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Modern Education Group Limited
現代教育集團有限公司
(Incorporated in the Cayman Islands with limited liability)
Stock Code: 1082

ANNOUNCEMENT FOR ANNUAL RESULTS FOR THE YEAR ENDED 30 JUNE 2012

FINANCIAL HIGHLIGHTS

Revenue for the year was HK$318.65 million, representing an increase of 18.63% from HK$268.61 million for last year.

Profit for the year was HK$31.97 million, representing an increase of 55.88% from HK$20.51 million for last year.

The Board did not recommend the payment of a final dividend for the year ended 30 June 2012 (2011: Nil).

The board of directors (the "Board" or "Directors") of Modern Education Group Limited (the "Company") is pleased to announce the consolidated results of the Company and its subsidiaries (collectively, the "Group") for the year ended 30 June 2012, together with the comparative audited figures for the corresponding year ended 30 June 2011 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2012

	NOTES	**2012** **HK$'000**	2011 *HK$'000*
Revenue	*5*	**318,654**	268,614
Other income and expenses	*6*	**1,966**	4,473
Staff costs	*8*	**(60,571)**	(54,717)
Tutor contractor fee	*8*	**(100,048)**	(77,995)
Operating lease payments	*8*	**(53,008)**	(47,198)
Marketing expenses		**(20,704)**	(14,124)
Printing costs		**(548)**	(394)
Depreciation and amortisation		**(8,770)**	(9,454)
Other operating expenses		**(38,563)**	(32,135)
Listing expenses		**–**	(10,408)
Finance costs	*7*	**(138)**	(556)
Profit before taxation	*8*	**38,270**	26,106
Taxation	*9*	**(6,298)**	(5,596)
Profit for the year		**31,972**	20,510
Other comprehensive income			
Exchange differences arising on translation		**29**	152
Total comprehensive income for the year		**32,001**	20,662
Profit for the year attributable to:			
Owners of the Company		**31,157**	20,538
Non-controlling interests		**815**	(28)
		31,972	20,510
Total comprehensive income attributable to:			
Owners of the Company		**31,186**	20,690
Non-controlling interests		**815**	(28)
		32,001	20,662
Earnings per share – basic *(HK cents)*	*10*	**7.81**	7.23

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2012

	NOTES	**2012** ***HK$'000***	2011 *HK$'000*
Non-current assets			
Property, plant and equipment		**19,744**	21,697
Intangible assets		**4,639**	4,837
Deferred tax assets		**1,533**	973
Deposits		**16,476**	14,354
		42,392	41,861
Current assets			
Trade and other receivables	*12*	**21,237**	37,535
Amounts due from related parties		**268**	–
Derivative financial instruments		**4,238**	3,530
Pledged bank deposits		**437**	1,037
Fixed deposits held at banks with original maturity over three months		**41,124**	–
Bank balances and cash		**77,968**	14,499
		145,272	56,601
Current liabilities			
Other payables		**8,630**	21,386
Deferred income		**5,661**	9,968
Taxation payable		**6,985**	7,615
Amounts due to related parties		**720**	3,600
Bank and other borrowings	*13*	**–**	49,591
		21,996	92,160
Net current assets (liabilities)		**123,276**	(35,559)
Total assets less current liabilities		**165,668**	6,302

	NOTE	2012 HK$'000	2011 HK$'000
Non-current liabilities			
Deferred tax liabilities		**823**	974
Provision for long service payments		**2,176**	1,884
		2,999	2,858
Net assets		**162,669**	3,444
Capital and reserves			
Share capital	*14*	**40,000**	28,400
Reserves		**120,300**	(26,510)
Equity attributable to owners of the Company		**160,300**	1,890
Non-controlling interests		**2,369**	1,554
Total equity		**162,669**	3,444

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

1. GENERAL

The Company was incorporated in the Cayman Islands on 26 January 2011 and registered as an exempted company under the Companies Law of the Cayman Islands. Its shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 4 July 2011. Its immediate parent company is Speedy Harvest Investments Limited ("Speedy Harvest"), a company incorporated in the British Virgin Islands, and its ultimate controlling shareholder is Mr. Ng Kam Lun, Eric.

The Company acts as an investment holding company while its subsidiaries are principally engaged in the provision of private tutoring and education services. The addresses of the registered office and principal place of business of the Company are P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands and Suite 2701, 27/F, Tower 2, Nina Tower, 8 Yeung Uk Road, Tsuen Wan, New Territories, Hong Kong respectively.

2. GROUP REORGANISATION AND BASIS OF PRESENTATION

Through a group reorganisation to rationalise the structure of the Group in preparation for the listing of the Company's shares, the Company became the holding company of the Group on 7 June 2011. Details of the group reorganisation are fully explained in the paragraph headed "Corporate Reorganisation" in the section headed "History and Corporate Structure" of the prospectus of the Company dated 20 June 2011 (the "Prospectus"). The Group resulting from the group reorganisation continued to be controlled by Mr. Ng Kam Lun, Eric is regarded as a continuing entity. Accordingly, the consolidated statements of comprehensive income, cash flows and changes in equity for the year ended 30 June 2011 have been prepared, as if the group structure upon the completion of the group reorganisation had been in existence throughout the year ended 30 June 2011 (other than the acquisition of Able Investment Development Limited, Bachelor Education Centre Limited ("Bachelor Education") and Modern English Group Limited), or since the respective dates of establishment of the entities comprising the Group upon completion of the group reorganisation where this is a shorter period.

The consolidated financial statements are presented in Hong Kong dollars ("HK$"), which is the functional currency of the Company.

3. BASIS OF PREPARATION

The consolidated financial statements have been prepared under the historical cost basis, except for certain financial instruments that are measured at fair values, and in accordance with Hong Kong Financial Reporting Standards ("HKFRSs", which also include Hong Kong Accounting Standards and interpretations). In addition, the consolidated financial statements include the applicable disclosures required by the Rule Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and by the Hong Kong Companies Ordinance.

4. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied the following new and revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants.

Amendments to HKFRSs	Improvements to HKFRSs issued in 2010
HKAS 24 (as revised in 2009)	Related party disclosures
Amendments to HKFRS 7	Disclosures – Transfers of financial asset
Amendments to HK(IFRIC) – Int 14	Prepayments of a minimum funding requirement

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

Amendments to HKFRSs	Annual improvements to HKFRSs 2009-2011 cycle[3]
Amendments to HKAS 12	Deferred tax: Recovery of underlying assets[1]
Amendments to HKAS 32	Offsetting financial assets and financial liabilities[4]
Amendments to HKFRS 7	Disclosures – Offsetting financial assets and financial liabilities[3]
Amendments to HKFRS 9 and HKFRS 7	Mandatory effective date of HKFRS 9 and transition disclosures[5]
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated financial statements, joint arrangements and disclosure of interests in other entities: Transition guidance[3]
HKFRS 9	Financial instruments[5]
HKFRS 10	Consolidated financial statements[3]
HKFRS 11	Joint arrangements[3]
HKFRS 12	Disclosure of interests in other entities[3]
HKFRS 13	Fair value measurement[3]
Amendments to HKAS 1	Presentation of items of other comprehensive income[2]
HKAS 19 (as revised in 2011)	Employee benefits[3]
HKAS 27 (as revised in 2011)	Separate financial statements[3]
HKAS 28 (as revised in 2011)	Investments in associates and joint ventures[3]
HK(IFRIC) – Int 20	Stripping costs in the production phase of a surface mine[3]

[1] Effective for annual periods beginning on or after 1 January 2012.
[2] Effective for annual periods beginning on or after 1 July 2012.
[3] Effective for annual periods beginning on or after 1 January 2013.
[4] Effective for annual periods beginning on or after 1 January 2014.
[5] Effective for annual periods beginning on or after 1 January 2015.

The Directors anticipate that the application of these new and revised HKFRSs will have no material impact on the Group's financial performance and positions.

5. REVENUE AND SEGMENT INFORMATION

HKFRS 8 "Operating segments" requires operating segments to be identified on the basis of internal reports about the Group's business units that are regularly reviewed by the chief operating decision maker, Mr. Ng Kam Lun, Eric, the chairman of the Group, in order to allocate resources and to assess performance. The chief operating decision maker regularly reviews revenue analysis by services provided, including secondary tutoring services, secondary day school education, primary tutoring services, skill courses and test preparation courses, English language training and test preparation courses, technical consultation, management and software licensing services, overseas studies consultation services and international foundation year courses (the "IFY courses"). Other than the revenue analysis, no operating results and other discrete financial information is provided to the chief operating decision maker for the assessment of performance of the respective services provided. Hence, the Group's operation is regarded as a single reportable operating segment.

The IFY courses were introduced to students by the Group during the year. The IFY courses are in form of a one-semester full-time pathway programme for secondary school students in pursuit of overseas higher education.

An analysis of the Group's revenue by services is as follows:

	2012	2011
	HK$'000	*HK$'000*
Secondary tutoring services	**259,427**	209,263
Secondary day school education	**18,595**	33,389
Primary tutoring services, skill courses and test preparation courses	**17,376**	5,106
English language training and test preparation courses	**18,326**	17,927
Technical consultation, management and software licensing services	**2,460**	2,221
Overseas studies consultation services	**1,798**	708
IFY courses	**672**	–
	318,654	268,614

The Group's assets, revenue and profit for the year derived from activities located outside Hong Kong are less than 10% of the Group's assets, revenue and profit for the year.

No individual customer accounted for over 10% of the Group's total revenue during both years.

6. OTHER INCOME AND EXPENSES

	2012	2011
	HK$'000	*HK$'000*
Allowance for doubtful debts	**(1,993)**	–
Change in fair value of derivative financial instruments	**708**	222
Interest income	**1,555**	1
(Loss) gain on disposal of property, plant and equipment	**(359)**	2,439
Printing fee income	**624**	600
Others	**1,431**	1,211
	1,966	4,473

7. FINANCE COSTS

	2012	2011
	HK$'000	*HK$'000*
Interests on bank and other borrowings wholly repayable within five years	**138**	403
Interests on finance leases	**–**	153
	138	556

8. PROFIT BEFORE TAXATION

	2012	2011
	HK$'000	*HK$'000*
Profit before taxation has been arrived at after charging:		
Directors' remuneration	**9,702**	5,111
Other staff costs	**52,924**	49,717
Other staff's retirement benefit scheme contributions	**1,980**	1,858
	64,606	56,686
Tutor contractor fee to Directors	**(4,035)**	(1,969)
Staff costs	**60,571**	54,717
Auditor's remuneration		
Current year	**1,256**	1,043
Underprovision for prior years	**175**	–
	1,431	1,043
Provision for long service payments	**296**	181

Tutor contractor fee is calculated based on (i) certain percentage of revenue derived from secondary tutoring services and English language training and test preparation courses and (ii) fixed hourly rate on primary tutoring services, skill courses and test preparation courses.

Operating lease payments represent the minimum lease payments under operating leases paid or payable to lessors which mainly are independent third parties.

9. TAXATION

	2012	2011
	HK$'000	*HK$'000*
The taxation comprises:		
Hong Kong Profits Tax		
Current year	**6,884**	6,901
Overprovision in prior years	**(35)**	(470)
	6,849	6,431
PRC Enterprise Income Tax		
Current year	**160**	134
Deferred tax for current year	**(711)**	(969)
Taxation for the year	**6,298**	5,596

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

Subsidiaries established in the People's Republic of China (the "PRC") were subject to Enterprise Income Tax at 25%. The provision for PRC Enterprise Income Tax is based on the estimated taxable income for PRC taxation purposes at the rate of taxation applicable to each year.

10. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to the owners of the Company for both years is based on the following data:

	2012	2011
	HK$'000	*HK$'000*
Profit for the year attributable to the owners of the Company	**31,157**	20,538
Weighted average number of ordinary shares for the purpose of basic earnings per share	**399,049,180**	284,000,000
Basic earnings per share *(HK cents)*	**7.81**	7.23

For the year ended 30 June 2011, the calculation of the basic earnings per share for the year was based on the profit for the year attributable to the owners of the Company and 284,000,000 shares of the Company in issue after taking into account the share swap pursuant to the group reorganisation as stated in Note 2.

No diluted earnings per share is presented as there were no potential ordinary shares outstanding for both years.

11. DIVIDENDS

	2012	2011
	HK$'000	*HK$'000*
Interim dividend for 2012 of HK$0.025 per ordinary share (2011: Nil)	**10,000**	–
Dividends in specie distributed by:		
– Sino Network Group Limited ("Sino Network")	**–**	16,874
Cash dividends paid by:		
– Sino Network	**–**	60,349
– Bachelor Education	**–**	213
	10,000	77,436
Dividends attributable to:		
– Owners of the Company	**10,000**	77,223
– Non-controlling interests	**–**	213
	10,000	77,436

The Board did not recommend the payment of a final dividend for the year ended 30 June 2012 (2011: Nil).

For the year ended 30 June 2011, the rate of dividends and the number of shares ranking for the above dividends were not presented as such information was not meaningful having regard to the purpose of the consolidated financial statements.

12. TRADE AND OTHER RECEIVABLES

	2012	2011
	HK$'000	*HK$'000*
Accrued revenue and trade receivables	**2,959**	1,091
Less: Allowance for doubtful debts	**(1,993)**	–
	966	1,091
Rental deposits	**26,129**	24,511
Other deposits	**1,406**	869
Prepayments	**6,091**	22,495
Other receivables	**2,271**	2,923
	36,863	51,889
Less: Rental deposits (shown under non-current assets)	**(15,626)**	(14,354)
Trade and other receivables (shown under current assets)	**21,237**	37,535

The following is an aged analysis of accrued revenue and trade receivables, net of allowance for doubtful debts, presented based on the invoice date at the end of the reporting period:

	2012	2011
	HK$'000	*HK$'000*
Accrued revenue not yet billed	**498**	780
Trade receivables:		
0 – 30 days	**174**	278
31 – 60 days	**51**	17
61 – 90 days	**199**	6
Over 90 days	**44**	10
	966	1,091

The accrued revenue and trade receivables primarily arose from the continuing franchising income of primary tutoring service to franchisees, the offering of overseas studies consultation services as well as the provision of technical consultation, management and software licensing services to 北京市朝陽區雅思培訓學校 ("Beijing Yasi School"). The accrued revenue is not yet due as it is billed in arrears. The credit periods are ranged from 30 days to 90 days. There is no credit period granted for tuition fee as they are normally received in advance.

As at 30 June 2012, rental deposits amounted to HK$15,626,000 in respect of lease terms more than 12 months from the end of the reporting period are classified as non-current assets. Rental deposits amounted to HK$14,354,000 as at 30 June 2011 have been reclassified from current assets to non-current assets.

13. BANK AND OTHER BORROWINGS

During the year ended 30 June 2012, the Group repaid bank loans of HK$9,591,000 and other loan of HK$40,000,000 respectively.

14. SHARE CAPITAL

The movements of share capital of the Company are as follows:

	Notes	**Number of shares**	**Amount** *HK$'000*
Ordinary shares of HK$0.1 each			
Authorised			
– on 26 January 2011 (date of incorporation), at 30 June 2011 and 30 June 2012	*(i)*	1,500,000,000	150,000
Issued and fully paid			
– Issue of shares on 26 January 2011 (date of incorporation)	*(i)*	1	–
– Issue of shares upon the share swap on 7 June 2011	*(ii)*	283,999,999	28,400
– At 30 June 2011		284,000,000	28,400
– At 1 July 2011		284,000,000	28,400
– Issue of shares upon the public offering on 4 July 2011	*(iii)*	116,000,000	11,600
– At 30 June 2012		400,000,000	40,000

Notes:

(i) The Company was incorporated and registered as an exempted company in the Cayman Islands on 26 January 2011 with an authorised share capital of HK$150,000,000 divided into 1,500,000,000 ordinary shares of HK$0.1 each. On 26 January 2011, one subscriber share with the par value of HK$0.1 each was subscribed by Mapcal Limited which was subsequently transferred to Speedy Harvest, a company controlled by Mr. Ng Kam Lun, Eric, on 1 February 2011.

(ii) On 7 June 2011, the Company acquired the entire share capital of Sino Network by swapping 283,999,999 shares of HK$0.1 each to the then existing shareholders of Sino Network pursuant to a share swap agreement.

(iii) On 4 July 2011, 116,000,000 ordinary shares of HK$0.1 each of the Company were issued at HK$1.3 per share by way of public offering. On the same date, the Company's shares were listed on the Main Board of the Stock Exchange.

The shares issued rank passu with other shares in issue in all respects.

MANAGEMENT DISCUSSION AND ANALYSIS

Following the listing on the Main Board of the Stock Exchange on 4 July 2011 (the "Listing Date"), the Group has strengthened the leading position in the private tutoring and education services market in Hong Kong and enlarged its presence to the markets in the PRC. During the year, we were awarded a number of recognitions in Hong Kong, including the award as the premium education services provider in "The Best Performance Company Awards 2011"(優質企業巡禮2011之優質教育機構) organised by the Capital Weekly(資本壹週), the "President's Award" by The Community Chest of Hong Kong, the award of "Best IT Application System"(最佳IT應用系統) in the HKGolden IT Awards 2012(香港高登IT品牌賞2012) by HKGolden(香港高登), and the award of "Hong Kong Star Brands Award 2012 (Enterprise)"(「香港星級品牌大獎2012」企業獎) by Hong Kong Small and Medium Enterprises Association and Hong Kong Trade Development Council. Moreover, we have participated in "A-Life Academy" organised by YMCA of Hong Kong, where we grant sponsorship to Secondary 4 to Secondary 6 students to take courses at our learning centres for free.

BUSINESS REVIEW

Secondary Tutoring Services

During the year, we recorded a significantly higher number of course enrolments in our secondary tutoring services as compared with last year. The increase was primarily because of (i) the boom in our course enrolments in the Liberal Studies subject, which was one of the fastest growing subjects during the year, (ii) the co-existence of the first Hong Kong Diploma of Secondary Education Examination ("HKDSE") for Secondary 6 candidates and the last Hong Kong Advanced Level Examination ("HKALE") & Hong Kong Advanced Supplementary Level Examination ("HKASLE") for Form 7 candidates in the academic year of 2011, and (iii) the joining of more tutors who are seasoned in quality tutoring services and well-recognised among students.

The following tables set forth the number of course enrolments, the number of tutors and the average course fees of each category of secondary tutoring courses for the year:

	Year ended 30 June	
	2012	2011
Number of course enrolments *(in thousands)*		
Regular courses	**366**	346
Intensive courses	**75**	47
Summer courses	**63**	32
T.I.P.S. courses	**15**	6
Special courses	**88**	73
Number of tutors *(Note 1)*		
Regular courses	**58**	62
Intensive courses	**42**	34
Summer courses	**46**	56
T.I.P.S. courses	**28**	21
Special courses	**56**	48
Average course fees *(HK$) (Note 2)*		
Regular courses	**468**	459
Intensive courses	**479**	400
Summer courses	**360**	382
T.I.P.S. courses	**414**	377
Special courses	**176**	160

Note 1: Tutors may provide secondary tutoring services for all or certain categories of courses. Thus, the sum of the number of tutors for the provision of regular courses, intensive courses, summer courses, T.I.P.S. courses and special courses is not equal to the total number of tutors for the year.

Note 2: Being revenue divided by course enrolments for the year.

As at 30 June 2012, the Group had 15 learning centres operated under the brand of “Modern Education”(現代教育), which remained unchanged as compared with last year. During the year, two new learning centres were set up in Causeway Bay and Tsuen Wan to replace two old ones in the same districts.

Secondary Day School Education

The number of course enrolments of our day school students dropped during the year mainly because there was no class run for Form 5 or Secondary 5 students. The following tables illustrate the number of course enrolments and average course fees for the respective school levels under our secondary day school education during the year:

	Year ended 30 June	
	2012	2011
Number of course enrolments *(in thousands)*		
Secondary/Form 5	**–**	3.9
Secondary/Form 6	**3.2**	4.0
Form 7	**2.5**	3.0
Average course fees *(HK$) (Note 1)*		
Secondary/Form 5	**–**	2,801
Secondary/Form 6	**2,849**	2,940
Form 7	**3,490**	3,515

Note 1: Being revenue divided by course enrolments for the year.

As at 30 June 2012, we had 9 schools operated under our "Modern College"(現代書院) brand, which was reduced from 11 schools in the last year. The reduction in the number of day schools is mainly due to resources allocation to cope with the Group's strategic plans.

English Language Training and Test Preparation Courses

During the year, we committed more resources to enhance our development in providing English language training and test preparation courses under the brand of "Modern Education"(現代教育). The International English Language Testing System (IELTS) Preparation Course and Diploma in Workplace English (TOEIC) Preparatory Course were the most popular courses among our students, which are reimbursable by the Hong Kong Government under the Continuing Education Fund. Besides, we also developed intensive courses for Test of English as a Foreign Language ("TOEFL") and IELTS examinations. These courses help to diversify the income stream of the Group. Our number of English language training tutors has also increased from 5 to 6.

We recorded a total number of approximately 6,300 course enrolments for the year under our English language training and test preparation courses as compared with approximately 6,000 course enrolments for last year.

Primary Tutoring Services, Skill Courses and Test Preparation Courses

In respect of expansion of our primary tutoring services, we enriched our services by offering more test preparation courses, such as Cambridge Young Learners' English Tests, Olympic Mathematics, Pearson Test of English and GAPSK certificate classes, as well as cooperating with a renowned learning centre in the launch of interview preparation classes for students' application for admission to renowned secondary schools. During the year, on one hand, we opened three more directly owned learning centres and restructured one franchised centre into our directly owned learning centre under the "Modern Bachelor Education"(現代小學士) brand; on the other hand, we had 14 new franchisees joined us and the cooperation with two franchisees terminated upon the expiry of their franchise agreements. As at 30 June 2012, we had 9 directly owned learning centres and 15 franchised centres in operation as well as 8 franchised centres under construction or looking for appropriate locations.

For the year, we recorded a total number of approximately 11,400 course enrolments for our primary tutoring services, skill courses and test preparation courses offered by our directly owned learning centres as compared with approximately 4,500 course enrolments for last year and the total revenue contributed by our franchised centres to the Group reached approximately HK$3.76 million (2011: HK$0.86 million).

PRC Operations

To expand our operation in Southern China, one of our subsidiaries started providing educational consultation and management services at Shaoguan No. 1 High School. With the help of our expertise in running test preparation courses on international standardised tests and examinations, a bridging course has been run at Shaoguan No. 1 High School to prepare local Chinese students for overseas higher education.

During the year, we continued to, under the existing agreements, provide technical consultation, management and software licensing services to Beijing Yasi School（北京雅思）, which is a non-public school sponsored by 北京京力思雅教育諮詢有限公司 (Beijing Jingli Siya Education Consulting Limited Company* ("Beijing Jingli Siya")) (a company not owned by the Group) providing training on the English language and test preparation courses in the Chaoyang District in Beijing. However, due to unforeseen circumstances, Mr. Liu Hongbo, the principal of Beijing Yasi School has refused to be bounded by the aforementioned agreements, which was against the will of Ms. Huang Hui, the legal representative and chairman of the board of Beijing Jingli Siya. Ms. Huang is currently considering the possibility of instituting legal actions against Mr. Liu for his undue performance. In this connection, the Group has made full provision of the sum receivable from Beijing Yasi School which amounted to approximately HK$1.99 million as at the latest practicable date prior to the issue of this results announcement.

Overseas Studies Consultation Services

Pursuant to the cooperation agreement with an overseas studies consultation company based in Hong Kong, we have been providing consultation services since May 2011 for students who intend to study abroad. Our professional advice and analysis are tailor-made for each student by offering a wide range of choices of overseas educational institutes, namely, high schools, colleges and universities in the United States, the United Kingdom, Australia, New Zealand and Canada. Currently, we have approximately 1,000 overseas educational partners all over the world.

With our strategic promotion, the brand of "Modern Overseas"（現代海外升學）has been built up rapidly to differentiate our services in the market. During the year, our overseas studies consultation services assisted many students through various channels. Among others, regular seminars were held for our students and their parents, providing a platform for information sharing and answering enquiries. Thousands of students and parents attended our seminars and showed an interest in overseas studies.

Bridging Courses

During the year, we expanded our overseas studies services by providing the IFY courses in the form of a one-semester full-time pathway programme for secondary school students in pursuit of overseas higher education. The IFY courses are offered under the brand of "Modern College"（現代書院）in Hong Kong. Students with a qualification of Secondary 5/Form 5 or above might be admitted. They would be further assisted by our overseas studies consultation services upon the completion of the IFY courses. We aim to achieve synergy in providing all-round services in this market.

FINANCIAL REVIEW

Revenue

The table below is an analysis of the Group's revenue attributable to its major service categories for the years ended 30 June 2012 and 2011:

	Year ended 30 June	
	2012	2011
	HK$'000	*HK$'000*
Secondary tutoring services	**259,427**	209,263
Secondary day school education	**18,595**	33,389
Primary tutoring services, skill courses and test preparation courses	**17,376**	5,106
English language training and test preparation courses	**18,326**	17,927
Technical consultation, management and software licensing services	**2,460**	2,221
Overseas studies consultation services	**1,798**	708
IFY courses	**672**	–
	318,654	268,614

The Group's revenue increased by approximately 18.63% from approximately HK$268.61 million for last year to approximately HK$318.65 million for the year. Such increase was primarily attributable to the recovery in the revenue from secondary tutoring services from approximately HK$209.26 million for last year to approximately HK$259.43 million for the year, representing increase of HK$50.16 million or 23.97%, and the total contribution of HK$19.85 million recorded in new revenue streams which had commenced operation in the second half of last year or during the year, namely, primary tutoring services, skill courses and test preparation course, overseas studies consultation services and IFY courses. Owing to no new class opened for Form 5/Secondary 5 students in the academic year of 2011, the revenue of secondary day school education was dropped by approximately HK$14.79 million or 44.31% compared to last year. Moreover, the revenue derived from English language training and test preparation courses and technical consultation, management and software licensing services grew slightly to HK$18.33 million and HK$2.46 million respectively. All in all, the Group's performance for the year was benefited from the increase in the Group's total course enrolments from 0.53 million for last year to 0.63 million for the year.

Other income and expenses

The Group's other income and expenses decreased by approximately HK$2.51 million or 56.05% compared to last year. Such decrease was primarily due to the net effect of (i) disposal losses of approximately HK$0.36 million recognised during the year compared to last year when there had been disposal gains of approximately HK$2.44 million, (ii) the recognition of interest income of approximately HK$1.56 million during the year, (iii) additional fair value gain of approximately HK$0.71 million recognised upon the revaluation of the Group's derivative financial instruments and (iv) the allowance for doubtful debts of approximately HK$1.99 million (more details are set out in the preceding section "PRC Operations").

Staff costs

The Group's staff costs increased by approximately HK$5.85 million or 10.70% compared to last year. Such increase was primarily due to the increase of approximately HK$2.53 million in directors' basic salaries for the year and the increase of approximately HK$3.59 million in staff cost of our primary tutoring services for the year.

Tutor contractor fee

The Group's tutor contractor fee increased by approximately HK$22.05 million or 28.27% compared to last year. Such increase was in line with the growth of approximately 23.97% in the revenue derived from secondary tutoring services and further pushed up by the recognition of tutor contractor fee in relation to primary tutoring services.

Operating lease payments

The Group's operating lease payments increased by approximately HK$5.81 million or 12.31% compared to last year. Such increase was primarily due to the upward adjustment in monthly rental payment of certain secondary learning centres upon the renewal of those tenancy contracts during the year and the increase of HK$2.11 million in operating lease payments of our centres for primary tutoring services.

Marketing expenses

The Group's marketing expenses increased by approximately HK$6.58 million or 46.59% compared to last year. To promote the Group's expertise in delivering quality tutoring services under the 334 academic system and enhance the Group's brand name after its listing on the Stock Exchange, the Group committed additional resources in conducting marketing campaigns through multimedia channels during the year.

Other operating expenses

The Group's other operating expenses increased by approximately HK$6.43 million or 20.00% compared to last year. Such increase was primarily due to the effect of (i) the increase of approximately HK$1.68 million in sales commission paid to external agents for introducing potential students which functions were previously undertaken by the Group's staff, (ii) the additional printing related expenses of approximately HK$2.40 million incurred for more courses materials required during the year, (iii) the increase of approximately HK$1.21 million in building management and air-conditioning fees in relation to the Group's leased properties and (iv) the increase of approximately HK$1.53 million in other operating expenses for our primary tutoring services.

Finance costs

The Group's finance costs decreased by approximately HK$0.42 million or 75.18% compared to last year. Such decrease was primarily because the Group fully settled its bank and other borrowings in July and August 2011.

Taxation

The Group's taxation expenses increased by approximately HK$0.70 million or 12.54% compared to last year as a result of the increase in profit before taxation for the year. The Group's effective tax rate was approximately 16.46% and 21.44% for the year and last year respectively. The decrease in the effective tax rate was primarily due to the elimination of one-off effect of listing expenses incurred in last year.

Profit attributable to owners of the Company, net profit margin and earnings per share

The Group's profit for the year attributable to owners of the Company increased by approximately HK$10.62 million or 51.70% compared to last year. The Group's net profit margin increased from 7.64% for last year to 10.03% for the year. The increase in net profit margin was attributable to the combined effect of the aforesaid various factors in the preceding sections. For the year, the earnings per share (basic) of the Company were 7.81 HK cents (2011: 7.23 HK cents).

Liquidity and Financial Resources

We have built an appropriate liquidity risk management framework to manage our short, medium and long-term funding and to satisfy liquidity management requirements.

Financial resources

The Group generally finances its operations with internally generated cash flow. As at 30 June 2012, the total of cash and cash equivalents, pledged and unpledged bank deposits amounted to approximately HK$119.53 million (2011: approximately HK$15.54 million). During the year, net cash inflow from operating activities of the Group amounted to approximately HK$31.51 million (2011: approximately HK$12.82 million) and the Group received net proceeds of approximately HK$130 million from its initial public offering.

Borrowings

During the year, the Group settled all outstanding bank and other borrowings. As at 30 June 2012, there were no bank and other borrowings (2011: approximately HK$49.59 million).

Gearing ratio

As at 30 June 2012, the gearing ratio of the Group was approximately 9.56% (2011: approximately 96.17%). Gearing ratio is total debts divided by the sum of total equity plus total debts. Total debts refer to total liabilities minus the sum of tax payable, deferred tax liabilities and dividend payable (if any). The significant decrease in the gearing ratio was primarily due to the settlement of all the Group's outstanding bank and other borrowings during the year.

EXPOSURE TO FOREIGN EXCHANGE RISK

The income and expenditure of the Group are mainly denominated in Hong Kong dollars and as such the impact of foreign exchange exposure of the Group was considered minimal. Hence, no hedging or other arrangements to reduce the currency risk have been implemented.

EMPLOYEE AND REMUNERATION POLICY

As at 30 June 2012, the Group had a total number of 377 (2011: 314) employees. They receive competitive remuneration packages that are constantly monitored with reference to the market circumstances, with incentives such as discretionary bonuses based on the Group's and individual performance. The Group provides a comprehensive benefits package and career development opportunities.

Pursuant to a share option scheme adopted on 11 June 2011 (the "Share Option Scheme"), the Board may grant options to eligible employees, including the directors of the Company and any of its subsidiaries, to subscribe for shares of the Company. During the year, no options were granted under the Share Option Scheme.

CONTINGENT LIABILITIES

As at 30 June 2012, the Group did not have any contingent liabilities (2011: Nil).

CAPITAL COMMITMENTS

As at 30 June 2012, there were respective capital commitments in respect of contracted for but not provided in the consolidated financial statements amounting to HK$264,000 (2011: Nil) and in respect of authorised but not contracted for amounting to HK$500,000 (2011: Nil).

CHARGES ON THE GROUP'S ASSETS

As at 30 June 2012, the Group had bank deposits amounting to HK$0.44 million (2011: HK$1.04 million) pledged to banks to secure short term banking facilities granted to the Group. Save as the aforesaid, the Group did not have any other charges on the Group's assets.

SIGNIFICANT INVESTMENTS HELD

As at 30 June 2012, there were no significant investments held by the Company (2011: Nil).

MATERIAL ACQUISITION AND DISPOSAL

During the year, there were no material acquisition and disposal of subsidiaries made by the Group.

During last year, the Group acquired 60% equity interest of a company engaged in provision of primary tutoring services, skill courses and test preparation courses.

EVENT AFTER THE END OF THE REPORTING PERIOD

On 31 July 2012, the Group entered into sales and purchase agreements to acquire two properties in Hong Kong from an independent third party at an aggregate cash consideration of HK$36,800,000.

USE OF PROCEEDS FROM THE LISTING

The net proceeds from the Company's issue of new shares (after deducting expenses relating specifically to the issue of new shares in the initial public offering and expenses relating generally to the listing of all the shares of the Company, whether existing or new) amounted to approximately HK$130 million.

As at 30 June 2012, the net proceeds from the initial public offering had been utilised in the following manner:

	Planned amount per Prospectus	**Amount utilised up to 30 June 2012**	**Balance as at 30 June 2012**
	HK$ million	*HK$ million*	*HK$ million*
Repayment of loans	50	49.54	0.46
Setting up secondary learning centres	15	5.06	9.94
Setting up primary learning centres	6	1.76	4.24
Setting up kids learning centres	15	0.04	14.96
Provision of overseas studies consultation services	6	–	6
Provision of test preparation and bridging courses	4	1.17	2.83
Strategic merger and acquisition	34	–	34

The unutilised balance was placed in bank deposits in accounts at commercial banks in Hong Kong. The Group intends to utilise the net proceeds balance in the same manner and proportion as set out in the Prospectus.

OUTLOOK

The Group is continuing to pursue service revenue growth through enhancing existing private education services and diversify income streams into adjacent education services markets vertically and geographically. The Board is convinced it is the fundamental basis on which the Company generates and preserves value over the longer term and the strategy for delivering the objectives of the Company. To create value for the Group and strive for best interests of the shareholders of the Company, we keep looking for opportunities of strategic merger and acquisition of players with experience in the education related industries in Hong Kong and/or the PRC.

In Hong Kong

The Group will continue to leverage its secondary tutorial business and expand into other regions of education services. In addition to the primary school tutorial business, overseas consultation services and overseas university bridging courses in Hong Kong, the Group will continue to develop new stream of businesses such as other languages training and seek to attain a reputable status of the Qualification Framework.

In the first half of 2012, approximately 75,000 secondary students have attended the first HKDSE. It is a top concern among Hong Kong's teenagers according to a survey. We are well-prepared to equip our students to conquer the forthcoming challenges. A variety of preparation courses are being conducted by our high caliber and experienced tutors to cater for student needs.

Taking into account the limited places offered by universities and tertiary institutions in Hong Kong, we believe there could be a rising demand for overseas studies in the coming years. Studying abroad has always been one of the most popular paths to continue higher education among Hong Kong students. It is expected to be a desired alternative for the candidates who face difficulties in the stiff competition under the 334 system, especially, when the admission rate of universities and tertiary institutes in Hong Kong might be comparatively lower as a result of the large number of candidates sitting for the first HKDSE and the last HKALE & HKASLE in the academic year of 2011.

Apart from continuing our proven profitable business model in secondary tutoring services, we have devoted ourselves to developing more adjacent education services markets, such as primary tutoring services, overseas studies consultation services and overseas university bridging courses, and English language training and test preparation courses. Leveraging our strong brands, economies of scale, high teaching quality, diverse products and experienced management team, we keep in a steady expansion of the geographical network of our education and tutoring services business and boost our revenues in the existing markets by offering more classes and subjects at various levels, attracting more new and recurring students.

In the PRC

We intend to further expand our business into cities in the PRC with high-growth potentials to reach a wider and more diverse customer and student base of the Group. We are currently targeting the market in Southern China. Bridging programmes including one-year and three-year courses will be launched at various top-notched high schools in the Guangdong Province in the near future. With our experience in running day schools and test preparation courses on international standardised tests and examinations, we are convinced that this business model can be readily copied through cooperating with well-established schools located in other areas.

We have reached a strategic partnership with Shenzhen Yiwen Book Import & Export Company ("Yiwen Book"), which is affiliated to the Shenzhen News and Press Bureau and Shenzhen Foreign Trade and Development Bureau. The Group and Yiwen Book will leverage their respective competitive edge in actively exploring cooperation opportunities and developing the culture and education businesses. The related cooperation includes (i) development of e-book business via the Group's network in Hong Kong, (ii) provision of "Youngster Training Course" in PRC, firstly starting in Shenzhen by making use of the platform of Yiwen Book and its associated organisations, and (iii) introduction of distance education courses of renowned PRC universities to Hong Kong students. In the near future, the Group is to introduce e-book teaching materials to 5,200 parents of the students of our primary learning centres so as to take the lead to launch the e-book education business in Hong Kong.

In respect of developing kindergarten & preschool education services in the PRC, we have entered into a cooperation agreement with Sun Wah Education Laboratories, Inc. ("Sun Wah") aiming to form a joint venture company to run 3e Bilingual Kindergartens and 3e Kids Learning Centers in the PRC. We believe the development in the kids learning market in the PRC will be one of the key milestones of the Group. With the strong support of Sun Wah, the Company will definitely benefit from their strong connections in the education industry in the PRC. As such, the Group will diversify its business into the high potential kids learning market in the PRC and broaden the Group's revenue base in the future. Currently, we are in progress of working on the business model and details of cooperation terms together with Sun Wah.

ANNUAL GENERAL MEETING

The annual general meeting of the Company for the year ended 30 June 2012 is scheduled to be held on Monday, 19 November 2012. A notice convening the annual general meeting will be issued and disseminated to shareholders of the Company in due course.

CLOSURE OF REGISTER OF MEMBERS

The share register of the Company will be closed from Thursday, 15 November 2012 to Monday, 19 November 2012 (both days inclusive), during which no transfer of shares will be effected. In order to be eligible to attend and vote at the forthcoming annual general meeting of the Company, all completed share transfer forms accompanying with the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong, not later than 4:30 p.m. on Wednesday, 14 November 2012.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries had purchased, redeemed or sold any of the Company's listed securities during the year commencing from the Listing Date.

CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code for securities transactions on terms equivalent to the required standard of the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules.

During the year, in an occasional and one-off case, one of the Directors of the Company, Mr. Lee Wai Lok, Ignatious did not comply with the requirements under A.3(a)(i) and B.8 of the Model Code. In that case, he had not first notified in writing the chairman of the Company or a director designated by the Board for the pledging of part of the Company's shares beneficially owned by him for an overdraft facility during the black-out period.

Save as disclosed above, having made specific enquiries with the Directors, the Company confirmed that each of the Directors has complied with the required standard set out in the Model Code regarding securities transactions by the Directors commencing from the Listing Date up to the latest practicable date prior to the issue of this results announcement.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has applied the principles of the Code on Corporate Governance Practices (revised and renamed as "Corporate Governance Code and Corporate Governance Report" with effect from 1 April 2012) (hereafter referred to as the "CG Code") as set out in Appendix 14 to the Listing Rules. The Company has been in compliance with the code provisions of the CG Code commencing from the Listing Date up to the latest practicable date prior to the issue of this results announcement.

AUDIT COMMITTEE

The Company has established the Audit Committee in compliance with the CG Code for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls. As of the date of this results announcement, the Audit Committee is composed of three independent non-executive Directors, namely Mr. Kwok Shun Tim, Mr. Wong Yuk Tong and Mr. Yu Cheeric James. The Audit Committee meeting was held on 20 September 2012 to review the Group's annual results for the year ended 30 June 2012.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of comprehensive income and the related notes thereto for the year ended 30 June 2012 as set out in this results announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year ended 30 June 2012. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on this results announcement.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT ON WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This results announcement is published on the website of the Stock Exchange at www.hkexnews.hk and the Company's website at www.moderneducationgroup.com. The annual report containing all the information required by the Listing Rules will be dispatched to the shareholders and available on the same websites in due course.

ACKNOWLEDGEMENT

We would like to express our heartfelt appreciation to our employees and teachers for their contributions to the Group. We would also like to express our deepest gratitude to our shareholders and investors for their support. We will continue to create value and contribute to the Group to benefit all our stakeholders.

By Order of the Board
Modern Education Group Limited
Yiu Wai Yee, Catherine
Executive Director

Hong Kong, 20 September 2012

As of the date of this announcement, the executive directors of the Company are Mr. Ng Kam Lun, Eric, Ms. Yiu Wai Yee, Catherine, Mr. Ng Norman, Mr. Lee Wai Lok, Ignatious and Mr. Chow Kai Wah, Gary; and the independent non-executive directors of the Company are Mr. Kwok Shun Tim, Mr. Wong Yuk Tong and Mr. Yu Cheeric James.

* *For identification purpose only*