



VIRSCEND EDUCATION COMPANY LIMITED

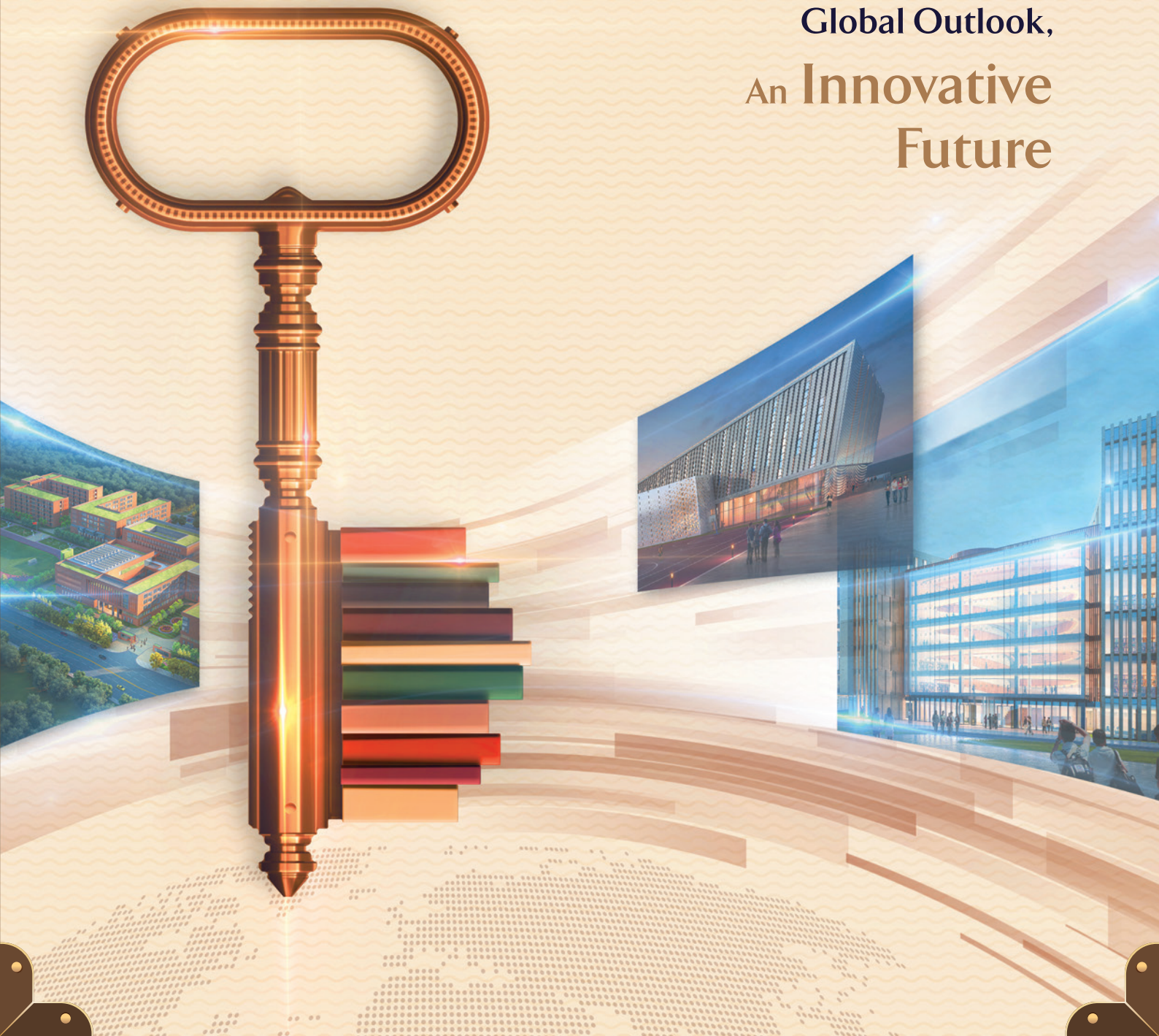
成實外教育有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1565

2020 | INTERIM
REPORT

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

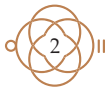


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COMPANY PROFILE

The Group is a leading provider of comprehensive education services, which focused on 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 2020, the Group has an aggregate enrollment of approximately 51,159 students, including approximately 34,271 students at our K-12 schools and 16,888 students at the university, and we employed an aggregate of approximately 3,402 teachers. In addition, the Group operates the Virscend University in Irvine, California, the United States, mainly offering a Master of Business Administration program. Virscend University is currently in the process of applying for WASC Senior College and University Commission (“**WSCUC**”) accreditation, a regional accreditation issued by the WSCUC to public and private higher education institutions throughout California, Hawaii and the Pacific, to meet the standard of high quality higher education in the region.

We currently operate twenty schools in four cities and one county in Sichuan Province, namely Chengdu City, Panzhihua City, Zigong City, Ya’an City and Qu County. 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 Southwest China that offers 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.

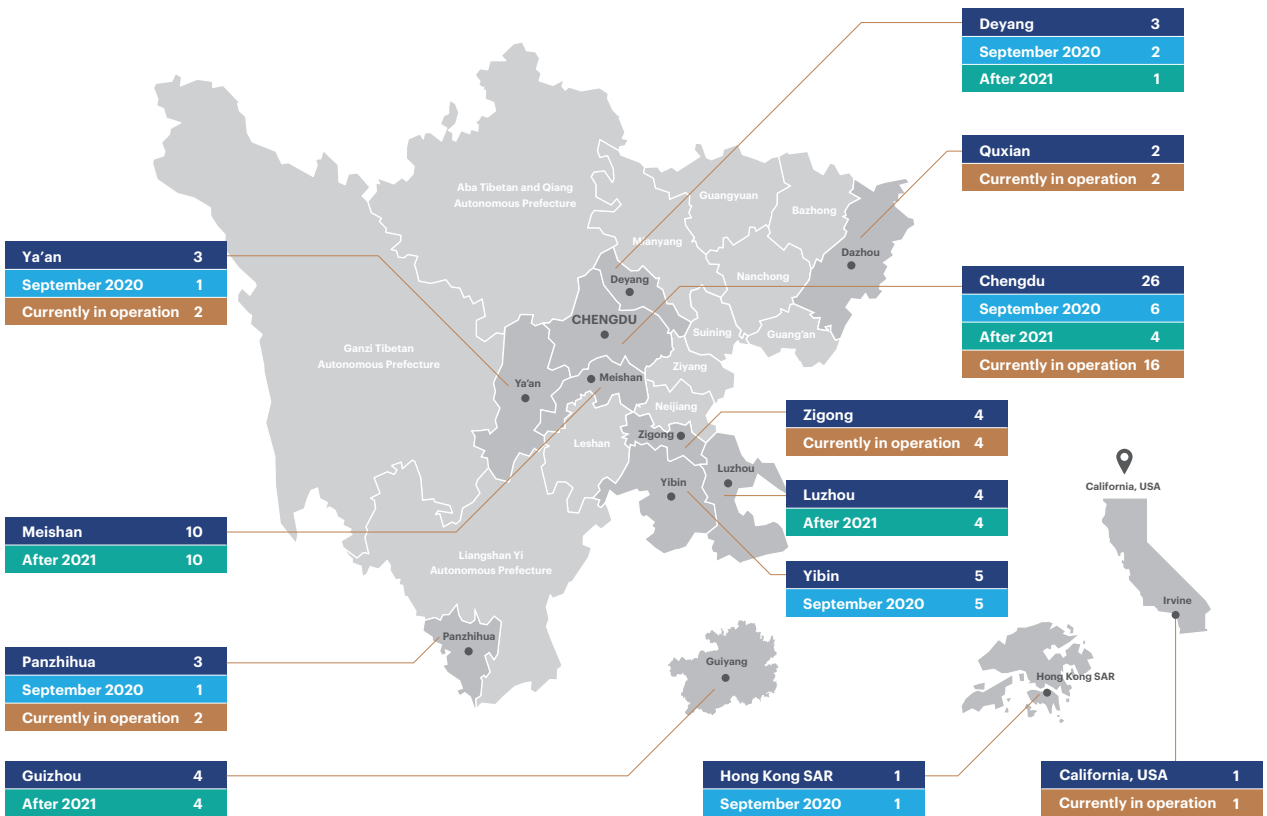
The Group aspires to provide a pathway to first-tier universities in China and reputable colleges and universities abroad for interested students with medium grade and above. For the Gaokao administered in 2018, 2019 and 2020, approximately 94.7%, 95.1% and 96.6% of the graduating students from three of our long standing high schools who participated in such examinations achieved scores that allowed them to be accepted by first-tier universities in China, including Peking University, Tsinghua University, Fudan University, Zhejiang University and Shanghai Jiaotong University, among others.

Time and again the Group has proved with actual results that high-quality education standard and sophisticated teaching mode have helped many students with average grades and below realize their dream of attending a prestigious university. Graduates from four of our high schools who participated in the 2020 Gaokao all ranked top 3 in their cities or districts.

Through over 20 years of operating private schools in Sichuan Province, we believe that we have established a strong reputation, which helps us attract high-quality students and teachers and pave the way for our success. We intend to maintain and strengthen our market position in the private education industry in China.

COMPANY PROFILE

OUR SCHOOL NETWORK



Total number of all kinds of category of schools

43

Currently in operation 27

School to be established in September 2020 16

School to be established after September 2021 23



CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Ms. Wang Xiaoying (*Chairwoman of the Board*)
Mr. Deng Bangkai
Mr. Ye Jiayu
Mr. Yan Yude

Independent Non-executive Directors

Mr. Sit Chiu Wing
Mr. Chan Kim Sun
Ms. Wen Ruizheng

AUDIT COMMITTEE

Mr. Chan Kim Sun (*Chairman*)
Mr. Sit Chiu Wing
Ms. Wen Ruizheng

REMUNERATION COMMITTEE

Mr. Sit Chiu Wing (*Chairman*)
Ms. Wang Xiaoying
Ms. Wen Ruizheng

NOMINATION COMMITTEE

Mr. Sit Chiu Wing (*Chairman*)
Mr. Yan Yude
Ms. Wen Ruizheng

AUTHORISED REPRESENTATIVES

Ms. Wang Xiaoying
Mr. Deng Bangkai

COMPANY SECRETARY

Ms. Ng Sau Mei

LEGAL ADVISORS

As to Hong Kong law:

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In Association with Morgan, Lewis & Bockius
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REGISTERED OFFICE

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CORPORATE INFORMATION

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183 Queen's Road East
Wanchai
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PRINCIPAL BANK

Industrial and Commercial Bank of China

INVESTOR RELATIONS

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COMPANY'S WEBSITE

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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			
	2020 RMB'000 Unaudited	2019 RMB'000 Unaudited	Change RMB'000	Percentage Change (%)
Revenue	885,657	754,177	131,480	+17.4%
Gross profit	379,022	339,898	39,124	+11.5%
Profit for the period	239,752	237,076	2,676	+1.1%
Attributable to equity holders of the parent	243,585	236,235	7,350	+3.1%
Earnings per share				
Basic and diluted (RMB)	0.08	0.08	—	—

Financial ratio	For six months ended 30 June	
	2020 Unaudited	2019 Unaudited
Gross profit margin (%)	42.8	45.1
Net profit margin (%)	27.1	31.4

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 RMB754.2 million for the six months ended 30 June 2019 to approximately RMB885.7 million for the Reporting Period. The Group typically charges students fees comprising tuition fees, boarding fees, school canteen service fees and study abroad consultancy fees, and tuition fees remained the major revenue, accounted for approximately 86.1% 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			
	2020 RMB'000	2019 RMB'000	Change RMB'000	Percentage Change (%)
Tuition fees				
High school - international program	22,668	22,038	630	+2.9%
High school - domestic program	195,733	162,251	33,482	+20.6%
Middle school	248,585	234,210	14,375	+6.1%
Primary school	165,691	139,880	25,811	+18.5%
Kindergarten	3,137	7,501	-4,364	-58.2%
University	126,855	122,429	4,426	+3.6%
Total tuition fees	762,669	688,309	74,360	+10.8%
Boarding fees	24,009	26,774	-2,765	-10.3%
Consultation service fees for overseas studies*	4,502	—	4,502	—
Educational management and consultation service fees	2,564	163	2,401	+1,473.0%
School canteen operations	91,913	38,931	52,982	+136.1%
Total	885,657	754,177	131,480	+17.4%

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.

* Consultation service fees for overseas studies represents value-added services provided to the high school students who participated in the international program of the Group. Such services include, among others, global educational resource consultation service, international curriculum consultation service, study-abroad guidance and consultation service, profile enhancement service, as well as promotion plan service.



MANAGEMENT DISCUSSION AND ANALYSIS

Average Tuition Fees

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

Category of schools	School Year			
	2019/2020 Gross Tuition Fees RMB'000	2019/2020 Average Tuition Fees RMB	2018/2019 Gross Tuition Fees RMB'000	2018/2019 Average Tuition Fees RMB
High school - international program	41,868	97,206	36,763	95,487
High school - domestic program	373,960	35,909	309,375	35,463
Middle school	452,879	34,400	426,768	34,601
Primary school	297,175	35,748	255,243	34,413
Kindergarten	17,107	33,282	14,418	28,952
University	228,898	13,501	220,151	13,434

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 2020	As at 30 June 2019	Change	Percentage Change (%)
High school students - international program	482	440	42	9.5%
High school students - domestic program	10,134	8,563	1,571	18.3%
Middle school students	13,126	12,252	874	7.1%
Primary school students	8,312	7,451	861	11.6%
Kindergarten students	517	521	(4)	(0.8)%
K-12 students	32,571	29,227	3,344	11.4%
University students	16,888	16,353	535	3.3%
Total number of students	49,459	45,580	3,879	8.5%

MANAGEMENT DISCUSSION AND ANALYSIS

As at 30 June 2020, the aggregate number of students enrolled at the schools of the Group increased to 49,459 from 45,580 as at 30 June 2019. The increase in the aggregate number of students enrolled was attributable to the increase in number of students of certain schools opened since September 2017 which have gained better recognition in the neighborhood through several years of operation.

Gaoxin Campus

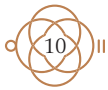
	As at 30 June 2020	As at 30 June 2019	Change	Percentage Change
High school students – domestic program	1,700	1,049	+651	+62.1%

As at 30 June 2020, the students in Gaoxin Campus increased to 1,700 from 1,049 as at 30 June 2019. On 15 August 2020, the Group entered into a School Sponsor's Interest Transfer Agreement to further acquire 80% of the school sponsor interest in Gaoxin Campus from an independent third party at a consideration of RMB240,000,000 and Sichuan Derui become the sole school sponsor holding 100% interest in Gaoxin Campus. After the transaction, the Group will hold the 100% school sponsor's interests in via structured contracts Gaoxin Campus. Please refer to the section headed "EVENTS AFTER THE REPORTING PERIOD".

School Utilization

Utilization rate is calculated as the number of students enrolled divided by the estimated capacity for a given school. For our boarding schools, the estimated capacity for students is calculated based on the number of beds available in student dormitories. For our kindergarten, the estimated capacity for students is calculated based on the number of beds used for naps in the schools. For non-boarding schools, the estimated capacity is calculated based on the number of classroom multiplied by maximum number of students per classroom as allowed under relevant rules and regulation.

	As at 30 June 2020	As at 30 June 2019
Total number of students enrolled	49,459	45,580
Total student capacity	70,620	66,840
Overall utilization	70.0%	68.2%



MANAGEMENT DISCUSSION AND ANALYSIS

Student Placement

For Gaokao administered in 2020 (the “**2020 Gaokao**”), approximately 96.6% 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. 55 of our graduating high school students were admitted into Peking University and Tsinghua University (2019: 38) and 86 of our graduating high school students were recommended for admission into first-tier universities without taking the Gaokao.

For the 2020 Gaokao, only 11% of the students admitted to Panzhihua school achieved the scores allowing them to enter provincial model high schools, yet when these students graduate from Panzhihua school, they attained a university admission rate of 60%, while a student who ranked beyond 300 in the high school entrance examination achieved a high score of 669 points in the 2020 Gaokao. Among the first year students of Wulongshan High school, only 11% of them achieved high score in the high school entrance examination, yet its high-grade graduates (i.e. those who can enter first-tier universities) risen up to 35.8%. Only 29 students of Zigong High school ranked among the city’s top 2500 in high school entrance examination, yet its graduates ranked first in the city in both first-tier university admission rate and overall university admission rate, while the number of outstanding students in Zigong High school ranked third in Zigong City. With regard to the 2020 Gaokao results of Gaoxin Campus, one graduate of Science and one graduate of Liberal Arts who participated in such examinations respectively ranked No.3 and No.1 among all Hi-Tech district schools graduates who study in such majors, approximately 52% of the Gaoxin Campus graduates achieved scores that allowed them to apply to and be accepted by first-tier universities in China while only 21.6% of them achieved high scores in the high school entrance examination.

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) Establishment of new K-12 schools (primarily under asset-light model) by collaborating with third-party business partners;
- 2) Establishment of international education programs within our schools and provide overseas studies consulting services;
- 3) Provision of non-formal education services;
 - a) Provide educational management and consultation services to K-12 schools and pre-schools;
 - b) Collaborate with certain commercial property owners to establish one-stop comprehensive education program;
- 4) Increasing of utilization rate of our existing school network and tuition fee.

MANAGEMENT DISCUSSION AND ANALYSIS

- (i) *Establishment of new K-12 schools (primarily under asset-light model) by collaborating with third-party business partners.*

The Group will commence operation of one new primary to middle school in Chengdu, one new primary school, one new middle school, one new high school in Yibin and one new university campus in Yibin (collectively the “**Yibin Campus**”), one new primary to middle school in Deyang, Sichuan Province in September 2020, namely Xinjin Minjiang Xincheng Chengdu Foreign Languages School, Primary school of Chengdu Foreign Languages School of Yibin, Chengdu Foreign Languages School of Yibin, Chengdu Foreign Languages High School of Yibin, Chengdu Institute Sichuan International Studies University (Yibin Campus) and Deyang Chengdu Foreign Languages School. The following sets forth a summary of the estimated student capacity of the new school campuses that will be opened in September 2020, 2021 and 2022:

School campus Asset-light schools	Commencement of school campus	Cooperation term	Estimated student capacity
Higher education Yibin Campus	September 2020	long term	12,000
Fundamental education Yibin Campus	September 2020	long term	5,940
Deyang Campus	September 2020	long term	6,760
Xinjin Campus	September 2020	long term	4,920
Luzhou Campus	September 2021	long term	5,280
TianFu Huahai Campus	September 2021	long term	3,030
Renshou Campus	September 2021	long term	4,320
Guiyang Campus	September 2021	long term	4,650
Meishan Campus*	September 2022	long term	4,050
Sub-total			<u>50,950</u>
Non asset-light school			
Fundamental education TianFu Lushan Campus	September 2021	long term	<u>4,320</u>
Total			<u><u>55,270</u></u>

* The expected date of commence of Meishan Campus has been delayed to September 2022 due to the COVID-19 impact on the construction progress of this site.

MANAGEMENT DISCUSSION AND ANALYSIS

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

In April 2018 and July 2019, the Group entered into cooperative agreements with Monash College Pty Ltd (“**MCPL**”), a company owned by Monash University and Canon Park Consultancy Limited (“**CPC**”); a company ultimately owned by North London Collegiate School in respect of certain international educational consultancy service.

Since 2019, besides offering United States Advanced Placement (“**AP**”), A-level, sino-Canadian programs to high school students, the Group also began to provide our students overseas studies consulting services through the application and admission process for overseas educational institutions and career-related counseling advice.

(iii) a. *Educational management and consultation service*

The Group entered into school management cooperation agreements with certain government owned public schools, privately held schools or kindergartens under which the Group will provide school management services including, among others, education quality control, curriculum development, daily operation, teachers recruitment and training, branding, teaching methodology support and campus design. The management cooperation agreements last normally from 6-20 years. Up to the announcement date of the report, the Group entered such management cooperation agreement with three public K-12 schools, one private K-12 school owned by a third party and two private kindergartens owned by third parties.

The Group also may provide one or more kinds of services amongst the aforementioned management cooperation agreements on project by project basis.

b. *One-stop comprehensive education program*

The Group has been cooperating with certain commercial property owners to establish one-stop comprehensive education program in good location commercial complex with a floor area of approximately 5,000 to 10,000 square meters where various types of tailor-made education services will be offered to both the parents and their kids simultaneously. The high-quality education courses offered include, among others, Chinese traditional culture, STEAM (Science, Technology, Engineer, Arts and Mathematics) and after-school English tutoring and sports. Since late 2019, the first complex namely Child Dream with floor area of nearly 10,000 square meters commenced operation in Chengdu.

MANAGEMENT DISCUSSION AND ANALYSIS

For illustration purposes, 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	School established as at 30 September 2020	Schools established as at 30 June 2020	Schools established as at 30 June 2019
High school*	10	9	8
Middle school	12	8	7
Primary school	12	6	5
Kindergarten**	4	2	2
University***	3	2	2
Schools providing non-formal education services	2		
Total	43	27	24

* Gaoxin Campus, the school sponsor's interest of which is owned as to 20% by the Group, is included.

** Four Kindergartens include two self-owned Kindergartens and two kindergartens to which we offer comprehensive education and management service.

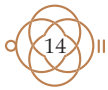
*** Three category of schools include the University, CISISU Yibin Campus and Virscend University.

EVENTS AFTER THE REPORTING PERIOD

Commencement of conversion of the university from an independent college to a private higher education institution.

On 27 July 2020, Sichuan International Studies University (四川外國語大學) (“SISU”) and Sichuan Derui entered into a conversion agreement, and a supplemental agreement with the Group (together, the “Conversion Agreements”), to end their cooperation and facilitate the transition of the University from an independent college to a private higher education institution. Pursuant to the terms of the Conversion Agreements, the Group had paid a one-off settlement payment of RMB125 million to SISU for ending the cooperation. This one-off expense will negatively impact the profits of the Group for the financial year ending 31 December 2020. It is expected that the governmental procedures will be completed and a new private school operating license will be obtained by the University by around mid-2021.

The Group expects that with the termination of cooperation with SISU, the University will be qualified to convert to a for-profit school and there will be greater flexibility for it to determine the pricing of tuition fees and its admission quota is likely to increase.



MANAGEMENT DISCUSSION AND ANALYSIS

Purchase 80% sponsor's interest of Gaoxin Campus

On 15 August 2020, the Group entered into a School Sponsor's Interest Transfer Agreement to further acquired 80% of the school sponsor interest in Gaoxin Campus from an independent third party at a consideration of RMB240,000,000 and Sichuan Derui became the sole school sponsor holding 100% interest in Gaoxin Campus.

After the transactions, the Group will hold the 100% school sponsor's interests via structured contracts in Gaoxin Campus. Gaoxin Campus is located in Hi-Tech district, Chengdu, Sichuan Province with a total gross site area of approximately 77,067.19 sq.m, which is developed under asset-light business model. The maximum capacity is 3,300 students, and current school capacity is 1,700 students. Gaoxin campus offers high school education programs.

FINANCIAL REVIEW

Revenue

Revenue, also the Group's turnover, represents the value of services rendered, after deducting scholarships granted and refunds made to its students during the Reporting Period. Revenue of the Group is primarily derived from tuition fees, boarding fees, school canteen service fees and study abroad consultancy fees the Group's schools collected from students, as well as educational management service fees and consultation service fees received by the Group respectively from an associated school and two government owned schools during the Reporting Period.

Revenue increased by RMB131.5 million, or 17.4%, from RMB754.2 million for the year ended 30 June 2019 to RMB885.7 million for the Reporting Period. This increase was primarily attributed to: (i) the result of revenue from tuition fees increased by RMB74.4 million, or 10.8%, from RMB688.3 million for the year ended 30 June 2019 to RMB762.7 million for the Reporting Period. The tuition fees the Group received increased mainly due to the increase in the number of students enrolled in 2019/2020 school year, and the increase in the capacity of schools comparing to the 2018/2019 school year. For more information on student enrolment and school utilization, please refer to the section headed "Business Overview" above. (ii) The revenue from school canteen operations increased by approximately RMB53.0 million for the Reporting Period, primarily as a result of consolidation of such revenue since 2019.

Cost of Sales

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

Cost of sales increased by RMB92.3 million, or 22.3%, from RMB414.3 million for the six months ended 30 June 2019 to RMB506.6 million for the Reporting Period. The increase was primarily attributable to:

- (1) Canteen operation costs increased by approximately RMB58.8 million as a result of all schools except the University started to operate canteens by themselves; and

MANAGEMENT DISCUSSION AND ANALYSIS

- (2) Depreciation and amortization increased by RMB19.8 million, or 24.2%, from RMB75.0 million for the six months ended 30 June 2019 to RMB94.8 million for the Reporting Period, mainly as a result of: (i) leasehold improvements to certain campuses; (ii) increase in depreciation of right-of-use assets; (iii) capital expenditure in 2019 on upgrading the existing school premises, purchasing educational facilities and equipment for the Group's schools.

Gross Profit and Gross Profit Margin

Gross profit totally increased by RMB39.1 million, or 11.5%, from RMB339.9 million for the six months ended 30 June 2019 to RMB379.0 million for the Reporting Period, which was in line with the growth of the Group's business.

	Year ended 30 June	
	2020 RMB'000	2019 RMB'000
Gross profit of the Group		
Revenue	885,657	754,177
Costs of sales	506,635	414,279
Gross profit	379,022	339,898
Gross profit margin	42.8%	45.1%

Gross profit margin of the Group decreased to 42.8% for the Reporting Period from 45.1% for six months ended 30 June 2019 mainly due to: (i) decrease in tuition fee from kindergarten and boarding fee from the University due to COVID-19 impact; (ii) providing school canteen service with relative lower gross profit margin.

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 RMB1.5 million, or 80.2%, from RMB1.8 million for the six months ended 30 June 2019 to RMB3.3 million for the Reporting Period. The increase of selling and distribution expenses was mainly due to increased expenditure on advertisement and propagandist increased for more new schools will commence operation in September 2020.

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 RMB17.3 million, or 26.8%, from 64.5 million for the six months ended 30 June 2019 to RMB81.8 million for the Reporting Period, primarily due to the increase of staff costs and other relative expenses in relation to preparation of the new schools that will commence in September 2020.

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 RMB16.6 million for the six months ended 30 June 2019 to RMB16.7 million for the Reporting Period.

MANAGEMENT DISCUSSION AND ANALYSIS

Finance Costs

Finance costs consist primarily of the interest expenses for interest-bearing bank and other borrowings. Finance costs increased by RMB12.6 million, or 28.3%, from RMB44.5 million for the six months ended 30 June 2019 to RMB57.1 million for the Reporting Period, mainly attributable to the combined effect of (i) the interest expenses for the bank loans and other loans of RMB73.7 million for the Reporting Period, representing an increase of RMB31.8 million as compared to the interest expenses of RMB41.9 million for the six months ended 30 June 2019; (ii) interest on lease liabilities of RMB6.2 million was recognized for the Reporting Period, while interest on liabilities of RMB5.9 million was recognized for the six months ended 30 June 2019; and minus (iii) the capitalized interest of RMB22.8 million recognized for the construction of the university in 2019, representing an increase of RMB19.5 million while the capitalized interest of RMB3.3 million was recognized for six months ended 30 June 2019.

Liquidity and Financial Resources

	Six months ended 30 June	
	2020 RMB'000	2019 RMB'000
Net cash flows (used in)/from operating activities	(133,049)	81,785
Net cash flows used in investing activities	(348,301)	(631,066)
Net cash flows from financing activities	612,546	381,357
Net (decrease)/increase in cash and cash equivalents	131,196	(167,924)
Cash and cash equivalents at beginning of period	394,386	639,392
Effect of foreign exchange rate changes, net	(36)	(24)
Cash and cash equivalents at end of period	525,546	471,444

	As at 30 June 2020 RMB'000	As at 31 December 2019 RMB'000
	Interest-bearing bank and other borrowings	2,639,413

Analysis of the maturity profile of the interest-bearing bank and other borrowings of the Group as at 30 June 2020 and 31 December 2019 is set out in note 13 to the financial statements. The Group had adequate liquidity to meet its daily management and capital expenditure requirements and control internal operating cash flows.

MANAGEMENT DISCUSSION AND ANALYSIS

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 2020, all the interest-bearing bank and other borrowings were settled in RMB, while cash and cash equivalents were primarily held in RMB and HKD. The Group plans to maintain an appropriate mix of financial equity and debt to ensure an efficient capital structure. The outstanding balances of interest-bearing bank and other borrowings as at 30 June 2020 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 2020, 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.

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 interest-bearing bank and other borrowings divided by total equity as at the end of the relevant financial year/period, increased from approximately 70.6% as at 31 December 2019 to approximately 91.5% as at 30 June 2020, primarily due to seasonality of collecting tuition, boarding and canteen service fee which normally occurred in third quarter of the fiscal year cause the gearing ratio as at 30 June to be higher than that as at the year end.

Significant Investments, Acquisitions and Disposals

There were no significant investments held as at 30 June 2020, nor other material acquisitions and disposals of subsidiaries and associated companies during the Reporting Period.



MANAGEMENT DISCUSSION AND ANALYSIS

Contingent Liabilities

As at 30 June 2020, the Group had no material contingent liabilities.

Human Resources

As at 30 June 2020, the Group had 4,877 employees (31 December 2019: 4,358).

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 RMB297.2 million (for the six months ended 30 June 2019: RMB 274.0 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.

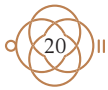
INTERIM DIVIDEND

The Board has resolved to recommend the payment of interim dividend of HK\$0.04 per share for the six months ended 30 June 2020. 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.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of ascertaining the entitlement to attend and vote at the extraordinary general meeting ("**EGM**"), the register of members of the Company will be closed from 27 October 2020 to 30 October 2020, both days inclusive, during which period no transfer of the Shares will be registered. In order to be eligible to attend and vote at the EGM, all transfer of the Shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at shops 1712-1716, 17th floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on 23 October 2020.

For the purpose of ascertaining the entitlement to the aforesaid interim dividend (upon approval by Shareholders), the register of members of the Company will be closed from 9 November 2020 to 13 November 2020, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the aforesaid interim dividend, all transfer of shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on 6 November 2020.



CORPORATE GOVERNANCE/OTHER INFORMATION

AUDIT COMMITTEE

The Board has established an audit committee of the Company (the “**Audit Committee**”), which comprises three independent non-executive Directors, namely Mr. Chan Kim Sun (Chairman), Mr. Sit Chiu Wing and Mr. Wen Ruizheng. The primary duties of the Audit Committee are to review and supervise the Company’s financial reporting process, internal control and risk management systems.

The Audit Committee, 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’ AND CHIEF EXECUTIVE’S 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 reports for the year ended 31 December 2017, 2018 and 2019 for our efforts and actions undertaken to comply with the Qualification Requirement. For the Reporting Period, the Board has reviewed the overall performance of the Structured Contracts and believed that the Group has complied with the Structured Contracts in all material respects. We have been advised by our PRC legal advisors that the Structured Contracts do not violate the relevant PRC regulations.

CORPORATE GOVERNANCE/OTHER INFORMATION

Qualification Requirement

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

The California Bureau for Private Postsecondary Education (“**BPPE**”) has approved Virscend University to grant two degree programs, Bachelor of Science in Business Administration(**BS**) and Master of Business Administration (**MBA**) programs on November 18, 2016. The University named Virscend University, has graduated 8 MBA students in September 2019. Virscend University has received eligibility status from WSCUC which is the most prestige accreditation body in higher education of Western region of the United States. The Company has a total expenditure of USD340,000 in the Reporting Period in connection with the Group’s plan for the half year of 2020 and up to the date of this interim report.

Recent Development

The Impact of “Implementation Plan of Accelerating the Conversion of Independent Colleges” (《關於加快推進獨立學院轉設工作的實施方案》)

On 15 May 2020, the General Office of the Ministry of Education issued the “Implementation Plan of Accelerating the Conversion of Independent Colleges”, in which 3 methods of conversion, namely, change to private school, change to public school and termination of school, were proposed. The Implementation Plan also provided that independent colleges shall carry out liquidation and revise articles of association according to the relevant requirements under the Non-state Education Promotion Law. Subject to the approval granted by the board of independent colleges (the college council), the independent colleges could submit application to provincial education administrations, and the provincial people’s government shall transfer the application to and seek the approval from the Ministry of Education after review and publication by specialists within the province. Independent colleges, in which the organizer or beneficial controlling party has been altered without completion of approval process of the change of organizer, shall be transformed after the completion of alteration and approval process of organizer according to regulations. Prior to its decision, the board of independent colleges (the college council) should obtain the consent from the Communist Party Organization, consult student and teacher representatives thoroughly, and convene teacher and staff representatives’ meeting in due course, ensuring a scientific and democratic decision-making mechanism. The conversion colleges should deal with interests of teachers and students properly on the ground of grandfather rule.

As advised by the Chinese legal advisor of the Company, the potential impacts led by the implementation plan of the Ministry of Education are as follows: after conversion to a private regular college, Chengdu Institute Sichuan International Studies University shall enjoy preferential policies offered by the competent education authority in regards of students enrollment plans, reporting of projects and setting up of specialties, in order to encourage supports in terms of average funding per student, financial incentives and subsidies, subsidized loans, recruitment of talents, purchasing services, land supply, taxes and fees exemption and reduction and financial support provided by the local government where the college operates. The Company shall enjoy benefits of inclusive policies after the completion of conversion, as Chengdu Institute Sichuan International Studies University is controlled by the Company via structured contracts.

CORPORATE GOVERNANCE/OTHER INFORMATION

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

As at 30 June 2020, 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	1,376,103,045	Long Position	44.55
Ms. Wang Xiaoying ⁽²⁾	Interest of spouse and interest in a controlled corporation	1,376,103,045	Long Position	44.55
Mr. Deng Bangkai	Beneficial owner	220,000	Long Position	0.01

Notes:

- (1) Mr. Yan Yude is the sole shareholder and sole director of Virscend Holdings and he is therefore deemed to be interested in 1,292,456,045 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 2020, none of the Directors or the chief executive of the Company had or was deemed to have any interest or short position in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) that was required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have taken under such provisions of the SFO), or required to be recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

CORPORATE GOVERNANCE/OTHER INFORMATION

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as 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 2020, 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 position/ short position/ interest in a lending pool	Approximate Percentage of Shareholding in the Company (%)
Virscend Holdings	Beneficial owner	1,308,603,045	Long Position	42.37
Mr. Yan Yude ⁽¹⁾	Interest in a controlled corporation and interest of spouse	1,376,103,045	Long Position	44.55
Ms. Wang Xiaoying ⁽²⁾	Interest in a controlled corporation and interest of spouse	1,376,103,045	Long Position	44.55
Bank of China Limited	Security interest	458,876,100	Long Position	14.86
Happy Venus Limited ⁽³⁾	Beneficial owner	181,044,129	Long Position	5.86
Ms. Yan Hongjia ⁽³⁾	Interest in a controlled corporation	181,044,129	Long Position	5.86
The Bank of New York Mellon Corporation	Interest in a controlled corporation	179,633,000	Long Position/ interest in a lending pool	5.82
Invesco Canada Ltd.	Investment manager	155,146,000	Long Position	5.02

CORPORATE GOVERNANCE/OTHER INFORMATION

Notes:

- (1) Mr. Yan Yude is the sole shareholder and sole director of Virscend Holdings and he is therefore deemed to be interested in the 1,308,603,045 Shares held by Virscend Holdings. Mr. Yan Yude is the husband of Ms. Wang Xiaoying and is therefore deemed to be interested in the 67,500,000 Shares indirectly held by Ms. Wang Xiaoying through Smart Ally.
- (2) Mr. Wang Xiaoying is the sole shareholder of Smart Ally and she is therefore deemed to be interested in the 67,500,000 Shares held by Smart Ally. Ms. Wang Xiaoying is the wife of Mr. Yan Yude and she is therefore deemed to be interested in the 1,308,603,045 Shares indirectly held by Mr. Yan Yude through Virscend Holdings.
- (3) Ms. Yan Hongjia is the sole shareholder and sole director of Happy Venus Limited and she is therefore deemed to be interested in the Shares held by Happy Venus Limited.

Save as disclosed above, as at 30 June 2020, 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.

CORPORATE GOVERNANCE/OTHER INFORMATION

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

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

An offer of the grant of an option shall remain open for acceptance by the eligible person concerned for a period of 28 days from the offer date provided that no such grant of an option may be accepted after the expiry of the effective period of the Share Option Scheme. An option shall be deemed to have been granted and accepted by the eligible person and to have taken effect when the duplicate offer letter comprising acceptance of the offer of the option duly signed by the grantee together with a remittance in favor of the Company of HK\$1.00 by way of consideration for the grant thereof is received by the Company on or before the date upon which an offer of an option must be accepted by the relevant eligible person, being a date no later than 28 days after the offer date.

The subscription price in respect of any particular option shall be such price as the Board may in its absolute discretion determine at the time of grant of the relevant option (and shall be stated in the letter containing the offer of the grant of the option) but the subscription price shall not be less than whichever is the highest of: (a) the nominal value of a Share; (b) the closing price of a Share as stated in the Stock Exchange's daily quotations sheet on the offer date; and (c) the average closing price of a Share as stated in the Stock Exchange's daily quotations sheets for the 5 business days (as defined in the Listing Rules) immediately preceding the offer date.

The Share Option Scheme shall be valid and effective for a period of 10 years from the date on which it becomes unconditional, after which no further options will be granted or offered but the provisions of the Share Option Scheme shall remain in force and effect in all other respects. All options granted prior to such expiry and not then exercised shall continue to be valid and exercisable subject to and in accordance with the Share Option Scheme. The remaining life of the Share Option Scheme is around 5 years and 3 months.

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

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2020

	Notes	Six months ended 30 June	
		2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
REVENUE	4	885,657	754,177
Cost of sales		(506,635)	(414,279)
Gross profit		379,022	339,898
Other income and gains	4	17,164	16,634
Selling and distribution expenses		(3,322)	(1,844)
Administrative expenses		(81,766)	(64,545)
Other expenses		(9,491)	(1,034)
Finance costs	5	(57,086)	(44,480)
Share of (loss)/profit of associates		(1,684)	(5,127)
PROFIT BEFORE TAX	6	242,837	239,502
Income tax expense	7	(3,085)	(2,426)
PROFIT FOR THE PERIOD		239,752	237,076
Attributable to:			
Owners of the parent	8	243,585	236,235
Non-controlling interests		(3,833)	841
		239,752	237,076
Earnings per share attributable to ordinary equity holders of the parent – basic and diluted for the period	8	RMBO.08	RMBO.08

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2020

	Six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
PROFIT FOR THE PERIOD	239,752	237,076
OTHER COMPREHENSIVE INCOME		
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	(36)	20
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods	(36)	20
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX	(36)	20
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	239,716	237,096
Attributable to:		
Owners of the parent	243,549	236,255
Non-controlling interests	(3,833)	841
	239,716	237,096

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

	Notes	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	9	4,378,732	4,121,145
Right-of-use assets		1,133,901	1,118,059
Intangible assets		2,755	2,908
Investments in associates		54,581	50,465
Other non-current assets		18,800	102,559
Total non-current assets		5,588,769	5,395,136
CURRENT ASSETS			
Inventories		162	193
Prepayments, other receivables and other assets	10	413,259	517,870
Amounts due from related parties		1,852	10,946
Time deposits		—	11,420
Cash and cash equivalents		525,546	394,386
Total current assets		940,819	934,815
CURRENT LIABILITIES			
Trade payables		58,766	38,861
Other payables and accruals	11	365,851	355,592
Interest-bearing bank and other borrowings	13	1,121,830	923,000
Lease liabilities		15,796	14,991
Tax payable		26,566	26,902
Contract liabilities	12	193,656	861,780
Deferred income		4,362	2,168
Amounts due to related parties	16(B)	6,614	10,919
Total current liabilities		1,793,441	2,234,213
NET CURRENT LIABILITIES		(852,622)	(1,299,398)
TOTAL ASSETS LESS CURRENT LIABILITIES		4,736,147	4,095,738

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

	Notes	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
TOTAL ASSETS LESS CURRENT LIABILITIES		4,736,147	4,095,738
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	13	1,517,583	1,021,903
Lease liabilities		199,884	202,009
Deferred income		7,261	9,593
Amounts due to a related party	16(B)	127,495	108,166
Total non-current liabilities		1,852,223	1,341,671
Net assets		2,883,924	2,754,067
EQUITY			
Equity attributable to owners of the parent			
Share capital	14	26,051	26,051
Reserves		2,834,703	2,703,615
Non-controlling interests		2,860,754	2,729,666
		23,170	24,401
Total equity		2,883,924	2,754,067

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2020

	Attributable to owners of the parent							
	Share capital	Capital reserve	Statutory	Exchange	Retained profits	Total	Non-controlling interests	Total
			surplus reserve	fluctuation reserve				
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
At 1 January 2019	26,051	1,647,021	393,184	(57)	743,613	2,809,812	23,121	2,832,933
Profit for the period	—	—	—	—	236,235	236,235	841	237,076
Other comprehensive income for the period:								
Exchange differences on translation of foreign operations	—	—	—	20	—	20	—	20
Total comprehensive income for the period	—	—	—	20	236,235	236,255	841	237,096
Transfer from retained profits	—	—	100	—	(100)	—	—	—
2018 final dividend declared	—	(108,341)	—	—	—	(108,341)	—	(108,341)
Acquisition of non-controlling interests	—	(266,800)	—	—	—	(266,800)	(1,107)	(267,907)
At 30 June 2019 (unaudited)	<u>26,051</u>	<u>1,271,880*</u>	<u>393,284*</u>	<u>(37)*</u>	<u>979,748*</u>	<u>2,670,926</u>	<u>22,855</u>	<u>2,693,781</u>
At 1 January 2020	26,051	1,191,545*	484,045*	(60)*	1,028,085*	2,729,666	24,401	2,754,067
Profit for the period	—	—	—	—	243,585	243,585	(3,833)	239,752
Other comprehensive income for the period:								
Exchange differences on translation of foreign operations	—	—	—	(17)	—	(17)	(19)	(36)
Total comprehensive income for the period	—	—	—	(17)	243,585	243,568	(3,852)	239,716
Transfer from retained profits	—	—	1,292	—	(1,292)	—	—	—
2019 final dividend declared	—	(112,480)	—	—	—	(112,480)	—	(112,480)
Establishment of a subsidiary	—	—	—	—	—	—	2,621	2,621
At 30 June 2020 (unaudited)	<u>26,051</u>	<u>1,079,065*</u>	<u>485,337*</u>	<u>(77)*</u>	<u>1,270,378*</u>	<u>2,860,754</u>	<u>23,170</u>	<u>2,883,924</u>

* These reserve accounts comprise the consolidated reserves of RMB2,834,703,000 (as at 30 June 2019: RMB2,644,875,000) in the interim condensed consolidated statement of financial position.

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2020

	Notes	Six months ended 30 June	
		2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax	6	242,837	239,502
Adjustments for:			
Finance costs	5	57,086	44,480
Share of profits and losses of associates		1,684	5,126
Net foreign exchange gains		—	(186)
Bank Interest income	4	(562)	(538)
Other interest income	4	(12,892)	(9,759)
Loss on disposal of items of property, plant and equipment	6	—	53
Government grants released		(3,362)	(2,131)
Depreciation	6	80,697	65,220
Amortisation of intangible assets	6	432	262
Depreciation of right-of-use assets/recognition of prepaid land lease payments	6	21,112	11,181
		387,032	353,210
Increase in inventories		31	—
(Increase)/decrease in prepayments, other receivables and other assets		72,317	(61,326)
Increase in trade payables		19,905	—
Increase in other payables and accruals		35,418	21,905
Increase/(decrease) in amounts due to related parties		24,118	(30,017)
Decrease in contract liabilities		(668,124)	(199,740)
Cash generated from operations		(129,303)	84,032
Interest received		562	538
Income tax paid		(4,308)	(2,785)
Net cash flows from operating activities		(133,049)	81,785

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2020

	Notes	Six months ended 30 June	
		2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of items of property, plant and equipment		(385,880)	(86,280)
Acquisition of a subsidiary		—	(164,169)
Acquisition of minority interests		—	(266,800)
Proceeds from disposal of items of property, plant and equipment		8	—
Receipt of government grants for property, plant and equipment		3,224	—
Additions to intangible assets		(279)	(956)
Decrease in time deposits with original maturity of over three months		11,420	—
Increase in investment in associate		(5,800)	—
Loans to third parties		—	(275,041)
Repayment of loans from third parties		26,385	152,400
Interest received		—	9,780
Establishment of a subsidiary		2,621	—
Net cash flows used in investing activities		<u>(348,301)</u>	<u>(631,066)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		646,108	333,000
Repayments of bank loans		(332,609)	(195,500)
New other loans		404,125	291,600
Repayments of other loans		(23,115)	—
Dividends paid		(800)	—
Principal portion of lease payments		(1,320)	(8,819)
Interest paid		(79,843)	(38,924)
Net cash flows from financing activities		<u>612,546</u>	<u>381,357</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		<u>525,546</u>	<u>471,444</u>
Cash and cash equivalents as stated in the statement of cash flows		<u>525,546</u>	<u>471,444</u>
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at beginning of year		394,386	639,392
Effect of foreign exchange rate changes, net		(36)	(24)
CASH AND CASH EQUIVALENTS AT END OF YEAR		<u>525,546</u>	<u>471,444</u>

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

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

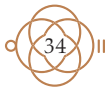
The interim condensed consolidated financial statements for the six months ended 30 June 2020 have been prepared in accordance with IAS 34 Interim Financial Reporting.

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 2019.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2019, except for the adoption of the following revised International Financial Reporting Standards (“**IFRSs**”) for the first time for the current period’s financial information.

Amendments to HKFRS 3	<i>Definition of a Business</i>
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	<i>Interest Rate Benchmark Reform</i>
Amendment to HKFRS 16	<i>Covid-19-Related Rent Concessions (early adopted)</i>
Amendments to HKAS 1 and HKAS 8	<i>Definition of Material</i>



NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

- (a) Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group has applied the amendments prospectively to transactions or other events that occurred on or after 1 January 2020. The amendments did not have any impact on the financial position and performance of the Group.
- (b) Amendments to HKFRS 9, HKAS 39 and HKFRS 7 address the effects of interbank offered rate reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments did not have any impact on the financial position and performance of the Group as the Group does not have any interest rate hedge relationships.
- (c) Amendment to HKFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective retrospectively for annual periods beginning on or after 1 June 2020 with earlier application permitted.
- (d) Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. The amendments did not have any impact on the Group's interim condensed consolidated financial information.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

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:

	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
<u>Revenue from contracts with customers</u>		
Tuition fees	762,669	688,309
Boarding fees	24,009	26,774
Management and consultation service fees	2,564	163
School canteen operations	91,913	38,931
Overseas studies consulting fees	4,502	—
	885,657	754,177
<u>Other income and gains</u>		
Interest income	562	538
Other interest income	12,892	9,759
Fee sharing income	—	2
Government grants		
– related to assets	2,541	3,131
– related to income	38	411
Net foreign exchange gains	—	186
Others	1,131	2,607
	17,164	16,634

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

5. FINANCE COSTS

	Six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Interest on bank and other borrowings	73,678	41,930
Interest on lease liabilities	6,165	5,888
Less: Interest capitalised	(22,757)	(3,338)
	<u>57,086</u>	<u>44,480</u>

6. PROFIT BEFORE TAX

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

	Note	Six months ended 30 June	
		2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Cost of services provided*		102,401	61,723
Canteen operation costs		96,598	37,846
Research and development costs**		8,826	0
Employee benefit expense (excluding directors' and chief executive's remuneration):			
Wages, salaries and other allowances		218,861	208,707
Pension scheme contributions (defined contribution scheme)		20,770	29,340
Depreciation of property, plant and equipment		80,697	65,220
Amortisation of intangible assets		432	262
Depreciation of right-of-use assets (2019: amortisation of land lease payments)		21,112	11,181
Bank interest income		(562)	(538)
Other interest income		(12,892)	(9,759)
Foreign exchange differences, net***		2,104	(186)
(Gains)/Loss on disposal of items of property, plant and equipment		(8)	53

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

** Research and development costs for the year are included in "Cost of sales" in the consolidated statement of profit or loss.

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

7. INCOME TAX

	Six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Current – PRC		
Charge for the year	3,085	2,426
Total tax charge for the year	<u>3,085</u>	<u>2,426</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.

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

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

According to the Implementation Rules for the Law for Promoting Private Education and the Proposed Amendments on the Implementation Rules for the Law for Promoting Private Education, private schools for which the school sponsors do not require reasonable returns and non-profit private schools are eligible to enjoy the same preferential tax treatments as public schools. The preferential tax treatment policies applicable to private schools either requiring reasonable returns or for-profit are to be separately formulated by the relevant authorities under the State Council.

Based on the historical tax returns filed to the relevant tax authorities and the confirmations obtained previously from the local tax bureaus and local offices of the State Administration of Taxation, certain schools within the Group were exempted from corporate income tax in 2019 and 2018.

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

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 2019: 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	
	2020 (Unaudited)	2019 (Unaudited)
Earnings		
Profit attributable to ordinary equity holders of the parent (RMB'000)	243,585	236,235
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)	0.08	0.08

9. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2020, the Group acquired assets with a cost of RMB339,230,663 (six months ended 30 June 2019: RMB53,345,000) on additions to property, plant and equipment.

Assets with a net book value of RMB8,000 were disposed of by the group during the six months ended 30 June 2020 (six months ended 30 June 2019: RMB53,000), and no loss resulted on disposal of items of property, plant and equipment (six months ended 30 June 2019: RMB52,100).

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

10. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

Included in prepayments, other receivables and other assets is a loan to a third party with the principal of RMB150,000,000, which bears interest at 14.4% per annum and is unsecured. The loan is repayable at the year end of 2020.

In addition, there were loans to a cooperative partner of a school amounted to RMB18,000,000, which bears interest at 5% per annum. The loan is settled after the Reporting Period.

An impairment analysis of financial assets included in prepayments, other receivables and other assets is performed at each reporting date by considering the probability of default of comparable companies with an estimated loss rate. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate. As at 30 June 2020. There is no indication of increased risk in loan collection mentioned above. So, no further impairment allowance was recognised. As at 31 December 2019, the loss rate applied was 0.85% and the impairment allowance was RMB2,426,000.

11. OTHER PAYABLES AND ACCRUALS

	30 June 2020 RMB'000	31 December 2019 RMB'000
Payables for purchase of fixed assets and construction	95,997	259,054
Other payables	94,281	49,599
Rental fees payable	32,466	23,193
Accruals	25,671	17,990
Dividends payable	117,436	5,756
	365,851	355,592



NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

12. CONTRACT LIABILITIES

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

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Tuition fees	134,030	754,647
School canteen operation fees	42,598	74,899
Boarding fees	12,299	32,234
Consultation service fees for overseas studies	4,729	—
	<u>193,656</u>	<u>861,780</u>

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

13 INTEREST-BEARING BANK AND OTHER BORROWINGS

	30 June 2020			31 December 2019		
	Effective interest rate %	Maturity	RMB'000	Effective interest rate %	Maturity	RMB'000
Current						
Bank loans – unsecured	5.22	2021	93,000	5.22	2020	93,000
Bank loans – secured	5.22-5.93	2021	736,000	5.22-5.93	2020	586,000
Current portion of long term bank loans – secured	5.64-7.13	2021	190,000	5.64-7.13	2020	204,000
Other loans – secured	8.32	2021	102,830	8.10	2020	40,000
			<u>1,121,830</u>			<u>923,000</u>
Non-current						
Bank loans – secured	5.64-7.13	2033	975,500	5.64-7.13	2033	798,000
Other loans – secured	8.32	2025	542,083	8.10	2024	223,903
			<u>1,517,583</u>			<u>1,021,903</u>
			<u>2,639,413</u>			<u>1,944,903</u>

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

13 INTEREST-BEARING BANK AND OTHER BORROWINGS – CONTINUED

	2020 RMB'000	2019 RMB'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	1,019,000	883,000
In the second year	425,000	490,000
In the third to fifth years, inclusive	90,000	55,000
Beyond five years	460,500	253,000
	<u>1,994,500</u>	<u>1,681,000</u>
Other borrowings repayable:		
Within one year or on demand	102,830	40,000
In the second year	170,031	48,102
In the third to fifth years, inclusive	372,052	175,801
	<u>644,913</u>	<u>263,903</u>
	<u><u>2,639,413</u></u>	<u><u>1,944,903</u></u>

Certain of the Group's bank borrowings amounting to RMB1,901,500,000 (31 December 2019: RMB1,588,000,000) as at 30 June 2020 were secured by assets or guaranteed by Sichuan Derui, Mr. Yan Yude and Ms. Wang Xiaoying.

Bank borrowings amounting to RMB400,000,000 out of RMB1,901,500,000 were also guaranteed by Ms. Yan Hongjia.

Besides, bank borrowings amounting to RMB20,780,000 out of RMB1,901,500,000 were also secured by mortgages over Sichuan Derui's building situated in Chengdu.

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

All the above borrowings are denominated in RMB.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

14. SHARE CAPITAL

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Issued and fully paid: 3,088,761,000 (2019: 3,088,761,000) ordinary shares of HK\$0.01 each	<u>26,051</u>	<u>26,051</u>

15. COMMITMENTS

CAPITAL COMMITMENTS

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

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Contracted, but not provided for:		
Land and buildings, equipment	130,000	71,512
Capital contributions payable to an associate	<u>8,050</u>	<u>6,900</u>
	<u>138,050</u>	<u>78,412</u>



NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

16. RELATED PARTY TRANSACTIONS

(A) NAMES AND RELATIONSHIPS OF RELATED PARTIES

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

As disclosed in the consolidated statement of financial position, the Group had outstanding balances due to related parties at 31 December 2019 and 30 June 2020.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

16. RELATED PARTY TRANSACTIONS – CONTINUED

(B) OUTSTANDING BALANCES WITH RELATED PARTIES

AMOUNTS DUE FROM RELATED PARTIES

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Oriental Baby Care	147	5,147
Gaoxin Campus	1,705	71,512
Others	—	5,799
	1,852	10,946

This balance is unsecured, interest-free and has no fixed terms of repayment.

AMOUNTS DUE TO RELATED PARTIES

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Sichuan Derui	17,112	4,395
USA Tianren Hotel	5,198	5,129
Mr. Yan Yude	1,416	1,395
Virscend Holdings	110,383	108,166
	134,109	119,085

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

16. RELATED PARTY TRANSACTIONS – CONTINUED

(C) OTHER RELATED PARTY TRANSACTIONS

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

		Six months ended 30 June	
		2020	2019
		RMB'000	RMB'000
Nature of transaction		(Unaudited)	(Unaudited)
Tianren hotel	Canteen and accomodation service	243	—
Chengdu Tianren Property Development Co., Ltd	Property Lease	—	3
Gaoxin Campus	Management service	1,245	163

- 2) Certain of the Group's bank borrowings amounting to RMB1,901,500,000 (31 December 2019: RMB1,588,000,000) as at 30 June 2020 were secured by assets or guaranteed by Sichuan Derui, Mr. Yan Yude and Ms. Wang Xiaoying.

Bank borrowings amounting to RMB400,000,000 out of RMB1,901,500,000 were also guaranteed by Ms. Yan Hongjia.

Besides, bank borrowings amounting to RMB20,780,000 out of RMB1,901,500,000 were also secured by mortgages over Sichuan Derui's building situated in Changdu.

The other borrowings have a maturity which varied from 3 to 5 years with an average fixed rate of 8.32% and are guaranteed by Mr. Yan Yude, Ms Wang Xiaoying and Sichuan Derui.

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

	30 June 2020	30 June 2019
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Short term employee benefits	2,686	2,559
Pension scheme contributions	13	47

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

17. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, areas follows:

	Carrying amounts		Fair values	
	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Financial liabilities				
Interest-bearing bank borrowings	1,994,500	1,681,000	2,039,804	1,719,362
Other borrowings	644,912	263,903	694,986	285,129
Due to related party	110,383	108,166	110,383	108,166
	<u>2,749,795</u>	<u>2,053,069</u>	<u>2,845,173</u>	<u>2,112,657</u>

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

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

The fair values of the interest-bearing bank borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for interest-bearing bank borrowings as at 30 June 2020 and 31 December 2019 was assessed to be insignificant.



NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

18. DIVIDEND

	For the six months ended 30 June	
	2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000
Final - HK4.0 cents (2019: HK4.0 cents) per ordinary share	112,480	108,335
Proposed Interim - HK4.0 cents (2019: HK4.0 cents) per ordinary share	110,639	111,529

A final dividend of HK4.0 cents per share in respect of the year ended 31 December 2018 proposed by the Board has been approved by the shareholders at the annual general meeting of the Company and dividends of RMB108,335,000 have been declared by the Company in June 2019, among which RMB110,801,000 have been paid by the date of this report issued.

An interim dividend of HK4.0 cents per share in respect of the period ended 30 June 2019 proposed by the Board has been approved by the shareholders at the extraordinary general meeting of the Company and dividends of RMB111,529,000 have been declared by the Company in October 2019, among which RMB110,318,000 have been paid by 30 June 2020.

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

The Board has resolved to recommend the payment of interim dividend of HK4.0 cents per share for the six months ended 30 June 2020 and is subject to the approval by the shareholders at the forthcoming extraordinary general meeting of the Company.

19. 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 28 August 2020.

20. EVENTS AFTER THE REPORTING PERIOD

On 27 July 2020, the Group entered into the Conversion agreement with an independent third party to end their corporation and facilitate the transition of the University from an independent College to a private higher education institution. The Group has paid a one-off settlement payment of RMB125 million, which will negatively impact the profits of the Group for the financial year ending 31 December 2020.

On 15 August 2020, the Group entered into the School Sponsor's Interest Transfer Agreement with an independent third party to further acquire 80% of the school sponsor's interest in Gaoxin Campus at a consideration of RMB240,000,000. The transaction is scheduled to be completed before the end of 2020.

DEFINITION

“associate(s)”	has the meaning ascribed thereto in the Listing Rules
“Board”	the board of Directors
“Chengdu Experimental Foreign Languages School”	Chengdu Experimental Foreign Languages School* (成都市實驗外國語學校), a private middle and high school established under the laws of the PRC, where the school sponsor’s interest is wholly-owned by Sichuan Derui, and a consolidated affiliated entity of the Company
“Chengdu Experimental Foreign Languages School (Western Campus)”	Chengdu Experimental Foreign Languages School (Western Campus)* (成都市實驗外國語學校 (西區)), a private middle and high school established under the laws of the PRC, where the sponsor’s interest is wholly-owned by Sichuan Derui, and a consolidated affiliated entity of the Company
“Chengdu Foreign Languages Kindergarten” or “Kindergarten”	Kindergarten of the Primary School attached to Chengdu Jinniu District Foreign Languages School* (成都市金牛區成外附小幼稚園), a private kindergarten school established under the laws of the PRC, where the school sponsor’s interest is wholly-owned by the Primary School, and a consolidated affiliated entity of the Company
“Chengdu Foreign Languages School”	Chengdu Foreign Languages School* (成都外國語學校), a private school established under the laws of the PRC, where the school sponsor’s interest is wholly-owned by Sichuan Derui, and a consolidated affiliated entity of the Company
“Chengdu Foreign Languages School of Yibin”	Chengdu Foreign Languages School of Yibin* (宜賓市翠屏區成外學校), a private middle school established under the laws of the PRC and a consolidated affiliated entity of the Company, where the school sponsor’s interest is owned as to 95% by Sichuan Derui
“Chengdu Foreign Languages School of Zigong”	Chengdu Foreign Languages School of Zigong* (自貢成都外國語學校), a private primary and middle school established under the laws of the PRC and a consolidated affiliated entity of the Company, where the school sponsor’s interest is owned as to 57% by Sichuan Derui, 43% by an independent third party
“Chengdu Institute Sichuan International Studies University” or “University”	Chengdu Institute Sichuan International Studies University* (四川外國語大學成都學院), a private university established under the laws of the PRC and a consolidated affiliated entity of the Company, where the school sponsor’s interest is owned as to 75.7% by Sichuan Derui, and 24.3% by Xinhua Winshare, each a school sponsor. Sichuan International Studies University* (四川外國語大學) is named as a school sponsor entitled to the rights stipulated under the articles of the University and the relevant PRC laws

DEFINITION

“CISISU Yibin Campus”	Chengdu Institute Sichuan International Studies University (Yibin Campus)* (四川外國語大學成都學院宜賓校區), a private university established under the laws of the PRC, where the school sponsor’s interest is wholly-owned by Sichuan Derui, and a consolidated affiliated entity of the Company
“Company”	Virscend Education Company Limited, a company incorporated in the Cayman Islands whose shares are listed on the Stock Exchange
“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
“Director(s)”	the director(s) of the Company
“Gaokao”	also known as the National Higher Education Entrance Examinations, an academic examination held annually in the PRC
“Gaoxin Campus”	Chengdu Foreign Languages School Gaoxin Campus* (成都外國語學校高新校區), a private high school established under the laws of the PRC and an associate of the Company, where the school sponsor’s interest is owned as to 20% by Sichuan Derui.
“Global Offering”	the offering of the Shares on the Main Board of the Stock Exchange
“Group”, “we”, “our” or “us”	the Company and its subsidiaries
“HK\$” or “HKD”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	The Hong Kong Special Administrative Region of the PRC
“Listing”	the listing of Shares on the Main Board of the Stock Exchange
“Listing Date”	15 January 2016, being the date on which dealings in the Shares first commenced on the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules

DEFINITION

“Panzhuhua School”	Chengdu Foreign Languages School of Panzhuhua* (攀枝hua市成都外國語學校), a private middle and high school established under the laws of the PRC, or “Panzhuhua School” where the school sponsor’s interest is wholly-owned by Sichuan Derui, and a consolidated affiliated entity of the Company.
“PRC” or “China”	The People’s Republic of China
“Primary School Attached to Chengdu Foreign Languages School” or “Primary School”	Primary School attached to Chengdu Foreign Languages School*(成都外國語學校附屬小學), a private primary school established under the laws of the PRC, where the school sponsor’s interest is wholly-owned by Sichuan Derui, and a consolidated affiliated entity of the Company
“Primary school of Chengdu Foreign Languages School of Yibin”	Primary School Attached to Chengdu Foreign Languages School of Yibin* (宜賓市翠屏區成外附屬小學), a private primary school established under the laws of the PRC and a consolidated affiliated entity of the Company, where the school sponsor’s interest is owned as to 95% by Sichuan Derui.
“Prospectus”	the prospectus of the Company dated 31 December 2015
“Reporting Period”	the six months ended 30 June 2020
“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



DEFINITION

“Southwest China”	comprises Sichuan, Guizhou and Yunnan Provinces and Chongqing Municipality
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Substantial Shareholder”	has the meaning ascribed thereto in the Listing Rules
“Tibet Huatai”	Tibet Huatai Education Management Consulting Co., Ltd.* (西藏華泰教育管理有限公司), a wholly-foreign owned enterprise established under the laws of PRC and a wholly-owned subsidiary of the Company
“USD”	United States dollars, the lawful currency of the United States of America
“Virscend Holdings”	Virscend Holdings Company Limited, a company incorporated in the British Virgin Islands with limited liability on 20 March 2015 and wholly-owned by Mr. Yan Yude, an executive Director and one of the Controlling Shareholders
“Wulongshan High School”	Wulongshan Campus of Chengdu Experimental Foreign Languages School* (成都市實驗外國語學校五龍山校區), a private high school established under the laws of the PRC and a consolidated affiliated entity of the Company, where the school sponsor’s interest is owned as to 45% by Sichuan Derui, 55% by two independent third parties
%	per cent

* for identification purpose only