

VIRSCEND EDUCATION COMPANY LIMITED 成實外教育有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1565

立學中華
語通世界



INTERIM REPORT 2016

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COMPANY PROFILE

Virscend Education Company Limited (stock code: 01565), together with its subsidiaries and consolidated affiliated entities, is a leading provider of pre-school to grade 12 (“K-12”) private education services. Through our schools, we provide education services to students in every age group from kindergarten through university. As at 30 June 2016, we had enrollment of an aggregate number of approximately 32,507 students, including approximately 14,149 students at the university, and we employed an aggregate of approximately 2,012 teachers.

We currently operate six schools, namely, Chengdu Foreign Languages School, Chengdu Experimental Foreign Languages School, Chengdu Experimental Foreign Languages School (Western Campus), the Primary School Attached to Chengdu Foreign Languages School, the Chengdu Foreign Languages Kindergarten and the Chengdu Institute Sichuan International Studies University, all of which are located in Chengdu, Sichuan Province. Through these schools, we offer formal education with comprehensive education programs from kindergarten through university. We are one of the few private education companies in Sichuan, Guizhou and Yunnan Provinces and Chongqing Municipality (“Southwest China”) that offer comprehensive 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 Gaokao administered in 2014, 2015 and 2016, approximately 69.5%, 77.4% and 87.0% of the Group’s graduating high school students who participated in such examinations achieved scores that allowed them to apply to and be accepted by first-tier universities in China, including Peking University, Tsinghua University, Fudan University, Zhejiang University and Shanghai Jiaotong University, among others. Moreover, certain of the Group’s high school graduating students were accepted by colleges and universities overseas, including Harvard University, Columbia University, Cornell University and Northwestern University.

Through over 16 years of operating private schools in Chengdu, we believe that we have established a strong reputation, which helps us attract high-quality students and teachers and pave the way for our success. We intend to maintain and strengthen our market position in the private fundamental education industry in China.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Mr. Xu Ming

Mr. Ye Jiayu

Mr. Yan Yude

Independent Non-executive Directors

Mr. Sit Chiu Wing

Mr. Chan Kim Sun

Ms. Xu Dayi

AUDIT COMMITTEE

Mr. Chan Kim Sun (*Chairman*)

Mr. Sit Chiu Wing

Ms. Xu Dayi

REMUNERATION COMMITTEE

Mr. Sit Chiu Wing (*Chairman*)

Ms. Wang Xiaoying

Ms. Xu Dayi

NOMINATION COMMITTEE

Mr. Sit Chiu Wing (*Chairman*)

Mr. Yan Yude

Ms. Xu Dayi

AUTHORISED REPRESENTATIVES

Ms. Wang Xiaoying

Mr. Xu Ming

COMPANY SECRETARY

Ms. Ng Sau Mei

LEGAL ADVISORS

As to Hong Kong law:

Orrick, Herrington & Sutcliffe

43rd Floor, Gloucester Tower

The Landmark

15 Queen's Road Central

Hong Kong

As to PRC law:

Jingtian & Gongcheng

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Chaoyang District

Beijing

The PRC

As to Cayman Islands law:

Conyers Dill & Pearman

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P.O. Box 2681

Grand Cayman KY1-1111

Cayman Islands

AUDITOR

Ernst & Young

22/F, CITIC Tower

1 Tim Mei Avenue

Central

Hong Kong

COMPLIANCE ADVISOR

TC Capital International Limited

Suite 1903 & 1904, 19/F, Tower 6

The Gateway, Harbour City

9 Canton Road

Tsim Sha Tsui, Kowloon

Hong Kong

CORPORATE INFORMATION

REGISTERED OFFICE

Cricket Square
Hutchins Drive, P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

No. 23 He Xin Lu
Pi County
Chengdu
The PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Times Square
1 Matheson Street
Causeway Bay
Hong Kong

CAYMAN ISLANDS SHARE REGISTRAR AND TRANSFER OFFICE

Codan Trust Company (Cayman) Limited
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
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PRINCIPAL BANKERS

Industrial and Commercial Bank of China
China Construction Bank Corporation

INVESTOR RELATIONS

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COMPANY'S WEBSITE

www.virscendeducation.com

STOCK CODE

1565

DATE OF LISTING

15 January 2016

FINANCIAL HIGHLIGHTS

COMPARISON OF KEY FINANCIAL FIGURES

Result of operation	For six months ended 30 June			Percentage Change
	2016 RMB' 000	2015 RMB' 000	Change RMB' 000	
Revenue	438,542	364,822	73,720	20.2
Gross profit	227,837	182,854	44,983	24.6
Profit for the period	162,902	110,426	52,476	47.5
Attributable to equity holders of the parent	162,973	75,443	87,530	116.0
Earnings per share Basic and diluted (RMB)	0.0542	0.0335	0.0207	61.8
Financial ratio			For six months ended 30 June	
			2016	2015
Gross profit margin (%)			52.0	50.1
Net profit margin (%)			37.1	30.3

MANAGEMENT DISCUSSION AND ANALYSIS

REVENUE

For the six months ended 30 June 2016, the Company has witnessed growth of the schools operated by the Group in terms of revenue. Revenue increased from RMB364.8 million for the six months ended 30 June 2015 to RMB438.5 million for the six months ended 30 June 2016. The Group typically charges students fees comprising tuition fees and boarding fees and tuition fees remained the major revenue, accounted for approximately 95.0% of the total revenue of the Company for the six months ended 30 June 2016.

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

	For six months ended 30 June			Percentage
	2016 RMB' 000	2015 RMB' 000	Change RMB' 000	Change
Middle and High School	272,805	216,305	56,500	26.1
The Primary School	45,103	35,375	9,728	27.5
The Kindergarten	3,467	3,172	295	9.3
The University	95,281	89,635	5,646	6.3
Total tuition fees	416,656	344,487	72,169	20.9
Boarding fees	21,886	20,335	1,551	7.6
Total	438,542	364,822	73,720	20.2

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

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

School	School Year			
	2015/2016 Gross Tuition Fees RMB' 000	2015/2016 Average Tuition Fees RMB	2014/2015 Gross Tuition Fees RMB' 000	2014/2015 Average Tuition Fees RMB
Middle and High School	512,115	33,384	456,713	30,677
The Primary School	73,087	27,220	65,846	24,424
The Kindergarten	7,367	22,123	6,747	21,625
The University	176,262	12,458	161,605	11,810

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.

MANAGEMENT DISCUSSION AND ANALYSIS

STUDENT ENROLMENT

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

	As at 30 June 2016	As at 30 June 2015	Change	Percentage Change
High school students	5,438	4,878	560	11.5
Middle school students	9,902	10,010	(108)	(1.1)
Primary school students	2,685	2,696	(11)	(0.4)
Kindergarten students	333	312	21	6.7
K-12 students	18,358	17,896	462	2.6
University students	14,149	13,684	465	3.4
Total number of students	32,507	31,580	927	2.9

As at 30 June 2016, the aggregate number of students enrolled at the schools of the Group increased to approximately 32,507 from 31,580 as at 30 June 2015. The increase in the aggregate number of students enrolled was attributable to the increases in the capacity of certain existing schools.

FUTURE DEVELOPMENT

The Group intends to leverage its reputation to expand its school network in Chengdu, other areas in Sichuan Province and elsewhere in Southwest China. In order to solidify and strengthen its market-leading position in the region, the Group plans to establish new schools or acquire existing schools. 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:

- 1) Expand its existing business by collaborating with third-party business partners such as local governments, famous real estate listed companies in China and celebrated private enterprises in local cities;
- 2) Establish or acquire new schools directly.

In particular, the Group will open 5 new schools (1 middle and high school, 1 primary school and 3 schools which will offer K-12 programs) in 3 cities in China, namely Chengdu, Panzhihua and Zigong in Sichuan Province, and these schools are expected to commence their first school year on 1 September 2017. Details of these new schools are as below:

1) Chengdu Experimental Foreign Languages School - Wulongshan School (“Wulongshan School”)

The Wulongshan School will be located at Wulongshan, Xindu district, Chengdu, Sichuan Province with a land area of 142 mu, which is developed under asset light business model. Wulongshan School shall operate under the name of “Chengdu Experimental Foreign Languages School” with expected student capacity of approximately 5,000 students. The Wulongshan School will offer programs from primary school to middle

MANAGEMENT DISCUSSION AND ANALYSIS

and high school. Upon its establishment, Wulongshan School shall be owned as to 45.0% and 55.0% by Chengdu Experimental Foreign Languages School and an entity jointly established by Chengdu Wanke Xindu Zhiye Co., Ltd.* (成都萬科新都置業有限公司), an independent property management company, and Chengdu Yirui Education Consulting Co., Ltd.* (成都益瑞教育諮詢有限公司) (“Chengdu Yirui”), an independent educational consulting company, (“JV Entity”), respectively. The JV Entity shall be responsible for providing and developing the land and building to be used as campus of Wulongshan School. Upon completion of the development of the land and establishment of Wulongshan School, Chengdu Experimental Foreign Languages School shall contribute funds to the Wulongshan School depending on the capital needs of Wulongshan School. The Wulongshan School is expected to commence its first school year on 1 September 2017. Please refer to the announcement of the Company dated 10 February 2016 for further details.

2) Primary School Attached to Chengdu Foreign Languages School – Meinian Campus (“Meinian Campus”)

The Meinian Campus will be located in Fantasia MIC Plaza, Chengdu Hi-tech Industrial Development Zone, Sichuan Province with a total gross site area of approximately 56,711.19 sq. m, which is developed under asset light business model. The Meinian Campus shall operate under the name of “Primary School Attached to Chengdu Foreign Languages School” with expected student capacity of approximately 2,200 to 2,400 students. The Meinian Campus will offer 6-year full-time primary education. Upon its establishment, Meinian Campus shall be owned as to 40.0% and 60.0% by Primary School Attached to Chengdu Foreign Languages School and the independent third parties respectively, which include a subsidiary of Fantasia Holdings Group Co., Limited, a real estate company listed on the Main Board of the Stock Exchange. The independent third parties shall be responsible for providing and developing the land and building to be used as campus of Meinian Campus and shall provide the land and building to Meinian Campus for its use without any charge during the subsistence of the school. The Meinian Campus is expected to commence its first school year on 1 September 2017. Please refer to the announcement of the Company dated 25 July 2016 for further details.

3) Chengdu Foreign Languages School - Panzhihua School (“Panzhihua School”)

The Panzhihua School will be located at Panzhihua, Sichuan Province with a total gross site area of approximately 54,349.72 sq. m, which is developed under asset light business model. Panzhihua School shall operate under the name of “Chengdu Foreign Languages School” with expected student capacity of approximately 3,000 students. The Panzhihua School will offer programs for middle and high school. Chengdu Foreign Languages School is expected to be the sponsor of the Panzhihua School and will own all of the school sponsor’s interest in such school. Under the agreement, the state-owned investment company in Panzhihua City will invest to construct the school facilities on such land (with expected completion of construction before May 2017). The Group will lease the premises for the new school under a separate lease agreement, which was entered into concurrently with the cooperation agreement. The lease term for the school premises will be 20 years beginning on 1 September 2017 and Chengdu Foreign Languages School will pay to the state-owned investment company certain rental fees for the school premises beginning in the fourth year of the rental period. No rental fees will be payable by Chengdu Foreign Languages School for the first three years of the rental period. Subject to the approval by and registration with competent authorities, the new middle school is expected to commence its first school year on 1 September 2017 while the new high school is expected to commence operation before 1 September 2020. Please refer to the Prospectus for further details.

MANAGEMENT DISCUSSION AND ANALYSIS

4) Chengdu Foreign Languages School – Zigong Purun Campus (“Zigong Purun Campus”)

The Zigong Purun Campus will be located inside the Purun City development* (普潤城園區) in Zigong, Sichuan Province with a land area of not less than 150 mu, which is developed under asset light business model. Zigong Purun Campus shall operate under the name of “Chengdu Foreign Languages School” with expected student capacity of approximately 4,500 students. The Zigong Purun Campus will offer programs from kindergarten, primary school to middle and high school. Upon its establishment, Zigong Purun Campus shall be owned as to 47.0% and 53.0% by Chengdu Foreign Languages School and the independent third parties, respectively. The independent third parties shall be responsible for providing and developing the land and building to be used as campus of Zigong Purun Campus and shall provide the land and building to Zigong Purun Campus for its use without any charge during the subsistence of the school. The total investment of the Group in the Zigong Purun Campus is currently estimated to be approximately RMB50.0 million, which will be funded by the net proceeds from the Global Offering. The Zigong Purun Campus is expected to commence its first school year on 1 September 2017. Please refer to the announcement of the Company dated 30 June 2016 for further details.

5) Chengdu Experimental Foreign Languages School – Wenjiang Campus (“Wenjiang Campus”)

The Wenjiang Campus will be located at Wenjiang district, Sichuan Province with a land area of 245 mu. Wenjiang Campus shall operate under the name of “Chengdu Experimental Foreign Languages School” with expected student capacity of approximately 6,500 students. The Wenjiang Campus will offer programs from primary school to middle and high school. Chengdu Experimental Foreign Languages School is expected to be the sponsor of the Wenjiang Campus and will own all of the school sponsor’s interest in such school. The Group has purchased a parcel of land in Wenjiang, Chengdu, Sichuan Province, in connection with the opening of the Wenjiang Campus. The school site of Wenjiang Campus is now under construction and is expected to be completed before April 2017. Subject to the approval by and registration with competent authorities, the Wenjiang Campus is expected to commence its first school year on 1 September 2017. Please refer to the Prospectus for further details.

In addition, the Group has entered into agreements with third party education consulting companies and will make investments in new school or companies in order to extend its school network. Details of the investments are as below:

1) Investment in Chengdu Foreign Languages Kindergarten Education Management Company Limited (“Kindergarten Education Management”)

In June 2016, Chengdu Foreign Languages Kindergarten has entered into cooperation agreement with Chengdu Boya Zhuoyue Education Consulting Company Limited* (成都博雅卓越教育諮詢有限公司) (“Chengdu Boya”), an independent educational consulting company, to establish the Kindergarten Education Management, which will be primarily engaged in establishing and operating kindergartens in Chengdu. The estimated total investment of Kindergarten Education Management will be RMB100.0 million and the equity

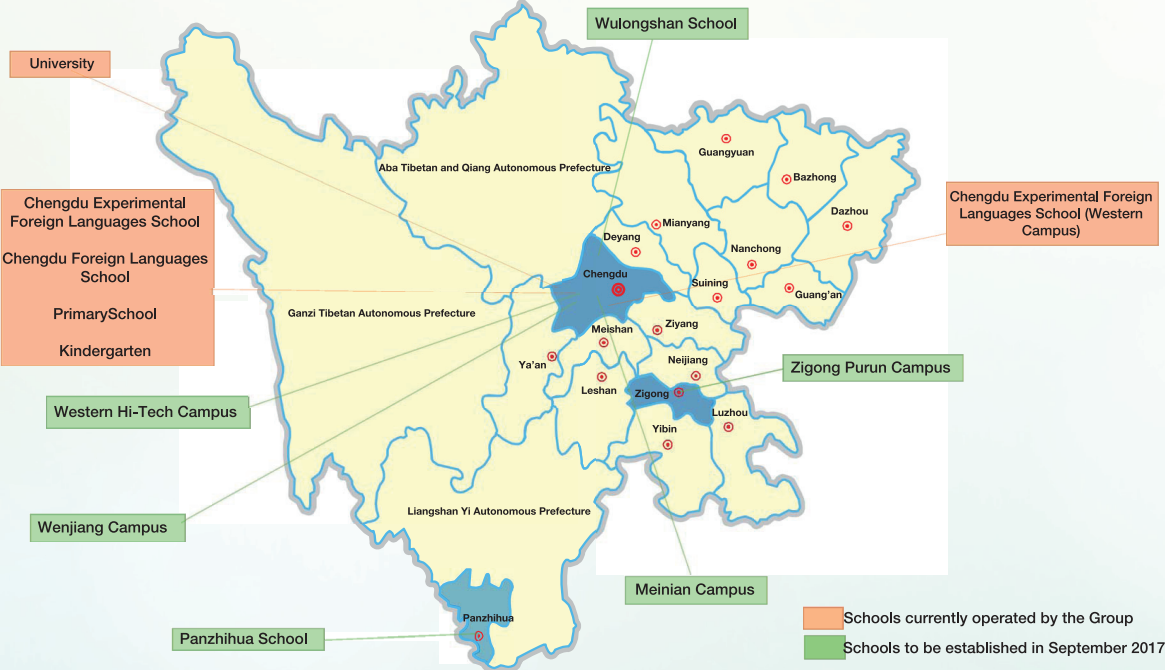
MANAGEMENT DISCUSSION AND ANALYSIS

shares of Kindergarten Education Management shall be owned as to 15.0% and 85.0% by the Chengdu Foreign Languages Kindergarten and Chengdu Boya respectively, while the profit sharing of Kindergarten Education Management shall be owned as to 30.0% and 70.0% by the Chengdu Foreign Languages Kindergarten and Chengdu Boya respectively. Kindergarten Education Management will be controlled by Chengdu Boya. It is expected that Kindergarten Education Management will establish more than 30 kindergartens in Chengdu over 10 years and the first kindergarten is expected to commence its first school year on 1 September 2017.

2) Investment in Chengdu Foreign Languages School – Western Hi-Tech Campus (“Western Hi-Tech Campus”)

The Western Hi-Tech Campus will be located in Western Hi-Tech district, Chengdu, Sichuan Province with a total gross site area of approximately 77,067.19 sq. m, which is developed under asset light business model. The expected student capacity of the Western Hi-Tech Campus is approximately 3,300 students. The Western Hi-Tech Campus will offer high school education programs. Upon its establishment, Western Hi-Tech Campus shall be owned as to 20.0% and 80.0% by Chengdu Foreign Languages School and the independent third party, respectively. The independent third party will be responsible for the operation and management of the Western Hi-Tech Campus, and shall provide the land and building to the Western Hi-Tech Campus for its use without any charge during the subsistence of the school. The Western Hi-Tech Campus is expected to commence its first school year on 1 September 2017.

OUR SCHOOL NETWORK IN SICHUAN PROVINCE, CHINA



MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND FINANCIAL RESOURCES

	Six months ended 30 June	
	2016 RMB' 000	2015 RMB' 000
Net cash flows from operating activities	162,026	312,825
Net cash flows used in investing activities	(1,202,351)	(187,558)
Net cash flows generated from/(used in) financing activities	1,687,707	(1,943)
Net increase in cash and cash equivalents	647,382	123,324
Cash and cash equivalents at beginning of period	248,600	109,850
Effect of foreign exchange rate changes, net	17,183	—
Cash and cash equivalents at end of period	913,165	233,174
	As at 30 June 2016 RMB' 000	As at 31 December 2015 RMB' 000
Interest-bearing bank and other borrowings	1,450,711	1,335,021

The balance of interest-bearing bank and other borrowings as at 30 June 2016 was RMB1,450.7 million. The details of maturity profile of interest-bearing bank and other borrowings were: 1) approximately RMB801.0 million repayable within one year; 2) approximately RMB140.0 million repayable in the second year; and 3) approximately RMB509.7 million repayable within three to five years or above. The Group had adequate liquidity to meet its daily management and capital expenditure requirements and control internal operating cash flows.

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 2016, all the interest-bearing 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 interest-bearing bank and other borrowings as at 30 June 2016 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 2016, 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 the Prospectus and 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 interest-bearing bank loans and other borrowings divided by total equity as at the end of the relevant financial year/period, decrease from approximately 226.9% as at 31 December 2015 to 60.3% as at 30 June 2016, primarily due to the increase in the Group's total equity from the Listing.

SIGNIFICANT INVESTMENTS, ACQUISITIONS AND DISPOSALS

There were no significant investments held as at 30 June 2016, nor other material acquisitions and disposals of subsidiaries and associated companies during the Reporting Period.

CONTINGENT LIABILITIES

As at 30 June 2016, the Group had no material contingent liabilities.

PLEDGE OF ASSETS

As at 30 June 2016, the pledged bank deposits of RMB565.8 million (as at 31 December 2015: Nil) were pledged to secure general banking facilities granted to the Group.

CAPITAL COMMITMENT

Please refer to note 11 to the financial statements for details of capital commitments for business.

HUMAN RESOURCES

As at 30 June 2016, the Group had 2,700 employees (31 December 2015: 2,890). The decrease of the number of employees was mainly because the logistics personnel were outsourced since January 2016.

The remuneration policy and package of the Group's employees are periodically reviewed in accordance with industry practice and result 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 six months ended 30 June 2016 was RMB148.9 million (2015: RMB139.5 million).

IMPORTANT EVENTS SINCE THE PERIOD END

The important events occurred since the six months ended 30 June 2016 are disclosed in note 14 to the interim condensed consolidated financial statements.

* For identification purpose only

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 period from the Listing Date to 30 June 2016. 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 from the Listing Date. 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 period from the Listing Date to 30 June 2016.

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

INTERIM DIVIDEND

The Board did not declare any interim dividend for the six months ended 30 June 2016.

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 Ms. Xu Dayi. The primary duties of the Audit Committee are to review and supervise the Company’s financial reporting process and internal controls.

The Audit Committee, together with management, has reviewed the unaudited interim results and the unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 June 2016.

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 period from the Listing Date to 30 June 2016, 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 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, we are still waiting for approval from the California Bureau for Private Postsecondary Education for the establishment of a new school in the United States. Please also refer to the section headed “Structured Contracts” in the Prospectus and our annual report for the year ended 31 December 2015 for our efforts and actions undertaken to comply with the Qualification Requirement. There has been no updates since the publication of the annual report for the year ended 31 December 2015.

CORPORATE GOVERNANCE/OTHER INFORMATION

USE OF NET PROCEEDS FROM LISTING

Net proceeds from the Listing (after deducting underwriting fee and relevant expenses) amounted to approximately HK\$1,932.4 million (RMB1,629.2 million). As at 30 June 2016, a total amount of HK\$1,080.3 million (RMB923.3 million) out of the net proceeds had been used by the Group according to the allocation set out in the Prospectus. The following sets forth a summary of the utilisation of the net proceeds:

Purpose	Percentage to total amount	Net proceeds RMB(million)	Utilised amount (at 30 June 2016) RMB (million)	Unutilised amount (at 30 June 2016) RMB (million)
Cooperate with independent third parties to jointly establish new schools, purchase the relevant land use rights to develop new schools, and acquire existing schools	49.1%	800.4	445.1	355.3
Repay the existing short-term bank borrowings	21.3%	348.0	348.0	–
Establish a teacher and staff training and development center	20.4%	331.6	–	331.6
Fund the working capital and general corporate purposes	9.2%	149.2	130.2	19.0
Total	100.0%	1,629.2	923.3	705.9

CORPORATE GOVERNANCE/OTHER INFORMATION

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

As at 30 June 2016, 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 as set out in Appendix 10 of the Listing Rules 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	1,562,467,500	Long Position	50.59
	Interest of spouse	67,500,000	Long Position	2.19
Ms. Wang Xiaoying ⁽²⁾	Interest of spouse	1,562,467,500	Long Position	50.59
	Interest in a controlled corporation	67,500,000	Long Position	2.19
Mr. Ye Jiayu ⁽³⁾	Interest in a controlled corporation	95,400,000	Long Position	3.09

Notes:

- (1) Mr. Yan Yude is the sole shareholder and sole director of Virscend Holdings and he is therefore deemed to be interested in the Shares held by Virscend Holdings. Mr. Yan Yude is also the husband of Ms. Wang Xiaoying and is therefore deemed to be interested in the Shares held by Ms. Wang Xiaoying through Smart Ally International Limited.
- (2) Ms. Wang Xiaoying is the sole shareholder and director of Smart Ally International Limited and she is therefore deemed to be interested in the Shares held by Smart Ally International Limited. Ms. Wang Xiaoying is also the wife of Mr. Yan Yude and is therefore deemed to be interested in the Shares indirectly held by Mr. Yan Yude through Virscend Holdings.
- (3) Mr. Ye Jiayu is interested in 37.5% equity interest of Lucky Sign Global Limited and is therefore deemed to be interested in the Shares held by Lucky Sign Global Limited.

Save as disclosed above, as at 30 June 2016, none of the Directors or the chief executive of the Company had or was deemed to have any interest or short position in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) that was required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have 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 otherwise disclosed in 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 2016, to the best knowledge of the Directors, the following persons (other than being a Director or chief executive of the Company) had interests or short positions in the Shares or underlying Shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Name	Capacity/ Nature of Interest	Number of Shares	Long/short position	Approximate Percentage of Shareholding in the Company (%)
Virscend Holdings ⁽¹⁾	Beneficial owner	1,562,467,500	Long Position	50.59
Happy Venus Limited ⁽²⁾	Beneficial owner	417,330,000	Long Position	13.51
Ms. Yan Hongjia ⁽²⁾	Interest in a controlled corporation	417,330,000	Long Position	13.51

Notes:

- (1) Mr. Yan Yude is the sole shareholder and sole director of Virscend Holdings and he is therefore deemed to be interested in the Shares held by Virscend Holdings.
- (2) 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 2016, the Directors were not aware of any persons (who were not Directors or chief executive of the Company) who had an interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein.

CORPORATE GOVERNANCE/OTHER INFORMATION

SHARE OPTION SCHEME

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

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

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

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

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

CORPORATE GOVERNANCE/OTHER INFORMATION

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 9 years and 4 months.

Since the Adoption Date and during the six months ended 30 June 2016, 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 2016

	Notes	Six months ended 30 June	
		2016 RMB'000 (Unaudited)	2015 RMB'000 (Audited)
REVENUE	3	438,542	364,822
Cost of sales		<u>(210,705)</u>	<u>(181,968)</u>
Gross profit		227,837	182,854
Other income and gains	3	20,299	988
Selling and distribution expenses		(694)	(1,178)
Administrative expenses		(27,887)	(19,214)
Other expenses		(1,081)	(269)
Finance costs	4	<u>(48,145)</u>	<u>(52,755)</u>
PROFIT BEFORE TAX	5	170,329	110,426
Income tax expense	6	<u>(7,427)</u>	<u>—</u>
PROFIT FOR THE PERIOD		<u>162,902</u>	<u>110,426</u>
Attributable to:			
Owners of the parent	7	162,973	75,443
Non-controlling interests		<u>(71)</u>	<u>34,983</u>
		<u>162,902</u>	<u>110,426</u>
Earnings per share attributable to ordinary equity holders of the parent			
– basic and diluted for the period	7	RMB0.0542	RMB0.0335

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2016

	Six months ended 30 June	
	2016	2015
	RMB' 000	RMB' 000
	(Unaudited)	(Audited)
PROFIT FOR THE PERIOD	162,902	110,426
OTHER COMPREHENSIVE INCOME		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	76	—
Net other comprehensive profit to be reclassified to profit or loss in subsequent periods	76	—
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	76	—
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	162,978	110,426
Attributable to:		
Owners of the parent	163,046	75,443
Non-controlling interests	(68)	34,983
	162,978	110,426

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2016

	Notes	30 June 2016 RMB' 000 (Unaudited)	31 December 2015 RMB' 000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	8	2,383,820	2,064,117
Intangible assets		20	—
Prepaid land lease payments		398,674	259,995
Other non-current assets		50,000	375
Non-current prepayments		76,505	—
Total non-current assets		<u>2,909,019</u>	<u>2,324,487</u>
CURRENT ASSETS			
Prepayments, deposits and other receivables		98,362	40,188
Cash and cash equivalents		913,165	248,600
Pledged deposits		565,783	—
Total current assets		<u>1,577,310</u>	<u>288,788</u>
CURRENT LIABILITIES			
Other payables and accruals		178,136	233,054
Tax payable		7,427	—
Interest-bearing bank and other borrowings		801,010	589,000
Deferred revenue	9	436,979	435,743
Deferred income – current		190	190
Amounts due to related parties	12(a)	239	14,653
Total current liabilities		<u>1,423,981</u>	<u>1,272,640</u>
NET CURRENT ASSETS/(LIABILITIES)		<u>153,329</u>	<u>(983,852)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u><u>3,062,348</u></u>	<u><u>1,340,635</u></u>

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2016

	Notes	30 June 2016 RMB' 000 (Unaudited)	31 December 2015 RMB' 000 (Audited)
TOTAL ASSETS LESS CURRENT LIABILITIES		3,062,348	1,340,635
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		649,701	746,021
Deferred income – non-current		5,303	6,163
Total non-current liabilities		<u>655,004</u>	<u>752,184</u>
Net assets		<u>2,407,344</u>	<u>588,451</u>
EQUITY			
Equity attributable to owners of the parent			
Share capital	10	26,051	310
Reserves		<u>2,381,191</u>	<u>587,971</u>
Non-controlling interests		<u>102</u>	<u>170</u>
Total equity		<u>2,407,344</u>	<u>588,451</u>

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2016

	Attributable to owners of the parent					Total	Non-controlling interests	Total
	Share capital	Capital reserve	Statutory surplus reserve	Exchange fluctuation reserve	Retained profits			
	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000
At 1 January 2015	—	374,605	107,647	—	107,806	590,058	92,225	682,283
Profit for the period	—	—	—	—	75,443	75,443	34,983	110,426
Total comprehensive income for the period	—	—	—	—	75,443	75,443	34,983	110,426
Capital contribution	—	—	—	—	—	—	—	—
Transfer from retained profits	—	—	28,707	—	(28,707)	—	—	—
Interim dividend declared	—	—	—	—	(151,800)	(151,800)	(68,200)	(220,000)
At 30 June 2015 (audited)	—	374,605	136,354	—	2,742	513,701	59,008	572,709

	Attributable to owners of the parent					Total	Non-controlling interests	Total
	Share capital	Capital reserve	Statutory surplus reserve	Exchange fluctuation reserve	Retained profits			
	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000
At 1 January 2016	310	416,242	153,543	(17)	18,203	588,281	170	588,451
Profit for the period	—	—	—	—	162,973	162,973	(71)	162,902
Other comprehensive income for the period								
Exchange differences on translation of foreign operations	—	—	—	73	—	73	3	76
Total comprehensive income for the period	—	—	—	73	162,973	163,046	(68)	162,978
Issue of shares	25,741	1,630,174	—	—	—	1,655,915	—	1,655,915
Transfer from retained profits	—	—	29,202	—	(29,202)	—	—	—
At 30 June 2016 (unaudited)	26,051	2,046,416*	182,745*	56*	151,974*	2,407,242	102	2,407,344

* These reserve accounts comprise the consolidated reserves of RMB2,381,191,000 in the interim condensed consolidated statement of financial position as at 30 June 2016.

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2016

	Notes	Six months ended 30 June	
		2016 RMB' 000 (Unaudited)	2015 RMB' 000 (Audited)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax	5	170,329	110,426
Adjustments for:			
Income tax expenses		7,427	—
Finance costs	4	48,145	52,755
Net foreign exchange gains	3	(17,107)	—
Interest income	3	(2,073)	(164)
Loss on disposal of items of property, plant and equipment	5	37	3
Government grants released	3	(5)	(98)
Depreciation	5	33,594	21,049
Recognition of prepaid land lease payments	5	3,580	2,521
		<u>243,927</u>	<u>186,492</u>
(Increase)/decrease in prepayments, deposits and other receivables		(68,016)	123,748
Decrease in other non-current assets		375	—
(Decrease)/increase in other payables and accruals		(9,288)	9,195
Increase in tax payable		(7,427)	—
Decrease in deferred income		(854)	—
Increase/(decrease) in deferred revenue	9	<u>1,236</u>	<u>(6,774)</u>
Cash generated from operations		159,953	312,661
Interest received	3	2,073	164
Income tax paid	6	—	—
Net cash flows from operating activities		<u>162,026</u>	<u>312,825</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of items of property, plant and equipment		(353,369)	(3,122)
Purchase of intangible asset		(20)	—
Increase in prepaid land lease payments		(142,260)	—
Increase in non-current prepayments		(76,505)	—
Increase in other non-current assets		(50,000)	—
Receipt of disposal of investments		—	1,200
Decrease in amounts due to related parties	12(a)	(14,414)	(185,636)
Increase in pledged deposits		<u>(565,783)</u>	<u>—</u>
Net cash flows used in investing activities		<u>(1,202,351)</u>	<u>(187,558)</u>

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2016

	Notes	Six months ended 30 June	
		2016 RMB'000 (Unaudited)	2015 RMB'000 (Audited)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank and other borrowings		993,510	168,000
Repayments of bank and other borrowings		(878,500)	(105,000)
Proceeds from issues of shares on initial public offering and over-allotment option		1,697,250	—
Dividends paid to sponsors		(52,510)	—
Interest paid		(34,892)	(64,943)
Listing expenses paid		(37,151)	—
Net cash flows generated from/(used in) financing activities		<u>1,687,707</u>	<u>(1,943)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at beginning of period		248,600	109,850
Effect of foreign exchange rate changes, net		17,183	—
CASH AND CASH EQUIVALENTS AT END OF PERIOD		<u>913,165</u>	<u>233,174</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		<u>913,165</u>	<u>233,174</u>

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

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.

2.1 BASIS OF PREPARATION

These interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”), which comprise all standards and interpretations issued by the International Accounting Standards Board (“IASB”) and the disclosure requirements of the Companies Ordinance.

The financial statements have been prepared under the historical cost convention. The financial statements are presented in Renminbi (“RMB”), and all values are rounded to the nearest thousand except when otherwise indicated.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2015, except for the adoption of the new and revised standards and interpretations as noted below.

The Group has adopted the following revised standards for the first time for the current period's financial statements.

Amendments to IFRS 10 and IAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

Amendments to IFRS 10, IFRS 12 and IAS 28 *Investment Entities: Applying the Consolidation Exception*

Amendments to IFRS 11 *Accounting for Acquisitions of Interests in Joint Operations*

Amendments to IAS 1 *Disclosure Initiative*

Amendments to IAS 16 and IAS 38 *Clarification of Acceptable Methods of Depreciation and Amortisation*

Amendments to IAS 16 and IAS 41 *Agriculture: Bearer Plants*

Amendments to IAS 27 *Equity Method in Separate Financial Statements*

Annual Improvements 2012-2014 *Cycle Amendments to a number of IFRSs*

The adoption of the above new or revised standards, interpretation and amendments has had no material financial effect on the accounting policies of the Group and the methods of computation in the interim condensed consolidated financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE IFRSS

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective, in these financial statements.

<i>IFRS 9</i>	<i>Financial Instruments¹</i>
<i>IFRS 15</i>	<i>Revenue from Contracts with Customers¹</i>
<i>Amendments to IFRS 2</i>	<i>Share-based Payment¹</i>
<i>Amendments to IAS 7</i>	<i>Disclosure Initiative²</i>
<i>Amendments to IAS 12</i>	<i>Recognition of Deferred Tax Assets for Unrealised Loss²</i>
<i>Amendments to IFRS 16</i>	<i>Leases³</i>

¹ Effective for annual periods beginning on or after 1 January 2018

² Effective for annual periods beginning on or after 1 January 2017

³ Effective for annual periods beginning on or after 1 January 2019

The Group has not early adopted any standard interpretation or amendment that was issued but not yet effective and is still evaluating the impact on adopting these new and revised IFRSs.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

3. 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:

	Note	Six months ended 30 June	
		2016 RMB' 000 (Unaudited)	2015 RMB' 000 (Audited)
Revenue			
Tuition fees		416,656	344,487
Boarding fees		21,886	20,335
		<u>438,542</u>	<u>364,822</u>
Other income and gains			
Interest income	5	2,073	164
Fee sharing income (Note (i))		617	710
Donation income		—	16
Government grants			
– related to assets		—	79
– related to income		5	19
Net foreign exchange gains		17,107	—
Others		497	—
		<u>20,299</u>	<u>988</u>

Note (i): The amount represents the service fee sharing arrangements with China Telecom Corporation Limited (“China Telecom”) under which the Group constructed certain campus network infrastructure and therefore was entitled to receive a certain percentage of telecommunication service fee earned from its students by China Telecom.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

4. FINANCE COSTS

	Six months ended 30 June	
	2016 RMB' 000 (Unaudited)	2015 RMB' 000 (Audited)
Interest on bank loans and other borrowings	48,145	52,755

5. PROFIT BEFORE TAX

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

	Note	Six months ended 30 June	
		2016 RMB' 000 (Unaudited)	2015 RMB' 000 (Audited)
Employee benefit expense (excluding directors' and chief executive's remuneration):			
Wages, salaries and other allowances		133,694	124,580
Pension scheme contributions (defined contribution scheme)		14,490	14,181
Depreciation of property, plant and equipment		33,594	21,049
Amortisation of land lease payments		3,580	2,521
Minimum lease payments under operating leases		7,239	943
Listing expenses		—	2,134
Bank interest income	3	(2,073)	(164)
Loss on disposal of items of property, plant and equipment		37	3

6. INCOME TAX

	Six months ended 30 June	
	2016 RMB' 000 (Unaudited)	2015 RMB' 000 (Audited)
Current-PRC corporate income tax	7,427	—

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.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

6. INCOME TAX – *continued*

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

The corporate income tax rate for Tibet Huatai is 15% based on the relevant tax regulations of Tibet Autonomous Region. The Tibet local government has exempted 40% corporate income tax payable by enterprises in Tibet Autonomous Region for a period of three years commencing from 1 January 2015 to 31 December 2017. Therefore the effective corporate income tax rate initially applicable for Tibet Huatai is 9%, which will be increased to 15% beginning in 2018 when the three-year preferential tax exemption expires.

7. 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 3,004,513,714 (six months ended 30 June 2015: 2,250,000,000) in issue during the period.

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

	Six months ended 30 June	
	2016 (Unaudited)	2015 (Audited)
Earnings		
Profit attributable to ordinary equity holders of the parent (RMB' 000)	<u>162,973</u>	<u>75,443</u>
Shares		
Weighted average number of ordinary shares in issue	<u>3,004,513,714</u>	<u>2,250,000,000</u>
Basic and diluted earnings per share (expressed in RMB per share)	<u>0.0542</u>	<u>0.0335</u>

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

8. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2016, the Group acquired assets with a cost of RMB356,947,000 (six months ended 30 June 2015: RMB1,278,064,000) on additions to property, plant and equipment, including construction in progress of RMB348,983,000.

Assets with a net book value of RMB73,000 were disposed of by the group during the six months ended 30 June 2016 (six months ended 30 June 2015: RMB9,000), resulting in a net loss on disposal of RMB37,000 (six months ended 30 June 2015: loss of RMB3,000).

9. DEFERRED REVENUE

	30 June 2016 RMB' 000 (Unaudited)	31 December 2015 RMB' 000 (Audited)
Tuition fees	417,862	411,815
Boarding fees	19,117	23,928
	<u>436,979</u>	<u>435,743</u>

The customers are entitled to refund of the payment in relation to the proportionate service not yet provided.

10. SHARE CAPITAL

	30 June 2016 RMB' 000 (Unaudited)	31 December 2015 RMB' 000 (Audited)
Issued and fully paid: 3,088,761,000 (2015: 2,250,000,000) ordinary shares of HK\$0.01 each	<u>26,051</u>	<u>310</u>

A summary of movements in the Company's share capital is as follows:

	Number of shares in issue	Issued capital RMB' 000	Share premium account RMB' 000	Total RMB' 000
At 1 January 2016	2,250,000,000	18,980	(18,670)	310
Issue of shares on initial public offering and over-allotment option	<u>838,761,000</u>	<u>7,071</u>	<u>18,670</u>	<u>25,741</u>
At 30 June 2016	<u>3,088,761,000</u>	<u>26,051</u>	<u>—</u>	<u>26,051</u>

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

11. COMMITMENTS

Capital commitments

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

	30 June 2016 RMB' 000 (Unaudited)	31 December 2015 RMB' 000 (Audited)
Contracted, but not provided for:		
Property, plant and equipment	167,292	—
	<u>167,292</u>	<u>—</u>

As at 30 June 2016 and 31 December 2015, the Group did not have any significant authorized, but not contracted capital commitment.

Operating lease commitments

As lessee

The Group leases certain of its buildings under operating lease arrangements. Leases for buildings were negotiated for terms of 3 to 20 years. As at the end of the period/year, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2016 RMB' 000 (Unaudited)	31 December 2015 RMB' 000 (Audited)
Within one year	16,025	13,550
In the second to fifth years, inclusive	26,795	33,952
Beyond five years	19,523	20,755
	<u>62,343</u>	<u>68,257</u>

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

12. RELATED PARTY TRANSACTIONS

(a) Outstanding balances with related parties

Amounts due to related parties

	30 June 2016 RMB' 000 (Unaudited)	31 December 2015 RMB' 000 (Audited)
Derui Education Management	—	201
Chengdu Tianren Property Development Co., Ltd	—	1
Sichuan Derui	—	14,367
USA Tianren Hotel Management Inc.	239	84
	<u>239</u>	<u>14,653</u>

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

(b) Other related party transactions

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

	Note	Nature of transaction	Six months ended 30 June 2016 RMB' 000 (Unaudited)	2015 RMB' 000 (Audited)
Sichuan Derui	(i)	Procurement of property, plant and equipment and leasehold lands	—	1,390,401
Sichuan Derui		Property Lease	6,529	—
Derui Education Management		Property Lease	272	—
USA Tianren Hotel Management Inc.		Property Lease	239	—

- (i) The purchase of property, plant and equipment and leasehold lands from Sichuan Derui were made at the prices mutually agreed between the Group and Sichuan Derui.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

13. FAIR VALUE 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 2016 Carrying amounts RMB' 000 (Unaudited)	30 June 2016 Fair values RMB' 000 (Unaudited)
Interest-bearing bank and other borrowings - non-current	649,701	649,701
	<u>649,701</u>	<u>649,701</u>
	31 December 2015 Carrying amounts RMB' 000 (Audited)	31 December 2015 Fair values RMB' 000 (Audited)
Financial assets included in other non-current assets	375	290
Interest-bearing bank and other borrowings - non-current	746,021	746,021
	<u>746,396</u>	<u>746,311</u>

Management has assessed that the fair values of cash and cash equivalents, pledged deposits, financial assets included in prepayments, deposits and other receivables, amounts due to related parties and short-term interest-bearing bank and other borrowings 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 fair values of the long-term interest-bearing bank and other 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 and other borrowings as at 31 December 2015 and 30 June 2016 was assessed to be insignificant.

The fair values of the financial assets included in non-current assets have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

14. EVENTS AFTER THE REPORTING PERIOD

On 25 July 2016, Tibet Huatai, a subsidiary of the Company, has entered into the school establishment agreement with independent third parties, which include a subsidiary of Fantasia Holdings Group Co., Limited, a real estate company listed on the Stock Exchange, pursuant to which the parties agreed to establish the Meinian Campus. Upon its establishment, Meinian Campus shall be owned as to 40.0% and 60.0% by Primary School Attached to Chengdu Foreign Languages School and the independent third parties respectively. The Meinian Campus will offer 6-year full-time primary education. The Meinian Campus will be located in Fantasia MIC Plaza, Chengdu Hi-tech Industrial Development Zone, Sichuan, PRC. The school is expected to commence its first school year on 1 September 2017. The expected student capacity of the school is approximately 2,200 to 2,400 students.

15. INTERIM DIVIDEND

The Board does not declare any interim dividend for the Reporting Period (for the six months ended 30 June 2015: RMB220,000,000).

16. 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 19 August 2016.

“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 school sponsor’s interest is wholly-owned by Sichuan Derui, and a consolidated affiliated entity of the Company
“Chengdu Foreign Languages Kindergarten” or “Kindergarten”	Kindergarten of the Primary School attached to Chengdu Jinniu District Foreign Languages School* (成都市金牛區成外附小幼稚園), a private kindergarten school established under the laws of the PRC, where the school sponsor’s interest is wholly-owned by the Primary School, and a consolidated affiliated entity of the Company
“Chengdu Foreign Languages School”	Chengdu Foreign Languages School* (成都外國語學校), a private school established under the laws of the PRC, where the school sponsor’s interest is wholly-owned by Sichuan Derui, and a consolidated affiliated entity of the Company
“Chengdu Institute Sichuan International Studies University” or “University”	Chengdu Institute Sichuan International Studies University* (四川外國語大學成都學院), a private university established under the laws of the PRC and a consolidated affiliated entity of the Company, where the school sponsor’s interest is owned as to 51.87% by Sichuan Derui, 24.3% by Xinhua Winshare Publishing and Media Co., Ltd.*(新華文軒出版傳媒股份有限公司) and 23.83% by Sichuan Hongming Property Co., Ltd.*(四川弘明置業有限公司), 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

“Company”	Virscend Education Company Limited, a company incorporated in the Cayman Islands whose shares are listed on the Stock Exchange
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented, or otherwise modified from time to time
“connected person(s)”	has the meaning ascribed thereto in the Listing Rules
“Controlling Shareholder(s)”	has the meaning ascribed to it in the Listing Rules and unless the context requires otherwise, refers to the controlling shareholders of the Company, namely Mr. Yan 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 established under the laws of the PRC and held as to 92.9% by Mr. He Qikang (何其康), the husband of Ms. Yan Bihui and brother-in-law of Mr. Yan and Ms. Wang Xiaoying, and 7.1% by Mr. Li Changjiu (李長久), husband of Ms. Yan Bixian and brother-in-law of Mr. Yan and Ms. Wang Xiaoying
“Directors(s)”	the director(s) of the Company
“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
“Listing”	the listing of Shares on the Main Board of the Stock Exchange
“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

DEFINITION

“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules
“PRC” or “China”	The People’s Republic of China
“Primary School Attached to Chengdu Foreign Languages School” or “Primary School”	Primary School attached to Chengdu Foreign Languages School* (成都外國語學校附屬小學), a private primary school established under the laws of the PRC, where the school sponsor’s interest is wholly-owned by Sichuan Derui, and a consolidated affiliated entity of the Company
“Prospectus”	the prospectus of the Company dated 31 December 2015
“Reporting Period”	the six months ended 30 June 2016
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	Securities Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	means share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	shareholder(s) of the Company
“Share Option Scheme”	the share option scheme adopted by the Company on 28 December 2015
“Sichuan Derui”	Sichuan Derui Enterprise Development Co., Ltd.* (四川德瑞企業發展有限公司) (previously known as Sichuan Province Derui Enterprise Development Company* (四川省德瑞企業發展總公司)), a company established under the laws of the PRC, which is owned as to 69.44% by Mr. Yan, 18.55% by Ms. Yan Hongjia, 3.00% by Ms. Wang Xiaoying, 2.65% by Ms. Ye Jiaqi, 1.59% Mr. Ye Jiayu, 1.59% by Ms. Yan Bixian, 1.59% by Ms. Yan Birong and 1.59% by Ms. Yan Bihui
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Substantial Shareholder”	has the meaning ascribed thereto in the Listing Rules

DEFINITION

“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
%	per cent