude

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. Lau Jeanie

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STOCK CODE

1565

DATE OF LISTING

15 January 2016

FINANCIAL HIGHLIGHTS

COMPARISON OF KEY FINANCIAL FIGURES

Result of operation	For the six months ended 30 June			
	2021 RMB' 000	2020 RMB' 000	Change RMB' 000	Percentage Change (%)
Revenue	1,159,942	885,657	+274,285	+31.0%
Gross profit	369,126	387,848	-18,722	-4.8%
Profit for the period	175,105	239,752	-64,647	-27.0%
Attributable to equity holders of the parent	178,607	243,585	-64,978	-26.7%
Earnings per share				
Basic and diluted (RMB)	0.06	0.08	—	—

Financial ratio	For the six months ended 30 June	
	2021	2020
Gross profit margin (%)	31.8	43.8
Net profit margin (%)	15.1	27.1

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Revenue

During the six months ended 30 June 2021 (the “Reporting Period”), the Group has witnessed growth of the schools operated by the Group in terms of revenue. Revenue increased from approximately RMB885.7 million for the six months ended 30 June 2020 to approximately RMB1,159.9 million for the Reporting Period. The Group generated its revenue from (i) student fees; (ii) management and consultation services provided to three government owned public schools and (iii) early child and after-class training tuition fees. Student fees are typically comprised of tuition fees, boarding fees, school canteen operations fees and consultation services fees for overseas studies. Tuition fees remained the major source of revenue, accounting for approximately 79.7% of the total revenue of the Company for the Reporting Period.

The following table sets forth and breakdown of the revenue of the Group:

	For the six months ended 30 June			
	2021 RMB'000	2020 RMB'000	Change RMB'000	Percentage Change (%)
Tuition fees	924,482	762,669	+161,813	+21.2%
Boarding fees	39,305	24,009	+15,296	+63.7%
School canteen operations	181,671	91,913	+89,758	+97.7%
Management and consultation services	2,484	2,564	-80	-3.1%
Early child and after-class training tuition fees	7,331	0	+7,331	—
Consultation service fees for overseas studies	4,669	4,502	+167	+3.7%
Total	1,159,942	885,657	+274,285	+31.0%

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

Category of schools	For the six months ended 30 June			
	2021 RMB'000	2020 RMB'000	Change RMB'000	Percentage Change (%)
High school - international program	23,397	22,668	+729	+3.2%
High school - domestic program	243,437	195,733	+47,704	+24.4%
Middle school	287,052	248,585	+38,467	+15.5%
primary school	225,448	165,691	+59,757	+36.1%
Kindergarten	7,517	3,137	+4,380	+139.6%
University	137,631	126,855	+10,776	+8.5%
Total tuition fees	924,482	762,669	+161,813	+21.2%

The increase in the total revenue of the Group was mainly due to the increase in the Group's student enrolment and Chengdu Foreign Languages School Gaoxin Campus has been consolidated into the Group since September 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

Average Tuition Fees

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

Category of schools	School Year			
	2020/2021 Gross Tuition Fees RMB'000	2020/2021 Average Tuition Fees RMB	2019/2020 Gross Tuition Fees RMB'000	2019/2020 Average Tuition Fees RMB
High school – international program	42,803	85,095	41,868	97,206
High school – domestic program	442,987	35,584	373,960	35,909
Middle school	525,981	34,071	452,879	34,400
Primary school	410,740	35,580	297,175	35,748
Kindergarten	17,498	33,977	10,264	33,282
University	248,662	14,165	228,898	13,501

Notes: 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 in schools owned by the Group for each of the categories:

	As at 30 June 2021	As at 30 June 2020	Change	Percentage Change (%)
High school students – international program	503	482	+21	+4.4%
High school students – domestic program	12,238	10,134	+2,104	+20.8%
Middle school students	15,224	13,126	+2,098	+16.0%
Primary school students	11,124	8,312	+2,812	+33.8%
Kindergarten students	437	517	-80	-15.5%
K-12 students	39,526	32,571	+6,955	+21.4%
University students	17,557	16,888	+669	+4.0%
Total number of students	57,083	49,459	+7,624	+15.4%

MANAGEMENT DISCUSSION AND ANALYSIS

As at 30 June 2021, the aggregate number of students enrolled at the schools owned by the Group increased to 57,083 from 49,459 as at 30 June 2020. The increase in the aggregate number of students enrolled was attributable to the increase in number of students of certain new schools which have gained better recognition in the neighborhood through several years of operation and consolidation of Chengdu Foreign Languages School Gaoxin Campus into the Group since September 2020.

Student Placement

For Gaokao administered in 2021 (the “**2021 Gaokao**”), approximately 87.5% of the Group’s graduating high school students (from three of our long standing high schools opened before 2017) who participated in the 2021 Gaokao achieved scores that allowed them to apply for and be accepted by first-tier universities in China. 26 of our graduating high school students were admitted into Peking University and Tsinghua University (2020: 55) and 74 of our graduating high school students were recommended for admission into first-tier universities without taking the Gaokao (2020: 87).

In particular, those students from four of schools opened after 2017 who participated in 2021 Gaokao respectively attained 65.8% university admission rate, which all exceeded the average university admission rate 30.9% of Sichuan Province. For a particular school opened in 2018 in Dazhou, 67% of the graduates achieved scores that allowed them to apply for and be accepted by first-tier universities in China while 49% of them achieved high scores in the high school entrance examination.

For students who are interested in attending colleges and universities overseas, the Group established international programs at various schools under which PRC/overseas standard high-school curriculum, overseas standardised college entrance examinations, language testing examinations or United States University Advanced Placement (“AP”) course are offered to them. Such programs allow students to take overseas high-school curriculum taught by foreign teachers as well as PRC high-school curriculum taught by PRC teachers. In 2021, one high school graduate was admitted into Ivy League Schools in the United States while two high school graduates were admitted into Cambridge University in the United Kingdom. In 2020 and 2021, 87 and 145 of students were admitted into the top 100 universities in the 2021 QS World University Rankings respectively.

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. Specifically, the Group plans to undertake the following strategies:

- i) Establishment of new K-12 schools (particularly non-compulsory schools) by collaborating with third-party business partners;
- ii) Increasing of utilisation rate of our existing school network and tuition fee;
- iii) Establishment of international education programs within our schools and provision of overseas studies consulting services;
- iv) Provision of non-formal education services;
 - a) Provide educational management and consultation services to K-12 schools and pre-schools;
 - b) Collaborate with certain commercial property owners to establish one-stop comprehensive education program;
- (i) *Establishment of new K-12 schools (non-compulsory education schools) by collaborating with third-party business partners*

The Group will commence operation of one high school in Deyang City, one K-9 school in Meishan City and one high school in Chengdu City. Besides, Chengdu Foreign Languages School of Xinjin will offer high school education. The following sets forth a summary of the estimated student capacity of the new high schools that will be opened beyond 2022:

High Schools	Location	Commencement of school campus	Cooperation term	Estimated student capacity
Tianfu Lushan High School	Chengdu, Sichuan	September 2022	long term	3,600
Xinjin High School	Chengdu, Sichuan	September 2022	long term	1,920
Luzhou High School	Luzhou, Sichuan	September 2022	long term	2,100
Tianfu Huahai High School	Meishan, Sichuan	September 2022	long term	900
Renshou High School	Meishan, Sichuan	September 2022	long term	810
White Crystal Valley High School	Qiannan, Guizhou	Beyond 2023	long term	1,620
Total				10,950

MANAGEMENT DISCUSSION AND ANALYSIS

(ii) *Increasing of utilisation rate of our existing school network and tuition fee**School Utilisation*

Utilisation 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 2021	As at 30 June 2020
Total number of students enrolled	57,083	49,459
Total student capacity	89,710	70,620
Overall utilisation	63.6%	70.0%

Non-compulsory education school utilisation:

	As at 30 June 2021	As at 30 June 2020
Total number of students enrolled	30,222	27,500
Total student capacity	50,407	33,997
Overall utilisation	60.0%	80.1%

Tuition Fee

On 15 May 2020, the Education Department of Sichuan Province and two other departments issued the "Notice on Improving the Price Management of Private Higher Education Institution and Strengthening Operational and Post-operational Oversight in our Province" (《關於完善我省民辦高校價格管理方式加強事中事後監督的通知》) (the "Notice"), which sets out opinions and requirements in five major aspects, namely 1) pricing of tuition fee and related fees based on market prices; 2) independent pricing by private higher education institution; 3) administration of tuition and related fees; 4) independent pricing requirements; 5) strengthening operational and post-operational oversight. The Notice has come into force and private higher education institution is permitted to adjust the tuition fee and related fees since September 2020. Based on the new policies, the tuition fees for new undergraduate and colleges of University increased from RMB14,000 and RMB12,000 in 2019/2020 school year to RMB17,000 and RMB15,000 in 2020/2021 school year respectively.

In June 2021, Chengdu Institute Sichuan International Studies University have obtained provisional approval from the Ministry of Education (the "MOE") for conversion.

MANAGEMENT DISCUSSION AND ANALYSIS

Most of our prestigious high schools established before 2017 have applied to be registered as for-profit organizations and upon approval by the government will be entitled to determine its tuition fee.

The following table sets forth the standard of current tuition fee:

Category of schools	Current tuition fee standard
Compulsory education (primary and middle schools)	Range from RMB27,000 to 53,600
Non-compulsory education	Range from RMB30,000 to 58,000

(iii) *Establishment of international education programs within our schools and provision of overseas studies consulting services*

In addition to our traditional K-12 programs, the Group also established the international department. Since 2019, the international department started to manage programs with elite international partners, offering A-level courses, Advanced Placement and Monash University Foundational Programs. In both of 2020 Yixiao Ranking List "Best international Second Schools" and 2020 KingLead Ranking List "China International School Competitiveness Ranking (Undergraduate UK)", International Department of Chengdu Foreign Languages School ranked first in Sichuan Province.

In 2021, we expanded our educational product layout. In addition to the traditional Anglo-American international program, we were also expanding our international education program in Europe and Asia. At the same time, we also built matrix academic expansion projects and social practice projects based on the school curriculum.

The international department also expanded its business by offering overseas study consulting services to our own students since later 2019 and recorded revenue of RMB4.7 million in 2021.

(iv) a. *Educational management and consultation services*

Since 2019, the Group entered into school management cooperation agreements with certain K-12 public schools and Kindergartens to provide education management and consultation services including, among others, education quality control, curriculum development, daily operation, teachers recruitment and training, branding, teaching methodology support and campus design. As at 30 June 2021, the Group provided education management and consultation services to totally five schools including two kindergartens, two K-9 schools and one high school.

The Group will begin to provide aforementioned services to one more K-9 school and three more kindergartens since September 2021.

MANAGEMENT DISCUSSION AND ANALYSIS

b. *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 children simultaneously. In addition, it provides curriculum and management output services for institutions and individuals who intend to invest in the education program. The high-quality education courses independently developed and iterated by the Group offered among others, Chinese traditional culture, STEAM (Science, Technology, Engineer, Arts and Mathematics), and sports. The daily management of enrollment, recruitment, teaching and research of all educational projects implements the operation mode of unified scheduling of the complex but relatively independently operation of sub-projects.

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 owned established as at 30 June 2021	Schools under education management service established as at 30 June 2021
High school	9	1
Middle school	11	2
Primary school	11	2
Kindergarten*	1	2
University**	3	0
Schools providing non-formal education services	2	0
	37	7

MANAGEMENT DISCUSSION AND ANALYSIS

EVENTS AFTER THE REPORTING PERIOD

Disposal 100% sponsor's interest of Primary School Attached to Chengdu Foreign Languages School and its subsidiary Kindergarten of Primary School Attached to Chengdu Jinniu District Foreign Languages School

On 30 July 2021, Sichuan Derui and Derui Education Management entered into the School Sponsor's Interest Transfer Agreement, pursuant to which Sichuan Derui agreed to sell and Derui Education Management agreed to purchase 100% of the school sponsor's interest in Primary School Attached to Chengdu Foreign Languages School and its subsidiary Kindergarten of Primary School Attached to Chengdu Jinniu District Foreign Languages School at a cash consideration of RMB7,500,000 (the "**Proposed Disposal**").

The Implementation Regulations of the People's Republic of China on the Law Regarding the Promotion of Private Education (《中華人民共和國民辦教育促進法實施條例》) (the "**Implementation Regulations**") will come into effect on 1 September 2021. The Company considers that there remains uncertainty surrounding the interpretation and application of the Implementation Regulations, by the time they become effective, to the provision of education services in non-profit schools providing compulsory education, by the Company through its consolidated affiliated entities and the Structured Contracts. Therefore, the Company decided to gradually shift its business strategy towards the provision of non-compulsory education services, and disposed the two schools mentioned above. By the issue date of the interim report, the transaction has not been approved by the local government.

Upon completion of the Proposed Disposal, Primary School Attached to Chengdu Foreign Languages School and its subsidiary Kindergarten of Primary School Attached to Chengdu Jinniu District Foreign Languages School cease to be the consolidated affiliated entities of the Company and their financial results will no longer be consolidated into the Group's financial statements. Based on the amount of consideration of approximately RMB7,500,000, the Proposed Disposal will generate a gain of RMB89,000 for Sichuan Derui. All the proceeds from the Proposed Disposal, being RM89,000 will be paid to the Group. The Board shall apply the majority of the proceeds from the Proposed Disposal for daily operation. For more details, please refer to the announcements dated 30 July 2021 and 5 August 2021.

Change of Financial Year End Date

On 30 July 2021, the Board announced that the financial year end date of the Company has been changed from 31 December to 31 August commencing from the financial period ended 31 August 2021 in order to align its financial year end date of the Group with the academic year of the schools operated by the Group in the PRC, which ends in August each year. Accordingly, the Company will announce and despatch the audited consolidated annual results announcement and annual report of the Group for the eight months ended 31 August 2021 by 30 November 2021 and 31 December 2021 respectively. For more details, please refer to the announcement dated 30 July 2021 for information.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

Revenue, represents the value of services rendered, after deducting scholarships granted and refunds made to its students during the Reporting Period. The Group generated its revenue from (i) student fees; (ii) management and consultation services; and (iii) early child and after-class training tuition fees. Student fees are typically comprised of tuition fees, boarding fees, school canteen operations fees and consultation services fees for overseas studies.

Revenue increased by RMB274.2 million, or 31.0%, from RMB885.7 million for the six months ended 30 June 2020 to RMB1,159.9 million for the Reporting Period. This increase was primarily attributed to the increase of RMB161.8 million, or 21.2% in revenue from tuition fees for the six months ended 30 June 2020 to RMB924.5 million for the Reporting Period. The tuition fees the Group received increased mainly attributable to the increase in the number of students enrolled in 2020/2021 school year, as a result of consolidation of Chengdu Foreign Languages School Gaoxin Campus since September 2020. For more information on student enrolment and school utilisation, please refer to the section headed "Business Review" above.

Cost of Sales

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

Cost of sales increased by RMB293.0 million, or 58.9%, from RMB497.8 million for the six months ended 30 June 2020 to RMB790.8 million for the Reporting Period. The increase was primarily attributable to:

- (1) Staff costs increased by approximately RMB85.2 million, or 36.3%, from RMB235.0 million for the six months ended 30 June 2020 to RMB320.2 million for the Reporting Period, was mainly attributable to (i) the increase in the number of Group's teachers; (ii) the increase in the average staff salary upon annual performance review; and (iii) the increase due to the consolidation of Chengdu Foreign Languages School Gaoxin Campus into the Group since September 2020.
- (2) Canteen operation costs increased by RMB79.5 million, or 82.3%, from RMB96.6 million for the six months ended 30 June 2020 to RMB176.1 million for the Reporting Period, was mainly due to the recovery from COVID-19 pandemic.
- (3) Expenses paid to cooperative enterprise increased by RMB19.4 million, or 171.7% from RMB11.3 million for the six months ended 30 June 2020 to RMB30.7 million for the Reporting Period, was mainly due to the increase in number of students of certain new schools which have good performance through several years of operation.
- (4) Depreciation and amortisation costs increased by RMB33.0 million, or 40.7% from RMB81.1 million for the six months ended 30 June 2020 to RMB114.1 million for the Reporting Period, mainly as a result of combined effect: (i) the increase of amortisation arising from the acquisition of Chengdu Foreign Language School Gaoxin Campus; (ii) the increase in depreciation charge from the property, plant and equipment and renovation related to our existing campuses.

MANAGEMENT DISCUSSION AND ANALYSIS

Gross Profit and Gross Profit Margin

Gross profit totally decreased by RMB18.7 million, or 4.8%, from RMB387.8 million for the six months ended 30 June 2020 to RMB369.1 million for the Reporting Period.

	For the six months ended 30 June	
	2021 RMB'000	2020 RMB'000
Gross profit of the Group		
Revenue	1,159,942	885,657
Cost of sales	790,816	497,809
Gross profit	369,126	387,848
Gross profit margin	31.8%	43.8%

Gross profit margin of the Group decreased to 31.8% for the Reporting Period from 43.8% for six months ended 30 June 2020 mainly due to: (i) increase in employee salary upon annual performance review and payment of social insurance as certain incentive related to such payment were not available; (ii) increase in canteen cooperation cost as continuous improvements in quality of catering service; (iii) increase in fees paid to cooperation enterprises who also held sponsor interest in the relevant schools in Reporting Period; (iv) increase in depreciation charge from the property, plant and equipment and renovation related to our existing campuses; (v) relatively lower gross margin of new and unfulfilled schools established in recent years.

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 RMB3.6 million, or 109.1%, from RMB3.3 million for the six months ended 30 June 2020 to RMB6.9 million for the Reporting Period. The increase in selling and distribution expenses was primarily due to more advertising expenses incurred for student recruitment promotion for all new schools opened in recent years.

Administrative Expenses

Administrative expenses primarily consist of the salaries and other benefits for general and administrative staff, consultation service fees for legal, audit business development and evaluation services, office-related expenses, depreciation of office buildings and equipment, travel expenses and other expenses. Administrative expenses increased by RMB16.4 million, or 20.0%, from RMB81.8 million for the six months ended 30 June 2020 to RMB98.2 million for the Reporting Period, primarily attribute to the combined effect: (i) the increase of RMB9.9 million in consultation services fees for audit, evaluation and business consultation in line with the business development of the Group ; (ii) the increase of RMB5.3 million in social insurance expenses as there was no reduction or waiver of social insurance contributions in China.

MANAGEMENT DISCUSSION AND ANALYSIS

Other Income and Gains

Other income and gains primarily consist of foreign exchange gain, bank interest income, other interest income and rental income from leasing certain of the Group's properties to independent third parties. Other income and gains increased by RMB18.1 million, or 105.2%, from RMB17.0 million for the six months ended 30 June 2020 to RMB35.3 million for the Reporting Period, mainly attributable to gain for derecognition of right-of-use assets and lease liabilities.

Other Expenses

Other expenses consist primarily of impairment loss of investment in an associate, foreign exchange loss, and disposal of various fixed assets. Other expenses decreased by RMB4.2 million from RMB9.5 million for the six months ended 30 June 2020 to RMB5.3 million for the Reporting Period.

Finance Costs

Finance costs primarily consist of the interest expenses for bank and other borrowings. Finance costs increased by RMB46.0 million, or 80.6%, from RMB57.1 million for the six months ended 30 June 2020 to RMB103.1 million for the Reporting Period, mainly attributable to the combined effect of (i) the interest expenses for the bank and other borrowings of RMB103.2 million for the Reporting Period, representing an increase of RMB29.5 million as compared to the interest expenses of RMB73.7 million for the six months ended 30 June 2020; and (ii) the capitalised interest of RMB5.6 million for the Reporting Period, representing an decrease of RMB17.2 million while the capitalised interest of RMB22.8 million was recognised for the six months ended 30 June 2020.

Liquidity and Financial Resources

	For the six months ended 30 June	
	2021 RMB'000	2020 RMB'000
Net cash flows (used in)/from operating activities	(278,349)	(133,049)
Net cash flows used in investing activities	(343,231)	(348,301)
Net cash flows from financing activities	396,794	612,546
Net (decrease)/increase in cash and cash equivalents	(224,786)	131,196
Cash and cash equivalents at beginning of period	773,832	394,386
Effect of foreign exchange rate changes, net	(1,253)	(36)
Cash and cash equivalents at end of period	547,793	525,546

	As at 30 June 2021 RMB'000	As at 31 December 2020 RMB'000
Bank and other borrowings	3,675,762	3,150,808

MANAGEMENT DISCUSSION AND ANALYSIS

Analysis of the maturity profile of the bank and other borrowings of the Group as at 30 June 2021 and 31 December 2020 is set out in note 13 to the financial statements. The Group had adequate liquidity to meet its daily management and capital expenditure requirements and control internal operating cash flows.

Adjusted net profit attributable to owners of the parent

Adjusted net profit attributable to owners of the parent was derived from attributable to owners of the parent after adjusting those items, which is not indicative of the Group's operating performance. This is not an IFRSs measure. The Group has presented this item because the Group considers it an important supplemental measure of the Group's operational performance used by the Group's management as well as analysts or investors. The following table reconciles from attributable to owners of the parent to adjusted net profit attributable to owners of the parent for both financial years:

	For the six months ended 30 June	
	2021 RMB'000	2020 RMB'000
Net profit attributable to owners of the parent	178,607	243,585
Adjustments for:		
Additional expenses arising from the adoption of IFRS 16 (Note 1)	5,857	6,055
Amortisation of intangible assets arising from the acquisition of school	10,916	—
Foreign exchange loss	124	2,104
Gain from derecognition of right-of-use assets and lease liabilities	(22,574)	—
Adjusted net profit attributable to owners of the parent	172,930	251,744

Note 1: The adjustment represented the difference of (a) the actual rental expenses payable before the application of IFRS16, and (b) the total of depreciation of right-of-use assets and the interest portion of lease liabilities charged to profit or loss less the finance income on refundable rental deposits paid credited to profit or loss arising from the adoption of IFRS16.

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 2021, all the bank and other 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 and other borrowings as at 30 June 2021 were at fixed interest rates or floating interest rates for loans denominated in RMB.

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 2021, 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. The Group did not enter into any financial instrument for hedging purpose.

MANAGEMENT DISCUSSION AND ANALYSIS

Future Plan for Material Investments and Capital Assets

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

Gearing Ratio

The gearing ratio of the Group, which was calculated as total bank and other borrowings divided by total equity as at the end of the relevant financial year/period, increased from approximately 113.4% as at 31 December 2020 to approximately 124.6% as at 30 June 2021, primarily due to the increase in the Group's interest-bearing bank borrowings.

Significant Investments, Acquisitions and Disposals

There were no significant investments held as at 30 June 2021, nor other material acquisitions and disposals of subsidiaries and associated companies during the Reporting Period.

Contingent Liabilities

As at 30 June 2021, the Group had no material contingent liabilities.

Pledge of Assets

As at 30 June 2021, RMB65,150,000 (31 December 2020: RMB56,150,000) were paid to third party leasing companies as pledged deposits for certain borrowings, which will be repaid after settling those borrowings in 5 years.

Human Resources

As at 30 June 2021, the Group had 5,952 employees (31 December 2020: 6,164).

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 RMB 384.8 million (for the six months ended 30 June 2020: RMB 297.2 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. 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.

The Company has 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 relevant employees (as defined in the Listing Rules) who are likely to possess unpublished inside information of the Group in respect of their dealings in the Company's securities.

INTERIM DIVIDEND

The Board recommended the payment of interim dividend of HK\$1.9 cents per share for the six months ended 30 June 2021, which will be declared and paid out of the share premium account of the Company and is subject to Shareholders' approval. A circular convening the extraordinary general meeting (the "EGM") will be despatched to the Shareholders in due course. The interim dividend will be paid on or about 20 December 2021 to such Shareholders.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of ascertaining the entitlement to attend and vote at the EGM, the register of members of the Company will be closed from 16 November 2021 to 19 November 2021, 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 EGM, 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 15 November 2021.

The record date for the interim dividend will be 26 November 2021. For the purpose of ascertaining the entitlement to the aforesaid interim dividend, the register of members of the Company will be closed from 25 November 2021 to 26 November 2021, 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 24 November 2021.

CORPORATE GOVERNANCE/OTHER INFORMATION

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 has reviewed the unaudited interim results and the unaudited interim condensed consolidated financial statements of the Group for the Reporting Period, including the accounting principles and practices adopted by the Group.

CHANGES TO DIRECTORS’ 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 2017, 2018, 2019 and 2020 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 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.

CORPORATE GOVERNANCE/OTHER INFORMATION

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.

The California Bureau for Private Postsecondary Education (“**BPPE**”) has approved Virscend University to grant two degree programs, Bachelor of Science in Business Administration(**BS**) and Master of Business Administration (**MBA**) programs on November 18, 2016. 8 MBA students graduated from Virscend University in September 2019. Virscend University has received eligibility status from WSCUC which is the most prestigious accreditation body in higher education of West region of the United States. The Company has a total expenditure of USD430,000 in the Reporting Period in connection with the Group’s plan for the half year of 2021 and up to the date of this interim report.

Recent Development

The impact of the Implementation Regulations

On 14 May 2021, the State Council issued the Implementation Regulations, which will take effect since 1 September 2021. The Implementation Regulations contains more strict provisions than the Draft Revision of the Regulations on the Implementation of the Law for Promoting Private Education of the PRC (the Draft for Comments)(《中華人民共和國國民辦教育促進法實施條例》)(修訂草案(匯求意見稿)) issued by the MOE in April 2018 and the Draft Revision of the Regulations on the Implementation of the Law for Promoting Private Education of the PRC (the Draft for Examination and Approval)(《中華人民共和國國民教育促進法實施條例》)(修訂草案)(送審稿) issued by Ministry of Justice of the PRC on 10 August 2018 on the operation and management of private schools, especially non-profit private primary and middle schools, including: (i) no social organization and individual are permitted to take control of non-profit private compulsory education schools and non-profit private preschool through mergers and acquisitions, and control agreement; and (ii) private compulsory education schools are prohibited to conduct connected transactions, and other private schools shall conduct connected transactions in an open, reasonable and fair manner, which shall not harm the national interests, school interests and rights and interests of all teachers and students.

At the time of the issue of this interim report, there were no specific policies announced so far and whether there will be any such specific policies remain uncertain. The Company understands that there remains uncertainty surrounding the interpretation and application of Implementation Regulations to the provision of education services in non-profit schools providing compulsory education by the Company taking control of them through control agreement. Given this background, the Company decided to gradually shift its business strategy towards the provision of non-compulsory education services.

CORPORATE GOVERNANCE/OTHER INFORMATION

The impact of “Notice on suspension of approval for the establishment of private compulsory education schools (關於暫停審批設立民辦義務教育學校的通知)”

On 18 June 2021, the “Notice on suspension of approval for the establishment of private compulsory education schools (關於暫停審批設立民辦義務教育學校的通知)” was issued by the Education Department of Sichuan Province and three other relevant government authorities. According to the notice, all local governments in Sichuan Province suspend to approve for the establishment of private compulsory education schools (including private nine-years education schools, private twelve-years education schools and combined junior and senior high schools). At the same time, the notice prohibits all local governments in Sichuan Province to approve the current private compulsory education schools to establish new campus or expand student scale, and requires all local governments shall cut student scale in fair manner respectively.

Affected by the new policy, Tianfu Huahai school was convened into a public school named Meishan Tianfu New District Experimental School, which was expected to commence operation since September 2021. The Group will continue providing the education management services to Meishan Tianfu New District Experimental School in next 6 school years. The Group believes that its more than 20 years schools operation experience and educational resources will contribute to further expand the Group’s school network and bring high quality education to the society.

The impact of “Opinions on Further Alleviating the Burden of Homework and After-School Tutoring for Students in Compulsory Education (關於進一步減輕義務階段學生作業負擔和校外培訓負擔的意見) (the “Opinions”)”

On 24 July 2021, the “Opinions on Further Alleviating the Burden of Homework and After-School Tutoring for Students in Compulsory Education (關於進一步減輕義務階段學生作業負擔和校外培訓負擔的意見)” was issued by the General Office of the Central Committee of the Communist Party of China and the General Office of the State Council of the People’s Republic of China, which regulates institutions offering after-school tutoring services on academic subjects.

The Group believes that the Opinions will not have a material impact to the Group’s operation and financial performance because the revenue from early child and after-class training on academic subjects tuition fees was immaterial for the six months ended 30 June 2021.

CORPORATE GOVERNANCE/OTHER INFORMATION

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

As at 30 June 2021, 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 taken under such provisions of the SFO), or which were recorded in the register required to be kept 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	1,383,382,045	Long Position	44.79
Ms. Wang Xiaoying ⁽²⁾	Interest of spouse and, interest in a controlled corporation	1,383,382,045	Long Position	44.79
Mr. Deng Bangkai	Beneficial owner	270,000	Long Position	0.01

Notes:

- (1) Mr. Yan Yude is the sole shareholder and sole director of Virscend Holdings and he is therefore deemed to be interested in 1,315,882,045 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 1,315,882,045 Shares indirectly held by Mr. Yan Yude through Virscend Holdings.

Save as disclosed above, as at 30 June 2021, none of the Directors or the chief executive of the Company 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 taken under such provisions of the SFO), or required to be recorded in the register required to be kept 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 section headed "Share Option Scheme" of this interim report, 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 2021, 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	Beneficial owner	1,315,882,045	Long Position	42.60
Mr. Yan Yude ⁽¹⁾	Interest in a controlled corporation and interest of spouse	1,383,382,045	Long Position	44.79
Ms. Wang Xiaoying ⁽²⁾	Interest in a controlled corporation and interest of spouse	1,383,382,045	Long Position	44.79
Bank of China Limited	Security interest	458,876,100	Long Position	14.86
Happy Venus Limited ⁽³⁾	Beneficial owner	180,544,129	Long Position	5.85
Ms. Yan Hongjia ⁽³⁾	Interest in a controlled corporation	180,544,129	Long Position	5.85
The Bank of New York Mellon Corporation	Interest in a controlled corporation	326,128,238	Long position	10.56
		324,162,000	Lending pool	10.49
Invesco Canada Ltd.	Investment manager	279,915,000	Long position	9.06

CORPORATE GOVERNANCE/OTHER INFORMATION

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 1,315,882,045 Shares held by Virscend Holdings. Mr. Yan Yude is the husband of Ms. Wang Xiaoying and is therefore deemed to be interested in the 67,500,000 Shares indirectly held by Ms. Wang Xiaoying through Smart Ally.
- (2) Ms. Wang Xiaoying is the sole shareholder of Smart Ally and she is therefore deemed to be interested in the 67,500,000 Shares held by Smart Ally. Ms. Wang Xiaoying is the wife of Mr. Yan Yude and she is therefore deemed to be interested in the 1,315,882,045 Shares indirectly held by Mr. Yan Yude through Virscend Holdings.
- (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 2021, 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.

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 optimise 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.

CORPORATE GOVERNANCE/OTHER INFORMATION

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.

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 4 years and 3 months.

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

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2021

	Notes	Six months ended 30 June	
		2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
REVENUE	4	1,159,942	885,657
Cost of sales		(790,816)	(497,809)
Gross profit		369,126	387,848
Other income and gains	4	35,305	17,164
Research and development costs		(10,111)	(8,826)
Selling and distribution expenses		(6,926)	(3,322)
Administrative expenses		(98,247)	(81,766)
Other expenses		(5,270)	(9,491)
Finance costs	5	(103,082)	(57,086)
Share of profits and losses of associates		(1,318)	(1,684)
PROFIT BEFORE TAX	6	179,477	242,837
Income tax expense	7	(4,372)	(3,085)
PROFIT FOR THE PERIOD		175,105	239,752
Attributable to:			
Owners of the parent	8	178,607	243,585
Non-controlling interests		(3,502)	(3,833)
		175,105	239,752
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT – basic and diluted for the period		RMB0.06	RMB0.08

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2021

	Six months ended 30 June	
	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
PROFIT FOR THE PERIOD	175,105	239,752
OTHER COMPREHENSIVE INCOME		
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:		
Exchange differences:		
Exchange differences on translation of foreign operations	(1,253)	(36)
Net other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods	(1,253)	(36)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX	(1,253)	(36)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	173,852	239,716
Attributable to:		
Owners of the parent	177,968	243,549
Non-controlling interests	(4,116)	(3,833)
	173,852	239,716

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2021

	Notes	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	9	4,938,776	4,509,076
Right-of-use assets		1,132,776	1,208,263
Other intangible assets		135,384	154,475
Investments in associates		45,837	44,539
Goodwill		104,298	104,298
Other non-current assets		633,848	692,113
Total non-current assets		6,990,919	6,712,764
CURRENT ASSETS			
Inventories		435	297
Prepayments, other receivables and other assets	10	187,607	82,613
Amounts due from related party	17	11,345	17,241
Cash and cash equivalents		547,793	773,832
Total current assets		747,180	873,983
CURRENT LIABILITIES			
Trade payables	11	71,987	80,055
Other payables and accruals	12	327,904	224,015
Interest-bearing bank and other borrowings	14	1,866,579	1,690,467
Lease liabilities		50,668	19,268
Tax payable		31,657	32,147
Contract Liabilities	13	528,892	1,058,302
Deferred income		3,211	3,285
Amounts due to related parties	17	19,164	21,659
Total current liabilities		2,900,062	3,129,198
NET CURRENT LIABILITIES		(2,152,882)	(2,255,215)
TOTAL ASSETS LESS CURRENT LIABILITIES		4,838,037	4,457,549

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2021

	Notes	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
TOTAL ASSETS LESS CURRENT LIABILITIES		4,838,037	4,457,549
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		1,809,183	1,460,341
Lease liabilities		139,705	215,893
Deferred income		4,119	5,201
Contract Liability		—	4,060
Total non-current liabilities		1,953,007	1,685,495
Net assets		2,885,030	2,772,054
EQUITY			
Equity attributable to owners of the parent			
Share capital	15	26,051	26,051
Reserves		2,813,052	2,699,600
		2,839,103	2,725,651
Non-controlling interests		45,927	46,403
Total equity		2,885,030	2,772,054

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2021

	Attributable to owners of the parent							
	Share capital	Capital reserve	Statutory surplus reserve	Exchange fluctuation reserve	Retained profits	Total	Non-controlling interests	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2020	26,051	1,191,545	484,045	(60)	1,028,085	2,729,666	24,401	2,754,067
Profit for the period	—	—	—	—	243,585	243,585	(3,833)	239,752
Other comprehensive income for the period:								
Exchange differences on translation of foreign operations	—	—	—	(17)	—	(17)	(19)	(36)
Total comprehensive income for the period	—	—	—	(17)	243,585	243,568	(3,852)	239,716
Transfer from retained profits	—	—	1,292	—	(1,292)	—	—	—
2019 final dividend declared	—	(112,480)	—	—	—	(112,480)	—	(112,480)
Establishment of a subsidiary	—	—	—	—	—	—	2,621	2,621
At 30 June 2020 (unaudited)	<u>26,051</u>	<u>1,079,065*</u>	<u>485,337*</u>	<u>(77)*</u>	<u>1,270,378*</u>	<u>2,860,754</u>	<u>23,170</u>	<u>2,883,924</u>
At 1 January 2021	26,051	977,954	586,330	(40)	1,135,356	2,725,651	46,403	2,772,054
Profit for the period	—	—	—	—	178,607	178,607	(3,502)	175,105
Other comprehensive income for the period:								
Exchange differences on translation of foreign operations	—	—	—	(639)	—	(639)	(614)	(1,253)
Total comprehensive income for the period	—	—	—	(639)	178,607	177,968	(4,116)	173,852
Transfer from retained profits	—	—	2,882	—	(2,882)	—	—	—
2020 final dividend declared	—	(64,516)	—	—	—	(64,516)	—	(64,516)
Addition to non-controlling interests	—	—	—	—	—	—	3,640	3,640
At 30 June 2021 (unaudited)	<u>26,051</u>	<u>913,438*</u>	<u>589,212*</u>	<u>(679)*</u>	<u>1,311,081*</u>	<u>2,839,103</u>	<u>45,927</u>	<u>2,885,030</u>

* These reserve accounts comprise the consolidated reserves of RMB2,813,052,000 (as at 30 June 2020: RMB2,834,703,000) in the interim condensed consolidated statement of financial position.

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2021

	Notes	Six months ended 30 June	
		2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax	6	179,477	242,837
Adjustments for:			
Finance costs	5	103,082	57,086
Share of profits and losses of associates		1,318	1,684
Bank Interest income	4	(2,612)	(562)
Other interest income	4	(4,591)	(12,892)
Government grants released		(1,411)	(3,362)
Depreciation	6	100,611	80,697
Amortisation of intangible assets	6	19,766	432
Depreciation of right-of-use assets	6	23,651	21,112
Gain from derecognition of right-of-use assets and lease liabilities	4	(22,574)	—
		396,717	387,032
Increase in inventories		(138)	31
(Decrease)/increase in prepayments, other receivables and other assets		(166,503)	72,317
(Decrease)/increase in trade payables		(8,068)	19,905
Increase in other payables and accruals		32,157	35,418
Increase in amounts due to related parties	16	3,401	24,118
Decrease in contract liabilities		(533,470)	(668,124)
Cash generated from operations		(275,904)	(129,303)
Interest received	4	2,612	562
Income tax paid		(5,057)	(4,308)
Net cash flows from operating activities		(278,349)	(133,049)

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2021

	Notes	Six months ended 30 June	
		2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of items of property, plant and equipment		(327,531)	(385,880)
Proceeds from disposal of items of property, plant and equipment		—	8
Receipt of government grants for property, plant and equipment		254	3,224
Additions to intangible asset		(675)	(279)
Decrease in time deposits with original maturity of over three months		—	11,420
Increase in investment in associate		—	(5,800)
Loans to third parties		(339,845)	—
Repayment of loans from third parties		328,225	26,385
Loan to an associate		(3,659)	—
Establishment of a subsidiary		—	2,621
Net cash flows used in investing activities		<u>(343,231)</u>	<u>(348,301)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		829,000	646,108
Repayments of bank loans		(610,310)	(332,609)
New other loans		353,000	404,125
Repayments of other loans		(46,736)	(23,115)
Addition to non-controlling interests		3,639	—
Increase in Long-term receivables		(6,903)	—
Dividends paid		—	(800)
Principal portion of lease payments		(21,357)	(1,320)
Interest paid		(103,539)	(79,843)
Net cash flows from financing activities		<u>396,794</u>	<u>612,546</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		<u>547,793</u>	<u>525,546</u>
Cash and cash equivalents as stated in the statement of cash flows		<u>547,793</u>	<u>525,546</u>
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at beginning of year		773,832	394,386
Effect of foreign exchange rate changes, net		(1,253)	(36)
CASH AND CASH EQUIVALENTS AT END OF YEAR		<u>547,793</u>	<u>525,546</u>

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2021

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.

2. BASIS OF PREPARATION

The interim condensed consolidated financial statements for the six months ended 30 June 2021 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 2020.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2020, except for the adoption of the following revised International Financial Reporting Standards (“IFRSs”) for the first time for the current period’s financial information.

Amendments to IFRS9, IAS39, IFRS7, IFRS4 and IFRS16	<i>Interest Rate Benchmark Reform — Phase 2</i>
Amendment to IFRS16	<i>Covid-19 — Related Rent Concessions</i>

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2021

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES – CONTINUED

The nature and impact of the revised IFRSs are described below:

- (a) Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 address issues not dealt with in the previous amendments which affect financial reporting when an existing interest rate benchmark is replaced with an alternative risk-free rate (“RFR”). The phase 2 amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount of financial assets and liabilities when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change. In addition, the amendments permit changes required by the interest rate benchmark reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of IFRS 9 to measure and recognise hedge ineffectiveness. The amendments also provide a temporary relief to entities from having to meet the separately identifiable requirement when an RFR is designated as a risk component. The relief allows an entity, upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months. Furthermore, the amendments require an entity to disclose additional information to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity’s financial instruments and risk management strategy. The application of the amendment has had no material impact on the Group’s financial positions and performance for the current and prior periods and/or on the disclosures set out in those interim condensed consolidated financial statements.
- (b) Amendment to IFRS 16 issued in April 2021 extends the availability of the practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic by 12 months. Accordingly, the practical expedient applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met. The amendment is effective retrospectively for annual periods beginning on or after 1 April 2021 with any cumulative effect of initially applying the amendment recognised as an adjustment to the opening balance of retained profits at the beginning of the current accounting period. Earlier application is permitted.

The Group has early adopted the amendment on 1 January 2021 and the application of the amendment has had no material impact on the Group’s financial positions and performance for the current and prior periods and/or on the disclosures set out in those interim condensed consolidated financial statements.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2021

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	
	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
<u>Revenue from contracts with customers</u>		
Tuition fees	924,482	762,669
Boarding fees	39,305	24,009
School canteen operations	181,671	91,913
Early child and after-class training tuition fees	7,331	—
Consultation services fees for overseas studies	4,669	4,502
Management and consultation services	2,484	2,564
	<u>1,159,942</u>	<u>885,657</u>
<u>Other income and gains</u>		
Interest income	2,612	562
Other interest income	4,591	12,892
Gain from derecognition of right-of-use assets and lease liabilities	22,574	—
Government grants		
– related to assets	2,705	2,541
– related to income	2,512	38
Others	311	1,131
	<u>35,305</u>	<u>17,164</u>

5. FINANCE COSTS

	Six months ended 30 June	
	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
Interest on bank and other borrowings	103,197	73,678
Interest on lease liabilities	5,530	6,165
Less: interest capitalised	(5,645)	(22,757)
	<u>103,082</u>	<u>57,086</u>

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2021

6. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
Cost of services provided*	199,014	102,401
Canteen operation costs	176,087	96,598
Research and development costs**	10,111	8,826
Employee benefit expense (excluding directors' and chief executive's remuneration):		
Wages, salaries and other allowances	339,672	218,861
Pension scheme contributions (defined contribution scheme)	42,312	20,770
Depreciation of property, plant and equipment	100,611	80,697
Amortisation of intangible assets	19,766	432
Depreciation of right-of-use assets	23,651	21,112
Bank interest income	(2,612)	(562)
Other interest income	(4,591)	(12,892)
Foreign exchange differences, net***	124	2,104
(Gains)/Loss on disposal of items of property, plant and equipment	33	(8)

* Cost of services provided represents "Cost of sales" in the consolidated statement of profit or loss excluding canteen operation costs, research and development costs, employee benefit expense, depreciation of property, plant and equipment, amortisation of intangible assets, and depreciation of right-of-use assets.

** Comparative and current year amount of research and development costs were separated out from costs of sales in the consolidated statement of comprehensive income.

*** Foreign exchange difference included in "other (income)/expenses" in the consolidated statement of profit or loss is generated from the translation of the Hong Kong dollar bank deposits resulting from the fluctuation of the exchange rate between Renminbi and the Hong Kong dollar.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2021

7. INCOME TAX

	Six months ended 30 June	
	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
Current – PRC		
Charge for the period	4,372	3,085
Total tax charge for the period	4,372	3,085

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 year.

According to the Implementation Rules for the Law for Promoting Private Education and the Proposed Amendments on the Implementation Rules for the Law for Promoting Private Education, private schools for which the school sponsors do not require reasonable returns and non-profit private schools are eligible to enjoy the same preferential tax treatments as public schools. The preferential tax treatment policies applicable to private schools either requiring reasonable returns or for-profit 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, certain schools within the Group were exempted from corporate income tax in 2020 and 2019.

In 2018, Tibet Huatai was subject to the PRC income tax at an original tax rate of 15%, which was subsequently changed to 9% under the Tibet Autonomous Region's preferential investment policies upon the successful application by the company. From 2018 to 2021, Tibet Huatai was subject to the PRC income tax rate of 9%.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2021

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 2020: 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	
	2021 (Unaudited)	2020 (Unaudited)
Profit attributable to ordinary equity holders of the parent (RMB'000)	178,607	243,585
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)	0.06	0.08

9. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2021, the Group acquired assets with a cost of RMB154,900,452 (six months ended 30 June 2020: RMB339,230,663) on additions to property, plant and equipment and RMB371,209,536 on additions on construction in progress which mainly transfer from non-current assets.

Assets with a net book value of RMB32,990 were disposed of by the group during the six months ended 30 June 2021 (six months ended 30 June 2020: RMB8,000), and no loss resulted on disposal of items of property, plant and equipment.

10. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

An impairment analysis of financial assets included in prepayments, other receivables and other assets is performed at each reporting date by considering the probability of default of comparable companies with an estimated loss rate. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate. As at 30 June 2021. There is no indication of increased risk in loan collection mentioned above. So, no further impairment allowance was recognised.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2021

11. TRADE PAYABLES

An ageing analysis of the trade payables as at the ended of the reporting period, based on the invoice date, is as follows:

	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Within 1 year	<u>71,987</u>	<u>80,055</u>

Trade payables of RMB71,987,000 (31 December 2020: RMB80,055,000) are due to canteen suppliers and are repayable within 90 days.

The trade payables are non-interest-bearing and are normally settled on 90-day terms.

12. OTHER PAYABLES AND ACCRUALS

	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Payables for purchase of fixed assets and construction	83,739	79,462
Other payables	75,312	78,793
Rental fees payable	32,138	20,661
Accruals	56,336	29,245
Dividends payable	74,797	10,398
Interest payable	5,582	5,456
	<u>327,904</u>	<u>224,015</u>

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2021

13. CONTRACT LIABILITIES

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

	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Tuition fees	424,382	902,171
School canteen operation fees	72,152	104,472
Boarding fees	19,986	38,468
International education related service fees and early child and after-class training service fees	12,372	17,251
	528,892	1,062,362

Contract liabilities include short-term advances received from students in relation to the service not yet provided. The Group receives tuition and boarding fees from students in advance prior to the beginning of each academic year. The Group receives school canteen operation fees from students in advance prior to the beginning of each academic year or each semester. Tuition fees, boarding fees and school canteen operation fees are recognised proportionately over the relevant period of the respective program. Consultation Service fees for overseas studies are recognised at the time when substantial service to students is provided.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2021

14. INTEREST-BEARING BANK AND OTHER BORROWINGS

	30 June 2021			31 December 2020		
	Effective interest rate			Effective interest rate		
	%	Maturity	RMB'000	%	Maturity	RMB'000
Current						
Bank loans – unsecured						
Bank loans – secured	5.22-5.93	2021	889,000	5.22-5.93	2021	729,000
Current portion of long term bank loans – secured	5.64-7.13	2021	608,430	5.64-7.13	2021	690,620
Other loans – secured	4.53-7.90	2021	369,149	4.53-7.90	2021	270,847
			<u>1,866,579</u>			<u>1,690,467</u>
Non-current						
Bank loans – secured	4.45-7.13	2033	791,970	4.45-7	2033	651,090
Other loans – secured	4.53-7.9	2025	1,017,213	4.53-7.90	2025	809,251
			<u>1,809,183</u>			<u>1,460,341</u>
			<u>3,675,762</u>			<u><u>3,150,808</u></u>

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2021

14. INTEREST-BEARING BANK AND OTHER BORROWINGS – CONTINUED

	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Analysed into:		
Bank loans repayable:		
Within one year or on demand	1,497,430	1,419,620
In the second year	340,050	120,740
In the third to fifth years, inclusive	369,120	447,550
Beyond five years	82,800	82,800
	2,289,400	2,070,710
Other borrowings repayable:		
Within one year or on demand	369,149	270,847
In the second year	353,706	227,279
In the third to fifth years, inclusive	663,507	581,972
	1,386,362	1,080,098

Certain of the Group's bank borrowings amounting to RMB2,289,400,000 (31 December 2020: RMB2,070,710,000) as at 30 June 2021 were secured by assets or guaranteed by Sichuan Derui, Mr. Yan Yude and Ms. Wang Xiaoying.

Bank borrowings amounting to RMB400,000,000 out of RMB2,289,400,000 were also guaranteed by Ms. Yan Hongjia.

Besides, bank borrowings amounting to RMB20,780,000 out of RMB2,289,400,000 were also secured by mortgages over Sichuan Derui's building situated in Chengdu.

Other borrowings are related to the loans borrowed from third parties leasing company by certain schools under a sales and leaseback arrangement for certain property, plant and equipment. The other borrowings have a maturity which varied from 3 to 5 years with an average fixed rate of 8.32% and are guaranteed by Mr. Yan Yude, Ms. Wang Xiaoying and Sichuan Derui.

All the above borrowings are denominated in RMB.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2021

15. SHARE CAPITAL

	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Issued and fully paid:		
3,088,761,000 (2020: 3,088,761,000) ordinary shares of HK\$0.01 each	<u>26,051</u>	<u>26,051</u>

16. COMMITMENTS

Capital commitments

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

	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Contracted, but not provided for:		
Buildings, equipment	<u>252,815</u>	<u>170,956</u>
	<u>252,815</u>	<u>170,956</u>

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2021

17. RELATED PARTY TRANSACTIONS

(A) NAMES AND RELATIONSHIPS OF RELATED PARTIES

Name	Relationship
Mr. Yan Yude	Director of the Company
Ms. Wang Xiaoying	Spouse of Mr. Yan Yude
Ms. Yan Hongjia	The daughter of Mr. Yan Yude
Sichuan Derui	A company controlled by Mr. Yan Yude
Chengdu Tianren Property Development Co., Ltd. ("Tianren Property")	A company controlled by Mr. Yan Yude's relatives
USA Tianren Hotel Management Inc., ("USA Tianren Hotel")	A company controlled by Ms. Xie Suhua, mother of Mr. Yan Yude
Virscend Holdings Company Limited ("Virscend Holdings")	A company controlled by Mr. Yan Yude

As disclosed in the consolidated statement of financial position, the Group had outstanding balances due to related parties at 31 December 2020 and 30 June 2021.

(B) OUTSTANDING BALANCES WITH RELATED PARTIES

Amounts due from related parties

	Note	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Sichuan Derui	(i)	9,664	15,560
Others		1,681	1,681
		11,345	17,241

(i) The consideration of RMB9.7 million was prepaid to Sichuan Derui for providing lease and property management service to two schools of the Group.

(ii) The carrying amount of due from an associate company of RMB13,372,000 is presented as part of investments in associate in the unaudited interim condensed consolidated statement of financial position.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2021

17. RELATED PARTY TRANSACTIONS – CONTINUED

(B) OUTSTANDING BALANCES WITH RELATED PARTIES – CONTINUED

Amounts due to related parties

	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
USA Tianren Hotel	1,230	3,522
Mr. Yan Yude	1,292	1,305
Virscend Holdings	16,642	16,832
	<u>19,164</u>	<u>21,659</u>

The amounts due from/due to related parties are unsecured and interest-free.

(C) OTHER RELATED PARTY TRANSACTIONS

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

	Note	Nature of transaction	Six months ended 30 June	
			2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
Tianren hotel		Canteen and accomodation	784	243

- 2) Certain of the Group's bank borrowings amounting to RMB2,289,400,000 (31 December 2020: RMB2,070,710,000) as at 30 June 2021 were secured by assets or guaranteed by Sichuan Derui, Mr. Yan Yude and Ms. Wang Xiaoying.

Bank borrowings amounting to RMB400,000,000 out of RMB2,289,400,000 were also guaranteed by Ms. Yan Hongjia.

Besides, bank borrowings amounting to RMB20,780,000 out of RMB2,289,400,000 were also secured by mortgages over Sichuan Derui's building situated in Chengdu.

Other borrowings are related to loans borrowed from third party leasing companies under sale and leaseback arrangements for certain property, plant and equipment of the Group with a total amount of RMB1,487,808,000. The other borrowings have maturities from 1 to 5 years and are guaranteed by Mr. Yan Yude, Ms. Wang Xiaoying and long-term pledged deposits.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2021

17. RELATED PARTY TRANSACTIONS – CONTINUED

(D) LEASE WITH RELATED PARTY

On 29 January 2021, the Group had entered into the 2021 Lease and Property Management Service Agreement (“new agreement”) with Sichuan Derui to renew the previous lease agreements signed on 25 April 2019, and the lease term is from 29 January 2021 to 31 December 2023. As at 30 June 2021, the Group has total lease liabilities and right-of-use assets with Sichuan Derui as follows:

	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Lease liabilities – current	39,729	13,396
Lease liabilities – non-current	72,896	149,546
	<u>112,625</u>	<u>162,942</u>

	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Right-of-use assets	<u>111,860</u>	<u>138,836</u>

	Six months ended 30 June	
	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
Depreciation on right-of-use assets	<u>18,643</u>	<u>5,061</u>

	Six months ended 30 June	
	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
Interest expenses of lease liabilities	<u>3,409</u>	<u>4,820</u>

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2021

17. RELATED PARTY TRANSACTIONS – CONTINUED

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

	30 June 2021 RMB'000 (Unaudited)	30 June 2020 RMB'000 (Unaudited)
Short term employee benefits	2,821	2,686
Pension scheme contributions	27	13

18. 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:

	30 June 2021 Carrying amounts RMB'000 (Unaudited)	30 June 2021 Fair Values RMB'000 (Unaudited)
Interest-bearing bank borrowings	2,289,400	2,316,607
Other borrowings	1,386,362	1,416,576
	3,675,762	3,733,183

	31 December 2020 Carrying amounts RMB'000 (Audited)	31 December 2020 Fair values RMB'000 (Audited)
Interest-bearing bank borrowings	2,070,710	2,075,710
Other borrowings	1,080,098	1,100,569
	3,150,808	3,176,279

Management has assessed that the fair values of cash and cash equivalents, financial assets included in prepayments, other receivables and other assets 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:

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2021

18. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS – CONTINUED

The fair values of the interest-bearing bank borrowings 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 borrowings as at 30 June 2021 and 31 December 2020 was assessed to be insignificant.

19. DIVIDEND

	For the six months ended 30 June	
	2021 (Unaudited) RMB'000	2020 (Unaudited) RMB'000
Final of 2020 – HK2.5 cents (2019: HK4.0 cents) per ordinary share	64,516	112,480
Proposed Interim of 2021 - HK1.9 cents (2020: HK4.0 cents) per ordinary share	48,810	110,639

A final dividend of HK4.0 cents per share in respect of the year ended 31 December 2019 proposed by the Board has been approved by the Shareholders at the annual general meeting of the Company and dividends of RMB112,480,000 have been declared by the Company in June 2020, and all have been paid by 30 November 2020.

An interim dividend of HK4.0 cents per share in respect of the period ended 30 June 2020 proposed by the Board has been approved by the Shareholders at the extraordinary general meeting of the Company and dividends of RMB107,143,000 have been declared by the Company in October 2020, and have been paid by 30 June 2021.

A final dividend of HK2.5 cents per share in respect of the period ended 30 June 2020 proposed by the Board has been approved by the Shareholders at the annual general meeting of the Company and dividends of RMB64,516,000 have been declared by the Company in June 2021 which will be payable on or around 30 September 2021.

The Board recommended the payment of interim dividend of HK1.9 cents per share for the six months ended 30 June 2021 and is subject to the approval by the Shareholders at the EGM.

20. 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 on 30 August 2021.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2021

21. EVENTS AFTER THE REPORTING PERIOD

On 30 July 2021, Sichuan Derui and Derui Education Management entered into the School Sponsor's Interest Transfer Agreement, pursuant to which Sichuan Derui agreed to sell and Derui Education Management agreed to purchase 100% of the school sponsor's interest in Primary School Attached to Chengdu Foreign Languages School and its subsidiary Kindergarten of Primary School Attached to Chengdu Jinniu District Foreign Languages School at a cash consideration of RMB7,500,000. Upon completion of the Proposed Disposal, the two schools cease to be the consolidated affiliated entities of the Company and their financial results will no longer be consolidated into the Group's financial statements. For more details, please refer to the announcement dated 30 July 2021 and 5 August 2021.

On 30 July 2021, the Board announced that the financial year end date of the Company has been changed from 31 December to 31 August commencing from the financial period ended 31 August 2021 in order to align its financial year end date of the Group with the academic year of the schools operated by the Group in the PRC, which ends in August each year. Accordingly, the Company will announce and despatch the audited consolidated annual results announcement and annual report of the Group for the eight months ended 31 August 2021 by 30 November 2021 and 31 December 2021 respectively. For more details, please refer to the announcement dated 30 July 2021 for information.

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 Foreign Languages School of Yibin”	Chengdu Foreign Languages School of Yibin* (宜賓市翠屏區成外學校), a private middle school established under the laws of the PRC and a consolidated affiliated entity of the Company, where the school sponsor’s interest is wholly owned by Sichuan Derui
“Chengdu Foreign Languages School of Zigong”	Chengdu Foreign Languages School of Zigong* (自貢成都外國語學校), a private primary and middle school established under the laws of the PRC and a consolidated affiliated entity of the Company, where the school sponsor’s interest is owned as to 57% by Sichuan Derui, 43% by an independent third party
“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 75.7% by Sichuan Derui, and 24.3% by Xinhua Winshare, 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

DEFINITION

“CISISU Yibin Campus”	Chengdu Institute Sichuan International Studies University (Yibin Campus)* (四川外國語大學成都學院宜賓校區), a private university 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
“Company”	Virscend Education Company Limited, a company incorporated in the Cayman Islands whose shares are listed on the Stock Exchange (Stock Code: 1565)
“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
“Derui Education Management”	Sichuan Derui Education Management Co., Ltd* (四川德瑞教育管理有限公司), a company incorporated in the PRC with limited liability on 19 May 2013
“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
“Global Offering”	the offering of the Shares on the Main Board of the Stock Exchange
“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
“Hongdemingzhi Consulting”	Sichuan Hongdemingzhi Education Consulting Co., Ltd. (四川弘德明知教育諮詢有限公司) (previously known as Sichuan Hongming Property Co., Ltd.) (四川弘明置業有限公司), a limited company established under the laws of the PRC with limited liability and a wholly-owned subsidiary of the Company
“K-9”	primary schools and middle schools
“Listing”	the listing of Shares on the Main Board of the Stock Exchange

DEFINITION

“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
“Panzhuhua School”	Chengdu Foreign Languages School of Panzhuhua* (攀枝花市成都外國語學校), a private middle and high school established under the laws of the PRC, or “Panzhuhua School” where the school sponsor’s interest is wholly-owned by Sichuan Derui, and a consolidated affiliated entity of the Company.
“PRC” or “China”	The People’s Republic of China
“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
“Primary school of Chengdu Foreign Languages School of Yibin”	Primary School Attached to Chengdu Foreign Languages School of Yibin* (宜賓市翠屏區成外附屬小學), a private primary school established under the laws of the PRC and a consolidated affiliated entity of the Company, where the school sponsor’s interest is wholly owned by Sichuan Derui.
“Prospectus”	the prospectus of the Company dated 31 December 2015
“Reporting Period”	the six months ended 30 June 2021
“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, among others, 69.44% by Mr. Yan, 3.00% by Ms. Wang Xiaoying and 1.59% by Ms. Ye Jiayu

DEFINITION

“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
“Southwest China”	comprises Sichuan, Guizhou and Yunnan Provinces and Chongqing Municipality
“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
“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
“Wulongshan High School”	Wulongshan Campus of Chengdu Experimental Foreign Languages School* (成都市實驗外國語學校五龍山校區), a private high school established under the laws of the PRC and a consolidated affiliated entity of the Company, where the school sponsor’s interest is owned as to 45% by Sichuan Derui, 55% by two independent third parties
%	per cent

* for identification purpose only