

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



Virscend Education Company Limited
成實外教育有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1565)

**ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS
ENDED 28 FEBRUARY 2023**

The board (the “**Board**”) of directors (the “**Directors**”) of Virscend Education Company Limited (the “**Company**”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries for the six months ended 28 February 2023. This announcement, containing the full text of the 2023 interim report of the Company, complies with the relevant requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited in relation to information to accompany preliminary announcements of interim results.

By order of the Board of
Virscend Education Company Limited
Wang Xiaoying
Chairwoman

Hong Kong, 28 April 2023

As at the date of this announcement, the executive Directors are Ms. Wang Xiaoying, Mr. Ye Jiayu, Mr. Yan Yude and Mr. Deng Bangkai; and the independent non-executive Directors are Mr. Sit Chiu Wing, Mr. Chan Kim Sun and Mr. Wen Ruizheng.



VIRSCEND EDUCATION COMPANY LIMITED

成實外教育有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1565

2023 | INTERIM
REPORT

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



CONTENTS

Company Profile	2
Corporate Information	3
Financial Highlights	5
Management Discussion and Analysis	6
Corporate Governance/Other Information	20
Unaudited Interim Condensed Consolidated Statement of Profit or Loss	29
Unaudited Interim Condensed Consolidated Statement of Comprehensive Income	30
Unaudited Interim Condensed Consolidated Statement of Financial Position	31
Unaudited Interim Condensed Consolidated Statement of Changes in Equity	33
Unaudited Interim Condensed Consolidated Statement of Cash Flows	34
Notes to Interim Condensed Consolidated Financial Statements	36
Definition	52



COMPANY PROFILE

The Group is a leading provider of pre-school to grade 12 and university private education services. Through our schools, we provide education services to students in every age group from kindergarten through university. For school year 2022-2023, the total student enrolment of the Group's self-operated schools was 27,155, with 6,871 students enrolled in the high-schools, 20,284 students enrolled in Chengdu Institute Sichuan International Studies University (the "**University**") and 9,319 students enrolled in our network schools, and we employed an aggregate of approximately 1,319 teachers in China. In addition, the Group operates the Virscend University located in Irvine, California, the United States. In March 2021, Virscend University received "Candidacy" status from WASC. Virscend University currently offers MBA program and has graduated 43 students since 2018.

The team from the international program of Chengdu Foreign Languages School ranked fourth in China, and first in Southwest China in the United States Academic Decathlon ("**USAD**") held in March 2023, and qualified for the global competition.

In 2022-2023 school year, two students from our international program received offer to be admitted to Cambridge University and one student received offer to be admitted to Williams College, named first in US Liberal Arts College according to U.S. News 2023.

We currently operate nine high schools and one university in five cities in Sichuan Province, China. Through these schools, we offer formal education with comprehensive education programs. We are one of the few private education companies in Southwest China that offer high school and university education. The Group aspires to provide a pathway to first-tier universities in China and reputable colleges and universities abroad for interested students.

The University currently offers 29 bachelor programs and 21 diploma programs. In 2022, according to WuShulian's "China Independent College Rankings", the University ranked 18th among all 157 independent colleges. The University ranked 64th in terms of comprehensive capabilities, and ranked 22nd in terms of quality of undergraduates among all 396 independent colleges and private universities.

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.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Independent Non-executive Directors

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

AUTHORISED REPRESENTATIVES

Ms. Wang Xiaoying
Mr. Deng Bangkai

COMPANY SECRETARY

Mr. Deng Bangkai (*appointed on 31 March 2023*)
Ms. Ho Yin Kwan (*resigned on 31 March 2023*)

LEGAL ADVISORS

As to Hong Kong law:
Morgan, Lewis & Bockius
Suites 1902-09, 19/F
Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

As to Cayman Islands law:
Conyers Dill & Pearman
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

CORPORATE INFORMATION

REGISTERED OFFICE

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

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

No. 18 Sandongqiao Road
Jinniu District, Chengdu
The PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 02, 8/F
Tung Che Commercial Centre
246 Des Voeux Road West
Hong Kong

CAYMAN ISLANDS SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712-1716
17th Floor, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

PRINCIPAL BANK

Industrial and Commercial Bank of China

INVESTOR RELATIONS

Email: ir@virscendeducation.com
Address: No. 18 Sandongqiao Road
Jinniu District, Chengdu, the PRC

COMPANY'S WEBSITE

www.virscendeducation.com

STOCK CODE

1565

DATE OF LISTING

15 January 2016

FINANCIAL HIGHLIGHTS

COMPARISON OF KEY FINANCIAL FIGURES

Result of operation

	For the six months ended 28 February 2023 RMB' 000	For the six months ended 28 February 2022 RMB' 000	Change RMB' 000	Percentage Change (%)
Revenue	407,579	298,659	+108,920	+36.5%
Gross profit	139,984	85,689	+54,295	+63.4%
Profit for the period	27,004	7,597	+19,407	+255.5%
Attributable to equity holders of the parent	23,500	10,136	+13,364	+131.8%
Adjusted net profit	37,846	19,964	+17,822	+89.6%
Earnings per share				
Basic and diluted (RMB)	0.008	0.003	—	—

Financial ratio

	For the six months ended 28 February 2023	For the six months ended 28 February 2022
Gross profit margin (%)	34.3	28.7
Net profit margin (%)	6.6	2.5

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Tuition and other ancillary education fee

During the Reporting Period, the Group has witnessed growth of the schools operated by the Group in terms of revenue. Revenue increased from RMB298.7 million for the six months ended 28 February 2022 to RMB407.6 million for the six months ended 28 February 2023. The Group generated its revenue from (i) student fees and (ii) educational management and consultation services provided to third party owned K-12 schools. Student fees are typically comprised of tuition fees, boarding fees, consulting service fees for overseas studies.

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

	For the six months ended 28 February 2023 RMB'000	For the six months ended 28 February 2022 RMB'000	Change RMB'000	Percentage Change (%)
Tuition fees	333,277	245,662	+87,615	+35.7%
Boarding fees	22,168	16,297	+5,871	+36.0%
School canteen operations fees	31,455	22,110	+9,345	+42.3%
Educational management and consultation services fees	10,270	6,923	+3,347	+48.3%
Non-formal tutoring tuition fees	6,578	5,345	+1,233	+23.1%
Consultation services fees for overseas studies	2,316	2,322	-6	-0.3%
Others	1,515	—	+1,515	+100.0%
Total	407,579	298,659	+108,920	+36.5%

MANAGEMENT DISCUSSION AND ANALYSIS

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

Category of schools	For the six months ended 28 February 2023 RMB'000	For the six months ended 28 February 2022 RMB'000	Change RMB'000	Percentage Change (%)
High school	157,359	92,375	+64,984	+70.3%
University	175,918	153,287	+22,631	+14.8%
Total tuition fees	333,277	245,662	+87,615	+35.7%

The rise of the total revenue of the Group was mainly due to the new established high schools and the increase of the Group's student enrollment.

Average Tuition Fees

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

Category of schools	2022/2023 Average Tuition Fees RMB	2021/2022 Average Tuition Fees RMB
High school – domestic program	41,621	37,998
High school – international program	116,314	107,548
University	15,873	14,956

Note: Average tuition fees are calculated as the gross tuition fees (excluding 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.

MANAGEMENT DISCUSSION AND ANALYSIS

Student Enrolment

The table below sets forth information relating to the student enrollment for each of the categories of the schools operated by the Group:

	2022/2023	2021/2022	Change	Percentage Change (%)
High school students – domestic program	6,427	3,954	+2,473	+62.5
High school students – international program	444	495	-51	-10.3
University students	20,284	18,518	+1,766	+9.5
Total number of students	27,155	22,967	+4,188	+18.2

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

- (i) Establishment of new high schools (primarily under asset-light model) by collaborating with third-party business partners;
- (ii) Increasing of utilisation rate of our existing school network and tuition fee;
- (iii) Establishment of international education programs within our schools and provision of overseas studies consulting services;
- (iv) Provision of non-formal education services:
 - a Provide educational management and consultation services to K-12 schools and pre-schools;
 - b Collaborate with certain commercial property owners to establish one-stop comprehensive education program; and
 - c Student's local life services, after class non-subject based activities and etc.

MANAGEMENT DISCUSSION AND ANALYSIS

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

The Group has already opened two high schools in September 2022 in Chengdu City. As at the date of this interim report, it is expected that there will be one new for-profit high school that will be opened in Meishan, Sichuan province, in September 2023.

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

Utilisation rate is calculated as the number of students enrolled divided by the estimated capacity for a given school either already commenced operation or under construction. Except for our kindergarten, our schools are generally boarding schools.

	2022/2023	2021/2022
Total number of students enrolled	27,155	22,967
Total student capacity	51,630	52,830
Overall utilisation rate	52.6%	43.5%

Tuition Fee

On 15 May 2020, the Education Department of Sichuan Province and two other departments issued the "Notice on Improving the Price Management of Private Higher Education Institution and Strengthening Operational and Post-operational Oversight in our Province" 《關於完善我省民辦高校價格管理方式加強事中事後監督的通知》 (the "Notice"), which set out opinions and requirements in respect of determining tuition fee of higher education institution and permitted such institutions to adjust the tuition fee and related fees every three years since September 2020. Based on the new policies, the tuition fees for new undergraduate and diploma students of the University increased to RMB17,000 and RMB15,000 since 2020/2021 school year. And the upcoming tuition fee adjustment will be effective since school year 2023/2024. Furthermore in June 2021, the University has obtained provisional approval from the MOE for conversion.

MANAGEMENT DISCUSSION AND ANALYSIS

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

Category of schools	Current tuition fee standard
High school	Range from RMB30,000 to RMB59,800
University	Range from RMB12,000 to RMB15,000 (diploma) Range from RMB14,000 to RMB20,000 (bachelor)
High-school international program	Range from RMB108,000 to RMB148,000

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

In addition to traditional high school programs, the Group also established the international department. Since 2019, the international department started to manage programs with elite international partners, offering A-level courses, Advanced Placement and Monash University Foundational Programs.

In the rankings of “2022 China International School Competitiveness Ranking (Undergraduate USA)” and “2023 China International School Brand Value Top 100”, International Department of Chengdu Foreign Languages School ranked first in Southwestern China. In Ranking List “2023 HKPEP China’s most educationally competitive international school”, International Department of Chengdu Foreign Languages School ranked first in Chengdu.

Since 2022, the Group expanded educational product layout. In addition to the traditional Anglo-American international program, the Group were also expanding our international education program in Europe and Asia. At the same time, the Group also built matrix academic expansion projects and social practice projects based on the school curriculum.

The international department also expanded its business by offering overseas study consulting services to our own students since later 2019 and recorded revenue of RMB2.3 million in the six months ended 28 February 2023.

MANAGEMENT DISCUSSION AND ANALYSIS

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

Since 2019, the Group entered into school management cooperation agreements with certain K-12 public schools and Kindergartens to provide education management and consultation services including, among others, education quality control, curriculum development, daily operation, teachers recruitment and training, branding, teaching methodology support and campus design. As at 28 February 2023, the Group provided educational management and consultation services to totally thirteen schools including six kindergartens, five K-9/K-12 schools and two high schools.

b. *One stop comprehensive education program*

The Group has been cooperating with certain commercial property owners to establish one-stop comprehensive education program in commercial complex with a floor area of approximately 5,000 to 10,000 square meters where various types of tailor-made education services will be offered to both the parents and their children simultaneously. In addition, it provides curriculum and management output services for institutions and individuals who intend to invest in the education program. The high-quality education courses independently developed and iterated by the Group offered among others, Chinese traditional culture, STEAM (Science, Technology, Engineer, Arts and Mathematics), and sports. The daily management of enrollment, recruitment, teaching and research of all educational projects implements the operation mode of unified scheduling of the complex but relatively independently operation of sub-projects. The Group recorded revenue of RMB6.6 million in the six months ended 28 February 2023.

c. *Student's local life services, after-class non-subject based activities*

The Group is still seeking business opportunity to providing non-educational student's local life service such as accommodation, canteen and after-class caring to the students enrolled in schools within the affected entities that the Group lost control since 31 August 2021.

The following table shows a summary of the number of our schools by category as of the dates indicated:

Category of schools	Self-owned schools established	Schools under education management service established
	28 February 2023	28 February 2023
High school	9	2
Kindergarten	0	6
University (China)	1	0
University (United States)	1	0
Schools providing non-formal education services	2	0
K-9/K-12 schools	0	5
	<u>13</u>	<u>13</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Risk Management

The Group is exposed to various risks in the operations of the Group's business and the Group believes that risk management is important to the Group's success. Key operational risks faced by the Group include, among others, changes in general market conditions and perceptions of private education, changes in the regulatory environment in the PRC education industry, the ability of the Group to offer quality education to students, the ability of the Group to increase student enrollment and/or raise tuition fees, the potential expansion of the Group into other regions in Southwest China, availability of financing to fund the Group's expansion and business operations and competition from other school operators that offer similar quality of education and have similar scale.

In addition, the Group also faces numerous market risks, such as interest rate and liquidity risks that arise in the normal course of the Group's business.

Interest Rate Risk

The Group's fair value interest rate risk relates primarily to its fixed-rate bank borrowings. The Group is also exposed to cash flow interest rate risk through the impact of rate changes on interest bearing financial assets and liabilities, mainly bank balances and bank borrowings which carry interest at prevailing market interest rates. It is the Group's policy to keep certain borrowings at floating rates of interest so as to minimize the fair value interest rate risk. The Group currently does not use any derivative contracts to hedge its exposure to interest rate risk. However, the Directors will consider hedging significant interest rate risk should the need arise.

Liquidity Risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank borrowings. The Group regularly reviews its major funding positions to ensure that it has adequate financial resources in meeting its financial obligations.

To properly manage these risks, the Group has established the following risk management structures and measures:

- The Board is responsible and has the general power to manage the Group's operations of the schools, and is in charge of managing the overall risks of the Group. It is responsible for considering, reviewing and approving any significant business decisions involving material risk exposures, such as the Group's decisions to expand its school network into new geographic areas, to raise the Group's tuition fees, and to enter into cooperative business relationships with third parties to establish new schools;
- The Group maintains insurance coverage, which the Group believes is in line with customary practice in the PRC education industry, including school liability insurance; and
- The Group has made arrangements with the Group's lenders to ensure that the Group will be able to obtain credit to support its business operation and expansion.

MANAGEMENT DISCUSSION AND ANALYSIS

Environment, Health and Safety

The businesses of the Group are not in violation of the applicable PRC environmental laws and regulations in any material aspects.

The Group is dedicated to protecting the health and safety of the students. The Group has on-site medical staff or health care personnel at each of the schools the Group operates to handle routine medical situations involving students. In certain serious and medical emergency situations, the Group promptly sends the students to local hospitals for treatment. With respect to school safety, the Group engaged a qualified property management company to provide property security services at the Group's school premises.

As far as the Board and management of the Company are aware, the Group has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Group. During the Reporting Period, there was no material breach of or non-compliance with the applicable laws and regulations by the Group.

FINANCIAL REVIEW

Revenue

Revenue, which is 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 services fees and consultation services fees for overseas studies the Group's schools collected from students, as well as management service fees and consultation service fees received by the Group from private schools and government owned schools during the Reporting Period.

Revenue increased by RMB108.9 million, or 36.5%, from RMB298.7 million for the six months ended 28 February 2022 to RMB407.6 million for the Reporting Period. This increase was primarily attributed to the increase in revenue from tuition fees and revenue from school canteen operations fees, being the increase of RMB87.6 million, or 35.7% in revenue from tuition fees for the six months ended 28 February 2022 to RMB333.3 million for the Reporting Period, and the increase of RMB9.3 million, or 42.3% in revenue from school canteen operations fees for the six months ended 28 February 2022 to RMB31.5 million for the Reporting Period. The tuition fees and school canteen operation fees which the Group received increase mainly attributable to the (i) increase in the number of students enrolled in 2022/2023 school year; and (ii) two new high schools commenced operations since 1 September 2022 in Chengdu. For more information on student enrolment and school utilisation, please refer to the section headed "Business Review" above.

MANAGEMENT DISCUSSION AND ANALYSIS

Cost of Sales

Cost of sales primarily consists of staff costs, depreciation and amortization, utilities, cost of repairs, office expense, property management service fee, rent costs, student subsidies, student scholarship and other costs.

Cost of sales for the six months ended 28 February 2023 increased by RMB54.6 million, or 25.6%, compared with the same period last year. This increase was primarily attributable to:

- (1) Staff costs increased by RMB28.4 million, or 32.4%, compared with the same period last year, which was attributable to the increase in the number of teachers enrolled in 2022/2023 school year. Two new high schools commenced operations since 1 September 2022 and the increase in the number of students enrolled in existed schools together gave rise to the increase in the number of teachers enrolled;
- (2) Direct material costs of canteen operation increased by RMB5.2 million, or 27.5%, compared with the same period last year, which was mainly due to the increase in the number of students and continuous improvements in quality of catering service in the Reporting Period; and
- (3) Student scholarship costs increased by RMB12.9 million, or 162.3%, compared with the same period last year, which was mainly due to in the increase in the number of students enrolled in 2022/2023 school year.

Gross Profit and Gross Profit Margin

Gross profit of the Group amounted to RMB140.0 million for the six months ended 28 February 2023, increased by RMB54.3 million, or 63.4%, compared with the same period last year, which was mainly attributable to the increase of average tuition fee and the number of students. For more information on student enrolment and average tuition fees, please refer to the section headed "Business Review" above.

Gross profit margin of the Group increased to 34.3% for the six months ended 28 February 2023 from 28.7% for the six months ended 28 February 2022, primarily due to the combined effects of (i) the increase in number of students enrollment on enhancing the company utilisation rate, and (ii) higher tuition fee of the two for-profit high schools opened in September 2022.

MANAGEMENT DISCUSSION AND ANALYSIS

Selling and Distribution Expenses

Selling and distribution expenses primarily consist of advertising expenses, student admission expenses and business entertainment expenses.

Selling and distribution expenses increased by RMB0.3 million, or 15.8%, from RMB1.9 million for the six months ended 28 February 2022 to RMB2.2 million for the Reporting Period. The increase in selling and distribution expenses was primarily due to more advertising expenses incurred for student recruitment promotion for two new schools opened in 2022/2023 school year.

Administrative Expenses

Administrative expenses primarily consist of the salaries and other benefits for general and administrative staff, consultation service fees for legal, audit business development and evaluation services, office-related expenses, depreciation of office buildings and equipment, travel expenses, business advisory service fees and other expenses.

Administrative expenses for the six months ended 28 February 2023 increased by RMB23.4 million, or 46.4%, compared with the same period last year, which was primarily due to increase in the fees paid to business advisory services particularly in relation to the Group financial matters by approximately RMB6.8 million, or 135.6%, from approximately RMB5.0 million for the six months ended 28 February 2022 to approximately RMB11.8 million for the Reporting Period, as a result of increase in the Group's ongoing financing activities.

Other Expenses

Other expenses consist primarily of impairment loss of investment in an associate, foreign exchange loss, and disposal of various fixed assets.

Other expense for the six months ended 28 February 2023 decreased by RMB1.6 million, or 63.8% compared with the same period last year.

Finance Costs

Finance costs primarily consist of the interest expenses for bank and other borrowings.

Finance costs increased by RMB11.9 million, or 31.5% from RMB37.8 million for the six months ended 28 February 2022 to RMB49.6 million for the Reporting Period, mainly attributable to the combined effect of (i) the interest expenses for the bank and other borrowings of RMB49.5 million for the Reporting Period, representing an increase of RMB8.8 million as compared to the interest expenses of RMB40.7 million for the six months ended 28 February 2022. The increase of interest expenses was in line with the increase in bank and other borrowings balance; and (ii) the capitalised interest of RMB3.0 million was recognised for the six months ended 28 February 2022, representing a decrease of RMB3.0 million while less capitalised interest was recognised for the Reporting Period.

MANAGEMENT DISCUSSION AND ANALYSIS

Liquidity and Financial Resources

	For the six months ended 28 February 2023 RMB'000	For the six months ended 28 February 2022 RMB'000
Net cash flows (used in)/from operating activities	(27,387)	5,384
Net cash flows used in investing activities	(22,899)	(77,480)
Net cash flows used in financing activities	(111,966)	(433,777)
Net decrease in cash and cash equivalents	(162,252)	(505,873)
Cash and cash equivalents at beginning of period	389,265	631,735
Effect of foreign exchange rate changes, net	(93)	239
Cash and cash equivalents at end of period	226,920	126,101

	As at 28 February 2023 RMB'000	As at 31 August 2022 RMB'000
Bank and other borrowings	1,647,334	1,426,687

Analysis of the maturity profile of the bank and other borrowings of the Group as at 28 February 2023 and 31 August 2022 is set out in note 15 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

Unaudited adjusted net profit

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

	For the six months ended 28 February 2023 RMB'000	For the six months ended 28 February 2022 RMB'000
Net profit	27,004	7,597
Adjustments for:		
Amortisation of intangible assets arising from the acquisition of school	10,916	10,916
Foreign exchange gain	(74)	1,451
Adjusted net profit	37,846	19,964

EVENTS AFTER THE REPORTING PERIOD

On 28 April 2023, Wulongshan Campus of Chengdu Experimental Foreign Languages School (成都市實驗外國語學校五龍山校區) ("**Wulongshan High School**") and Chengdu Experimental Foreign Languages School of Xindu Wulongshan (成都實外新都五龍山學校) ("**Wulongshan School**") held their respective board meetings and school sponsors' meetings which resolved that the Wulongshan School and the Wulongshan High School shall be consolidated into a new school (the "**New Wulongshan School**") providing compulsory education and high school education services. After the completion of the consolidation, the New Wulongshan School will be excluded from the consolidation of the Group due to the coming to effect of the Implementation Regulations and the Wulongshan High School is deemed as disposed of from the Group's perspective. For more details, please refer to the announcement dated 28 April 2023.

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 28 February 2023, all the bank and other borrowings were settled in RMB, while cash and cash equivalents were primarily held in RMB and HKD. The Group plans to maintain an appropriate mix of financial equity and debt to ensure an efficient capital structure. The outstanding balances of bank and other borrowings as at 28 February 2023 were at fixed interest rates or floating interest rates for loans denominated in RMB.

MANAGEMENT DISCUSSION AND ANALYSIS

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 28 February 2023, 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.

Significant Investments, Acquisitions and Disposals

There were no significant investments held as at 28 February 2023, nor other material acquisitions and disposals of subsidiaries and associated companies during the Reporting Period.

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.

Capital Commitments

The following table sets forth a summary of capital commitments as at the dates indicated:

	28 February 2023 RMB'000	31 August 2022 RMB'000
Contracted, but not provided for:		
Buildings and equipment	186,693	198,673

Gearing Ratio

The gearing ratio of the Group, which was calculated as total bank and other borrowings divided by total equity as at the end of the period, increased from approximately 178.7% as at 31 August 2022 to approximately 198.9% as at 28 February 2023, primarily due to the increase in the Group's interest-bearing bank borrowings.

Contingent Liabilities

As at 28 February 2023, the Group had no material contingent liabilities.

Pledge of Assets

As at 28 February 2023, RMB43,100,000 (31 August 2022: RMB40,800,000) were paid to third party leasing companies as pledged deposits for certain borrowings, which will be repaid after settling those borrowings in 3 years.

MANAGEMENT DISCUSSION AND ANALYSIS

Human Resources

As at 28 February 2023, the Group had 1,887 employees (31 August 2022: 1,623 employees).

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 also participates in various employee social security plans for its employees that are administered by local governments, including housing, pension, medical insurance, occupational injury insurance, maternity insurance and unemployment insurance.

The total remuneration cost incurred by the Group for the six months ended 28 February 2023 was approximately RMB147.2 million (for the six months ended 28 February 2022: RMB107.4 million).

CORPORATE GOVERNANCE/OTHER INFORMATION

CORPORATE GOVERNANCE PRACTICES

The Group is committed to maintaining high standards of corporate governance to safeguard the interests of the Shareholders and to enhance corporate value and accountability. The Company has adopted the CG Code as its own code of corporate governance. The Company has complied with the code provisions of the CG Code as set out in Part 2 of Appendix 14 to the Listing Rules 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 set out in Appendix 10 to the Listing Rules as its own code of conduct regarding Directors' securities transactions. Having made specific enquiries of all the Directors, each of the Directors has confirmed that he/she has complied with the Model Code during the Reporting Period.

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

INTERIM DIVIDEND

The Board did not recommend the payment of interim dividend for six months ended 28 February 2023 (interim dividend for the six months ended 28 February 2022: nil).

CORPORATE GOVERNANCE/OTHER INFORMATION

AUDIT COMMITTEE

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

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

CHANGES TO DIRECTORS’ INFORMATION

On 31 March 2023, Mr. Deng Bangkai, being executive Director, was appointed as the company secretary of the Company.

Save as disclosed, 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 University into a Sino-Foreign Joint Venture Private School. Please also refer to the section headed “**Structured Contracts**” in the Prospectus and our annual report for the years ended 31 December 2016, 2017, 2018, 2019, 2020, for the eight months ended 31 August 2021 and for the year ended 31 August 2022 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 2 degree programs, Bachelor of Science in Business Administration (BS) and Master of Business Administration (MBA) programs on 18 November 2016. The University, named Virscend University, has graduated 43 MBA students since its opening. Virscend University is in the process of gaining accreditation from WSCUC, the most prestigious accreditation body in higher education in the West region of the United States. The University received Eligibility Status from WSCUC on 3 June 2019 and Candidacy for Accreditation on 3 March 2021, which means that the institution met or has a plan to meet all of the standards at a substantial level of compliance for accreditation.

Recent Development

The impact of the Implementation Regulations

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

CORPORATE GOVERNANCE/OTHER INFORMATION

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

As at 28 February 2023, 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	1,388,132,045	Long Position	44.94
Ms. Wang Xiaoying ⁽²⁾	Interest of spouse and, interest in a controlled corporation	1,388,132,045	Long Position	44.94
Mr. Deng Bangkai	Beneficial owner	1,100,000	Long Position	0.04

Notes:

- (1) Mr. Yan Yude is the sole shareholder and sole director of Virscend Holdings and he is therefore deemed to be interested in 1,320,632,045 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 1,320,632,045 Shares indirectly held by Mr. Yan Yude through Virscend Holdings.

Save as disclosed above, as at 28 February 2023, 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 by the Company 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 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 28 February 2023, to the best knowledge of the Directors, the following persons (other than being a Director or chief executive of the Company) had interests or short positions in the Shares or underlying Shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Name	Capacity/Nature of Interest	Number of Shares	Long/short position	Approximate Percentage of Shareholding in the Company (%)
Virscend Holdings	Beneficial owner	1,320,632,045	Long Position	42.76
Mr. Yan Yude ⁽¹⁾	Interest in a controlled corporation and interest of spouse	1,388,132,045	Long Position	44.94
Ms. Wang Xiaoying ⁽²⁾	Interest in a controlled corporation and interest of spouse	1,388,132,045	Long Position	44.94
Bank of China Limited	Security interest	458,876,100	Long Position	14.86
Happy Venus Limited ⁽³⁾	Beneficial owner	183,144,129	Long Position	5.93
Ms. Yan Hongjia ⁽³⁾	Interest in a controlled corporation	183,144,129	Long Position	5.93

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 1,320,632,045 Shares held by Virscend Holdings. Mr. Yan Yude is the husband of Ms. Wang Xiaoying and is therefore deemed to be interested in the 67,500,000 Shares indirectly held by Ms. Wang Xiaoying through Smart Ally.
- (2) Ms. Wang Xiaoying is the sole shareholder of Smart Ally and she is therefore deemed to be interested in the 67,500,000 Shares held by Smart Ally. Ms. Wang Xiaoying is the wife of Mr. Yan Yude and she is therefore deemed to be interested in the 1,320,632,045 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.

CORPORATE GOVERNANCE/OTHER INFORMATION

Save as disclosed above, as at 28 February 2023, 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. Pursuant to the amendments to Listing Rules with effect from 1 January 2023, the eligible persons under the Share Option Scheme are subject to Rule 17.03A of the Listing Rules.

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

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

CORPORATE GOVERNANCE/OTHER INFORMATION

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 2 years and 7 months.

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

The number of options available for grant under the Share Option Scheme at the beginning and the end of the Reporting Period is 300,000,000.

CORPORATE GOVERNANCE/OTHER INFORMATION

SHARE AWARD SCHEME

The Company has adopted the Share Award Scheme on 9 October 2021 as a means to recognize the contributions of certain Directors, senior management and employees of the Company and its subsidiaries, or other eligible participant(s) and to retain and motivate them to strive for the future development and expansion of the Group by providing them with the opportunity to acquire equity interests in the Company.

The individuals eligible to be granted award(s) thereunder include any Director (whether executive or non-executive), senior management and employee of the Company and its subsidiaries and any other person whom the Board believes to have contribution or will contribute to the Group and has a direct or significant impact on the long-term development of the Group, but excluding the following persons: (i) any seconded employee, part-time employee or non-full time employee of the Group; (ii) any employee of the Group who at the relevant time has given or been given notice terminating his employment, office or directorship as the case may be; and (iii) any other person that the Board may determine from time to time. Pursuant to the amendments to Listing Rules with effect from 1 January 2023, the eligible persons under the Share Award Scheme are subject to Rule 17.03A of the Listing Rules.

The Board shall not make any further award which will result in the number of Shares administered under the Share Award Scheme to exceed in total 10% of the Company's issued share capital as at 9 October 2021, the date on which the Share Award Scheme is adopted by the Company, being 308,876,100 Shares, representing 10% of the Company's issued share capital as at the date of this interim report.

The Shares may be acquired by the trustee (the "**Trustee**") by way of allotment and issue of new Shares by the Company pursuant to the relevant general mandate or specific mandate granted to the Board by the Shareholders of the Company in general meetings of the Company from time to time, or purchase of Shares in the open market by the Trustee. The Share Award Scheme shall be subject to administration of the Board and the Trustee in accordance with the Share Award Scheme rules and the trust deed dated 10 October 2021. As at 28 February 2023 and the date of this interim report, 45,650,000 Shares have been purchased and held by the Trustee for the purpose of the Share Award Scheme.

Unless approved by the Shareholders in a general meeting, the maximum number of awarded shares which may be subject to an award or awards made to a single selected participant in any 12-month period shall not in aggregate exceed 1.0% of the issued share capital of the Company as at 9 October 2021, the date on which the Share Award Scheme is adopted by the Company.

CORPORATE GOVERNANCE/OTHER INFORMATION

Any awarded shares shall vest in the relevant selected participant(s) in accordance with the vesting schedule determined by the Board at its sole discretion, subject to (a) satisfaction of any vesting conditions specified in the grant letter; (b) the selected participant remaining an eligible participant at the time when the relevant awarded shares are scheduled to vest according to the relevant vesting schedule; and (c) the selected participant not having been summarily dismissed by the Group, not having been bankrupt or failed to pay his debts, not having been convicted for any criminal offence and not having been charged, convicted or held liable for any offence under the SFO or any other similar applicable laws or regulations in force from time to time.

The Share Award Scheme shall be valid and effective for a term of ten (10) years commencing on 9 October 2021, the date on which the Share Award Scheme is adopted by the Company, after which period no further awards shall be offered or granted but the provisions of the Share Award Scheme shall remain in full force and effect in all other respects. The Share Award Scheme shall terminate on the earlier of (i) the tenth (10th) anniversary date of the adoption date; and (ii) such date of early termination as determined by the Board of the Company, provided that such termination shall not affect any subsisting rights of any selected participant(s). The remaining life of the Share Award Scheme is around 8 years and 4 months.

No awards were granted to any selected participants in the Share Award Scheme since it was adopted and as at the date of this interim report.

The number of awards available for grant under the Share Award Scheme at the beginning and the end of the Reporting Period is 308,876,100.

The total number of new Shares available for issue under the Share Award Scheme utilising the general mandate granted by the Shareholders at the annual general meeting of the Company is 263,226,100, representing approximately 8.52% of the issued Shares as at the date of this interim report.

Since there was no grant of option or award under schemes of the Company, the number of Shares that may be issued in respect of options and awards granted under all schemes of the Company during the Reporting Period divided by weighted average number of Shares in issue for the Reporting Period is not applicable.

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 28 February 2023

	Notes	Six months ended 28 February	
		2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
REVENUE	4	407,579	298,659
Cost of sales		(267,595)	(212,970)
Gross profit		139,984	85,689
Other income and gains	4	14,536	16,966
Selling and distribution expenses		(2,243)	(1,929)
Administrative expenses		(73,686)	(50,331)
Other expenses		(919)	(2,538)
Finance costs	5	(49,634)	(37,756)
PROFIT BEFORE TAX	6	28,038	10,101
Income tax expense	7	(1,034)	(2,504)
PROFIT FOR THE PERIOD		27,004	7,597
Attributable to:			
Owners of the parent	8	23,500	10,136
Non-controlling interests		3,504	(2,539)
		27,004	7,597
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT – basic and diluted for the period	8	0.008	0.003

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 28 February 2023

	Six months ended 28 February	
	2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
PROFIT FOR THE PERIOD	27,004	7,597
OTHER COMPREHENSIVE INCOME		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences:		
Exchange differences on translation of foreign operations	(93)	239
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods	(93)	239
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	(93)	239
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	26,911	7,836
Attributable to:		
Owners of the parent	23,452	10,258
Non-controlling interests	3,459	(2,422)
	26,911	7,836

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 28 February 2023

	Notes	28 February 2023 RMB'000 (Unaudited)	31 August 2022 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	9	2,559,831	2,448,030
Right-of-use assets		617,146	624,798
Other intangible assets		104,890	116,072
Goodwill		104,298	104,298
Long-term pledged deposits		38,520	36,220
Other non-current assets		43,097	165,420
Total non-current assets		3,467,782	3,494,838
CURRENT ASSETS			
Inventories		114	24
Trade receivable	11	2,820	1,200
Prepayments and other receivables	10	67,041	56,268
Financial assets at fair value through profit or loss		19,667	24,544
Cash and cash equivalents		226,920	389,265
Total current assets		316,562	471,301
CURRENT LIABILITIES			
Trade payables	12	1,459	1,352
Other payables and accruals	13	51,228	155,680
Financial guarantee contracts		4,839	4,839
Interest-bearing bank and other borrowings	15	838,506	644,223
Lease liabilities		3,453	576
Tax payable		26,064	24,361
Contract liabilities	14	346,203	463,626
Deferred income		68	193
Total current liabilities		1,271,820	1,294,850
NET CURRENT LIABILITIES		(955,258)	(823,549)
TOTAL ASSETS LESS CURRENT LIABILITIES		2,512,524	2,671,289

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 28 February 2023

	Notes	28 February 2023 RMB'000 (Unaudited)	31 August 2022 RMB'000 (Audited)
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	15	808,828	782,464
Lease liabilities		5,070	455
Deferred income		—	1,115
Contract liabilities	14	113,549	116,869
Other payables	13	37,698	37,698
Amounts due to related parties	18	719,306	934,346
Total non-current liabilities		1,684,451	1,872,947
Net assets		828,073	798,342
EQUITY			
Equity attributable to owners of the parent			
Share capital	16	26,051	26,051
Reserves		806,293	782,841
		832,344	808,892
Non-controlling interests		(4,271)	(10,550)
Total equity		828,073	798,342

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 28 February 2023

	Attributable to owners of the parent								
	Share capital RMB'000 Note 11	Capital reserve RMB'000	Statutory surplus reserve RMB'000	Shares held for share award scheme RMB'000	Exchange fluctuation reserve RMB'000	Retained profits/(accumulated losses) RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 September 2021	26,051	898,325	61,434	—	(29)	(122,170)	863,611	(2,755)	860,856
Profit for the year	—	—	—	—	—	11,380	11,380	(7,489)	3,891
Other comprehensive expense for the year:									
Exchange differences arising on translation of foreign operations	—	—	—	—	(314)	—	(314)	(306)	(620)
Total comprehensive (expense)/income for the year	—	—	—	—	(314)	11,380	11,066	(7,795)	3,271
Transfer from retained profits	—	—	—	—	—	—	—	—	—
2021 interim dividend recognised as distribution	—	(48,081)	—	—	—	—	(48,081)	—	(48,081)
Share purchased for share award scheme	—	—	—	(17,704)	—	—	(17,704)	—	(17,704)
At 31 August 2022 and 1 September 2022 (audited)	26,051	850,244*	61,434*	(17,704)*	(343)*	(110,790)*	808,892	(10,550)	798,342
Profit for the period	—	—	—	—	—	23,500	23,500	3,504	27,004
Other comprehensive income for the period:									
Exchange differences on translation of foreign operations	—	—	—	—	(48)	—	(48)	(45)	(93)
Total comprehensive income/(loss) for the period	—	—	—	—	(48)	23,500	23,452	3,459	26,911
Transfer from retained profits	—	—	—	—	—	—	—	—	—
Addition to non-controlling interests	—	—	—	—	—	—	—	2,820	2,820
At 28 February 2023 (unaudited)	26,051	850,244*	61,434*	(17,704)*	(391)*	(87,290)*	832,344	(4,271)	828,073

* These reserve accounts comprise the consolidated reserves of RMB806,293,000 (as at 31 August 2022: RMB782,841,000) in the interim condensed consolidated statement of financial position.

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 28 February 2023

	Notes	Six months ended 28 February	
		2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		28,038	10,101
Adjustments for:			
Finance costs	5	49,634	37,756
Bank Interest income	4	(675)	(282)
Other interest income	4	(185)	(1,746)
Loss on disposal of property, plant and equipment	6	121	—
Government grants released		(1,255)	(94)
Depreciation	6	46,093	41,552
Amortisation of intangible assets	6	11,182	11,284
Depreciation of right-of-use assets	6	9,681	13,988
		142,634	112,559
Increase in inventories		(90)	(72)
(Increase)/decrease in prepayments, other receivables and other assets		(17,894)	34,425
Increase in trade payables		107	1,395
(Decrease)/increase in other payables and accruals		(32,745)	29,259
Decrease in contract liabilities		(120,743)	(171,754)
Cash generated (used in)/from operations		(28,731)	5,812
Interest received	4	675	282
Income tax paid		669	(710)
Net cash flows (used in)/from operating activities		(27,387)	5,384

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 28 February 2023

	Notes	Six months ended 28 February	
		2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of items of property, plant and equipment		(27,527)	(77,480)
Receipt of government grants for property, plant and equipment		14	—
Purchase of financial products		(2,185)	—
Proceeds from disposal of financial products		7,062	—
Interest received	4	185	—
Addition of right-of-use assets		(448)	—
Net cash flows used in investing activities		(22,899)	(77,480)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		447,000	197,000
Repayments of bank loans		(191,600)	(118,500)
New other loans		188,441	58,352
Repayments of other loans		(229,706)	2,584
Addition to non-controlling interests		2,820	1,470
(Increase)/decrease in Long-term receivables		(10,800)	17,913
Dividends paid		—	(122,824)
Principal portion of lease payments		(576)	(758)
Interest paid		(53,125)	(44,545)
Repayment of related party loans	16	(264,420)	(424,469)
Net cash flows used in financing activities		(111,966)	(433,777)
NET DECREASE IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at beginning of period		389,265	631,735
Effect of foreign exchange rate changes, net		(93)	239
CASH AND CASH EQUIVALENTS AT END OF PERIOD		226,920	126,101
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		226,920	126,101
Cash and cash equivalents as stated in the statement of cash flows		226,920	126,101

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 28 February 2023

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 28 February 2023 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 August 2022.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

Except as described below, 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 August 2022.

- (i) The Group has adopted the following revised IFRSs for the first time for the current period’s financial information:

Amendments to IFRS 3	Reference to the Conceptual Framework
Amendments to IAS 16	Property, Plant and Equipment: Proceeds before Intended Use
Amendments to IAS 37	Onerous Contracts - Cost of Fulfilling a Contract
Annual Improvements to IFRSs 2018-2020	Amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41

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

- (a) Amendments to IFRS 3
- (b) Amendment to IAS 16
- (c) Amendments to IAS 37
- (d) Annual Improvements to IFRSs 2018-2020

The Group has early adopted the amendment on 1 January 2022 and the application of the amendment has had no material impact on the Group’s financial positions and performance for the current and prior periods and/or on the disclosures set out in those interim condensed consolidated financial statements.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 28 February 2023

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES – CONTINUED

- (ii) New standards and amendments to existing standards have been issued but are not effective and have not been early adopted by the Group:

Amendments to IFRS 10 and IAS 28 (2011)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to IFRS 16 IFRS 17	Lease Liability in a Sale and Leaseback ² Insurance Contracts ¹
Amendments to IFRS 17 Amendment to HKFRS 17	Insurance Contracts ^{1,5} Initial Application of HKFRS 17 and HKFRS 9 – Comparative Information ⁶
Amendments to IAS 1	Classification of Liabilities as Current or Non-current and Non-current Liabilities with Covenants ^{2,4}
Amendments to IAS 1 and IFRS Practice Statement 2	Definition of Accounting Policies ¹
Amendments to IAS 8	Disclosure of Accounting Estimates ¹
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction ¹

¹ Effective for annual periods beginning on or after 1 January 2023

² Effective for annual periods beginning on or after 1 January 2024

³ No mandatory effective date yet determined but available for adoption

⁴ As a consequence of the amendments to IAS 1, Hong Kong Interpretation 5 Presentation of Financial Statements - Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause was revised in October 2020 to align the corresponding wording with no change in conclusion

⁵ As a consequence of the amendments to IFRS 17 issued in October 2020, IFRS 4 was amended to extend the temporary exemption that permits insurers to apply IAS 39 rather than IFRS 9 for annual periods beginning before 1 January 2023

⁶ An entity that chooses to apply the transition option relating to the classification overlay set out in this amendment shall apply it on initial application of HKFRS 17

The above new standards and amendments to existing standards are effective for annual periods beginning on or after 1 January 2023 and have not been applied in preparing these interim condensed consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 28 February 2023

4. REVENUE, OTHER INCOME AND GAINS

Revenue represents the value of services rendered, after deducting scholarships and refunds during the period.

An analysis of revenue, other income and gains is as follows:

	Six months ended 28 February	
	2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
Revenue from contracts with customers		
Tuition fees	333,277	245,662
Boarding fees	22,168	16,297
School canteen operations fees	31,455	22,110
Educational management and consultation service fees	10,270	6,923
Non-formal tutoring tuition fees	6,578	5,345
Consultation services fees for overseas studies	2,316	2,322
Others	1,515	—
	407,579	298,659
Other income and gains		
Bank interest income	675	282
Other interest income	185	1,746
Foreign exchange difference, net	74	—
Government grants		
– related to assets	1,237	86
– related to income	6,468	8
Others	5,897	14,844
	14,536	16,966

5. FINANCE COSTS

	Six months ended 28 February	
	2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
Interest on bank and other borrowings	49,485	40,728
Interest on lease liabilities	149	28
Less: interest capitalised	—	(3,000)
	49,634	37,756

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 28 February 2023

6. PROFIT BEFORE TAX

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

	Six months ended 28 February	
	2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
Cost of services provided*	58,575	52,066
Canteen operation costs	29,600	22,754
Employee benefit expense (excluding directors' and chief executive's remuneration):		
Wages, salaries and other allowances	132,884	90,591
Pension scheme contributions (defined contribution scheme)	12,215	9,543
Depreciation of property, plant and equipment	46,093	41,552
Amortisation of intangible assets	11,182	11,284
Depreciation of right-of-use assets	9,681	13,988
Lease payments not included in the measurement of lease liabilities	—	326
Bank interest income	(675)	(282)
Other interest income	(185)	(1,746)
Foreign exchange differences, net**	(74)	1,451
Loss on disposal of items of property, plant and equipment	121	1

* 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.

** Foreign exchange difference, net included in "Other income and other gains" or "Other expenses" in the consolidated statement of profit or loss which was arose from the translation of the HKD payables resulting from the fluctuation of the exchange rate between RMB and the HKD.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 28 February 2023

7. INCOME TAX

	Six months ended 28 February	
	2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
Current – PRC		
Total tax charge for the period	1,034	2,504
	1,034	2,504

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 Regulations, not-for-profit private schools are eligible to enjoy the same preferential tax treatments as public schools. 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, except for the kindergarten and for-profit private schools, the remaining schools within the Group were exempted from corporate income tax for the six months ended 28 February 2023 and 2022.

During the Reporting Period, Tibet Huatai Education Management Consulting Co., Ltd. ("Tibet Huatai") was subject to the PRC income tax at an original tax rate of 9%. Other entities incorporated in mainland China and generally subject to the PRC income tax cut 25% unless preferential tax treatment is available.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 28 February 2023

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 3,043,111,000 (six months ended 28 February 2022: 3,088,761,000) in issue during the Reporting period.

There were no potentially dilutive ordinary shares in issue during the six months ended 28 February 2023 and the six months ended 28 February 2022, and therefore the diluted earnings per share amounts were equivalent to the basic earnings per share amounts.

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

	Six months ended 28 February	
	2023 (Unaudited)	2022 (Unaudited)
Profit attributable to ordinary equity holders of the parent (RMB'000)	23,500	10,136
Shares		
Weighted average number of ordinary shares in issue	3,043,111,000	3,088,761,000
Basic and diluted earnings per share (expressed in RMB per share)	0.008	0.003

9. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 28 February 2023, the Group acquired assets with a cost of RMB25,274,448 on additions to property, plant and equipment which mainly transfer from non-current assets and RMB31,231,434 on additions on construction in progress which partly mainly transfer from depreciation of right-of-use assets.

Assets with a net book value of RMB120,737 were disposed of by the Group during the six months ended 28 February 2023, and no loss resulted on disposal of items of property, plant and equipment.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 28 February 2023

10. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

An impairment analysis of financial assets included in prepayments, other receivables and other assets is performed at each reporting date by considering the probability of default of comparable companies with an estimated loss rate. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate. As at 28 February 2023, there is no indication of increased risk in loan collection mentioned above. So, no further impairment allowance was recognised.

11. TRADE RECEIVABLES

An ageing analysis of the trade receivables as at the end of the Reporting Period, based on the invoice date, is as follows:

	28 February 2023 RMB'000 (Unaudited)	31 August 2022 RMB'000 (Audited)
Half year to one year	<u>2,820</u>	<u>1,200</u>

12. TRADE PAYABLES

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

	28 February 2023 RMB'000 (Unaudited)	31 August 2022 RMB'000 (Audited)
Within one year	<u>1,459</u>	<u>1,352</u>

Trade payables of RMB1,459,000 (31 August 2022: RMB1,352,000) are due to canteen suppliers and property management companies which are repayable within 90 days.

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 28 February 2023

13. OTHER PAYABLES AND ACCRUALS

	28 February 2023 RMB'000 (Unaudited)	31 August 2022 RMB'000 (Audited)
Current portion:		
Payables for purchase of fixed assets and construction	8,746	14,006
Accrued staff benefits and payroll	6,548	7,226
Discretionary government subsidies receipt in advance on behalf of students	5,452	13,932
Other payables	25,946	115,930
Rental fees payable	—	714
Accruals	2,594	1,930
Interest payable	1,942	1,942
	51,228	155,680
Non-current portion:		
Other payables*	37,698	37,698
	88,926	193,378

* The amount represents the payables to an independent third party for the purpose of school decoration which bore interest rate of 10% per annum, repayable within five years.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 28 February 2023

14. CONTRACT LIABILITIES

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

	28 February 2023 RMB'000 (Unaudited)	31 August 2022 RMB'000 (Audited)
Tuition fees	247,914	370,956
School canteen operation fees	26,515	43,240
Boarding fees	21,328	23,709
Consultation services fees for overseas studies and non-formal tutoring tuition fees	163,995	142,590
	459,752	580,495
Current	346,203	463,626
Non-current	113,549	116,869
	459,752	580,495

Contract liabilities include short-term advances received from students in relation to the services not yet provided and the portion of consultation services fees for overseas studies that will be provided after one year. The Group receives tuition and boarding fees from students in advance prior to the beginning of each school year and receives university application tutoring fees and talent education fees before rendering the services. The Group receives school canteen operation fees from students in advance prior to the beginning of each school year or each semester. Tuition fees, boarding fees, school canteen operation fees and university application tutoring fees and talent education fees are recognised proportionately over the relevant period of the respective program.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 28 February 2023

15. INTEREST-BEARING BANK AND OTHER BORROWINGS

	28 February 2023			31 August 2022		
	Effective interest rate			Effective interest rate		
	%	Maturity	RMB'000	%	Maturity	RMB'000
Current						
Bank loans – secured	3.80-6.90	2023	287,000	4.45-6.90	2023	249,000
Current portion of long term bank loans – secured	5.20-8.00	2024	289,800	4.80-7.00	2023	149,700
Other loans – secured	6.26-7.85	2024	261,706	6.26-8.19	2023	245,523
			838,506			<u>644,223</u>
Non-current						
Bank loans – secured	4.80-7.00	2033	475,000	4.80-7.00	2033	397,700
Other loans – secured	6.26-7.85	2025	333,828	6.73-8.19	2024	384,764
			808,828			<u>782,464</u>
			1,647,334			<u>1,426,687</u>

	28 February 2023 RMB'000 (Unaudited)	31 August 2022 RMB'000 (Audited)
Analysed into:		
Bank loans repayable:		
Within one year or on demand	576,800	398,700
In the second year	27,000	189,700
In the third to fifth years, inclusive	285,000	52,500
Beyond five years	163,000	155,500
	1,051,800	<u>796,400</u>
Other borrowings repayable:		
Within one year or on demand	261,706	240,357
In the second year	127,255	335,302
In the third to fifth years, inclusive	206,573	54,628
	595,534	<u>630,287</u>
	1,647,334	<u>1,426,687</u>

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 28 February 2023

15. INTEREST-BEARING BANK AND OTHER BORROWINGS – CONTINUED

As at 28 February 2023, the Group's bank borrowings amounting to RMB1,051,800,000 were secured by assets of or guaranteed by Mr. Yan Yude, Ms. Wang Xiaoying and certain related companies controlled by Mr. Yan Yude. Out of the bank borrowings amounting to RMB1,051,800,000, a relative of Mr. Yan Yude and a director of the Company also provided guarantee on bank borrowings amounting to RMB100,000,000 and RMB272,000,000, respectively.

As at 28 February 2023, the Group's other borrowings are related to loans borrowed from third party financing companies under sales and leaseback arrangements for certain property, plant and equipment with total amount of RMB595,534,000. The other borrowings have maturities from 1 to 5 years and are guaranteed by Mr. Yan Yude, Ms. Wang Xiaoying, certain related companies controlled by Mr. Yan Yude, a relative of Mr. Yan Yude and long-term pledged deposits.

Besides, bank borrowings amounting to RMB23,800,000 out of RMB1,051,800,000 were also secured by mortgages over buildings situated in Chengdu, owned by a related party.

16. SHARE CAPITAL

	28 February 2023 RMB'000 (Unaudited)	31 August 2022 RMB'000 (Audited)
Issued and fully paid: 3,088,761,000 (31 August 2022: 3,088,761,000) ordinary shares of 1.0 cents each	<u>26,051</u>	<u>26,051</u>

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 28 February 2023

17. COMMITMENTS

Capital commitments

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

	28 February 2023 RMB'000 (Unaudited)	31 August 2022 RMB'000 (Audited)
Contracted, but not provided for:		
Buildings and equipment	186,693	198,673

18. 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. Xie Suhua	Mother of Mr. Yan Yude
Ms. Yan Hongjia	The daughter of Mr. Yan Yude
Mr. Ye Jiayu	Executive director of the Company
Ms. Ye Jiaqi	Mother of Ms. Yan Hongjia, Sister of Mr. Ye Jiayu
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
Chengdu Tianren Hotel Co. Ltd ("Tianren Hotel")	A company controlled by Mr. Yan Yude
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
Sichuan Derui Wanhua Education Management Co., LTD ("Derui Wanhua")	A company controlled by Mr. Yan Yude
Lucky Sign Global Limited ("Lucky Sign")	A company controlled by Mr. Ye Jiayu and Ms. Ye Jiaqi
Happy Venus Limited ("Happy Venus")	A company controlled by Ms. Yan Hongjia, daughter of Mr. Yan Yude

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 28 February 2023

18. RELATED PARTY TRANSACTIONS – CONTINUED

(A) NAMES AND RELATIONSHIPS OF RELATED PARTIES – CONTINUED

Name	Relationship
<p>Related companies also include the Affected Entities deconsolidated on 31 August 2021 as follow which are companies controlled by Sichuan Derui:</p>	
Chengdu Experimental Foreign Languages School	
Chengdu Foreign Languages School	
Gaoxin Meinian Campus Attached to Chengdu Foreign Languages School (Meinian Campus)	
Chengdu Experimental Foreign Languages School of Xindu Wulongshan	
Chengdu Foreign Languages School of Panzhihua Primary School Attached to Chengdu Foreign Languages School (Xichen Campus)	
Chengdu Foreign Languages School of Deyang Primary School Attached to Chengdu Experimental Foreign Languages School	
Chengdu Experimental Foreign Languages School of Quxian	
Chengdu Experimental Foreign Languages School of Ya'an	
Primary School of Chengdu Foreign Languages School of Yibin	
Chengdu Foreign Languages School of Yibin	
Chengdu Foreign Languages School of Xinjin	
Renshou Chengdu Foreign Languages School	
CDFL Primary School	
Kindergarten of the Primary School attached to Chengdu Jinniu District Foreign Languages School	

As disclosed in the consolidated statement of financial position, the Group had outstanding balances due to related parties at 31 August 2022 and 28 February 2023.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 28 February 2023

18. RELATED PARTY TRANSACTIONS – CONTINUED

(B) OUTSTANDING BALANCES WITH RELATED PARTIES

Amounts due to related parties

	28 February 2023 RMB'000 (Unaudited)	31 August 2022 RMB'000 (Audited)
USA Tianren Hotel	1,649	1,282
Mr. Yan Yude	1,378	1,378
Derui Wanhua	8,820	8,820
Virscend Holdings	8,860	—
Chengdu Experimental Foreign Languages School	595,814	724,001
Chengdu Foreign Languages School	102,785	194,431
Chengdu Experimental Foreign Languages School of Quxian	—	4,117
Chengdu Foreign Languages School of Yibin	—	317
	719,306	934,346

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

(C) OTHER RELATED PARTY TRANSACTIONS

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

		Six months ended 28 February	
Nature of transaction		2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
Tianren hotel	Receiving catering and accommodation services	932	749
	Integrated management services	180	—
Virscend Holdings	Loan raised	9,044	—

- 2) Certain of the Group's bank borrowings were secured or guaranteed by related parties. Details are in note 15 to the financial statements.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 28 February 2023

18. RELATED PARTY TRANSACTIONS – CONTINUED

(C) OTHER RELATED PARTY TRANSACTIONS – CONTINUED

3) LEASE WITH RELATED PARTY

On 30 November 2022, the Group had entered into the Lease Agreement with Tianren Hotel (as lessor) to use the Property for a term of 3 years from 1 December 2022 to 30 November 2025. As at 28 February 2023, the Group has total lease liabilities and right-of-use assets with Tianren Hotel as follows:

Lease liabilities	28 February 2023 RMB'000 (Unaudited)	28 February 2022 RMB'000 (Audited)
Lease liabilities - current	2,860	—
Lease liabilities - non-current	4,916	—

Right-of-use assets	28 February 2023 RMB'000 (Unaudited)	28 February 2022 RMB'000 (Audited)
Right-of-use assets	8,229	—

	Six months ended 28 February	
Depreciation of right-of-use assets	2023 RMB'000 (Unaudited)	2022 RMB'000 (Audited)
Depreciation of right-of-use assets	748	—

	Six months ended 28 February	
Finance costs of lease liabilities	2023 RMB'000 (Unaudited)	2022 RMB'000 (Audited)
Finance costs of lease liabilities	121	—

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 28 February 2023

19. DIVIDEND

No dividend in respect of the year ended 31 August 2022 has been proposed by the Directors of the Company.

No dividend in respect of the six months ended 28 February 2023 has been proposed by the Directors of the Company.

20. APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

These interim condensed consolidated financial statements were approved and authorised for issue by the board of directors on 28 April 2023.

21. EVENTS AFTER THE REPORTING PERIOD

On 28 April 2023, Wulongshan Campus of Chengdu Experimental Foreign Languages School (成都市實驗外國語學校五龍山校區) ("Wulongshan High School") and Chengdu Experimental Foreign Languages School of Xindu Wulongshan (成都實外新都五龍山學校) ("Wulongshan School") held their respective board meetings and school sponsors' meetings which resolved that the Wulongshan School and the Wulongshan High School shall be consolidated into a new school (the "New Wulongshan School") providing compulsory education and high school education services. After the completion of the consolidation, the New Wulongshan School will be excluded from the consolidation of the Group and the Wulongshan High School is deemed as disposed of from the Group' perspective. For more details, please refer to the announcement dated 28 April 2023.

DEFINITION

“Affected Entities”	the PRC Operating Entities providing compulsory education services, which the Group lost control since 31 August 2021
“associate(s)”	has the meaning ascribed thereto in the Listing Rules
“Board”	the board of Directors
“CG Code”	Corporate Governance Code set out in Appendix 14 to the Listing Rules
“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
“Company”	Virscend Education Company Limited, a company incorporated in the Cayman Islands whose shares are listed on the Stock Exchange (Stock Code: 1565)
“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
“Director(s)”	the director(s) of the Company
“Group”, “we”, “our” or “us”	the Company and its subsidiaries
“HK\$” or “HKD”	Hong Kong dollars, the lawful currency of Hong Kong
“Implementation Rules”	Implementation Rules for the Law for Promoting Private Education of the PRC (《中華人民共和國民辦教育促進法實施條例》) promulgated by the PRC State Council, which came into effect on 1 September 2021
“Hong Kong”	The Hong Kong Special Administrative Region of the PRC
“K-12”	preschool to grade twelve, also known as “fundamental education”
“Listing”	the listing of Shares on the Main Board of the Stock Exchange

“Listing Date”	15 January 2016, being the date on which the Shares of the Company are listed 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 as set out in Appendix 10 of the Listing Rules
“MOE”	the Ministry of Education of China
“PRC” or “China”	The People’s Republic of China
“PRC Legal Advisors”	Jingtian & Gongcheng, the legal advisors of the Company as to the PRC laws
“PRC Operating Entities”	consolidated affiliated entities of the Company, namely, schools or institutions through which the Group conducts its our private education business
“Prospectus”	the prospectus of the Company dated 31 December 2015
“Reporting Period”	the six months ended 28 February 2023
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	Securities and Futures Ordinance
“Share(s)”	share(s) of HK1.0 cent each in the share capital of the Company
“Shareholder(s)”	shareholder(s) of the Company
“Share Award Scheme”	the share award scheme adopted by the Company on 9 October 2021
“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 BVI 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
“Subsidiary(ies)”	has the meanings ascribed to it in the Listing Rules. For the avoidance of doubt, the Subsidiaries included PRC Operating Entities in the Prospectus
“Substantial Shareholder”	has the meaning ascribed thereto in the Listing Rules
“Structured Contracts”	collectively, the Business Cooperation Agreements, the Exclusive Technical Service and Management Consultancy Agreements, the Exclusive Call Option Agreements, the Equity Pledge Agreement, the School Sponsors’ and Directors’ Rights Entrustment Agreements, the School Sponsors’ Powers of Attorneys, the Directors’ Powers of Attorneys, the Loan Agreements and the Spouse Undertakings
“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
“U.S. dollar(s)” or “US\$” or “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
“Xinhua Winshare”	Xinhua Winshare Publishing and Media Co., Ltd.* (新華文軒出版傳媒股份有限公司) (previously known as Sichuan Xinhua Winshare Chainstore Co., Ltd.* (四川新華文軒連鎖股份有限公司)), a joint stock limited company established under the laws of the PRC with limited liability whose shares are listed on the Stock Exchange (stock code: 0811)
%	per cent

* For identification purpose only