

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 2018

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COMPANY PROFILE

The Group is a leading provider of pre-school to grade 12 (“K-12”) and higher education services. Through our schools, we provide education services to students in every age group from kindergarten through university. As at 30 June 2018, we had enrollment of an aggregate number of approximately 38,709 students, including approximately 23,320 students at our K-12 schools and 15,389 students at the university, and we employed an aggregate of approximately 2,608 teachers.

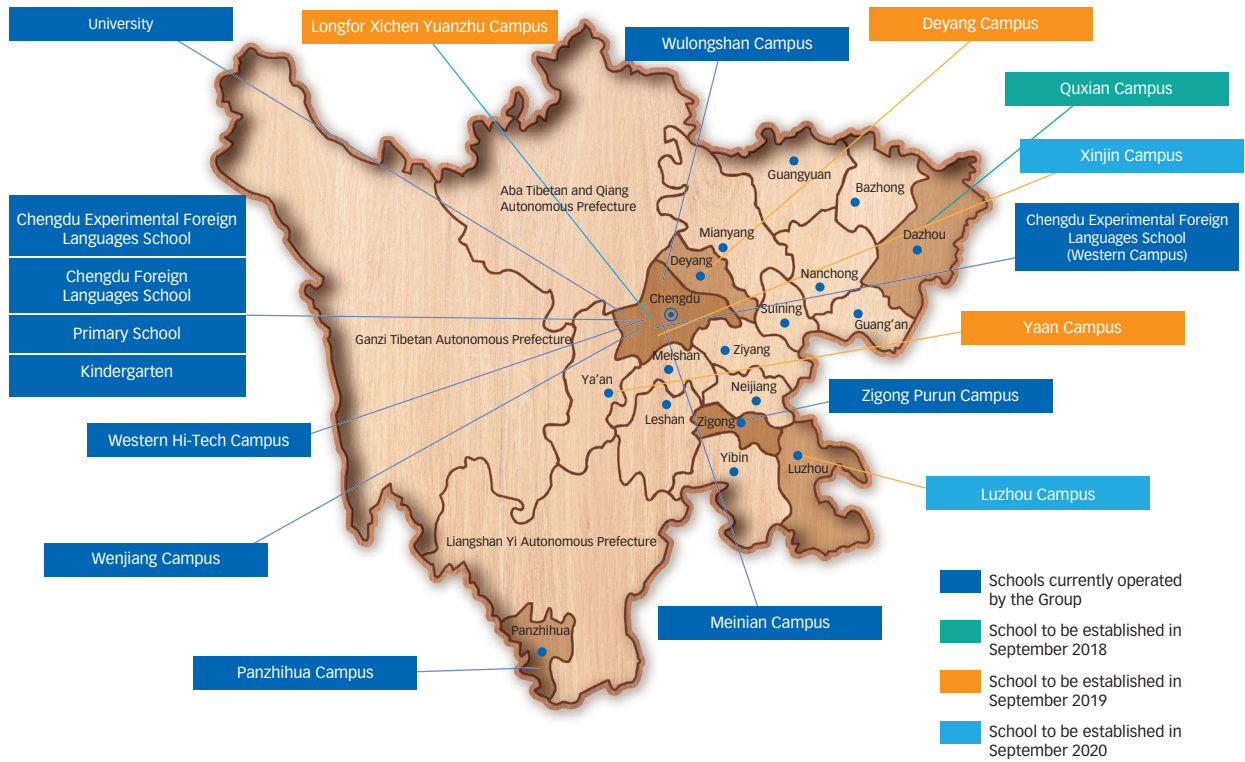
We currently operate fifteen schools in four cities in Sichuan Province, namely Chengdu, Panzhihua, Zigong and Dazhou. We are one of the few private education companies in Sichuan, Guizhou and Yunnan Provinces and Chongqing Municipality (“Southwest China”) that offer complete K-12 and university education. This allows us to attract students at an early age and create a stable student pipeline for our schools at each grade within the K-12 system. The Group aspires to provide a pathway to first-tier universities in China and reputable colleges and universities abroad for interested students. For the National Higher Education Entrance Examinations (“Gaokao”) administered in 2016, 2017 and 2018, approximately 87.0%, 94.6% and 95.3% 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. Moreover, certain of the Group’s high school graduating students were accepted by top tier colleges and universities overseas.

Through over 18 years of operating private schools in Sichuan Province, we believe that we have established a strong reputation, which helps us attract high-quality students and teachers and pave the way for our success. We intend to maintain and strengthen our market position in the private education industry in China.

We continue endeavoring our development focus on high school leveraged on our successful credential of sending high school graduates to first-tier universities in both of China and overseas. High school – domestic program as our fastest growing categories of the schools records a year on year annual growth rate of 35.6% in terms of revenue exceeding any other categories of our schools for the six months ended 30 June 2018. Future revenue generated from our high school students will become our largest revenue once the total students capacity as at 30 June 2018 is reached and level of tuition fee charge remains unchanged.

For the six months ended 30 June 2018, our light-asset schools expansion model demonstrates strong growth momentum by contributing approximately 50% of growth in our revenue for the six months ended 30 June 2018. Normally it takes 9-12 months for us to complete the construction of a new light asset school since the site is determined by the third-party business partners and us. During the past two years, we have established 7 light-asset schools with our business partners and look forward to continuing seeking cooperation opportunities with wider range of business partners in Sichuan Province and countrywide.

OUR SCHOOL NETWORK IN SICHUAN PROVINCE, 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:

Luk & Partners

In Association with Morgan, Lewis & Bockius

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Edinburgh Tower

The Landmark

15 Queen's Road Central

Hong Kong

As to PRC law:

Jingtian & Gongcheng

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Chaoyang District

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The PRC

As to Cayman Islands law:

Conyers Dill & Pearman

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Cayman Islands

AUDITOR

Ernst & Young

Certified Public Accountant

22/F, CITIC Tower

1 Tim Mei Avenue

Central

Hong Kong



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Cayman Islands

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

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Pi County, Chengdu
The PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Cayman Islands

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183 Queen's Road East
Wanchai
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PRINCIPAL BANK

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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 | | | |
|--|------------------------------|-----------------|-------------------|--------------------------|
| | 2018 RMB'000 | 2017 RMB'000 | Change RMB'000 | Percentage Change (%) |
| Revenue | 590,364 | 479,590 | 110,774 | 23.1 |
| Gross profit | 286,476 | 252,095 | 34,381 | 13.6 |
| Profit for the period | 219,431 | 176,249 | 43,182 | 24.5 |
| Attributable to equity holders of the parent | 212,571 | 176,467 | 36,104 | 20.5 |
| Earnings per share | | | | |
| Basic and diluted (RMB) | 0.07 | 0.06 | 0.01 | 16.7 |

| Financial ratio | For six months ended 30 June | |
|-------------------------|------------------------------|------|
| | 2018 | 2017 |
| Gross profit margin (%) | 48.5 | 52.6 |
| Net profit margin (%) | 37.2 | 36.7 |

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 RMB479.6 million for the six months ended 30 June 2017 to approximately RMB590.4 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 96.2% 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 | | | |
|-------------------------------------|------------------------------|-----------------|-------------------|--------------------------|
| | 2018 RMB'000 | 2017 RMB'000 | Change RMB'000 | Percentage Change (%) |
| High school - international program | 21,606 | 21,559 | 47 | 0.2 |
| High school - domestic program | 137,351 | 101,308 | 36,043 | 35.6 |
| Middle and primary school | 291,111 | 226,919 | 64,192 | 28.3 |
| Kindergarten | 5,540 | 4,106 | 1,434 | 34.9 |
| University | 112,184 | 104,463 | 7,721 | 7.4 |
| Total tuition fees | 567,792 | 458,355 | 109,437 | 23.9 |
| Boarding fees | 22,572 | 21,235 | 1,337 | 6.3 |
| Total | 590,364 | 479,590 | 110,774 | 23.1 |

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.

MANAGEMENT DISCUSSION AND ANALYSIS

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 | | | |
|-------------------------------------|---|---|---|---|
| | 2017/2018 Gross Tuition Fees RMB'000 | 2017/2018 Average Tuition Fees RMB | 2016/2017 Gross Tuition Fees RMB'000 | 2016/2017 Average Tuition Fees RMB |
| High school - international program | 36,471 | 92,322 | 38,899 | 91,960 |
| High school - domestic program | 252,696 | 36,192 | 194,011 | 33,871 |
| Middle and primary school | 529,698 | 34,170 | 428,947 | 32,288 |
| Kindergarten | 10,727 | 24,324 | 8,184 | 23,054 |
| University | 202,192 | 13,139 | 187,993 | 12,817 |

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 2018 | As at 30 June 2017 | Change | Percentage Change (%) |
|--|-----------------------|-----------------------|--------|--------------------------|
| High school students - international program | 435 | 423 | 12 | 2.8 |
| High school students - domestic program | 6,942 | 5,728 | 1,214 | 21.2 |
| Middle and primary school students | 15,502 | 13,285 | 2,217 | 16.7 |
| Kindergarten students | 441 | 355 | 86 | 24.2 |
| K-12 students | 23,320 | 19,791 | 3,529 | 17.8 |
| University students | 15,389 | 14,667 | 722 | 4.9 |
| Total number of students | 38,709 | 34,458 | 4,251 | 12.3 |

As at 30 June 2018, the aggregate number of students enrolled at the schools of the Group increased to 38,709 from 34,458 as at 30 June 2017. The increase in the aggregate number of students enrolled was attributable to the increase in the capacity of new schools opened in September 2017 and 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 2018 | As at 30 June 2017 |
|-----------------------------------|-----------------------|-----------------------|
| Total number of students enrolled | 38,709 | 34,458 |
| Total student capacity | 59,248 | 34,701 |
| Overall utilization | 65.3% | 99.3% |

Student Placement

For Gaokao administered in 2018 (the "2018 Gaokao"), approximately 95.3% of the Group's graduating high school students who participated in achieved scores that allowed them to apply for and be accepted by first-tier universities in China. 37 of our graduating high school students were admitted into Peking University and Tsinghua University and 80 of our graduating high school students were recommended for admission into first-tier universities without taking the Gaokao.

Future Development

The Group is optimistic about the strong demand for high-quality private education in Southwest China backed by the strong brand reputation and recognition of our schools. In order to solidify and strengthen its market-leading position in the region, the Group intends to achieve future growth by means of multiple expansion strategies which include asset-light expansions, acquisitions, and increase in the capacity of certain existing schools. Specifically, the Group plans to undertake the following strategies:

- 1) Focus on development of non-compulsory education segment by means of allocating more space to high school students in our newly established schools, shifting more space from the middle school students to high school students in our existing schools and raising the tuition fee for our non-compulsory education programs;
- 2) Establish new asset-light schools 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;
- 3) Collaborate with prestigious overseas schools to open new international schools or foundation programs in China; and
- 4) Provide to third parties owned K-12 schools comprehensive school management service such as education quality control, curriculum development, daily operation, teachers recruitment and training, branding, teaching methodology support, campus design etc.

Establishing new asset-light schools with third-party business partners

a) Cooperation with local government

Quxian Campus – Expected commencement date in September 2018

On 10 February 2018, the Group has entered into the school establishment agreement with the local government of Quxian County, Dazhou, Sichuan Province to establish a new middle and high school. The expected student capacity of the school is approximately 4,000 students. Under the agreement, the local government shall be responsible for constructing the facility, land and building and providing such school premises and facility to the Group for the operation of Quxian Campus. The Quxian Campus is expected to commence its first school year on 1 September 2018. The lease term for the school premises will be 20 years beginning on 1 September 2018 to 31 August 2038. No rental fees will be payable by the Group for the first four years of the rental period.

Yaan Campus – Expected commencement date in September 2019

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

b) Cooperation with real estate company

Deyang Campus – Expected commencement date in September 2019

The Group entered into a school establishment agreement with the Greenland Real Estate Group Co., Ltd., a real estate company listed in Shanghai Stock Exchange, to establish a K-12 school in Deyang, Sichuan Province. The Deyang Campus will be developed under asset-light business model. Under the agreement, the Greenland Real Estate Group Co.,Ltd. shall be responsible for constructing the facility, land and building and providing such school premises and facility to the school for the operation of Deyang Campus. The expected student capacity of Deyang Campus is approximately 7,480 students. The Deyang Campus is expected to commence its first school year on 1 September 2019.



Longfor Xichen Yuanzhu Campus – Expected commencement date in September 2019

The Group entered into a school establishment agreement with a subsidiary of Longfor Properties Co. Ltd., a real estate company listed on the Main Board of the Stock Exchange, to establish a primary school in Longfor Xichen Yuanzhu Campus, which is developed under asset-light business model. The subsidiary of Longfor Properties Co. Ltd. shall be responsible for providing and developing the land and building to be used as campus of Longfor Xichen Yuanzhu Campus and leasing such premises to the school during the subsistence of the school. The expected student capacity of Longfor Xichen Yuanzhu Campus is approximately 1,890 students. The Longfor Xichen Yuanzhu Campus is expected to commence its first school year on 1 September 2019.

Luzhou Campus – Expected commencement date in September 2020

The Group entered into a school establishment agreement with Sichuan Haoyang Hengli Properties Co. Ltd., a real estate company, to establish a K-12 school in Luzhou, Sichuan Province. The Luzhou Campus will be developed under asset-light business model. Under the agreement, the Sichuan Haoyang Hengli Properties Co. Ltd., shall be responsible for constructing the facility, land and building and providing such school premises and facility to the school for the operation of Luzhou Campus. The expected student capacity of Luzhou Campus is approximately 5,700 students. The Luzhou Campus is expected to commence its first school year on 1 September 2020.

Xinjin Campus – Expected commencement date in September 2020

The Group entered into a school establishment agreement with Chongqing Zhongke Holding Co., Ltd., a holding company which engages in diversified industry including real estate, to establish a K-12 school in Xinjin, Sichuan Province. The Xinjin Campus will be developed under asset-light business model. Under the agreement, the Chongqing Zhongke Holding Co., Ltd. shall be responsible for constructing the facility, land and building and providing such school premises and facility to the school for the operation of Xinjin Campus. The expected student capacity of Xinjin Campus is approximately 5,280 students. The Xinjin Campus is expected to commence its first school year on 1 September 2020.

International school and foundation programs

The Group and an affiliate company of Monash University, which ranks 59th in 2019 QS World University Rankings and one of the “Group of Eight” leading Australia universities, entered into an educational cooperation agreement on 16 April 2018, pursuant to which both parties agreed to establish an exclusive cooperative educational program in Southwest China. The program mainly covers pre-university courses through an exclusive curriculum licensing agreement and offers a guaranteed pathway to undergraduate degree programs at Monash University. It is expected that the Group will start to enroll students in January 2019. Please refer to the announcement of the Company dated 17 April 2018 for further details.

The Group is under discussion with prestigious overseas schools to explore the possibility of opening additional foundation programs and new international schools in China. As at the date of this interim report, no definitive agreements have been entered into.

The following sets forth a summary of the estimated student capacity of the new school campus from September 2018 to September 2020:

| School Campus | Commencement of school campus | Estimated student capacity |
|-------------------------------|-------------------------------|----------------------------|
| Quxian Campus | September 2018 | 4,000 |
| Longfor Xichen Yuanzhu Campus | September 2019 | 1,890 |
| Yaan Campus | September 2019 | 2,700 |
| Deyang Campus | September 2019 | 7,480 |
| Luzhou Campus | September 2020 | 5,700 |
| Xinjin Campus | September 2020 | 5,280 |
| Total | | <u>27,050</u> |

The Group had six schools as at the end of the 2016/2017 school year, and added nine new schools in our school network as at the end of the 2017/2018 school year. For illustration purpose, the school which provides multi-phases education programs is counted according to the number of the category of such education phases. For example, Chengdu Foreign Languages School which provides middle and high school education phases is counted as one middle school and one high school respectively. The following table shows a summary of the number of our schools by category as of the dates indicated:

| Category of schools | Schools operated by the Group as at 30 June 2018 | Schools operated by the Group as at 30 June 2017 |
|---------------------|--|--|
| High school | 7* | 3 |
| Middle school | 6 | 3 |
| Primary school | 5 | 1 |
| Kindergarten | 2 | 1 |
| University | 1 | 1 |
| Total | <u>21</u> | <u>9</u> |

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



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 RMB110.8 million, or 23.1%, from RMB479.6 million for the six months ended 30 June 2017 to RMB590.4 million for the Reporting Period. This increase was primarily the result of revenue from tuition fees increased by RMB109.4 million, or 23.9%, from RMB458.4 million for the six months ended 30 June 2017 to RMB567.8 million for the Reporting Period. The tuition fees received increased mainly because the Group's student enrollment increased due to eight new schools opened by the Group in September 2017.

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 RMB76.4 million, or 33.6%, from RMB227.5 million for the six months ended 30 June 2017 to RMB303.9 million for the Reporting Period. This increase was primarily the result of an increase in staff costs. Staff costs increased by RMB46.7 million, or 32.6%, from RMB143.2 million for the six months ended 30 June 2017 to RMB189.9 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 RMB34.4 million, or 13.6%, from RMB252.1 million for the six months ended 30 June 2017 to RMB286.5 million for the Reporting Period, which was in line with the growth of the Group's business. Gross profit margin decreased to 48.5% for the Reporting Period from 52.6% for the six months ended 30 June 2017 mainly due to lower gross profit margin for new schools established in September 2017.

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 RMB0.5 million, or 62.5%, from RMB0.8 million for the six months ended 30 June 2017 to RMB1.3 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.

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 RMB8.8 million, or 21.6%, from RMB40.8 million for the six months ended 30 June 2017 to RMB49.6 million for the Reporting Period, primarily due to the increase of administrative staff recruited by new school.

Other Income and Gains

Other income and gains primarily consist of foreign exchange gain, interest income from bank deposits, and rental income from leasing certain of the properties to independent third parties. Other income and gains increased from RMB3.6 million for the six months ended 30 June 2017 to RMB10.6 million for the Reporting Period. The increase was primarily attributable to i) a net foreign exchange gain of RMB2.3 million recognized for the Reporting Period, while no foreign exchange gain was recognized for the six months ended 30 June 2017; and ii) the increase in government grants received in 2018.

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 decreased from RMB15.3 million for the six months ended 30 June 2017 to RMB1.3 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 six months ended 30 June 2017, while no foreign exchange loss was recognized for the Reporting Period.



Finance Costs

Finance costs consist primarily of the interest expenses for bank borrowings. Finance costs increased by RMB5.1 million, or 28.2%, from RMB18.1 million for the six months ended 30 June 2017 to RMB23.2 million for the Reporting Period, mainly attributable to less capitalised interest was recognized for the construction of Wenjiang Campus for the Reporting Period.

Liquidity and Financial Resources

| | Six months ended 30 June | |
|--|--------------------------|-----------------|
| | 2018 RMB'000 | 2017 RMB'000 |
| Net cash flows from operating activities | 311,516 | 208,415 |
| Net cash flows used in investing activities | (106,166) | (246,795) |
| Net cash flows (used in)/generated from financing activities | (71,584) | 162,370 |
| Net increase in cash and cash equivalents | 133,766 | 123,990 |
| Cash and cash equivalents at beginning of period | 294,107 | 564,196 |
| Effect of foreign exchange rate changes, net | (31) | (1,048) |
| Cash and cash equivalents at end of period | <u>427,842</u> | <u>687,138</u> |

| | As at 30 June 2018 RMB'000 | As at 31 December 2017 RMB'000 |
|--|-------------------------------------|---|
| | Bank borrowings | <u>873,482</u> |

The balance of bank borrowings as at 30 June 2018 was approximately RMB873.5 million. The details of maturity profile of bank borrowings were: 1) approximately RMB387.5 million repayable within one year; 2) approximately RMB186.0 million repayable in the second year; and 3) approximately RMB300.0 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 2018, all the bank borrowings were settled in RMB, while cash and cash equivalents were primarily held in RMB and HKD. The Group plans to maintain an appropriate mix of financial equity and debt to ensure an efficient capital structure. The outstanding balances of bank borrowings as at 30 June 2018 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 2018, 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 2018 RMB' 000 | As at 31 December 2017 RMB' 000 |
|---|--------------------------------------|--|
| Within one year | 7,264 | 12,747 |
| In the second to fifth years, inclusive | 10,034 | 10,245 |
| Beyond five years | 14,392 | 15,746 |
| | <u>31,690</u> | <u>38,738</u> |

As at 30 June 2018, the Group had total future minimum lease payments under non-cancellable operating leases amounting to RMB31.7 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 2018 was less than that of the year of 2017.

Future Plan for Material Investments and Capital Assets

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



Gearing Ratio

The gearing ratio of the Group, which was calculated as total bank loans divided by total equity as at the end of the relevant financial year/period, decreased from approximately 34.3% as at 31 December 2017 to approximately 31.2% as at 30 June 2018, primarily due to the decrease in the Group's total bank loans.

Significant Investments, Acquisitions and Disposals

There were no significant investments held as at 30 June 2018, nor other material acquisitions and disposals of subsidiaries and associated companies during the Reporting Period.

Contingent Liabilities

As at 30 June 2018, the Group had no material contingent liabilities.

Pledge of Assets

As at 30 June 2018, the bank deposits of approximately RMB193.9 million (as at 31 December 2017: RMB267.5 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 2018, the Group had 3,656 employees (31 December 2017: 3,613).

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

The total remuneration cost incurred by the Group for the Reporting Period was approximately RMB225.9 million (for the six months ended 30 June 2017: RMB169.4 million).

CORPORATE GOVERNANCE/OTHER INFORMATION

CORPORATE GOVERNANCE PRACTICES

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

MODEL CODE FOR SECURITIES TRANSACTIONS

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

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

INTERIM DIVIDEND

The Board has resolved to recommend the payment of interim dividend of HK\$0.04 per share for the six months ended 30 June 2018. Such interim dividend will be declared and paid out of the share premium of the Company and thus is subject to Shareholders' approval. The circular convening the extraordinary shareholders' meeting will be dispatched in due course.

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 2017 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.

Qualification Requirement

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

As at 30 June 2018 and up to the date of this interim report, the Company had taken the following concrete steps to implement the Group's plan. The California Bureau for Private Postsecondary Education ("BPPE") has approved the bachelor degree program for science in business administration and master degree program for business administration ("MBA") on 18 November 2016 and the business license of the new school was issued by city of Irvine on 12 December 2016. The new school is named as Virscend University. Virscend University commenced its first school year in August 2017 and enrolled approximately 15 students in the MBA program in the fall semester. The Company has expended approximately US\$163,000 in connection with the Group's plan for the six months ended 30 June 2018 and up to the date of this interim report.

Recent Development

The Company noted that on 10 August 2018, the Ministry of Justice of the PRC published the review draft of the draft Amendments to the Regulations on the Implementation of the Non-state Education Promotion Law of the People's Republic of China 《中華人民共和國國民辦教育促進法實施條例 (修訂草案) (送審稿) 》 (the "Draft Amendments") for consultation.

As advised by its legal advisers as to the laws of the PRC ("PRC Legal Advisers"), the Company would like to update the Shareholders and the investors that the Draft Amendments are still under consultation and are not yet promulgated or implemented in the PRC. The Company will continue to follow the development of the Draft Amendments and the relevant laws and regulation. Where appropriate, the Company will make further announcements in this regard in compliance with the Listing Rules.

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 2018, a total amount of HK\$1,928.2 million (RMB1,625.6 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 2018) RMB (million) | Unutilised amount (at 30 June 2018) 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 | 800.4 | – |
| 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 | 149.2 | – |
| Total | 100.0% | 1,629.2 | 1,625.6 | 3.6 |



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

As at 30 June 2018, 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 |

Notes:

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

Save as disclosed above, as at 30 June 2018, 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 2018, to the best knowledge of the Directors, the following persons (other than being a Director or chief executive of the Company) had interests or short positions in the Shares or underlying Shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

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

Notes:

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



Save as disclosed above, as at 30 June 2018, 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 7 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 2018



| | Notes | Six months ended 30 June | |
|--|-------|--------------------------------|--------------------------------|
| | | 2018 RMB'000 (Unaudited) | 2017 RMB'000 (Unaudited) |
| REVENUE | 4 | 590,364 | 479,590 |
| Cost of sales | | (303,888) | (227,495) |
| Gross profit | | 286,476 | 252,095 |
| Other income and gains | 4 | 10,646 | 3,616 |
| Selling and distribution expenses | | (1,292) | (824) |
| Administrative expenses | | (49,626) | (40,837) |
| Other expenses | | (1,281) | (15,324) |
| Finance costs | 5 | (23,217) | (18,074) |
| Share of (loss)/profit of associates | | (1,054) | 1,978 |
| PROFIT BEFORE TAX | 6 | 220,652 | 182,630 |
| Income tax expense | 7 | (1,221) | (6,381) |
| PROFIT FOR THE PERIOD | | 219,431 | 176,249 |
| Attributable to: | | | |
| Owners of the parent | 8 | 212,571 | 176,467 |
| Non-controlling interests | | 6,860 | (218) |
| | | 219,431 | 176,249 |
| Earnings per share attributable to ordinary equity holders of the parent | | | |
| – basic and diluted for the period | 8 | RMB0.07 | RMB0.06 |

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2018

| | Six months ended 30 June | |
|---|--------------------------------|--------------------------------|
| | 2018 RMB'000 (Unaudited) | 2017 RMB'000 (Unaudited) |
| PROFIT FOR THE PERIOD | 219,431 | 176,249 |
| OTHER COMPREHENSIVE INCOME | | |
| Other comprehensive loss to be reclassified to profit or loss in subsequent periods: | | |
| Exchange differences on translation of foreign operations | (31) | (4) |
| Net other comprehensive loss to be reclassified to profit or loss in subsequent periods | (31) | (4) |
| OTHER COMPREHENSIVE LOSS FOR THE PERIOD, NET OF TAX | (31) | (4) |
| TOTAL COMPREHENSIVE INCOME FOR THE PERIOD | <u>219,400</u> | <u>176,245</u> |
| Attributable to: | | |
| Owners of the parent | 212,551 | 176,461 |
| Non-controlling interests | 6,849 | (216) |
| | <u>219,400</u> | <u>176,245</u> |

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018



| | Notes | 30 June 2018 RMB'000 (Unaudited) | 31 December 2017 RMB'000 (Audited) |
|--|-------|---|---|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 9 | 3,297,685 | 3,249,970 |
| Prepaid land lease payments | | 376,200 | 381,623 |
| Intangible assets | | 1,461 | 1,354 |
| Investment in associates | | 67,138 | 68,192 |
| Long-term pledged deposits | | 193,913 | 267,488 |
| Long-term investment measured at amortized cost | | 75,879 | — |
| Other non-current assets | | 71,367 | 81,487 |
| Total non-current assets | | 4,083,643 | 4,050,114 |
| CURRENT ASSETS | | | |
| Prepayments, deposits and other receivables | | 48,337 | 41,247 |
| Amounts due from related party | 13(a) | 16,688 | 5,000 |
| Cash and cash equivalents | | 427,842 | 294,107 |
| Total current assets | | 492,867 | 340,354 |
| CURRENT LIABILITIES | | | |
| Other payables and accruals | | 332,874 | 134,417 |
| Tax payable | | 22,802 | 23,416 |
| Bank borrowings | | 387,482 | 628,037 |
| Deferred revenue | 10(a) | — | 585,982 |
| Contract Liabilities | 10(b) | 494,673 | — |
| Deferred income – current | | 407 | 354 |
| Amounts due to related parties | 13(a) | — | 966 |
| Financial liability at fair value through profit or loss-current | | 7,778 | 7,778 |
| Total current liabilities | | 1,246,016 | 1,380,950 |
| NET CURRENT LIABILITIES | | (753,149) | (1,040,596) |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 3,330,494 | 3,009,518 |

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018

| | Notes | 30 June 2018 RMB'000 (Unaudited) | 31 December 2017 RMB'000 (Audited) |
|--|-------|---|---|
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 3,330,494 | 3,009,518 |
| NON-CURRENT LIABILITIES | | | |
| Bank borrowings | | 486,000 | 291,000 |
| Deferred income – non-current | | 4,378 | 5,881 |
| Amounts due to related party – non-current | 13(a) | 23,527 | 13,383 |
| Financial liability at fair value through profit or loss – non-current | | 19,113 | 19,113 |
| Total non-current liabilities | | 533,018 | 329,377 |
| Net assets | | 2,797,476 | 2,680,141 |
| EQUITY | | | |
| Equity attributable to owners of the parent | | | |
| Share capital | 11 | 26,051 | 26,051 |
| Reserves | | 2,748,183 | 2,637,697 |
| | | 2,774,234 | 2,663,748 |
| Non-controlling interests | | 23,242 | 16,393 |
| Total equity | | 2,797,476 | 2,680,141 |

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2018



| | Attributable to owners of the parent | | | | | | | Non-controlling interests RMB'000 | Total RMB'000 |
|--|--------------------------------------|----------------------------|--------------------------------------|---|-----------------------------|------------------|--------------|--------------------------------------|------------------|
| | Share capital RMB'000 Note 11 | Capital reserve RMB'000 | Statutory surplus reserve RMB'000 | Exchange fluctuation reserve RMB'000 | Retained profits RMB'000 | Total RMB'000 | | | |
| 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 | |
| 2016 final dividend declared | — | (189,187) | — | — | — | (189,187) | — | (189,187) | |
| At 30 June 2017 (unaudited) | <u>26,051</u> | <u>1,857,229*</u> | <u>226,472*</u> | <u>14*</u> | <u>424,047*</u> | <u>2,533,813</u> | <u>5,811</u> | <u>2,539,624</u> | |

| | Attributable to owners of the parent | | | | | | | Non-controlling interests RMB'000 | Total RMB'000 |
|---|--------------------------------------|----------------------------|--------------------------------------|---|-----------------------------|------------------|---------------|--------------------------------------|------------------|
| | Share capital RMB'000 Note 11 | Capital reserve RMB'000 | Statutory surplus reserve RMB'000 | Exchange fluctuation reserve RMB'000 | Retained profits RMB'000 | Total RMB'000 | | | |
| At 1 January 2018 | 26,051 | 1,857,229 | 270,190 | 42 | 510,236 | 2,663,748 | 16,393 | 2,680,141 | |
| Profit for the period | — | — | — | — | 212,571 | 212,571 | 6,860 | 219,431 | |
| Other comprehensive income for the period: | | | | | | | | | |
| Exchange differences on translation of foreign operations | — | — | — | (20) | — | (20) | (11) | (31) | |
| Total comprehensive income for the period | — | — | — | (20) | 212,571 | 212,551 | 6,849 | 219,400 | |
| Transfer from retained profits | — | — | 29,382 | — | (29,382) | — | — | — | |
| 2017 final dividend declared | — | (102,065) | — | — | — | (102,065) | — | (102,065) | |
| At 30 June 2018 (unaudited) | <u>26,051</u> | <u>1,755,164*</u> | <u>299,572*</u> | <u>22*</u> | <u>693,425*</u> | <u>2,774,234</u> | <u>23,242</u> | <u>2,797,476</u> | |

* These reserve accounts comprise the consolidated reserves of RMB2,748,183,000 (as at 30 June 2017: RMB2,507,762,000) in the interim condensed consolidated statement of financial position.

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2018

| | Notes | Six months ended 30 June | |
|--|-------|--------------------------------|--------------------------------|
| | | 2018 RMB'000 (Unaudited) | 2017 RMB'000 (Unaudited) |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Profit before tax | 6 | 220,652 | 182,630 |
| Adjustments for: | | | |
| Finance costs | 5 | 23,217 | 18,074 |
| Net foreign exchange (gains)/losses | 4 | (2,293) | 15,147 |
| Interest income | 4 | (345) | (2,487) |
| Share of losses/(gains) of associates | | 1,054 | (1,978) |
| Loss on disposal of items of property, plant and equipment | 6 | 11 | — |
| Government grants released | 4 | (6,303) | (317) |
| Depreciation of property, plant and equipment | 6 | 53,341 | 35,942 |
| Amortisation of intangible assets | 6 | 138 | 13 |
| Recognition of prepaid land lease payments | 6 | 4,817 | 3,595 |
| | | 294,289 | 250,619 |
| Increase in prepayments, deposits and other receivables | | (7,090) | (14,405) |
| Increase in amounts due from related parties | | (11,688) | — |
| Increase/(decrease) in other payables and accruals | | 119,592 | (28,559) |
| Increase in amounts due to related parties | | 8,178 | 7,166 |
| Increase in deferred income | | 1,041 | 2,500 |
| Decrease in deferred revenue | 10 | (91,309) | (9,918) |
| Cash generated from operations | | 313,013 | 207,403 |
| Interest received | 4 | 345 | 2,487 |
| Income tax paid | 7 | (1,842) | (1,475) |
| Net cash flows from operating activities | | 311,516 | 208,415 |

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2018



| | Notes | Six months ended 30 June | |
|--|-------|--------------------------------|--------------------------------|
| | | 2018 RMB'000 (Unaudited) | 2017 RMB'000 (Unaudited) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchase of items of property, plant and equipment | | (106,927) | (192,995) |
| Proceeds from disposal of property, plant and equipment | | 6 | 3 |
| Purchase of intangible asset | | (245) | (117) |
| Payment for acquisition of investment in associates | | — | (37,812) |
| Increase in amounts due to related parties | 13(a) | 1,000 | 7,505 |
| Placement of time deposits | | — | (95,469) |
| Increase in long-term investment measured at amortized cost | | (75,879) | — |
| Increase in deposits | | — | (14,700) |
| Decrease in pledged deposits | | 75,879 | 86,790 |
| Net cash flows used in investing activities | | <u>(106,166)</u> | <u>(246,795)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| New bank borrowings | | 663,000 | 659,000 |
| Repayments of bank borrowings | | (709,000) | (466,190) |
| Capital contribution from non-controlling shareholders | | — | 5,995 |
| Interest paid | | (25,584) | (36,435) |
| Net cash flows (used in)/generated from financing activities | | <u>(71,584)</u> | <u>162,370</u> |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | | | |
| Cash and cash equivalents at beginning of period | | 294,107 | 564,196 |
| Effect of foreign exchange rate changes, net | | (31) | (1,048) |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | | <u><u>427,842</u></u> | <u><u>687,138</u></u> |
| ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS | | | |
| Cash and bank balances | | <u><u>427,842</u></u> | <u><u>687,138</u></u> |

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

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 2018 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 2017.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of this interim condensed financial information are consistent with those followed in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2017, except for the adoption of the following new standards, interpretations and amendments to a number of International Financial Reporting Standards (“IFRSs”) issued by the International Accounting Standards Board for the first time for the financial year beginning 1 January 2018.

| | |
|----------------------------|---|
| Amendments to IFRS 2 | <i>Classification and Measurement of Share-based Payment Transactions</i> |
| Amendments to IFRS 4 | <i>Applying IFRS 9 Financial Instruments with IFRS 4</i> |
| | <i>Insurance Contracts</i> |
| IFRS 9 | <i>Financial Instruments</i> |
| IFRS 15 | <i>Revenue from Contracts with Customers</i> |
| Amendments to IFRS 15 | <i>Clarifications to IFRS 15 Revenue from Contracts with Customers</i> |
| Amendments to IAS 40 | <i>Transfers of Investment Property</i> |
| IFRIC 22 | <i>Foreign Currency Transactions and Advance Consideration</i> |
| <i>Annual Improvements</i> | <i>Amendments to IFRS 1 and IAS 28</i> |
| <i>2014-2016 Cycle</i> | |



3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

The adoption of these new standards, interpretations and amendments to IFRSs has had no significant financial effect on the financial position or performance of the Group except for the adoption of IFRS 15 and IFRS 9, as explained below.

The Group applies, for the first time, IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments* using the modified retrospective method for adoption. For the adoption of IFRS 9, the Group has not restated comparative information and has not recognised any transition adjustments against the opening balance of equity at 1 January 2018. For the adoption of IFRS 15, the Group has applied the new requirements only to contracts that were not completed before 1 January 2018.

IFRS 15 Revenue from Contracts with Customers

The Group has performed an assessment on the impact of the adoption of IFRS 15 and concluded that no material financial impact exists, and therefore no adjustment to the opening balance of equity at 1 January 2018 was recognised. However, as the presentation and disclosure requirements in IFRS 15 are more detailed than those under IAS 18, as required for the interim condensed financial statement, the Group has disaggregated revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. In addition, upon adoption of IFRS 15, the Group recognised revenue-related contracts liabilities for the unsatisfied performance obligation which were previously recognised as deferred revenue.

IFRS 9 Financial Instruments

The Group has performed an assessment and concluded that no material financial impact exists, and therefore no adjustment to the opening balance of equity at 1 January 2018 was recognised.



NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

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 | |
|-------------------------------|------|--------------------------------|--------------------------------|
| | | 2018 RMB'000 (Unaudited) | 2017 RMB'000 (Unaudited) |
| <u>Revenue</u> | | | |
| Tuition fees | | 567,792 | 458,355 |
| Boarding fees | | 22,572 | 21,235 |
| | | <u>590,364</u> | <u>479,590</u> |
| <u>Other income and gains</u> | | | |
| Interest income | 6 | 345 | 2,487 |
| Fee sharing income (Note (i)) | | 182 | 266 |
| Government grants | | | |
| – related to assets | | 2,207 | 95 |
| – related to income | | 4,096 | 222 |
| Net foreign exchange gains | 6 | 2,293 | — |
| Others | | 1,523 | 546 |
| | | <u>10,646</u> | <u>3,616</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 2018

5. FINANCE COSTS

| | Six months ended 30 June | |
|-----------------------------|--------------------------------|--------------------------------|
| | 2018 RMB'000 (Unaudited) | 2017 RMB'000 (Unaudited) |
| Interest on bank borrowings | 25,473 | 24,050 |
| Less: interest capitalised | (2,256) | (5,976) |
| | <u>23,217</u> | <u>18,074</u> |

6. PROFIT BEFORE TAX

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

| | Note | Six months ended 30 June | |
|---|------|--------------------------------|--------------------------------|
| | | 2018 RMB'000 (Unaudited) | 2017 RMB'000 (Unaudited) |
| Employee benefit expense (excluding directors' and chief executive's remuneration): | | | |
| Wages, salaries and other allowances | | 201,110 | 149,846 |
| Pension scheme contributions (defined contribution scheme) | | 24,707 | 17,465 |
| Depreciation of property, plant and equipment | | 53,341 | 35,942 |
| Amortisation of intangible assets | | 138 | 13 |
| Amortisation of prepaid land lease payments | | 4,817 | 3,595 |
| Minimum lease payments under operating leases | | 9,309 | 9,306 |
| Bank interest income | 4 | (345) | (2,487) |
| Foreign exchange differences, net | 4 | (2,293) | 15,147 |
| Loss on disposal of items of property, plant and equipment | | 11 | — |

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

7. INCOME TAX

| | Six months ended 30 June | |
|----------------------------------|--------------------------------|--------------------------------|
| | 2018 RMB'000 (Unaudited) | 2017 RMB'000 (Unaudited) |
| Current-PRC corporate income tax | 1,221 | 6,381 |

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

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

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

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

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 was 9%, which increased to 15% beginning from 1 January 2018 when the three-year preferential tax exemption expired.

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 2017: 3,088,761,000) in issue during the period.

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

| | Six months ended 30 June | |
|--|--------------------------|---------------------|
| | 2018 (Unaudited) | 2017 (Unaudited) |
| Earnings | | |
| Profit attributable to ordinary equity holders of the parent (RMB'000) | 212,571 | 176,467 |
| Shares | | |
| Weighted average number of ordinary shares in issue | 3,088,761,000 | 3,088,761,000 |
| Basic and diluted earnings per share (expressed in RMB per share) | 0.07 | 0.06 |

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018



9. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2018, the Group acquired assets with a cost of RMB90,277,000 (six months ended 30 June 2017: RMB62,871,000) on additions to property, plant and equipment.

Assets with a net book value of RMB340,000 were disposed of by the group during the six months ended 30 June 2018 (six months ended 30 June 2017: RMB3,000), resulting in RMB11,000 of net loss on disposal of items of property, plant and equipment (six months ended 30 June 2017: Nil).

10(a). DEFERRED REVENUE

The following table provides information about deferred revenue from contracts with customers:

| | 30 June 2018 RMB'000 (Unaudited) | 31 December 2017 RMB'000 (Audited) |
|---------------|---|---|
| Tuition fees | — | 560,081 |
| Boarding fees | — | 25,901 |
| | — | 585,982 |

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

10(b). CONTRACT LIABILITIES

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

| | 30 June 2018 RMB'000 (Unaudited) | 31 December 2017 RMB'000 (Audited) |
|---------------|---|---|
| Tuition fees | 476,684 | — |
| Boarding fees | 17,989 | — |
| | 494,673 | — |

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

11. SHARE CAPITAL

| | 30 June 2018 RMB'000 (Unaudited) | 31 December 2017 RMB'000 (Audited) |
|---|---|---|
| Issued and fully paid: 3,088,761,000 (2017: 3,088,761,000) ordinary shares of HK\$0.01 each | 26,051 | 26,051 |

12. COMMITMENTS

Capital commitments

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

| | 30 June 2018 RMB'000 (Unaudited) | 31 December 2017 RMB'000 (Audited) |
|---|---|---|
| Contracted, but not provided for: | | |
| Land and buildings, equipment | 16,385 | 13,811 |
| Capital contributions payable to an associate | — | 6,900 |
| | <u>16,385</u> | <u>20,711</u> |

As at 30 June 2018 and 31 December 2017, the Group did not have any significant authorized, but not contracted capital commitment.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

12. COMMITMENTS – CONTINUED**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 2018 RMB'000 (Unaudited) | 31 December 2017 RMB'000 (Audited) |
|---|---|---|
| Within one year | 7,264 | 12,747 |
| In the second to fifth years, inclusive | 10,034 | 10,245 |
| Beyond five years | 14,392 | 15,746 |
| | <u>31,690</u> | <u>38,738</u> |

13. RELATED PARTY TRANSACTIONS**(a) Outstanding balances with related parties***Amounts due from related parties*

| | 30 June 2018 RMB'000 (Unaudited) | 31 December 2017 RMB'000 (Audited) |
|------------------------|---|---|
| Oriental Baby Care | 16,573 | 5,000 |
| Western Hi-Tech Campus | 115 | — |
| | <u>16,688</u> | <u>5,000</u> |

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

13. RELATED PARTY TRANSACTIONS – CONTINUED

(a) Outstanding balances with related parties – CONTINUED

Amounts due to related parties

| | 30 June 2018 RMB'000 (Unaudited) | 31 December 2017 RMB'000 (Audited) |
|------------------------|---|---|
| Sichuan Derui | 23,527 | 13,383 |
| Western Hi-Tech Campus | — | 966 |
| | <u>23,527</u> | <u>14,349</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 | |
|---|------|--|--------------------------------|--------------------------------|
| | | | 2018 RMB'000 (Unaudited) | 2017 RMB'000 (Unaudited) |
| Sichuan Derui | | Property Lease | 5,516 | 6,933 |
| Sichuan Derui | | Capital contribution paid on behalf of the Company | 1,000 | 7,505 |
| Hongming Property | | Procurement of property, plant and equipment and leasehold lands | — | 131,200 |
| Chengdu Tianren Property Development Co., Ltd | | Property Lease | 3 | 3 |
| USA Tianren Hotel Management Inc. | | Property Lease | — | 247 |

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

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 2018 Carrying amounts RMB'000 (Unaudited) | 30 June 2018 Fair values RMB'000 (Unaudited) |
|-----------------|--|---|
| Bank borrowings | 873,482 | 873,482 |
| | <u>873,482</u> | <u>873,482</u> |

| | 31 December 2017 Carrying amounts RMB'000 (Audited) | 31 December 2017 Fair values RMB'000 (Audited) |
|-----------------|--|---|
| Bank borrowings | 919,037 | 919,037 |
| | <u>919,037</u> | <u>919,037</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 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 bank borrowings as at 31 December 2017 and 30 June 2018 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 cashflows 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 2018

15. DIVIDEND

| | For the six months ended 30 June | |
|------------------------------|-------------------------------------|--------------------------------|
| | 2018 (Unaudited) RMB'000 | 2017 (Unaudited) RMB'000 |
| 2016 final dividend declared | — | 189,187 |
| 2017 final dividend declared | 102,065 | — |

A final dividend of HK\$0.04 per ordinary share was declared in respect of the year ended 31 December 2017 to shareholders during the current period.

The Board has resolved to recommend the payment of interim dividend of HK\$0.04 per share out of the share premium account of the Company for the six months ended 30 June 2018 (for the six months ended 30 June 2017: 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 of directors on 24 August 2018.



| | |
|--|--|
| “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 2018 |
| “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 |
| * <i>for identification purpose only</i> | |