Virscend Education Company Limited
成實外教育有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1565)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2015

ANNUAL RESULTS HIGHLIGHTS

	Year ended 31 December			
	2015	2014	**Change**	**Percentage**
	RMB'000	*RMB'000*	***RMB'000***	***Change***
Revenue	**707,690**	626,007	**81,683**	**13.0**
Gross profit	**296,353**	254,623	**41,730**	**16.4**
Profit for the year	**125,150**	114,321	**10,829**	**9.5**
Adjusted net profit*	**151,444**	114,321	**37,123**	**32.5**
Profit attributable to equity holders of the Company	**109,677**	79,120	**30,557**	**38.6**
EPS (RMB per share)	**0.0487**	0.0352	**0.0135**	**38.4**
Adjusted EPS (RMB per share)*	**0.0599**	0.0352	**0.0247**	**70.2**

* Adjusted net profit was derived from the profit for the year after adjusting the expenses relating to the listing, a non-recurring item of the year.

	As at 31 December 2015	As at 31 December 2014	**Change**	**Percentage Change**
K-12 students enrolled	**18,454**	18,076	**378**	**2.1**
University students enrolled	**14,252**	13,762	**490**	**3.6**
Total number of students enrolled	**32,706**	31,838	**868**	**2.7**

The board of directors (the "Board") of Virscend Education Company Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2015 (the "Reporting Period") together with the comparative figures for the year ended 31 December 2014 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2015

	Notes	**2015**	2014
		RMB'000	*RMB'000*
Revenue	3	**707,690**	626,007
Cost of sales		**(411,337)**	(371,384)
Gross profit		**296,353**	254,623
Other income and gains	3	**5,184**	4,764
Selling and distribution expenses		**(2,789)**	(2,194)
Administrative expenses		**(69,458)**	(32,844)
Other expenses		**(1,595)**	(73)
Finance costs	4	**(102,545)**	(109,848)
Share of profit and loss of an associate		**—**	(107)
PROFIT BEFORE TAX	8	**125,150**	114,321
Income tax expense	5	**—**	—
PROFIT FOR THE YEAR		**125,150**	114,321
Attributable to:			
Owners of the parent		**109,677**	79,120
Non-controlling interests		**15,473**	35,201
		125,150	114,321
Earnings per share attributable to ordinary equity holders of the parent — basic and diluted for the year	7	**RMB0.0487**	RMB0.0352

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2015

	2015	2014
	RMB'000	*RMB'000*
PROFIT FOR THE YEAR	**125,150**	114,321
OTHER COMPREHENSIVE LOSS		
Other comprehensive loss to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(13)**	—
Net other comprehensive loss to be reclassified to profit or loss in subsequent periods	**(13)**	—
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX	**(13)**	—
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**125,137**	114,321
Attributable to:		
Owners of the parent	**109,660**	79,120
Non-controlling interests	**15,477**	35,201
	125,137	114,321

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2015

	Notes	**2015** *RMB'000*	2014 *RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**2,064,117**	812,794
Prepaid land lease payments		**259,995**	151,606
Other non-current assets		**375**	369
Long-term receivable		**—**	520,947
Amounts due from related parties		**—**	863,419
Total non-current assets		**2,324,487**	2,349,135
CURRENT ASSETS			
Prepayments, deposits and other receivables		**40,188**	136,315
Financial asset held for trading		**—**	250
Cash and cash equivalents		**248,600**	109,850
Total current assets		**288,788**	246,415
CURRENT LIABILITIES			
Other payables and accruals		**233,054**	78,403
Interest-bearing bank and other borrowings	10	**589,000**	626,000
Deferred revenue	9	**435,743**	371,371
Deferred income — current		**190**	—
Amounts due to related parties		**14,653**	—
Total current liabilities		**1,272,640**	1,075,774
NET CURRENT LIABILITIES		**(983,852)**	(829,359)
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,340,635**	1,519,776
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	10	**746,021**	724,648
Deferred income — non-current		**6,163**	4,810
Amounts due to related parties		**—**	108,035
Total non-current liabilities		**752,184**	837,493
Net assets		**588,451**	682,283

	Notes	**2015**	2014
		RMB'000	*RMB'000*
EQUITY			
Equity attributable to owners of the parent			
Share capital		**310**	—
Reserves		**587,971**	590,058
Non-controlling interests		**170**	92,225
Total equity		**588,451**	682,283

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

1. GENERAL INFORMATION, BASIS OF PREPARATION AND PRESENTATION

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. Its shares have been listed (the "Listing") on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 15 January 2016 (the "Listing Date").

The Company is an investment holding company. 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").

The financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRSs"). The financial statements have been prepared under the historical cost convention, except for certain financial assets held for trading, which have been measured at fair value. The financial statements are presented in Renminbi ("RMB").

2. ADOPTION OF NEW AND REVISED IFRSS

Revised standards for the first time for the current year's financial statements

The following amendments to standards have been adopted by the Group for the first time for the financial year beginning on 1 January 2015. The adoption of these amendments to standards does not have any significant impact on the financial statements of the Group.

Amendments to IAS 19 *Defined Benefit Plans: Employee Contributions*
Annual Improvements to IFRSs 2010-2012 Cycle
Annual Improvements to IFRSs 2011-2013 Cycle

New and revised IFRSs issued but not yet effective

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective, in the financial statements

IFRS 9	*Financial Instruments*[2]
Amendments to IFRS 10 and IAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[1]
Amendments to IFRS 10, IFRS 12 and IAS 28 (2011)	*Investment Entities: Applying the Consolidation Exception*[1]
Amendments to IFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*[1]
IFRS 14	*Regulatory Deferral Accounts*[3]
IFRS 15	*Revenue from Contracts with Customers*[2]
Amendments to IAS 1	*Disclosure Initiative*[1]
Amendments to IAS 16 and IAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*[1]
Amendments to IAS 16 and IAS 41	*Agriculture: Bearer Plants*[1]
Amendments to IAS 27 (2011)	*Equity Method in Separate Financial Statements*[1]
Annual Improvements 2012-2014 Cycle	Amendments to a number of IFRSs[1]
Amendments to IAS 7	*Disclosure Initiative*[4]
Amendments to IAS 12	*Recognition of Deferred Tax Assets for Unrealised Loss*[4]
Amendments to IFRS 16	*Leases*[5]

1 Effective for annual periods beginning on or after 1 January 2016

2 Effective for annual periods beginning on or after 1 January 2018

3 Effective for an entity that first adopts IFRSs for its annual financial statements beginning on or after 1 January 2016 and therefore is not applicable to the Group

4 Effective for annual periods beginning on or after 1 January 2017

5 Effective for annual periods beginning on or after 1 January 2019

3. REVENUE, OTHER INCOME AND GAINS

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

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

	Note	**Year ended 31 December 2015** *RMB'000*	2014 *RMB'000*
Revenue			
Tuition fees		**668,824**	588,425
Boarding fees		**38,866**	37,582
		707,690	626,007
Other income and gains			
Interest income	8	**823**	653
Fee sharing income (Note (i))		**949**	2,192
Donation income		**16**	196
Government grants			
— related to assets		**174**	—
— related to income		**333**	1,656
Others		**2,889**	67
		5,184	4,764

Note (i): The amount represents the service fee sharing arrangements with China Telecom Corporation Limited ("China Telecom") under which the Group constructed certain campus network infrastructure and therefore was entitled to receive a certain percentage of telecommunication service fee earned from its students by China Telecom.

4. FINANCE COSTS

	Year ended 31 December	
	2015	2014
	RMB'000	*RMB'000*
Interest on bank loans and other borrowings	**102,545**	109,848

5. INCOME TAX

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

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

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

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

According to the Implementation Rules for the Law for Promoting Private Education (the "Implementation Rules"), private schools, whether requiring reasonable returns or not, may enjoy preferential tax treatment. Each of our schools requires reasonable returns. The Implementation Rules provide that the relevant authorities under the State Council may introduce preferential tax treatments and related policies applicable to private schools requiring reasonable returns. During the year and up to the date of this announcement, no separate policies, regulations or rules have been introduced by the authorities in this regard. In accordance with the historical tax returns filed to the relevant tax authorities and the confirmation obtained therefrom, our schools have enjoyed the preferential corporate income tax exempt treatment since their establishment.

Based on the confirmations from the local tax bureaus and local offices of State Administration of Taxation, our schools were exempted from corporate income tax since their establishment.

After the corporate reorganisation, Tibet Huatai Education Management Consulting Co., Ltd. is initially subject to a PRC income tax rate of 9%, which will be increased to 15% beginning in 2018 when the three-year exemption granted by Tibet local government expires in accordance with the relevant tax regulations. No income tax expense was recognized for the year.

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates.

A reconciliation of the tax expense applicable to profit before tax at the statutory rates for the countries in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the statutory tax rates to the effective tax rates, are as follows:

	Year ended 31 December 2015		Year ended 31 December 2014	
	RMB'000	*%*	*RMB'000*	*%*
Profit before tax	**125,150**		114,321	
Tax at the statutory tax rate	**37,708**	**—**	28,580	25.0
Income not subject to tax	**(39,496)**	**(31.6)**	(28,580)	(25.0)
Lower tax rate(s) for specific provinces or enacted by local authority	**1,114**	**0.9**	—	—
Expenses not deductible for tax	**627**	**0.5**	—	—
Tax losses not recognised	**47**	**—**	—	—
Tax charge at the Group's effective rate	**—**	**—**	—	—

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

Deferred tax assets have not been recognised in respect of the losses amounting to RMB6,965,000 as at 31 December 2015 (31 December 2014: nil) as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the taxable losses can be utilised.

As at 31 December 2015, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the Directors, the Group's fund will be retained in Mainland China for the expansion of the Group's operation, so it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB70,122,000 as at 31 December 2015 (31 December 2014: RMB107,812,000).

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

6. DIVIDENDS

Dividends of RMB220,000,000 have been declared by certain of our schools for the year (2014: RMB40,000,000). Dividends of RMB66,442,000 have been settled by offsetting the balance of amounts due from Sichuan Derui Enterprise Development Co., Ltd. and RMB101,048,000 has been paid by 31 December 2015.

7. 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 year attributable to ordinary equity holders of the parent, and the weighted average numbers of ordinary shares of 2,250,000,000 (2014: 2,250,000,000) in issue during the year.

The number of ordinary shares for the purpose of calculating basic earnings per share has been adjusted retrospectively as if the Company had been the holding company of the Group and the shares had been in issue throughout both periods.

There were no potentially dilutive ordinary shares in issue during the years ended 31 December 2015 and 2014, and therefore the diluted earnings per share amount is equivalent to the basic earnings per share.

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

	Year ended 31 December	
	2015	2014
Earnings		
Profit attributable to ordinary equity holders of the parent (RMB'000)	**109,677**	79,120
Shares		
Weighted average number of ordinary shares in issue	**2,250,000,000**	2,250,000,000
Basic and diluted earnings per share (expressed in RMB per share)	**0.0487**	0.0352

8. PROFIT BEFORE TAX

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

	Note	**Year ended 31 December 2015** *RMB'000*	**Year ended 31 December** 2014 *RMB'000*
Employee benefit expense (excluding directors' and chief executive's remuneration)			
Wages and salaries		**167,079**	142,548
Pension scheme contributions (defined contribution scheme)		**32,497**	25,990
Depreciation of property, plant and equipment		**56,300**	40,101
Amortisation of land lease payments		**6,130**	4,612
Minimum lease payments under operating leases		**6,922**	8,705
Auditors' remuneration			
— audit service		**838**	78
— non-audit service		**346**	—
Listing expenses		**26,294**	—
Bank interest income	3	**(823)**	(653)
Loss on disposal of items of property, plant and equipment		**3**	9
Loss on disposal of a subsidiary		**487**	—

9. DEFERRED REVENUE

	As at 31 December 2015 *RMB'000*	2014 *RMB'000*
Tuition fees	**411,815**	348,157
Boarding fees	**23,928**	23,214
	435,743	371,371

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

10. INTEREST-BEARING BANK AND OTHER BORROWINGS

31 December 2015

	Effective interest rate (%)	Maturity	RMB'000
Current			
Bank loans — secured	4.57-6.23	2016	509,000
Other borrowing — secured	7.55	2016	80,000
			589,000
Non-current			
Bank loans — secured	5.67-7.84	2017-2022	486,021
Other borrowing — unsecured	10.00	*	260,000
			746,021
			1,335,021

31 December 2014

	Effective interest rate (%)	Maturity	RMB'000
Current			
Bank loans — secured	5.88-7.57	2015	626,000
Non-current			
Bank loans — secured	7.21	2016-2022	384,648
Other borrowing — secured	7.55	2016	80,000
Other borrowing — unsecured	10.00	*	260,000
			724,648
			1,350,648

* Other borrowings-unsecured represents the 24.3% sponsor interest held by Xinhua Winshare Publishing and Media Co., Ltd. ("Xinhua Winshare") which entitles it to receive annual fixed dividend equalling to 10% of its total investment amounting to RMB260 million in the Chengdu Institute Sichuan International Studies University (the "University").

11. EVENTS AFTER THE REPORTING PERIOD

(a) In connection with the Company's initial public offering ("IPO") on 15 January 2016, 750,000,000 shares of HK$0.01 each of the Company were issued at an issue price of HK$2.40 and listed on the Main board of the Stock Exchange. On 5 February 2016, the over-allotment option has been partially exercised and the Company allotted and issued 88,761,000 additional shares at HK$2.40 per share on 15 February 2016.

(b) Upon the creation of the Company's share premium account as a result of the IPO, an amount of HK$22,120,000 standing to the credit of the share premium account of the Company has been capitalized by applying such sum towards paying up in full at par a total of 2,212,000,000 shares for allotment and issue to the then existing shareholders. As at the date of the capitalization issue, 38,000,000 shares was in issue with an amount of HK$380,000 and therefore the total outstanding shares were 3,000,000,000 including the 750,000,000 issued upon IPO.

MANAGEMENT DISCUSSION AND ANALYSIS

Market Review

According to the independent market research reported dated 31 December 2015, commissioned by the Company on the private education market of the PRC and prepared by Frost & Sullivan ("Frost & Sullivan Report"), the PRC fundamental education industry has exhibited strong growth over the past five years, primarily driven by rising government public expenditure and private consumption in the PRC. According to the Frost & Sullivan Report, as at the end of 2014, total revenue generated by the PRC fundamental education industry was RMB1,994.6 billion, compared to RMB922.5 billion in 2009, representing a compound annual growth rate ("CAGR") of approximately 16.7%. Total revenue of the PRC fundamental education industry is calculated by aggregating the total PRC government public expenditure allocated to schools in the industry by the PRC central and local governments, funding provided to private schools by investors, revenue generated from the donations to and fundraising by schools, revenue generated by schools from teaching, research and other activities (such as tuition and businesses ran by the schools), and other educational funding or school revenue, according to the Frost & Sullivan Report. For the year ended 31 December 2014, PRC public expenditure accounted for approximately 86.9% of the total revenue generated by the PRC fundamental education industry.

In addition, according to the Frost & Sullivan Report, the continuous growth of the PRC economy has resulted in increases in annual disposable income of urban households and in the per capita annual living expenditure of urban households. From 2009 to 2014, the PRC per capita consumption expenditure on education, culture and recreation articles and services grew at a CAGR of approximately 10.9%. In addition, in 2014, the per capita expenditure on education, culture and recreation articles and services of urban households was estimated to be RMB2,475, representing approximately 12.9% of total per capita living expenditure of PRC urban households.

As the PRC government terminated the "one-child policy" and adopted a universal "two-child policy" in 2015, and continues to support preschool education, the number of students enrolled in the PRC fundamental education industry is expected to rise to 230.8 million in 2019, with at a CAGR of approximately 2.6% from 2014 to 2019, according to the Frost & Sullivan Report. Over the past years, more and more students have enrolled in private schools in China. The total number of students enrolled in PRC private schools increased from 23.0 million in 2009 to 35.3 million in 2014, representing a CAGR of approximately 8.9%. The total number of student enrollment in private schools is expected to increase to 50.6 million in 2019, at a CAGR of approximately 7.5%. This growth was primarily driven by favorable government policies and support for private schools in China and the increased demand for private school education from parents.

As at the end of 2014, total revenue generated by the PRC private fundamental education industry was RMB168.7 billion, compared to RMB51.9 billion in 2009, representing a CAGR of approximately 26.6%. According to the Frost & Sullivan Report, total revenue generated by the PRC private fundamental education industry is expected to reach RMB334.4 billion in 2019, representing a CAGR of approximately 14.7% from 2015 to 2019. The number of student enrollment in the PRC fundamental education industry primarily depends on the school-age population, which is expected to increase over the next five years, and student enrollment rate.

The private fundamental education market in PRC is highly competitive and fragmented. The total number of private fundamental educational schools was approximately 152,148 by the end of 2014, and they were distributed across China based on the distribution of the school-age population and the level of demand for private education in a specific province or region. So far, the PRC private fundamental education market lacks dominant players with a nationwide coverage and significantly higher market share. The market shares of major participants in the industry in terms of student enrollment as at 31 December 2014 were all less than 0.1%, indicating the highly fragmented nature of the market. A substantial majority of the private fundamental education operators in China own a limited number of schools and commonly focus on regional markets for their operation and development since China's private fundamental education market is relatively locally-based. The players with different operating region-focus usually have limited competition between one another due to their entirely different customer targets and regulatory and operating environments.

Similar to the PRC private fundamental education market, the private fundamental education market in Sichuan, Guizhou and Yunan Provinces and Chongqing Municipality ("Southwest China") is also fragmented. According to the Frost & Sullivan Report, the total number of student enrollment in such sector in Southwest China was approximately 4.2 million in 2014, and the top five private school operators had an aggregate enrollment of approximately 66,100, which accounted for only 1.6% of the total market share. With a total of approximately 17,900 pre-school to grade 12 ("K-12") student enrollment in 2014, the Group ranked first in the region.

Business overview

The Group is the largest provider of K-12 private education services in Southwest China in terms of student enrollment as at 30 June 2015, according to the Frost & Sullivan Report. According to the Frost & Sullivan Report, as measured by student enrollment, the Group ranked first in the highly fragmented private fundamental education industry in Southwest China with a 0.43% market share. As at 31 December 2015, the Group had established and were operating five schools for grades K-12, namely, Chengdu Foreign Languages School, Chengdu Experimental Foreign Languages School, Chengdu Experimental Foreign Languages School (Western Campus), the Primary School Attached to Chengdu Foreign Languages School (the "Primary School") and the Chengdu Foreign Languages Kindergarten (the "Kindergarten"). In addition, the Group operates one university, Chengdu Institute Sichuan International Studies University. As at 31 December 2015, our K-12 student enrollment increased to approximately 18,454 and the University student enrollment increased to approximately 14,252. Through the schools operated by the Group, the Group provides high-quality formal educational services to students in every age group from kindergarten through university and according to the Frost & Sullivan Report, the Group is one of the few private education companies in Southwest China that offer complete K-12 and university education.

Students

The Group strives to cultivate well-rounded students who possess global perspective and practical knowledge. The fundamental educational philosophy of the Group is to respect every student's life, stimulate his or her learning potential and care for his or her lifetime achievement based on the Group's people-oriented educational strategy and efficient school management. The Group also emphasizes the cultivation and promotion of the all-around development of students so they are well-prepared to face challenges in the future. The Group focuses on developing the "knowledge, character, ability and quality" of students as the foundation of teaching of the Group.

The Group provides high-quality education to the students. The Group aspires to provide a pathway to first-tier universities in China and reputable colleges and universities abroad for interested students. For example, for Gaokao administered in 2013, 2014 and 2015, approximately 73.6%, 69.5% and 77.4% of the Group's graduating high school students who participated in such examinations achieved scores that allowed them to apply to and be accepted by first-tier universities in China, including Peking University, Tsinghua University, Fudan University, Zhejiang University and Shanghai Jiaotong University, among others. Moreover, during the

Reporting Period, certain of the Group's high school graduating students were accepted by colleges and universities overseas. For example, a total of six graduating students from Chengdu Foreign Languages School were accepted by Harvard University, University of California-Berkeley, University of California-Los Angeles, New York University and Northwestern University during the Reporting Period. For students who are interested in attending colleges and universities in the United States or Canada and in preparing for overseas standardized college entrance examinations, such as TOEFL and SAT, the Group established international programs at Chengdu Foreign Languages School under which dual high school diplomas (PRC diplomas and American or Canadian diplomas) are offered to them through collaboration with third-party educational service providers. Such programs allow students to take either American or Canadian coursework taught by foreign teachers as well as PRC coursework taught by PRC teachers.

Teachers

The Group believes the quality of education provided is strongly tied to the quality of the Group's teachers. The Group considers that teachers who are capable and are dedicated to teaching will be instrumental in shaping the learning habits of students, which will be crucial to the Group's success and educational philosophy. The Group seeks to hire teachers who (i) demonstrate outstanding teaching track record, (ii) hold necessary academic credentials (i.e., diplomas), (iii) are passionate about education and improving students' academic performance and overall wellbeing, (iv) demonstrate competence in their subject areas, (v) possess strong communication and interpersonal skills, and (vi) are able to effectively use a variety of teaching tools and methods tailored to their students. As at 31 December 2015, the Group had approximately 2,002 teachers, of which approximately 85.0% have a bachelor's degree or above, and approximately 25.7% have a master's degree or above. The schools operated by the Group employed approximately 43 foreign teachers as at 31 December 2015. Most of the teachers are full-time teachers. The Group also values the recognition bestowed upon the teachers who have achieved teaching excellence. As at 31 December 2015, approximately 29.1% of the teachers held the advanced teaching qualification, and approximately 16 of the Group's teachers were recognized as exceptional teachers.

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 rates, 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 and other 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 and other 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 and other 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 for its business operation and expansion.

Environment, Health and Safety

The business 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 emergency medical 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.

Strategy

To maintain and further strengthen the position of the Company as the largest provider of K-12 private education services in Southwest China in terms of student enrollment, the Group intends to continue to enhance its reputation as a provider of high-quality education and improve the quality of the teachers and staff of the Group. The Group also intends to expand its school network and increase its market penetration. Furthermore, the Group intends to enhance the Group's profitability by optimizing the pricing of the schools of the Group and diversify its service offerings and increase revenue sources. In addition, the Group intends to expand its international programs.

Revenue

For the year ended 31 December 2015, the Company has witnessed growth of the schools operated by the Group in terms of revenue. Revenue increased from RMB 626.0 million for the year ended 31 December 2014 to RMB 707.7 million for the year ended 31 December 2015. The Group typically charges students fees comprising tuition fees and boarding fees and tuition fees remained the major revenue, accounted for approximately 94.5% of the total revenue of the Company for the year ended 31 December 2015.

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

	Year ended 31 December 2015	**Year ended 31 December 2014**	**Change**	**Percentage Change**
	RMB'000	*RMB'000*	*RMB'000*	
Chengdu Foreign Languages School	184,986	151,706	33,280	21.9
Chengdu Experimental Foreign Languages School	127,891	106,374	21,517	20.2
Chengdu Experimental Foreign Languages School (Western Campus)	116,242	106,102	10,140	9.6
The Primary School	66,807	61,870	4,937	8.0
The Kindergarten	6,744	6,221	523	8.4
The University	166,154	156,152	10,002	6.4
Total tuition fees	668,824	588,425	80,399	13.7
Boarding fees	38,866	37,582	1,284	3.4
Total	707,690	626,007	81,683	13.0

The increase of the total revenue of the Group was mainly due to the increase of the Group's student enrollment and average tuition fee.

The following table sets forth the gross and average tuition fee of each of the six schools the Group operates:

School	School Year 2013/2014 Gross Tuition Fees *RMB'000*	2013/2014 Average Tuition Fees *RMB*	2014/2015 Gross Tuition Fees *RMB'000*	2014/2015 Average Tuition Fees *RMB*
Chengdu Foreign Languages School	172,951	28,917	196,382	31,542
Chengdu Experimental Foreign Languages School	116,724	26,772	133,968	29,482
Chengdu Experimental Foreign Languages School (Western Campus)	113,563	28,138	126,363	30,686
The Primary School	62,253	23,599	65,846	24,424
The Kindergarten	6,179	20,259	6,747	21,625
The University	150,554	11,429	161,605	11,810

Notes: Average tuition fees are calculated based on the gross tuition fees, which exclude boarding fees, a particular school received for a given school year divided by the total number of students enrolled at such school for the same school year. For the purpose of this calculation, unlike revenue, which is determined after deducting scholarships and refunds, gross tuition fees do not take into account the scholarships given or refunds made by the schools to their students for the relevant school year.

Student Enrollment

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

	As at 31 December 2015	As at 31 December 2014	Change	Percentage Change
High school students	5,491	5,026	465	9.3
Middle school students	9,960	10,053	(93)	(0.9)
Primary school students	2,678	2,685	(7)	(0.3)
Kindergarten students	325	312	13	4.2
K-12 students	18,454	18,076	378	2.1
University students	14,252	13,762	490	3.6
Total number of students	32,706	31,838	868	2.7

As at 31 December 2015, the aggregate number of students enrolled at the schools of the Group increased to approximately 32,706 from 31,838 as at 31 December 2014. The increase in the aggregate number of students enrolled was attributable to the increases in the capacity of certain existing schools.

Future development

The Group intends to leverage its reputation to expand its school network in Chengdu, other areas in Sichuan Province and elsewhere in Southwest China. In order to solidify and strengthen its market-leading position in the region, the Group plans to establish new schools or acquire existing schools. The Group intends to achieve future growth by means of multiple expansion strategies which include asset light expansions, acquisitions, and increase in the capacity of certain existing schools. Specifically, the Group plans to undertake the following strategies:

Expand its existing business by collaborating with third-party business partners

The Group generally operates its schools under a traditional business model under which its schools or its school sponsor owned substantially all or a portion of the premises that the schools occupy. This traditional business model requires its schools or our school sponsor to obtain its relevant land use rights and expend significant amount of capital outlay in connection with the establishment of the schools. The Group utilized this business model primarily because the Group needed to establish and build the reputation of its schools during its initial stage of operation and accumulate relevant private school operating experience. Going forward, in addition to continuing to operate under its existing business model, the Group intends to enter into cooperative arrangements with business partners who are independent third parties, including local governments, real estate developers and other public and private school operators who share their education philosophies and vision, pursuant to which such business partners contribute or lease to us the relevant land and facilities, as the case may be, while the Group contributes its brand name and teachers and provides funding for the operation of the school(s). The Group believes it can substantially lower its capital requirement to expand its operations under this type of business model, which allows us to better utilize its available cash and efficiently allocate its financial resources. As at the date of this announcement, the Group had undertaken the following steps to expand its business:

- On 22 September 2015, Chengdu Foreign Languages School entered into a cooperation agreement with the local government of Panzhihua City in Sichuan Province and its related state-owned investment company, pursuant to which the parties agreed to establish a school ("Panzhihua School") with an aggregate expected total student enrollment of approximately 3,000 students. The school is expected to comprise a middle school and a high school. Chengdu Foreign Languages School is expected to be the sponsor of the new school and will own all of the school sponsor's interest in such school. Subject to the approval by and registration with competent authorities, the new middle school is expected to commence operation before 1 September 2017 while the new high school is expected to commence operation before 1 September 2020. The parties identified suitable school premises owned by the local government, which is comprised of two parcels of land with a total gross site area of approximately 54,349.72 sq. m. Under the agreement, the state-owned investment company in Panzhihua City will invest to construct the school facilities on such land (with expected completion of construction before May 2017) and the Group will lease the premises for the new school under a separate lease agreement, which was entered into concurrently with the cooperation agreement. The lease term for the school premises will be 20 years beginning on 1 September 2017 and Chengdu Foreign Languages School will pay to the state-owned investment company certain rental fees for the school premises beginning in the fourth year of the rental period. No rental fees will be payable by Chengdu Foreign Languages School for the first three years of the rental period; and

- On 3 February 2016, Chengdu Experimental Foreign Languages School entered into a cooperation agreement ("Cooperation Agreement") with Chengdu Wanke Xindu Zhiye Co., Ltd.* (成都萬科新都置業有限公司) ("Chengdu Wanke"), an independent property management company, and Chengdu Yirui Education Consulting Co., Ltd.* (成都益瑞教育諮詢有限公司) ("Chengdu Yirui"), an independent educational consulting company, pursuant to which the parties contemplated establishing a new campus in Wulongshan, Chengdu, Sichuan Province (the "Wulongshan School"). Pursuant to the Cooperation Agreement, Wulongshan School shall operate under the name of "Chengdu Experimental Foreign Languages School" with expected student capacity of approximately 5,000 students. Upon its establishment, Wulongshan School shall be owned as to 45.0% and 55.0% by Chengdu Experimental Foreign Languages School and an entity jointly established by Chengdu Wanke and Chengdu Yirui ("JV Entity"), respectively. The JV Entity shall be responsible for providing and developing the land and building to be used as campus of Wulongshan School. Upon completion of the development of the land and establishment of Wulongshan School, Chengdu Experimental Foreign Languages School shall contribute funds to the Wulongshan School depending on the capital needs of Wulongshan School. The Group expects that the Wulongshan School shall commence operations on or before September 2017.

* *For identification purpose only.*

Establish or acquire new schools directly

Where the Group can identify appropriate opportunities, the Group intends to expand its school network by purchasing the land use rights and developing new schools, or acquiring established schools from independent third parties. When establishing new schools, the Group intends to do so through one of its existing schools similar to the arrangement with the proposed establishment of Panzhihua School, whereby its existing school will then own all or part of the school sponsor's interest in the new school. The Group intends to purchase a parcel of land in Wenjiang, Chengdu, Sichuan Province, in connection with the opening of a new campus for Chengdu Experimental Foreign Languages School. The Group estimates that the capacity of the new campus will be approximately 6,500 students and anticipates that the new campus will be operational in the second half of 2017, subject to relevant government approval. When selecting an acquisition target, the Group will consider factors that include, among other things, the general economic and social condition in the local area in which a target school is located, the demand for the education the Group provides in such area, the level of government support in promoting private education, and the anticipated cost of any acquisition. The Group will seek relevant legal advice to ensure that the relevant shareholding structure for any newly acquired schools in the future will comply with the relevant PRC legal requirements.

Financial review

Revenue

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

Revenue increased by RMB81.7 million, or 13.1%, from RMB626.0 million for the year ended 31 December 2014 to RMB707.7 million for the year ended 31 December 2015. This increase was primarily the result of revenue from tuition fees increasing by RMB80.4 million, or 13.7%, from RMB588.4 million for the year ended 31 December 2014 to RMB668.8 million for the year ended 31 December 2015. The tuition fees the Group received increased because (i) the Group raised tuition fees for newly admitted students for the middle schools, the high schools and the Primary School in 2015 and the University in 2014, which initially applied to newly admitted students (i.e., students in the first, seventh and tenth grades and freshmen students at the University) only, while other students were not affected by the fee change and would continue to pay the tuition fee at pre-existing levels. As students advance each year, the aggregate number of students paying higher tuition fees would increase, such that the tuition fee income from the Group's schools would increase correspondingly; and (ii) the Group's student enrollment increased.

Cost of sales

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

Cost of sales increased by RMB39.9 million, or 10.7%, from RMB371.4 million for the year ended 31 December 2014 to RMB411.3 million for the year ended 31 December 2015. This increase was primarily the result of an increase in staff costs, depreciation and amortization. Staff costs increased by RMB20.0 million, or 8.2%, from RMB243.7 million for the year ended 31 December 2014 to RMB263.7 million for the year ended 31 December 2015, primarily as a result of increased salaries and benefits payable to the Group's teachers. Depreciation and amortization increased by RMB18.1 million, or 41.6%, from RMB43.5 million for the year ended 31 December 2014 to RMB61.6 million for the year ended 31 December 2015, mainly as a result of an increase in fixed assets as the properties, equipment and leasehold lands in Phase 2 of the University's campus were transferred to the Group on 30 June 2015.

Gross profit and gross profit margin

Gross profit increased by RMB41.8 million, or 16.4%, from RMB254.6 million for the year ended 31 December 2014 to RMB296.4 million for the year ended 31 December 2015, which was in line with the growth of the Group's business. Gross profit margin increased to 41.9% for the year ended 31 December 2015 from 40.7% for the year ended 31 December 2014 mainly due to the increase of the Group's student enrollment and average tuition fee.

Selling and distribution expenses

Selling and distribution expenses consist primarily of advertising expenses, student admission expenses and business entertainment expenses. Selling and distribution expenses increased by RMB0.6 million, or 27.3%, from RMB2.2 million for the year ended 31 December 2014 to RMB2.8 million for the year ended 31 December 2015. The increase of selling and distribution expenses was primarily because the Group incurred more student admission expenses as the Group enrolled more students for the University this year.

Administrative expenses

Administrative expenses primarily consist of the salaries and other benefits for general and administrative staff, office-related expenses, depreciation of office buildings and equipment, travel expenses and other expenses. Administrative expenses increased by RMB36.7 million, or 111.9%, from RMB32.8 million for the year ended 31 December 2014 to RMB69.5 million for the year ended 31 December 2015, primarily due to (i) an increase in staff costs as salaries and benefits for the Group's staff increased in 2015; and (ii) an increase in listing expenses in 2015.

Other expenses

Other expenses consist primarily of expenses relating to donation, which represents the donations of teaching equipment made to third-party educational institutions, and disposal of various fixed assets. Other expenses increased from RMB73,000 for the year ended 31 December 2014 to RMB1.6 million for the year ended 31 December 2015. The increase was primarily attributable to (i) a one-time good-will donations to the families of certain deceased students; and (ii) the disposal loss of the entire equity interest of the Group in the Sichuan Derui Education Development Fund.

Finance costs

Finance costs consist primarily of the interest expenses for bank borrowings and borrowings from other financial institutions, as well as payments by the Group to Xinhua Winshare. With respect to payments to Xinhua Winshare, from 2012 and until the termination of the agreement, Xinhua Winshare is entitled to receive 10% of its total capital contribution in the University annually. Such total capital contribution amounted to RMB260.0 million, which was treated as a loan for accounting purposes. Finance costs decreased by RMB7.3 million, or 6.6%, from RMB109.8 million for the year ended 31 December 2014 to RMB102.5 million for the year ended 31 December 2015, mainly reflecting lower amount of interest expenses the Group paid on bank loans and other borrowings because the amount of new indebtedness the Group incurred was less than the amount of existing loans the Group repaid.

Adjusted Net Profit

Adjusted net profit was derived from the profit for the year after adjusting the expenses relating to the Listing, a non-recurring item of the year. The following table reconciles from profit for the year to adjusted net profit for both financial years:

	Year ended 31 December	
	2015	2014
	RMB'000	*RMB'000*
Profit for the year	**125,150**	114,321
Add:		
Listing expenses	**26,294**	—
Adjusted net profit	**151,444**	114,321

Adjusted net profit increased by RMB37.1 million, or 32.5%, from RMB114.3 million for the year ended 31 December 2014 to RMB151.4 million for the year ended 31 December 2015, due primarily to (i) the increase of tuition fees for newly admitted students for the middle schools, the high schools and the Primary School in 2015 and the University in 2014; (ii) the increase of the Group's student enrollment; and (iii) the decrease in finance costs as mentioned above.

Capital Expenditure

Capital expenditures during the year primarily related to constructing Phase 2 of the University's campus, maintaining and upgrading the existing school premises and purchasing additional educational facilities and equipment for the schools. Capital expenditure increased by RMB1,352.4 million, from RMB72.4 million for the year ended 31 December 2014 to RMB1,424.8 million for the year ended 31 December 2015, mainly because the property, plant and equipment and leasehold lands in Phase 2 of the University were transferred to the Group on 30 June 2015.

Capital Commitment

As at 31 December 2014 and 31 December 2015, the Group did not have any significant authorised but not contracted capital commitment.

Operating Lease Commitments

As lessee

The Group leases certain of its buildings under operating lease arrangements. Leases for buildings were negotiated for terms of 3 to 20 years. As at the end of the year, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	As at 31 December	
	2015	2014
	RMB'000	*RMB'000*
Within one year	**13,550**	1,820
In the second to fifth years, inclusive	**33,952**	8,179
Beyond five years	**20,755**	23,199
	68,257	33,198

As at 31 December 2015, the Group had total future minimum lease payments under non-cancellable operating leases amounting to RMB68.3 million. The increase was mainly because certain of our schools have entered into a number of continuing lease agreements and arrangements with our connected persons in September 2015 to lease certain buildings for use in the operation of the respective schools. In the past, our schools leased such buildings from the connected persons for nil consideration before September 2015.

Gearing Ratio

The gearing ratio of the Group, which was calculated as total interest-bearing bank loans and other borrowings divided by total equity as at the end of the relevant financial year, increased from approximately 198.0% as at 31 December 2014 to 226.9% as at 31 December 2015, primarily due to the decrease in the Group's total equity, which was due to the fact that dividends of RMB220.0 million has been declared for the six months ended 30 June 2015.

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 31 December 2015, certain bank balances were denominated in USD. The Group did not enter into any financial instrument for hedging purpose as it is expected that foreign exchange exposure will not be material.

Contingent Liabilities

As at 31 December 2015, the Group had no material contingent liabilities.

Pledge of Assets

As at 31 December 2015, the Group did not pledge any assets.

Human Resources

As at 31 December 2015, the Group had 2,890 employees (2014: 2,784), excluding the logistics personnel who were outsourced since October 2015.

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

The total remuneration cost incurred by the Group for the year ended 31 December 2015 was RMB297.0 million (2014: RMB269.3 million).

USE OF NET PROCEEDS FROM LISTING

Net proceeds from the Listing of the Company (after deducting underwriting fee and relevant expenses) amounted to approximately HK$1,930.2 million. As at 31 December 2015, none of the proceeds had been utilised. Such amounts are proposed to be used according to the allocation set out in the prospectus of the Company dated 31 December 2015.

DIVIDEND

The Board did not recommend the payment of a final dividend for the year ended 31 December 2015.

CLOSURE OF THE REGISTER OF MEMBERS

The register of members of the Company will be closed from 14 June 2016 to 17 June 2016, both days inclusive, in order to determine the identity of the Shareholders who are entitled to attend the forthcoming annual general meeting of the Company to be held on 17 June 2016 (the "AGM"), during which period no share transfers will be registered. To be eligible to attend the AGM, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 13 June 2016.

CORPORATE GOVERNANCE

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 Corporate Governance Code and Corporate Governance Report (the "CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") as its own code of corporate governance. The Company has complied with all applicable code provisions of the CG Code since the Listing Date until the date of this announcement. 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 for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as its own code of conduct regarding directors' securities transactions. Having made specific enquiries of all directors of the Company (the "Directors"), each of the Directors has confirmed that he/she has complied with the required standards as set out in the Model Code from the Listing Date to the date of this announcement.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the period commencing from the Listing Date to the date of this announcement, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

IMPORTANT EVENTS AFTER THE END OF THE FINANCIAL YEAR

The shares of the Company have been successfully listed on the Stock Exchange on 15 January 2016 and the net proceeds from the global offering of the Company amounted to approximately HK$1,930.2 million.

AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee") has reviewed the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters. The Audit Committee, together with the Board and external auditor, has reviewed the Group's audited consolidated financial statements for the year ended 31 December 2015.

SCOPE OF WORK ON THE ANNUAL RESULTS ANNOUNCEMENT BY AUDITORS

The figures in respect of the announcement of the Group's annual results for the year ended 31 December 2015 have been agreed by the Group's auditor, Ernst & Young, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Ernst & Young 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 Ernst & Young on the annual results announcement.

PUBLICATION OF THE ANNUAL RESULTS AND 2015 ANNUAL REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This annual results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.virscendeducation.com), and the 2015 Annual Report containing all the information required by the Listing Rules will be dispatched to the Shareholders and published on the respective websites of the Stock Exchange and the Company in due course.

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

Sichuan, the PRC, 24 March 2016

As at the date of this announcement, the executive Directors are Ms. Wang Xiaoying, Dr. Xu Ming, Mr. Ye Jiayu and Mr. Yan Yude and the independent non-executive Directors are Mr. Sit Chiu Wing, Mr. Chan Kim Sun and Ms. Xu Dayi.