



立學中華 語通世界



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

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 1565

INTERIM REPORT 2017

The background features a stylized, light blue tree on the left side, with its trunk and branches extending upwards. The right side of the page is dominated by a large, light blue, wavy shape that resembles a landscape or a stylized cloud, creating a sense of depth and movement. The overall color palette is a range of light blues and greys, giving it a clean, modern, and natural feel.

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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 2017, we had enrollment of an aggregate number of approximately 34,458 students, including approximately 19,791 students at our K-12 schools and 14,667 students at the university, and we employed an aggregate of approximately 2,194 teachers.

As at the end of the 2016/2017 school year, we 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 the National Higher Education Entrance Examinations (“GaoKao”) administered in 2015, 2016 and 2017, approximately 77.4%, 87.0% and 94.6% 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 17 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:

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As to Cayman Islands law:

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AUDITOR

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COMPLIANCE ADVISOR

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REGISTERED OFFICE

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**HEADQUARTERS AND PRINCIPAL PLACE
OF BUSINESS IN THE PRC**

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Pi County
Chengdu
The PRC

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HONG KONG SHARE REGISTRAR

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PRINCIPAL BANK

Industrial and Commercial Bank of China

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			
	2017 RMB'000	2016 RMB'000	Change RMB'000	Percentage Change (%)
Revenue	479,590	438,542	41,048	9.4
Gross profit	252,095	227,837	24,258	10.6
Profit for the period	176,249	162,902	13,347	8.2
Attributable to equity holders of the parent	176,467	162,973	13,494	8.3
Earnings per share Basic and diluted (RMB)	0.06	0.05	0.01	20.0

Financial ratio	For six months ended 30 June	
	2017	2016
Gross profit margin (%)	52.6	52.0
Net profit margin (%)	36.7	37.1

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Revenue

During the Reporting Period, the Group has witnessed growth of the schools operated by the Group in terms of revenue. Revenue increased from approximately RMB438.5 million for the six months ended 30 June 2016 to approximately RMB479.6 million for the Reporting Period. The Group typically charges students fees comprising tuition fees and boarding fees and tuition fees remained the major revenue, accounted for approximately 95.6% of the total revenue of the Company for the Reporting Period.

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

Category of schools	For six months ended 30 June			
	2017 RMB'000	2016 RMB'000	Change RMB'000	Percentage Change (%)
High school - international program	21,559	18,789	2,770	14.7
High school - domestic program	101,308	86,576	14,732	17.0
Middle school	181,692	167,440	14,252	8.5
Primary school	45,227	45,103	124	0.3
Kindergarten	4,106	3,467	639	18.4
University	104,463	95,281	9,182	9.6
Total tuition fees	458,355	416,656	41,699	10.0
Boarding fees	21,235	21,886	(651)	(3.0)
Total	479,590	438,542	41,048	9.4

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:

Category of schools	School Year			
	2016/2017 Gross Tuition Fees RMB'000	2016/2017 Average Tuition Fees RMB	2015/2016 Gross Tuition Fees RMB'000	2015/2016 Average Tuition Fees RMB
High school - international program	38,899	91,960	34,064	91,815
High school - domestic program	194,011	33,871	168,358	33,226
Middle school	347,651	33,135	309,693	31,276
Primary school	81,296	29,107	73,087	27,220
Kindergarten	8,184	23,054	7,367	22,123
University	187,993	12,817	176,262	12,458

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 for each of the categories:

	As at 30 June 2017	As at 30 June 2016	Change	Percentage Change (%)
High school students - international program	423	371	52	14.0
High school students - domestic program	5,728	5,067	661	13.0
Middle school students	10,492	9,902	590	6.0
Primary school students	2,793	2,685	108	4.0
Kindergarten students	355	333	22	6.6
K-12 students	19,791	18,358	1,433	7.8
University students	14,667	14,149	518	3.7
Total number of students	34,458	32,507	1,951	6.0

As at 30 June 2017, the aggregate number of students enrolled at the schools of the Group increased to 34,458 from 32,507 as at 30 June 2016. The increase in the aggregate number of students enrolled was attributable to the increases in the capacity of certain existing schools.

School Utilization

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

	As at 30 June 2017	As at 30 June 2016
Total number of students enrolled	34,458	32,507
Total student capacity	34,701	32,669
Overall utilization	99.3%	99.5%

Student Placement

For Gaokao administered in 2017 (the “2017 Gaokao”), approximately 94.6% of the Group’s graduating high school students who participated in achieved scores that allowed them to apply for and be accepted by first-tier universities in China, and over 60% of our graduating high school students can be accepted by key universities in China, which refer to universities that were listed as participating universities in Project 211 (211工程) and Project 985 (985工程) initiated by the Ministry of Education of the PRC and the PRC government. In addition, in the 2017 Gaokao, one of our students received top score in Sichuan Province, while 23 and 13 of our graduating high school students were ranked among the top 100th in liberal arts and science subjects in Sichuan Province, respectively. 49 of our graduating high school students were admitted into Peking University and Tsinghua University and 97 of our graduating high school students were recommended for admission into first-tier universities without taking the Gaokao.

Future Development

The high school market has relatively high entry barriers because the students and parents place more emphasis on the reputation and education quality of high school due to the strong needs of applying for better universities. Therefore, the K-12 private education providers with reputable high schools will have more competitive advantages in the K-12 private education market because students and parents tend to enroll in the primary schools operated by such providers at an early age in order to secure the high schools within the same school system in the future. The Group intends to leverage its reputation to expand its school network in Chengdu, other areas in Sichuan Province and elsewhere in Southwest China. In addition, the Group is discussing with prestigious overseas schools to explore the possibility of operating new international schools. As at the date of this report, no definitive agreements have been entered into. 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 capacity expansion 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; and
- 2) Establish new schools directly or acquire schools.

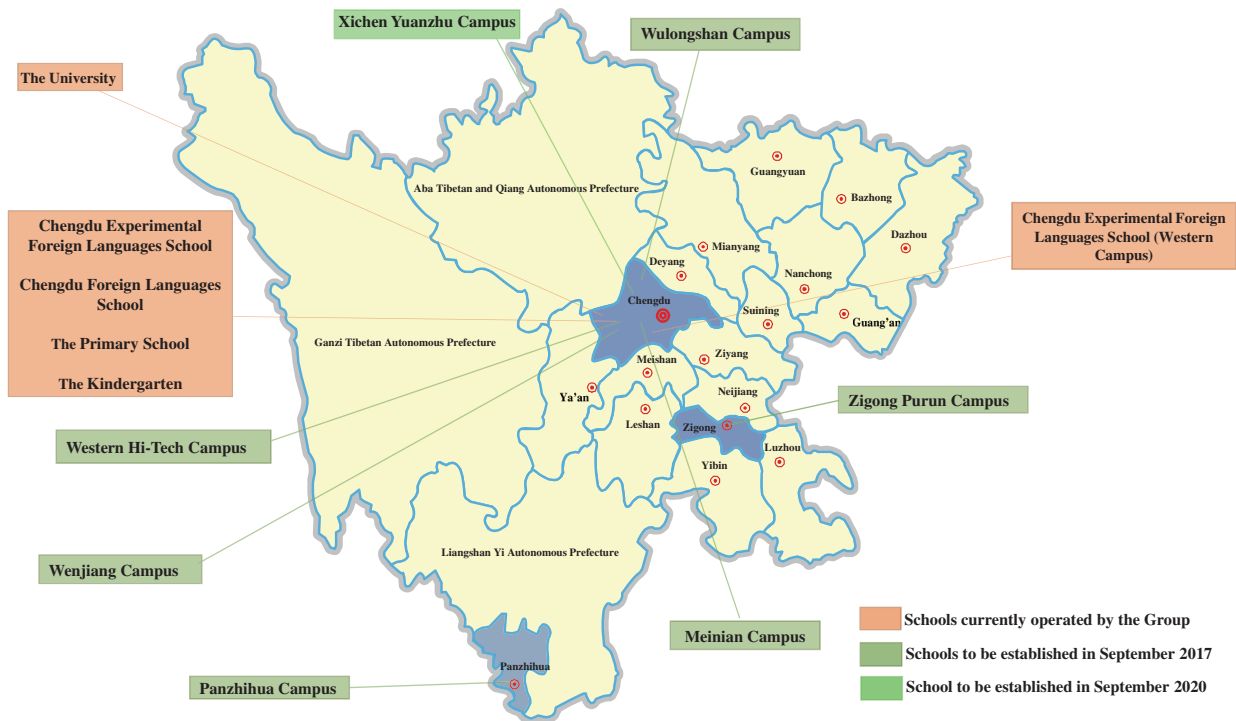
In particular, the Group will open six new school campuses, namely Wulongshan Campus, Meinian Campus, Wenjiang Campus, Western Hi-Tech Campus, Panzhihua Campus and Zigong Purun Campus, with a total of nine new schools in three cities in China, namely Chengdu, Panzhihua and Zigong in Sichuan Province, and these schools are expected to commence their first school year on 1 September 2017 and will provide more than 24,000 new school spaces to our total capacity.

The Group had six schools as at the end of the 2016/2017 school year, and will add nine new schools in our school network upon commencement of 2017/2018 school year. 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	Schools
	established as at 30 June 2017	expected to be in operation as at 1 September 2017
High school	3	7*
Middle school	3	6
Primary school	1	5
Kindergarten	1	2
University	1	1
Total	9	21

* Western Hi-Tech Campus, the school sponsor of which is owned as to 20% by the Group, is categorized as high school.

OUR SCHOOL NETWORK IN SICHUAN PROVINCE, CHINA



FINANCIAL REVIEW

Revenue

Revenue, which is also the Group's turnover, represents the value of services rendered, after deducting scholarships and refunds during the Reporting Period. The Group derives revenue from tuition fees and boarding fees the Group's schools collect from students.

Revenue increased by RMB41.1 million, or 9.4%, from RMB438.5 million for the six months ended 30 June 2016 to RMB479.6 million for the Reporting Period. This increase was primarily the result of revenue from tuition fees increasing by RMB41.7 million, or 10.0%, from RMB416.7 million for the six months ended 30 June 2016 to RMB458.4 million for the Reporting Period. The tuition fees received increased because (i) the Group raised tuition fees for newly admitted students for the middle schools, the high schools and the primary school in 2015 and the university in 2014, which initially applied to newly admitted students (i.e., students in the first, seventh and tenth grades and freshmen students at the University) only, while other students were not affected by the fee change and would continue to pay the tuition fee at pre-existing levels. As students advance each year, the aggregate number of students paying higher tuition fees would increase, such that the tuition fee income from the Group's schools would increase correspondingly; and (ii) the Group's student enrollment increased.

Cost of Sales

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

Cost of sales increased by RMB16.8 million, or 8.0%, from RMB210.7 million for the six months ended 30 June 2016 to RMB227.5 million for the Reporting Period. This increase was primarily the result of an increase in staff costs. Staff costs increased by RMB17.2 million, or 13.7%, from RMB126.0 million for the six months ended 30 June 2016 to RMB143.2 million for the Reporting Period, primarily as a result of increased salaries and benefits payable to the Group's teachers.

Gross Profit and Gross Profit Margin

Gross profit increased by RMB24.3 million, or 10.7%, from RMB227.8 million for the six months ended 30 June 2016 to RMB252.1 million for the Reporting Period, which was in line with the growth of the Group's business. Gross profit margin increased to 52.6% for the Reporting Period from 52.0% for the six months ended 30 June 2016 mainly due to the increase of the Group's student enrollments and average tuition fee.

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 RMB0.1 million, or 14.3%, from RMB0.7 million for the six months ended 30 June 2016 to RMB0.8 million for the Reporting Period. The increase of selling and distribution expenses was mainly due to more student admission expenses incurred for the new schools to be commenced in September 2017.

Administrative Expenses

Administrative expenses primarily consist of the salaries and other benefits for general and administrative staff, office-related expenses, depreciation of office buildings and equipment, travel expenses and other expenses. Administrative expenses increased by RMB12.9 million, or 46.2%, from RMB27.9 million for the six months ended 30 June 2016 to RMB40.8 million for the Reporting Period, primarily due to the increase in staff cost and the increase in consulting expenses.

Other Income and Gains

Other income and gains primarily consist of foreign exchange gain, interest income from bank deposits, and rental income from leasing certain of the properties to independent third parties. Other income and gains decreased from RMB20.3 million for the six months ended 30 June 2016 to RMB3.6 million for the Reporting Period. The decrease was primarily attributable to a net foreign exchange gain of RMB17.1 million recognized for the six months ended 30 June 2016, while no foreign exchange gain was recognized for the Reporting Period.

Other Expenses

Other expenses consist primarily of foreign exchange loss, expenses relating to the leasing of certain properties to independent third parties and disposal of various fixed assets. Other expenses increased from RMB1.1 million for the six months ended 30 June 2016 to RMB15.3 million for the Reporting Period primarily due to the net foreign exchange loss of RMB15.1 million arising mainly from the translation of the Hong Kong dollars bank deposits in light of the depreciation of RMB against HKD for the Reporting Period.

Finance Costs

Finance costs consist primarily of the interest expenses for bank borrowings. Finance costs decreased by RMB30.0 million, or 62.4%, from RMB48.1 million for the six months ended 30 June 2016 to RMB18.1 million for the Reporting Period, mainly attributable to (i) the lower interest rate for the bank loans for the Reporting Period compared to that for the six months ended 30 June 2016, and (ii) the capitalised interest of RMB6.0 million was recognized for the construction of Wenjiang Campus for the Reporting Period.

Liquidity and Financial Resources

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Net cash flows from operating activities	208,415	162,026
Net cash flows used in investing activities	(246,795)	(1,202,351)
Net cash flows generated from financing activities	162,370	1,687,707
Net increase in cash and cash equivalents	123,990	647,382
Cash and cash equivalents at beginning of period	564,196	248,600
Effect of foreign exchange rate changes, net	(1,048)	17,183
Cash and cash equivalents at end of period	687,138	913,165
	As at	As at
	30 June	31 December
	2017	2016
	RMB'000	RMB'000
Interest-bearing bank borrowings	1,187,628	994,284

The balance of interest-bearing bank borrowings as at 30 June 2017 was approximately RMB1,187.6 million. The details of maturity profile of interest-bearing bank borrowings were: 1) approximately RMB810.6 million repayable within one year; 2) approximately RMB19.0 million repayable in the second year; and 3) approximately RMB358.0 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 2017, all the interest-bearing bank borrowings were settled in RMB, while cash and cash equivalents were primarily held in RMB and HKD. The Group plans to maintain an appropriate mix of financial equity and debt to ensure an efficient capital structure. The outstanding balances of interest-bearing bank borrowings as at 30 June 2017 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 2017, 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.

Operating Lease Commitments

As lessee

The Group leases certain of its buildings under operating lease arrangements. Leases for buildings were negotiated for terms of three to twenty 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:

	As at 30 June 2017 RMB' 000	As at 31 December 2016 RMB' 000
Within one year	19,136	18,136
In the second to fifth years, inclusive	13,477	19,992
Beyond five years	17,059	18,291
	<u>49,672</u>	<u>56,419</u>

As at 30 June 2017, the Group had total future minimum lease payments under non-cancellable operating leases amounting to RMB49.7 million. Certain of our schools have entered into a number of continuing lease agreements and arrangements with our connected persons in September 2015 to lease certain buildings for use in the operation of the respective schools for a period of three years. The decrease of total future minimum lease payments under non-cancellable operating leases was mainly because the remaining lease period as at 30 June 2017 was less than that of the year of 2016.

Future Plan for Material Investments and Capital Assets

Save as disclosed in the Prospectus, the annual report for the year ended 31 December 2016 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 divided by total equity as at the end of the relevant financial year/period, increased from approximately 39.0% as at 31 December 2016 to approximately 46.8% as at 30 June 2017, primarily due to the increase in the Group's total interest-bearing bank loans.

Significant Investments, Acquisitions and Disposals

There were no significant investments held as at 30 June 2017, nor other material acquisitions and disposals of subsidiaries and associated companies during the Reporting Period.

Contingent Liabilities

As at 30 June 2017, the Group had no material contingent liabilities.

Pledge of Assets

As at 30 June 2017, the bank deposits of approximately RMB373.2 million (as at 31 December 2016: RMB474.1 million) were pledged to secure general banking facilities granted to the Group.

Capital Commitment

Please refer to note 12 to the interim condensed consolidated financial statements for details of capital commitments for business.

Human Resources

As at 30 June 2017, the Group had 3,001 employees (31 December 2016: 3,054). The decrease of the number of employees was mainly because the Group outsourced some of the logistics personnel during the Reporting Period.

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 Reporting Period was approximately RMB169.4 million (for the six months ended 30 June 2016: RMB148.9 million).

CORPORATE GOVERNANCE/OTHER INFORMATION

CORPORATE GOVERNANCE PRACTICES

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

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as its own code of conduct regarding Directors' securities transactions 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 Reporting Period.

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 Reporting Period.

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, internal control and risk management systems.

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 Reporting Period.

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 2016 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.

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 2017, a total amount of HK\$1,577.3 million (RMB1,368.9 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 2017) RMB (million)	Unutilised amount (at 30 June 2017) 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	549.2	251.2
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	328.0	3.6
Fund the working capital and general corporate purposes	9.2%	149.2	143.7	5.5
Total	100.0%	1,629.2	1,368.9	260.3

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

As at 30 June 2017, 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	1,359,956,045	Long Position	44.03
Ms. Wang Xiaoying ⁽²⁾	Interest of spouse and, interest in a controlled corporation	1,359,956,045	Long Position	44.03
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 1,292,456,045 Shares held by Virscend Holdings. Mr. Yan Yude is also the husband of Ms. Wang Xiaoying and is therefore deemed to be interested in 67,500,000 Shares held by Ms. Wang Xiaoying through Smart Ally.
- (2) Ms. Wang Xiaoying is the sole shareholder and director of Smart Ally and she is therefore deemed to be interested in 67,500,000 Shares held by Smart Ally. Ms. Wang Xiaoying is also the wife of Mr. Yan Yude and is therefore deemed to be interested in 1,292,456,045 Shares indirectly held by Mr. Yan Yude through Virscend Holdings.
- (3) Mr. Ye Jiayu is interested in 37.5% equity interest of Lucky Sign Global Limited and is therefore deemed to be interested in 95,400,000 Shares held by Lucky Sign Global Limited.

Save as disclosed above, as at 30 June 2017, 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.

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 2017, to the best knowledge of the Directors, the following persons (other than being a Director or chief executive of the Company) had interests or short positions in the Shares or underlying Shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Name	Capacity/ Nature of Interest	Number of Shares	Long/short position	Approximate Percentage of Shareholding in the Company (%)
Virscend Holdings ⁽¹⁾	Beneficial owner	1,292,456,045	Long Position	41.84
China First Capital Group Limited	Beneficial owner	308,946,000	Long Position	10.00
Happy Venus Limited ⁽²⁾	Beneficial owner	178,572,129	Long Position	5.78
Ms. Yan Hongjia ⁽²⁾	Interest in a controlled corporation	178,572,129	Long Position	5.78

Notes:

- (1) Mr. Yan Yude is the sole shareholder and sole director of Virscend Holdings and he is therefore deemed to be interested in the Shares held by Virscend Holdings.
- (2) 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 2017, 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 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.

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 8 years and 4 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 2017

	Notes	Six months ended 30 June	
		2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
REVENUE	4	479,590	438,542
Cost of sales		<u>(227,495)</u>	<u>(210,705)</u>
Gross profit		252,095	227,837
Other income and gains	4	3,616	20,299
Selling and distribution expenses		(824)	(694)
Administrative expenses		(40,837)	(27,887)
Other expenses		(15,324)	(1,081)
Finance costs	5	(18,074)	(48,145)
Share of profit of associates		<u>1,978</u>	<u>—</u>
PROFIT BEFORE TAX	6	182,630	170,329
Income tax expense	7	<u>(6,381)</u>	<u>(7,427)</u>
PROFIT FOR THE PERIOD		<u>176,249</u>	<u>162,902</u>
Attributable to:			
Owners of the parent	8	176,467	162,973
Non-controlling interests		<u>(218)</u>	<u>(71)</u>
		<u>176,249</u>	<u>162,902</u>
Earnings per share attributable to ordinary equity holders of the parent			
– basic and diluted for the period	8	RMB0.06	RMB0.05

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2017

	Six months ended 30 June	
	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
PROFIT FOR THE PERIOD	176,249	162,902
OTHER COMPREHENSIVE INCOME		
Other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	(4)	76
Net other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods	(4)	76
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD, NET OF TAX	(4)	76
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<u>176,245</u>	<u>162,978</u>
Attributable to:		
Owners of the parent	176,461	163,046
Non-controlling interests	(216)	(68)
	<u>176,245</u>	<u>162,978</u>

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2017

	Notes	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	9	2,545,105	2,518,179
Intangible assets		319	215
Prepaid land lease payments		387,024	392,436
Investment in associates		39,790	—
Other non-current assets		334,715	196,800
Total non-current assets		3,306,953	3,107,630
CURRENT ASSETS			
Prepayments, deposits and other receivables		84,435	55,330
Pledged deposits		373,197	474,090
Term deposits		95,469	—
Cash and cash equivalents		687,138	564,196
Total current assets		1,240,239	1,093,616
CURRENT LIABILITIES			
Other payables and accruals		111,793	153,272
Dividend payable		189,187	—
Tax payable		24,267	19,361
Interest-bearing bank borrowings		810,628	899,284
Deferred revenue	10	470,282	480,200
Deferred income – current		263	263
Amounts due to related parties	13(a)	15,340	669
Total current liabilities		1,621,760	1,553,049
NET CURRENT LIABILITIES		(381,521)	(459,433)
TOTAL ASSETS LESS CURRENT LIABILITIES		2,925,432	2,648,197

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2017

	Note	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
TOTAL ASSETS LESS CURRENT LIABILITIES		2,925,432	2,648,197
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings		377,000	95,000
Deferred income – non-current		8,808	6,626
Total non-current liabilities		385,808	101,626
Net assets		2,539,624	2,546,571
EQUITY			
Equity attributable to owners of the parent			
Share capital	11	26,051	26,051
Reserves		2,507,762	2,520,488
		2,533,813	2,546,539
Non-controlling interests		5,811	32
Total equity		2,539,624	2,546,571

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2017

	Attributable to owners of the parent						Non-controlling interests	Total
	Share capital	Capital reserve	Statutory surplus reserve	Exchange fluctuation reserve	Retained profits	Total		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	Note 11							
At 1 January 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)	<u>26,051</u>	<u>2,046,416*</u>	<u>182,745*</u>	<u>56*</u>	<u>151,974*</u>	<u>2,407,242</u>	<u>102</u>	<u>2,407,344</u>

	Attributable to owners of the parent						Non-controlling interests	Total
	Share capital	Capital reserve	Statutory surplus reserve	Exchange fluctuation reserve	Retained profits	Total		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	Note 11							
At 1 January 2017	26,051	2,046,416	187,318	20	286,734	2,546,539	32	2,546,571
Profit for the period	—	—	—	—	176,467	176,467	(218)	176,249
Other comprehensive income for the period:								
Exchange differences on translation of foreign operations	—	—	—	(6)	—	(6)	2	(4)
Total comprehensive income for the period	—	—	—	(6)	176,467	176,461	(216)	176,245
Transfer from retained profits	—	—	39,154	—	(39,154)	—	—	—
Capital contribution from the non-controlling shareholders	—	—	—	—	—	—	5,995	5,995
Dividend declared	—	—	—	—	(189,187)	(189,187)	—	(189,187)
At 30 June 2017 (unaudited)	<u>26,051</u>	<u>2,046,416*</u>	<u>226,472*</u>	<u>14*</u>	<u>234,860*</u>	<u>2,533,813</u>	<u>5,811</u>	<u>2,539,624</u>

* These reserve accounts comprise the consolidated reserves of RMB2,507,762,000 (as at 30 June 2016: RMB2,381,191,000) in the interim condensed consolidated statement of financial position.

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2017

	Notes	Six months ended 30 June	
		2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax	6	182,630	170,329
Adjustments for:			
Finance costs	5	18,074	48,145
Net foreign exchange losses/(gains)	4	15,147	(17,107)
Interest income	4	(2,487)	(2,073)
Share of gains of associates		(1,978)	—
Loss on disposal of items of property, plant and equipment	6	—	37
Government grants released	4	(317)	(5)
Depreciation of property, plant and equipment	6	35,942	33,594
Amortisation of intangible assets	6	13	—
Recognition of prepaid land lease payments	6	3,595	3,580
		<u>250,619</u>	<u>236,500</u>
Increase in prepayments, deposits and other receivables		(14,405)	(68,016)
Decrease in other non-current assets		—	375
Decrease in other payables and accruals		(28,559)	(9,288)
Increase in amounts due to related parties		7,166	—
Increase/(decrease) in deferred income		2,500	(854)
(Decrease)/increase in deferred revenue	10	(9,918)	1,236
Cash generated from operations		<u>207,403</u>	<u>159,953</u>
Interest received	4	2,487	2,073
Income tax paid	7	(1,475)	—
Net cash flows from operating activities		<u>208,415</u>	<u>162,026</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of items of property, plant and equipment		(192,995)	(353,369)
Proceeds from disposal of property, plant and equipment		3	—
Purchase of intangible asset		(117)	(20)
Increase in prepaid land lease payments		—	(142,260)
Increase in non-current prepayments		—	(76,505)
Increase in other non-current assets		—	(50,000)
Payment for acquisition of investment in associates		(37,812)	—
Increase/(decrease) in amounts due to related parties	13(a)	7,505	(14,414)
Placement of term deposits		(95,469)	—
Increase in deposits		(14,700)	—
Decrease/(Increase) in pledged deposits		86,790	(565,783)
Net cash flows used in investing activities		<u>(246,795)</u>	<u>(1,202,351)</u>

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2017

	Six months ended 30 June	
	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
CASH FLOWS FROM FINANCING ACTIVITIES		
New bank borrowings	659,000	993,510
Repayments of bank borrowings	(466,190)	(878,500)
Proceeds from issues of shares on initial public offering and over-allotment option	—	1,697,250
Capital contribution from non-controlling shareholders	5,995	—
Dividends paid to sponsors	—	(52,510)
Interest paid	(36,435)	(34,892)
Listing expenses paid	—	(37,151)
Net cash flows generated from financing activities	<u>162,370</u>	<u>1,687,707</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	123,990	647,382
Cash and cash equivalents at beginning of period	564,196	248,600
Effect of foreign exchange rate changes, net	(1,048)	17,183
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>687,138</u>	<u>913,165</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	<u>687,138</u>	<u>913,165</u>

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

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 2017 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 2016.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

3. ACCOUNTING POLICIES

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 2016, except for the adoption of new standards and interpretations effective as of 1 January 2017. The adoption of the new standards and interpretations has had no material effect on these interim condensed consolidated financial statements. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

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:

	Note	Six months ended 30 June	
		2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
<u>Revenue</u>			
Tuition fees		458,355	416,656
Boarding fees		21,235	21,886
		<u>479,590</u>	<u>438,542</u>
<u>Other income and gains</u>			
Interest income	6	2,487	2,073
Fee sharing income (Note (i))		266	617
Government grants			
– related to assets		95	—
– related to income		222	5
Net foreign exchange gains	6	—	17,107
Others		546	497
		<u>3,616</u>	<u>20,299</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 2017

5. FINANCE COSTS

	Six months ended 30 June	
	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
Interest on bank loans and other borrowings	24,050	48,145
Less: interest capitalised	(5,976)	—
	<u>18,074</u>	<u>48,145</u>

6. PROFIT BEFORE TAX

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

	Note	Six months ended 30 June	
		2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
Employee benefit expense (excluding directors' and chief executive's remuneration):			
Wages, salaries and other allowances		149,846	133,694
Pension scheme contributions (defined contribution scheme)		17,465	14,490
Depreciation of property, plant and equipment		35,942	33,594
Amortisation of intangible assets		13	—
Amortisation of prepaid land lease payments		3,595	3,580
Minimum lease payments under operating leases		9,306	7,239
Bank interest income	4	(2,487)	(2,073)
Foreign exchange differences, net	4	15,147	(17,107)
Loss on disposal of items of property, plant and equipment		—	37

7. INCOME TAX

	Six months ended 30 June	
	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
Current-PRC corporate income tax	<u>6,381</u>	<u>7,427</u>

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.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

7. INCOME TAX - continued

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

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

After the corporate reorganization, Tibet Huatai is initially subject to a PRC income tax rate of 9%, which will be increased to 15% beginning in 2018 when the three-year exemption granted by the Tibet local government expires in accordance with the relevant tax regulations.

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 2016: 3,004,513,714) in issue during the period.

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

	Six months ended 30 June	
	2017 (Unaudited)	2016 (Unaudited)
Earnings		
Profit attributable to ordinary equity holders of the parent (RMB'000)	176,467	162,973
Shares		
Weighted average number of ordinary shares in issue	3,088,761,000	3,004,513,714
Basic and diluted earnings per share (expressed in RMB per share)	0.06	0.05

9. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2017, the Group acquired assets with a cost of RMB62,871,000 (six months ended 30 June 2016: RMB356,947,000) on additions to property, plant and equipment, including construction in progress of RMB53,962,000.

Assets with a net book value of RMB3,000 were disposed of by the group during the six months ended 30 June 2017 (six months ended 30 June 2016: RMB73,000), resulting in no net profit or loss on disposal of items of property, plant and equipment (six months ended 30 June 2016: loss of RMB37,000).

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

10. DEFERRED REVENUE

	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
Tuition fees	452,062	455,965
Boarding fees	18,220	24,235
	<u>470,282</u>	<u>480,200</u>

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

11. SHARE CAPITAL

	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
Issued and fully paid: 3,088,761,000 (2016: 3,088,761,000) ordinary shares of HK\$0.01 each	<u>26,051</u>	<u>26,051</u>

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

12. COMMITMENTS

Capital commitments

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

	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
Contracted, but not provided for:		
Property, plant and equipment	310,098	340,112

As at 30 June 2017 and 31 December 2016, 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 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
Within one year	19,136	18,136
In the second to fifth years, inclusive	13,477	19,992
Beyond five years	17,059	18,291
	49,672	56,419

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

13. RELATED PARTY TRANSACTIONS

(a) Outstanding balances with related parties

Amounts due to related parties

	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
Sichuan Derui	14,608	170
USA Tianren Hotel Management Inc.	732	499
	<u>15,340</u>	<u>669</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:

		Six months ended 30 June		
	Note	Nature of transaction	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
Sichuan Derui		Property Lease	6,933	6,529
Sichuan Derui		Capital contribution paid on behalf of the Company	7,505	—
Hongming Property	(i)	Procurement of property, plant and equipment and leasehold lands	131,200	—
Derui Education Management*		Property Lease	—	272
Chengdu Tianren Property Development Co., Ltd		Property Lease	3	—
USA Tianren Hotel Management Inc.		Property Lease	247	239

* Mr. He Qikang disposed the share of Derui Education Management to an independent third party in September 2016, therefore, Derui Education Management was no longer the related party of the Group since then.

(i) The procurement of property, plant and equipment and leasehold lands from Hongming Property were made at the prices mutually agreed between the Group and Hongming Property by reference to the valuation of the properties at RMB328,000,000 as at 30 September 2016, as assessed by DTZ Cushman & Wakefield Limited, a firm of independent professional valuers. RMB196,800,000, approximately of 60% of the total consideration was paid in 2016, and the rest of RMB131,200,000 has been paid by 30 June 2017.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

14. 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 2017 Carrying amounts RMB'000 (Unaudited)	30 June 2017 Fair values RMB'000 (Unaudited)
Interest-bearing bank borrowings	1,187,628	1,187,628
	<u>1,187,628</u>	<u>1,187,628</u>

	31 December 2016 Carrying amounts RMB'000 (Audited)	31 December 2016 Fair values RMB'000 (Audited)
Interest-bearing bank borrowings	994,284	994,284
	<u>994,284</u>	<u>994,284</u>

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

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

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

The fair values of the interest-bearing bank 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 31 December 2016 and 30 June 2017 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 2017

15. DIVIDEND

	For the six months ended 30 June	
	2017 (Unaudited) RMB'000	2016 (Unaudited) RMB'000
2016 final dividend declared	189,187	—
2017 interim dividend declared – Nil (six months ended 30 June 2016: Nil) per ordinary share	—	—

A final dividend of HK\$0.07 per ordinary share was declared in respect of the year ended 31 December 2016 to shareholders during the current period.

The Board does not declare any interim dividend for the six months ended 30 June 2017 (for the six months ended 30 June 2016: Nil).

16. APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

These interim condensed consolidated financial statements were approved and authorised for issue by the Board on 25 August 2017.

“associate(s)”	has the meaning ascribed thereto in the Listing Rules
“Board”	the board of Directors
“Chengdu Experimental Foreign Languages School”	Chengdu Experimental Foreign Languages School* (成都市實驗外國語學校), a private middle and high school established under the laws of the PRC, where the school sponsor’s interest is wholly-owned by Sichuan Derui, and a consolidated affiliated entity of the Company
“Chengdu Experimental Foreign Languages School (Western Campus)”	Chengdu Experimental Foreign Languages School (Western Campus)* (成都市實驗外國語學校 (西區)), a private middle and high school established under the laws of the PRC, where the sponsor’s interest is wholly-owned by Sichuan Derui, and a consolidated affiliated entity of the Company
“Chengdu Foreign Languages Kindergarten” or “Kindergarten”	Kindergarten of the Primary School attached to Chengdu Jinniu District Foreign Languages School* (成都市金牛區成外附小幼稚園), a private kindergarten school established under the laws of the PRC, where the school sponsor’s interest is wholly-owned by the Primary School, and a consolidated affiliated entity of the Company
“Chengdu Foreign Languages School”	Chengdu Foreign Languages School* (成都外國語學校), a private school established under the laws of the PRC, where the school sponsor’s interest is wholly-owned by Sichuan Derui, and a consolidated affiliated entity of the Company
“Chengdu Institute Sichuan International Studies University” or “University”	Chengdu Institute Sichuan International Studies University* (四川外國語大學成都學院), a private university established the laws of the PRC and a consolidated affiliated entity of the Company, where the school sponsor’s interest is owned as to 51.87% by Sichuan Derui, 24.3% by Xinhua Winshare Publishing and Media Co., Ltd.* (新華文軒出版傳媒股份有限公司) and 23.83% by Hongming Property, each a school sponsor. Sichuan International Studies University* (四川外國語大學) is named as a school sponsor entitled to the rights stipulated under the articles of the University and the relevant PRC laws
“Company”	Virscend Education Company Limited, a company incorporated in the Cayman Islands whose shares are listed on the Stock Exchange

DEFINITION

“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 established under the laws of the PRC
“Director(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
“Hongming Property”	Sichuan Hongming Property Co., Ltd.* (四川弘明置業有限公司), a limited liability company established under the laws of the PRC, which holds 23.83% of the school sponsor’s interest in the University
“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
“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 2017
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented, or otherwise modified from time to time
“Share(s)”	share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	shareholder(s) of the Company
“Share Option Scheme”	the share option scheme adopted by the Company on 28 December 2015
“Sichuan Derui”	Sichuan Derui Enterprise Development Co., Ltd.* (四川德瑞企業發展有限公司) (previously known as Sichuan Province Derui Enterprise Development Company* (四川省德瑞企業發展總公司)), a company established under the laws of the PRC, which is owned as to 69.44% by Mr. Yan Yude, 18.55% by Ms. Yan Hongjia, 3.00% by Ms. Wang Xiaoying, 2.65% by Ms. Ye Jiaqi, 1.59% by Mr. Ye Jiayu, 1.59% by Ms. Yan Bixian, 1.59% by Ms. Yan Birong and 1.59% by Ms. Yan Bihui
“Smart Ally”	Smart Ally International Limited, a company incorporated in the British Virgin Islands with limited liability on 12 May 2015 and wholly-owned by Ms. Wang Xiaoying, the spouse of Mr. Yan Yude and the step-mother of Ms. Yan Hongjia
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

DEFINITION

“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
%	per cent

* *for identification purpose only*