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 2018

ANNUAL RESULTS HIGHLIGHTS

The Board has resolved to recommend the payment of a final dividend of HK$0.04 per share for the year ended 31 December 2018 (2017: HK$0.04 per share).

	Year ended 31 December			
	2018	2017	**Change**	**Percentage**
	RMB'000	*RMB'000*	***RMB'000***	**Change**
Revenue	**1,167,954**	952,767	**+215,187**	**+22.59%**
Gross profit	**501,274**	454,065	**+47,209**	**+10.40%**
Attributable to equity holders of the parent	**356,371**	306,374	**+49,997**	**+16.32%**
Core net profit*	**355,875**	339,624	**+16,251**	**+4.78%**

* Core net profit was derived from the profit for the year after adjusting foreign exchange gains or losses, which is not indicative of the Group's operating performance. Please refer to the section of "Financial Review" in this announcement for details of the reconciliation of the profit for the year to the core net profit of the Group.

	As at 31 December 2018	As at 31 December 2017	**Change**	**Percentage Change**
K-12 students enrolled	**29,415**	23,094	**+6,321**	**+27.37%**
University students enrolled	**16,387**	15,404	**+983**	**+6.38%**
Total number of students enrolled	**45,802**	38,498	**+7,304**	**+18.97%**

	As at 31 December 2018	As at 31 December 2017	**Change**	**Percentage**
	RMB'000	*RMB'000*	***RMB'000***	**Change**
Contract Liabilities/ Deferred revenue	**712,163**	585,982	**+126,181**	**+21.53%**

The board (the "Board") of directors (the "Directors") of Virscend Education Company Limited (the "Company") is pleased to announce the consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2018 (the "Reporting Period") together with the comparative figures for the year ended 31 December 2017 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	**2018**	2017
		RMB'000	*RMB'000*
Revenue	3	**1,167,954**	952,767
Cost of sales		**(666,680)**	(498,702)
Gross profit		**501,274**	454,065
Other income and gains	3	**42,872**	16,230
Selling and distribution expenses		**(5,554)**	(3,611)
Administrative expenses		**(106,568)**	(81,361)
Other expenses		**(9,741)**	(25,580)
Finance costs	4	**(50,623)**	(38,311)
Share of profit of associates		**(2,152)**	645
PROFIT BEFORE TAX	8	**369,508**	322,077
Income tax expense	5	**(6,347)**	(7,212)
PROFIT FOR THE YEAR		**363,161**	314,865
Attributable to:			
Owners of the parent		**356,371**	306,374
Non-controlling interests		**6,790**	8,491
		363,161	314,865
Earnings per share attributable to ordinary equity holders of the parent			
– basic and diluted for the year	7	**RMB0.12**	RMB0.10

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018

	2018	2017
	RMB'000	*RMB'000*
PROFIT FOR THE YEAR	**363,161**	314,865
OTHER COMPREHENSIVE INCOME		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(161)**	42
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods	**(161)**	42
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**(161)**	42
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**363,000**	314,907
Attributable to:		
Owners of the parent	**356,272**	306,396
Non-controlling interests	**6,728**	8,511
	363,000	314,907

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018

	Notes	**2018**	2017
		RMB'000	*RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**3,543,997**	3,249,970
Prepaid land lease payments		**370,465**	381,623
Intangible assets		**2,247**	1,354
Investment in associates		**58,818**	68,192
Pledged deposits		**—**	267,488
Other non-current assets		**30,377**	81,487
Total non-current assets		**4,005,904**	4,050,114
CURRENT ASSETS			
Prepayments, deposits and other receivables		**231,694**	41,247
Time deposits		**52,572**	—
Amounts due from related party		**5,874**	5,000
Cash and cash equivalents		**639,392**	294,107
Total current assets		**929,532**	340,354
CURRENT LIABILITIES			
Other payables and accruals		**237,320**	134,417
Tax payable		**26,975**	23,416
Interest-bearing bank and other borrowings	10	**474,000**	628,037
Contract liabilities	9	**712,163**	—
Deferred revenue	9	**—**	585,982
Deferred income — current		**2,073**	354
Amounts due to related parties — current		**33,228**	966
Financial liability at fair value through profit or loss — current		**—**	7,778
Total current liabilities		**1,485,759**	1,380,950
NET CURRENT LIABILITIES		**(556,227)**	(1,040,596)
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,449,677**	3,009,518

	Notes	**2018**	2017
		RMB'000	*RMB'000*
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,449,677**	3,009,518
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	10	**608,000**	291,000
Deferred income — non-current		**8,744**	5,881
Financial liability at fair value through profit or loss — non-current		**—**	19,113
Amounts due to related party — non-current		**—**	13,383
Total non-current liabilities		**616,744**	329,377
Net assets		**2,832,933**	2,680,141
EQUITY			
Equity attributable to owners of the parent			
Share capital		**26,051**	26,051
Reserves		**2,783,761**	2,637,697
		2,809,812	2,663,748
Non-controlling interests		**23,121**	16,393
Total equity		**2,832,933**	2,680,141

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 Principal activity of the Company is investment holding. The Company and its subsidiaries (collectively referred to as the "Group") are principally engaged in providing private education services in the People's Republic of China (the "PRC").

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 financial liability at fair value through profit and loss. The financial statements are presented in Renminbi ("RMB").

2. ADOPTION OF NEW AND REVISED IFRSS

New and 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 2018.

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

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

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

IFRS 15 Revenue from Contracts with Customers

The Group has performed an assessment on the impact of the adoption of IFRS15 and concluded that no material financial impact exists, and therefore no adjustment to the opening balance of equity at 1 January 2018 was recognised. However, as the presentation and disclosure requirements in IFRS15 are more detailed than those under IAS18, as required for the interim condensed financial statement, the Group has disaggregated revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. In addition, upon adoption of IFRS15, the Group recognised revenue-related contracts labilities for the unsatisfied performance obligation which were previously recognised as deferred revenue.

IFRS 9 Financial Instruments

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

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 these financial statements:

Amendments to IFRS 3	*Definition of a Business*[2]
Amendments to IFRS 9	*Prepayment Features with Negative Compensation*[2]
Amendments to IFRS 10 and IAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
IFRS 16	*Leases*[1]
IFRS 17	*Insurance Contracts*[3]
Amendments to IAS 1 and IAS 8	*Definition of Material*[2]
Amendments to IAS 19	*Plan Amendment, Curtailment or Settlement*[1]
Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures*[1]
IFRIC 23	*Uncertainty over Income Tax Treatments*[1]
Annual Improvements 2015-2017 Cycle	*Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23*[1]

[1] Effective for annual periods beginning on or after 1 January 2019

[2] Effective for annual periods beginning on or after 1 January 2020

[3] Effective for annual periods beginning on or after 1 January 2021

[4] No mandatory effective date yet determined but available for adoption

3. REVENUE, OTHER INCOME AND GAINS

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

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

	Notes	**Year ended 31 December 2018** *RMB'000*	2017 *RMB'000*
Revenue			
Tuition fees		**1,120,649**	911,497
Boarding fees		**46,047**	41,270
Management and consultation services (i)		**1,258**	—
		1,167,954	952,767
Other income and gains			
Bank interest income	8	**1,305**	3,380
Other interest income		**10,203**	—
Foreign exchange difference, net (ii)	8	**7,286**	—
Fee sharing income (iii)		**374**	777
Gain from derecognition of contingent consideration (iv)		**10,508**	—
Government grants			
— related to assets		**2,349**	1,116
— related to income		**5,300**	5,316
Others		**5,547**	5,641
		42,872	16,230

Notes：

(i) The amount represented the consultation service related to education provided to a third party and day-to-day operation management services provided to an associate school in 2018.

(ii) Foreign exchange difference recorded in 2018 was generated from the translation of the Hong Kong dollars bank deposits resulted from the depreciation of Renminbi against Hong Kong dollars.

(iii) The amount represented 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.

(iv) The amount derived from derecognition of contingent consideration related to acquisition of an associate.

4. FINANCE COSTS

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Interest on bank borrowings	**54,030**	52,815
Less: interest capitalised	**(3,407)**	(14,504)
	50,623	38,311

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.

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

The corporate income tax of Tibet Huatai Education Management Consulting Co., Ltd. ("Tibet Huatai") is calculated at a rate of 15% according to the relevant tax regulations of the Tibet Autonomous Region. During the three years period from 1 January 2015 to 31 December 2017, the Tibet local government exempted the enterprises within the Tibet Autonomous Region from the 40% corporate income tax. As such, Tibet Huatai was subject to an effective corporate income tax rate of 9% in 2017, which has been increased to 15% beginning on 1 January 2018 after the three-year exemption expired on 31 December 2017.

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates. The income tax expenses of the Group for the year are analysed as follows:

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Current — PRC		
Charge for the year	**6,347**	7,212
Total tax charge for the year	**6,347**	7,212

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

6. DIVIDENDS

A final dividend of HK$0.04 per share in respect of the year ended 31 December 2018 (2017: HK$0.04 per share) has been proposed by the Board and is subject to approval by the shareholders at the forthcoming annual general meeting of the Company.

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 3,088,761,000 in issue during the Reporting Period (2017: 3,088,761,000).

There were no potentially dilutive ordinary shares in issue during the years ended 31 December 2018 and 2017, and therefore the diluted earnings per share amounts were equivalent to the basic earnings per share amounts.

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

	Year ended 31 December	
	2018	2017
Earnings		
Profit attributable to ordinary equity holders of the parent (RMB'000)	**356,371**	306,374
Shares		
Weighted average number of ordinary shares in issue	**3,088,761,000**	3,088,761,000
Basic and diluted earnings per share (expressed in RMB per share)	**0.12**	0.10

8. PROFIT BEFORE TAX

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

	Notes	Year ended 31 December 2018 RMB'000	2017 RMB'000
Employee benefit expense (excluding directors' and chief executive's remuneration):			
Wages, salaries and other allowances		**351,479**	326,414
Pension scheme contributions (defined contribution scheme)		**51,622**	37,727
Depreciation of property, plant and equipment		**120,350**	76,843
Amortization of land lease payments		**10,942**	10,824
Amortization of intangible assets		**469**	66
Minimum lease payments under operating leases		**33,687**	22,086
Auditors' remuneration			
— audit service		**2,584**	2,514
— non-audit service		**160**	252
Bank interest income		**(1,305)**	(3,380)
Other interest income		**(10,203)**	—
Foreign exchange difference, net	3	**(7,286)**	24,759
Loss on disposal of items of property, plant and equipment		**80**	31

9. CONTRACT LIABILITIES/DEFERRED REVENUE

Contract liabilities

Details of contract liabilities as at 31 December 2018 are as follows:

	31 December 2018
	RMB'000
Tuition fees	**681,976**
Boarding fees	**30,187**
	712,163

Deferred revenue

	31 December 2017
	RMB'000
Tuition fees	560,081
Boarding fees	25,901
	585,982

Contract liabilities include short-term advances received from students in relation to the proportionate services not yet provided. The Group receives tuition and boarding fees from students in advance prior to the beginning of each academic year. Tuition and boarding fees are recognized proportionately over the relevant period of the applicable program.

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

10. INTEREST – BEARING BANK AND OTHER BORROWING

For the year ended 31 December 2018

	Effective interest rate (%)	Maturity	RMB'000
Current			
Bank loans — secured	5.22 - 7.00	2019	**474,000**
Non-current			
Bank loans — secured	5.64 - 7.13	2033	**608,000**
			1,082,000

For the year ended 31 December 2017

	Effective interest rate (%)	Maturity	RMB'000
Current			
Bank loans — secured	2.45 - 7.25	2018	628,037
Non-current			
Bank loans — secured	2.45 - 7.84	2020	291,000
			919,037

MANAGEMENT DISCUSSION AND ANALYSIS

Market Review

The PRC formal education industry primarily consists of fundamental education and higher education. The PRC fundamental education market can be further divided into four phases: pre-school, primary school, middle school and high school. Among the four phases of fundamental education, primary school and middle school constitute the nine years of compulsory education, while the pre-school and high school constitute the non-compulsory education.

The Group aims to provide high quality education programs to students and is well recognized by parents and students in academic excellence. We target students from middle class families who pursuit high quality educational resources for children. Meanwhile, the society's general awareness of the importance of education is increasing and resulted in the growing demand for high-quality private fundamental education service. With the increase in income and wealth, the middle class families can afford the higher expenditure on high-quality educational activities. Looking forward, the market trend in both revenue and student enrollment for private fundamental education in China will continue to grow. In order to capture the future growth and increase our market share, the Group will focus on continuously enhancing our competitiveness, providing more flexible and diversified curriculum to our students and improving our quality of private education in the future.

Business Overview

In 2018, the Group established two new schools in Quxian County, Sichuan Province, the PRC. As at 31 December 2018, the Group operated 16 schools in four cities in Sichuan Province. The Group also had an associate school located at the Hi-tech Industrial Development Zone of Chengdu City, which commenced operation in September 2017. Through these schools, we offer formal education with comprehensive education programs from kindergarten through university. As at 31 December 2018, the Group's total student enrolment was 45,802, with 29,415 students enrolled in our K-12 schools and 16,387 students enrolled in the university.

Revenue

For the year ended 31 December 2018, the Group has recorded an increase in its revenue from RMB952.8 million for the year ended 31 December 2017 to RMB1,168.0 million for the year ended 31 December 2018. Revenue of the Group refers to: (i) students fees, typically comprising tuition fees and boarding fees; and (ii) revenue from management and consultation services provided to the associate school. Tuition fees remained to be the major revenue, accounting for approximately 95.9% of the total revenue of the Company for the year ended 31 December 2018.

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

	Year ended 31 December 2018 *RMB'000*	Year ended 31 December 2017 *RMB'000*	**Change** *RMB'000*	**Percentage Change**
Tuition fees and boarding fees	**1,166,696**	952,767	**+213,929**	**+22.5%**
Management and consultation services	**1,258**	—	**+1,258**	**+100%**
Total	**1,167,954**	952,767	**+215,187**	**+22.6%**

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

	Year ended 31 December 2018 *RMB'000*	Year ended 31 December 2017 *RMB'000*	**Change** *RMB'000*	**Percentage Change**
High school – domestic program	**266,840**	211,356	**+55,484**	**+26.3%**
High school – international program	**40,428**	39,375	**+1,053**	**+2.7%**
Middle school	**396,586**	347,609	**+48,977**	**+14.09%**
Primary school	**194,292**	109,967	**+84,325**	**+76.7%**
Kindergarten	**12,401**	8,917	**+3,484**	**+39.1%**
University	**210,102**	194,273	**+15,829**	**+8.1%**
Total tuition fees	**1,120,649**	911,497	**+209,152**	**+22.9%**
Boarding fees	**46,047**	41,270	**+4,777**	**+11.6%**
Total	**1,166,696**	952,767	**+213,929**	**+22.5%**

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

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

	School Year			
	2018/2019	**2018/2019**	**2017/2018**	**2017/2018**
	Gross	**Average**	**Gross**	**Average**
Categories of the schools	**Tuition Fees**	**Tuition Fees**	**Tuition Fees**	**Tuition Fees**
	RMB'000	***RMB***	***RMB'000***	***RMB***
High school – domestic program	309,375	35,463	251,063	35,657
High school – international program	36,763	95,487	35,067	94,266
Middle school	426,768	34,601	376,627	34,455
Primary School	255,243	34,413	154,056	33,918
Kindergarten	14,418	28,952	11,478	26,447
University	220,151	13,434	202,005	13,071

Note: Average tuition fees are calculated as the gross tuition fees (excluding boarding fees) a particular school received for a given school year divided by the total number of students enrolled at such school for the same school year. 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 granted 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 2018	As at 31 December 2017	**Change**	**Percentage Change**
High school students – domestic program	**8,694**	6,893	**+1,801**	**+26.1%**
High school students – international program	**472**	448	**+24**	**+5.4%**
Middle school students	**12,334**	10,810	**+1,524**	**+14.1%**
Primary school students	**7,417**	4,548	**+2,869**	**+63.1%**
Kindergarten students	**498**	395	**+103**	**+26.1%**
K-12 students	**29,415**	23,094	**+6,321**	**+27.4%**
University students	**16,387**	15,404	**+983**	**+6.4%**
Total number of students	**45,802**	38,498	**+7,304**	**+19.0%**

As at 31 December 2018, the aggregate number of students enrolled at the schools of the Group increased to 45,802 from 38,498 as at 31 December 2017. The increase in the aggregate number of students enrolled was attributable to the increase in the capacity of two new schools and certain existing schools.

Student Placement

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 provides high-quality education to its 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 the National Higher Education Entrance Examinations ("Gaokao") administered in 2016, 2017 and 2018, approximately 87.0%, 94.6% and 94.7%, respectively, of the Group's graduating high school students who participated in such examinations achieved scores that allowed them to apply to and be admitted into the first-tier universities in China, including Peking University, Tsinghua University, Fudan University, Zhejiang University and Shanghai Jiaotong University, among others, and over 62% of our graduating high school students can be admitted into the key universities in China, which refer to universities that were listed as participating universities in Project 211 (211 工程) and Project 985 (985工程) initiated by the Ministry of Education of the PRC and the PRC government. In addition, in the 2018 Gaokao, 37 of our graduating high school students were admitted into Peking University and Tsinghua University and 80 of our graduating high school students were recommended for admission into first-tier universities without taking the Gaokao.

Moreover, certain of the Group's high school graduating students were admitted into the reputable colleges and universities overseas in 2018. For example, certain students from Chengdu Foreign Languages School were admitted into Oxford University, Johns Hopkins University. For students who are interested in attending colleges and universities in the United States or Canada, the Group established international programs at Chengdu Foreign Languages School under which PRC/overseas standard high-school curriculum, overseas standardized college entrance examinations, language testing examinations or United States University Advanced Placement ("AP") course are offered to them. Such programs allow students to take either American or Canadian high-school curriculum taught by foreign teachers as well as PRC high-school curriculum taught by PRC teachers.

Teachers

	As at 31 December 2018	As at 31 December 2017
Total number of teachers	**3,017**	2,618

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 of 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 records, (ii) hold necessary academic credentials (i.e. diplomas), (iii) are passionate about education and improving students' academic performance and overall well being, (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 2018, the Group had 3,017 teachers, of which approximately 95.6% have a bachelor's degree or above, and approximately 28.4% have a master's degree or above. The schools operated by the Group employed 32 foreign teachers as at 31 December 2018. Most of our teachers are full-time teachers. The Group also values the recognition bestowed upon the teachers who have achieved teaching excellence. As at 31 December 2018, approximately 14.7% of our teachers held the advanced teaching qualification, and approximately 37 of our teachers were recognized as exceptional teachers. The Group offers mandatory and continuing training courses and seminars to our teachers and offers mandatory professional teaching technique training courses for newly hired teachers.

School Utilization

Utilization rate is calculated as the number of students enrolled divided by the estimated capacity for a given school. Except for our kindergarten, our schools are generally boarding schools. For our boarding schools, the estimated capacity for students is calculated based on the number of beds available in student dormitories. For our kindergarten, the estimated capacity for students is calculated based on the number of beds used for naps in the schools.

	As at 31 December 2018	As at 31 December 2017
Total number of students enrolled	**45,802**	38,498
Total student capacity	**66,840**	59,248
Overall utilization rate	**68.5%**	65.0%

The overall utilization rate increased from 65.0% as at 31 December 2017 to 68.5% as at 31 December 2018. The increase in overall utilization rate is mainly due to: (i) the establishment of two new schools in September 2018 to accommodate 4,000 students. As the new schools only enrolled students at certain grade (for example, the middle and high school only enrolled students of seventh and tenth grades, respectively), the utilization rate for the new schools is relatively low for the first school year and is expected to increase as more new students will be admitted in the next school year; and (ii) the number of new students enrolled has increased in September 2018 in the eight new schools opened in September 2017.

Risk Management

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

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

Interest Rate Risk

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

Liquidity Risk

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

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

- The Board is responsible and has the general power to manage the Group's operations of the schools, and is in charge of managing the overall risks of the Group. It is responsible for considering, reviewing and approving any significant business decisions involving material risk exposures, such as the Group's decisions to expand its school network into new geographic areas, to raise the Group's tuition fees, and to enter into cooperative business relationships with third parties to establish new schools;

- The Group maintains insurance coverage, which the Group believes is in line with customary practice in the PRC education industry, including school liability insurance; and
- The Group has made arrangements with the Group's lenders to ensure that the Group will be able to obtain credit to support its business operation and expansion.

Environment, Health and Safety

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

The Group is dedicated to protecting the health and safety of the students. The Group has on-site medical staff or health care personnel at each of the schools the Group operates to handle routine medical situations involving students. In certain serious and 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

The high school market has relatively high entry barriers because the students and parents place more emphasis on the reputation and education quality of high schools due to the strong needs of applying for better universities in China. Therefore, as one of the leading K-12 private education providers with reputable high schools in Southwest China, the Group will have more competitive advantages in the K-12 private education market because students and parents tend to enroll in the primary schools operated by such providers at an early age in order to secure the high schools within the same school system in the future. The Group intends to leverage its reputation to expand its school network in Chengdu, other areas in Sichuan Province and elsewhere in Southwest China. Furthermore, with the increase in income and wealth, the middle class families can afford the higher expenditure on high-quality educational service. The Group intends to enhance the Group's profitability by optimizing the pricing of the schools of the Group, diversifying its service offerings and increasing revenue sources. In addition, the Group intends to expand its international programs.

Future Development

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

i) Establish new asset-light schools by collaborating with third-party business partners;

ii) Collaborate with prestigious overseas schools to open new international schools or foundation programs in China;

iii) Provide to third party owned K-12 schools comprehensive school management service, including, among others, education quality control, curriculum development, daily operation, teachers recruitment and training, branding, teaching methodology support and campus design; and

iv) Collaborate with certain commercial property owners to establish one-stop comprehensive education program.

(i) Establishing new asset-light schools with third-party business partners

Ya'an Campus – commencement of operation expected to be in September 2019

On 15 May 2018, the Group entered into the school establishment agreement with a third party to establish a new middle and high school. The school is expected to accommodate approximately 2,700 students. Under the agreement, the third party shall be responsible for constructing the buildings and facilities and leasing such school premises to the school for the operation of Ya'an Campus. The Ya'an Campus is expected to commence its first school year on 1 September 2019. The lease term for the school premises will be 20 years starting from 1 September 2019 to 31 August 2039. No rental fees will be payable by the Group for the first four years of the rental period.

Yibin campuses – commencement of operation expected to be before September 2020

a) On 30 August 2018, the Group entered into the school establishment agreement with a third party to establish a new school providing primary to high school education. The school is expected to accommodate approximately 5,940 students. Under the agreement, the third party shall be responsible for constructing the building and facilities and leasing such school premises to the school for the operation. The campus is expected to commence its first school year before 1 September 2020. The lease term for the school premises will be 20 years since it commence. No rental fees will be payable by the Group for the first four years of the rental period.

b) On 17 January 2019, the Group entered into a school establishment agreement with an independent third party to establish another campus of Chengdu Institute Sichuan International Studies University in Yibin City. The campus is expected to accommodate approximately 12,000 students. Under the agreement, the third party shall be responsible for developing the land, buildings and facilities and providing such school premises to the school for its operation. The campus is expected to commence its first school year before 1 September 2020.

Potential cooperation on establishment of new schools

On 4 January 2019, the Group entered into a strategic cooperation agreement ("the Strategic Cooperation Agreement") with the government of Jintang District, Chengdu, Sichuan Province, to establish a new school providing primary to high school education in Huaizhou New Town, Jintang District.

On 22 February 2019, the Group entered into a school establishment agreement with the government of Qingbaijiang District, to establish a high quality school providing primary to high school education. In addition, the Group agreed to cooperate with all public schools in Qingbaijiang District with respect to, including, among others, school management, teaching research and reform, training of teaching staffs and interaction activities, students exchange activities and international education.

Longfor Xichen Yuanzhu Campus – commencement of operation expected to be in September 2019

The Group entered into a school establishment agreement with a third party to establish a primary school as the Longfor Xichen Yuanzhu Campus, which will be developed under asset-light business model. The third party shall be responsible for providing and developing the land and building to be used as campus of Longfor Xichen Yuanzhu Campus, and shall lease such premises to the school during the existence of the school. The Longfor Xichen Yuanzhu Campus is expected to accommodate approximately 1,890 students, and to commence its first school year on 1 September 2019.

Deyang Campus – commencement of operation expected to be in September 2020

The Group entered into a school establishment agreement with a third party to establish a school in the Deyang Campus, providing primary to high school education. The Deyang Campus will be developed under asset-light business model. The third party shall be responsible for providing and developing land and buildings to be used as campus of the Deyang Campus, and shall lease such school premises to the school during the existence of the school. The Deyang Campus is expected to accommodate approximately 6,760 students and to commence its first school year on 1 September 2020.

Luzhou Campus – commencement of operation expected to be in September 2020

The Group entered into a school establishment agreement with a third party to establish a school in Luzhou, Sichuan Province, providing primary to high school education. The Luzhou Campus will be developed under asset-light business model. Under the agreement, the third party shall be responsible for providing and developing the land and buildings, and shall provide such school premises to the school for the operation of Luzhou Campus. The Luzhou Campus is expected to accommodate approximately 5,280 students and to commence its first school year on 1 September 2020.

Xinjin Campus – commencement of operation expected to be in September 2020

The Group entered into a school establishment agreement with a third party, providing primary to high school education. The Xinjin Campus will be developed under asset-light business model. Under the agreement, the third party shall be responsible for providing and developing the land and buildings, and shall provide such school premises to the school for the operation of Xinjin Campus. The Xinjin Campus is expected to accommodate approximately 4,920 students and to commence its first school year on 1 September 2020.

Guiyang Campus – commencement of operation expected to be in September 2021

The Group entered into a school establishment agreement with a third party to establish a school in Guiyang, Guizhou Province, providing primary to high school education (including a overseas training and education institution). Guiyang Campus will be developed under asset-light business model. Under the agreement, the third party shall be responsible for providing and developing the land and buildings to the school for the operation of Guiyang Campus. The Guiyang Campus is expected to accommodate approximately 4,650 students and to commence its first school year on 1 September 2021.

(ii) International school and foundation programs

The Group and Monash College Pty Ltd ("MCPL"), a company who provides education courses and programs in Australia and owned by Monash University, entered into an education cooperation agreement (the "Education Cooperation Agreement") on 16 April 2018, pursuant to which both parties agreed to establish a cooperative educational program (the "Program") which mainly covers pre-university education courses through a curriculum exclusive licensing agreement. Both parties agreed to offer the Program to students in the PRC. The term of the Education Cooperation Agreement is five years from 2019 to 2023, renewable as agreed by both parties. The Group will start to offer the Program to students in 2019.

In addition, the Group is discussing with other prestigious overseas schools or institutions on exploring the possibility of opening new international schools, foundation programs and deep cooperation in China. As at the date of this announcement, no definitive agreements have been entered into.

(iii) Education management and consultation service

In February 2019, the Group entered into school management cooperation agreements with government owned public schools under which the Group will provide school management service including, among others, teacher's trainings, student recruitment, performance review of principal, and marketing activities to the public schools.

(iv) One stop comprehensive education program

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

The Group opened two new schools in Quxian County, Dazhou, Sichuan Province in September 2018. The following sets forth a summary of the estimated student capacity of the new school campuses opened or to be opened from September 2018 to September 2021:

School campus	**Commencement of school campus**	**Estimated student capacity**
Quxian Campus	September 2018	4,000
Longfor Xichen Yuanzhu Campus	September 2019	1,890
Yaan Campus	September 2019	2,700
Yibin campuses	September 2020	17,940
Deyang Campus	September 2020	6,760
Luzhou Campus	September 2020	5,280
Xinjin Campus	September 2020	4,920
Guiyang Campus	September 2021	4,650
Total		48,140

The Group had added two new schools in its PRC school network in 2018/2019 school year. For illustration purpose, the school which provides multi-phases education programs is counted according to the number of the category of such education phases. For example, Chengdu Foreign Languages School which provides middle and high school education phases is counted as one middle school and one high school, respectively. The following table shows a summary of the number of our schools by category as of the dates indicated:

Category of schools	**Schools established as at 31 December 2018**	**Schools established as at 31 December 2017**
High school	8*	7*
Middle school	7	6
Primary school	5	5
Kindergarten	2	2
University	1	1
	23	21

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

Financial Review

Revenue

Revenue, which is also the Group's turnover, represents the value of services rendered, after deducting scholarships granted and refunds made to its students during the Reporting Period. Revenue of the Group primarily derived from tuition fees and boarding fees the Group's schools collected from students, as well as management service fees and consultation service fees received by the Group respectively from an associated school and an independent third party during the Reporting Period.

Revenue increased by RMB215.2 million, or 22.6%, from RMB952.8 million for the year ended 31 December 2017 to RMB1,168.0 million for the Reporting Period. This increase was primarily the result of revenue from tuition fees increased by RMB209.1 million, or 23%, from RMB911.5 million for the year ended 31 December 2017 to RMB1,120.6 million for the Report Period. The tuition fees the Group received increased mainly due to the increase in the number of students enrolled in 2018/2019 school year, the increase in the capacity of schools, and the two or more grade of students enrolled in 2018/2019 school year comparing to the last school year.

Cost of Sales

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

Cost of sales increased by RMB 168.0 million, or 33.7%, from RMB498.7 million for the year ended 31 December 2017 to RMB666.7 million for the Reporting Period. This increase was primarily the result of an increase in staff costs, depreciation and amortization. Staff costs increased by RMB78.6 million, or 24.5%, from RMB320.2 million for the year ended 31 December 2017 to RMB398.8 million for the Reporting Period, primarily as a result of increased salaries and benefits payable to the Group's teachers. Depreciation and amortization increased by RMB46.4 million, or 57.9%, from RMB80.1 million for the year ended 31 December 2017 to RMB126.5 million for Reporting Period, mainly as a result of: (i) transfer of fixed assets at Wenjiang Campus and provided for depreciation; (ii) additional purchases of fixed assets by the schools of the Group; and (iii) the renovation of the middle school campus of Chengdu Foreign Languages School of the Group.

Gross Profit and Gross Profit Margin

Gross profit increased by RMB47.2 million, or 10.4%, from RMB454.1 million for the year ended 31 December 2017 to RMB501.3 million for the year ended 31 December 2018, which was in line with the growth of the Group's business. Gross profit margin decreased to 42.9% for the Reporting Period from 47.7% for the year ended 31 December 2017 mainly due to the increase in teachers' salaries and benefits, as well as the increase in depreciation and amortization of the Group.

Selling and Distribution Expenses

Selling and distribution expenses primarily consist of advertising expenses, student admission expenses and business entertainment expenses. Selling and distribution expenses increased by RMB2.0 million, or 55.6%, from RMB3.6 million for the year ended 31 December 2017 to RMB5.6 million for the Reporting Period. The increase of selling and distribution expenses was primarily due to the increase in student admission expenses and advertising expenses for the eight new schools opened in 2017 and the two new schools opened in 2018.

Administrative Expenses

Administrative expenses primarily consist of the salaries and other benefits paid for general and administrative staff, office-related expenses, depreciation of office buildings and equipment, travel expenses and other expenses. Administrative expenses increased by RMB25.2 million, or 31.0%, from RMB81.4 million for the year ended 31 December 2017 to RMB106.6 million for the Reporting Period, primarily due to the increase in salaries and benefits payable to the Group's executive officers.

Other Income and Gains

Other income and gains primarily consist of foreign exchange gain, interest income and rental income from leasing certain of the properties to independent third parties. Other income and gains increased by RMB26.6 million, or 164.2%, from RMB16.2 million for the year ended 31 December 2017 to RMB42.9 million for Reporting Period. The increase was primarily attributable to: (i) an interest income of RMB11.5 million was recognized for the Reporting Period, representing an increase of RMB8.1 million from the interest income of RMB3.4 million recognized for the year ended 31 December 2017; (ii) a net foreign exchange gain of RMB7.3 million recognized for the Reporting Period, while no foreign exchange gain was recognized for the year ended 31 December 2017; and (iii) gain of RMB10.5 million for the Reporting Period, representing the amount derived from derecognition of contingent consideration related to acquisition of an associate.

Other Expenses

Other expenses consist primarily of foreign exchange loss, expenses relating to the leasing of certain properties to independent third parties and disposal of various fixed assets. Other expenses decreased from RMB25.6 million for the year ended 31 December 2017 to RMB9.7 million for the Reporting Period. Such decrease was primarily due to the net foreign exchange loss of RMB24.8 million generated from the translation of the Hong Kong dollars bank deposits resulted from the appreciation of RMB against HKD for the year ended 31 December 2017, while no foreign exchange loss was recognized for the Reporting Period.

Finance Costs

Finance costs primarily consist of the interest expenses for bank borrowings. Finance costs increased by RMB12.3 million, or 32.1%, from RMB38.3 million for the year ended 31 December 2017 to RMB50.6 million for the Reporting Period, mainly attributable to (i) the interest expenses for the bank loans of RMB54.0 million for the Reporting Period, representing an increase of RMB1.2 million as compared to the interest expenses of RMB52.8 million for the year ended 31 December 2017; and (ii) the capitalized interest of RMB3.4 million recognized for the completion and commencement of Wenjiang Campus in 2018, while the capitalized interest of RMB14.5 million was recognized for the year ended 31 December 2017.

Core Net Profit

Core net profit derived from the profit for the year after adjusting the foreign exchange gain or loss, which is not indicative of the Group's operating performance. This is not an IFRSs measure. The Group has presented this item because the Group considers it an important supplemental measure of the Group's operational performance used by the Group's management as well as analysts or investors. The following table reconciles from profit for the year to core net profit for both financial years:

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Profit for the year	**363,161**	314,865
Add:		
Foreign exchange loss	**—**	24,759
Less:		
Foreign exchange gain	**7,286**	—
Core net profit	**355,875**	339,624

Core net profit increased by RMB16.3 million, or 4.8%, from RMB339.6 million for the year ended 31 December 2017 to RMB355.9 million for the Reporting Period.

Capital Expenditure

Capital expenditure during the Reporting Period primarily related to constructing Wenjiang campus, maintaining, leasehold improvements and upgrading the existing school premises and purchasing educational facilities and equipment for the Group's schools. Capital expenditure decreased by RMB256.3 million, from RMB671.7 million for the year ended 31 December 2017 to RMB415.4 million for the Reporting Period, mainly attributed to (i) the Group incurred capital expenditure of RMB68.0 million in 2018 for the construction of Wenjiang Campus, representing a decrease of RMB615.3 million as compared to the capital expenditure of RMB683.3 million; (ii) capital expenditure of RMB185.8 million in 2018 for leasehold improvements to old campuses, representing an increase of RMB185.8 million while no capital expenditure on leasehold improvements was incurred for the year ended 31 December 2017; and (iii) an increase of RMB173.2 million in expenditure on upgrading the existing school premises, purchasing educational facilities and equipment during the Reporting Period.

Capital Commitments

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

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Contracted, but not provided for:		
Land and buildings, equipment	**19,741**	13,811
Capital contributions payable to an associate	**—**	6,900
	19,741	20,711

Operating Lease Commitments

As lessee

The Group leases certain of its buildings under operating lease arrangements. Leases for buildings were negotiated for terms of 1 to 20 years. As at the end of each of the following reporting periods, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Within one year	**19,316**	12,747
In the second to fifth years, inclusive	**20,826**	10,245
Beyond five years	**12,074**	15,746
	52,216	38,738

As at 31 December 2018, the Group had total future minimum lease payments under non-cancellable operating leases amounting to RMB52.2 million. Certain of our schools have renewed the continuing lease agreements and arrangements with our connected persons in March and September 2018 to lease certain buildings for use in the operation of the respective schools for a period of 2 years to 2.5 years. The increase of total future minimum lease payments under non-cancellable operating leases was mainly because the remaining lease period as at 31 December 2018 was longer than that of the year of 2017, as well as increase in unit rental fees.

Gearing Ratio

The gearing ratio of the Group, which was calculated as total bank borrowings divided by total equity as at the end of the relevant financial year, increased from approximately 34.3% as at 31 December 2017 to approximately 38.2% as at 31 December 2018, primarily due to the increase in the Group's bank borrowings.

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 2018, certain bank balances were denominated in HKD and USD. During the Reporting Period, the Group did not experience any significant difficulties in or impacts on its operations or liquidity due to fluctuations in currency exchange rates. The Directors believe that the Group has sufficient foreign exchange to meet its own foreign exchange requirements and will adopt practical and effective measures to prevent exposure to exchange rate risk. The Group did not enter into any financial instrument for hedging purpose.

Contingent Liabilities

As at 31 December 2018, the Group had no material contingent liabilities.

Pledge of Assets

As at 31 December 2018, the Group had not pledged any asset to secure any guarantee.

Human Resources

As at 31 December 2018, the Group had 4,301 employees (31 December 2017: 3,613 employees).

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

The total remuneration cost incurred by the Group for the year ended 31 December 2018 was approximately RMB466.5 million (2017: RMB368.3 million).

USE OF PROCEEDS

Net proceeds from the listing of the Company's shares on the Main Board of the Stock Exchange (after deducting underwriting fee and relevant expenses) amounted to approximately HK$1,932.4 million (equivalent to approximately RMB1,629.2 million). As at 31 December 2018, a total amount of HK$1,932.4 million (equivalent to approximately RMB1,629.2 million) out of the net proceeds had been used by the Group according to the allocation set out in the prospectus of the Company dated 31 December 2015. The following sets forth a summary of the utilization of the net proceeds:

Purpose	**Percentage to total amount**	**Net proceeds**	**Utilized amount (as at 31 December 2018)**	**Unutilized amount (as at 31 December 2018)**
		RMB(million)	*RMB(million)*	*RMB(million)*
Cooperate with independent third parties to jointly establish new schools, purchase the relevant land use rights to develop new schools, and acquire existing schools	49.1%	800.4	800.4	—
Repay the existing short-term bank borrowings	21.3%	348.0	348.0	—
Establish a teacher and staff training and development center	20.4%	331.6	331.6	—
Fund the working capital and general corporate purposes	9.2%	149.2	149.2	—
Total	100.0%	1,629.2	1,629.2	—

EVENTS AFTER THE REPORTING PERIOD

There was no event which has occurred after the year ended 31 December 2018 that would cause material impact on the Group.

FINAL DIVIDEND

The Board recommended the payment of a final dividend of HK$0.04 per share for the year ended 31 December 2018. The final dividend is subject to the approval of the shareholders of the Company (the "Shareholders") at the forthcoming annual general meeting of the Company to be held on 21 June 2019 (the "AGM") and the final dividend will be payable on or around 31 July 2019 to the Shareholders whose names appear on the register of members of the Company on 2 July 2019.

CLOSURE OF THE REGISTER OF MEMBERS

The register of members of the Company will be closed from 18 June 2019 to 21 June 2019, both days inclusive, in order to determine the identity of the Shareholders who are entitled to attend the AGM to be held on 21 June 2019, 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 17 June 2019.

The register of members of the Company will also be closed from 27 June 2019 to 2 July 2019, both days inclusive, in order to determine the entitlement of the Shareholders to receive the final dividend, during which period no share transfers will be registered. To qualify for the final dividend, 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 26 June 2019.

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 during the Reporting Period. The Company will continue to review and monitor its corporate governance practices to ensure compliance with the CG Code.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code 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, each of the Directors has confirmed that he/she has complied with the required standards as set out in the Model Code during the Reporting Period.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the Reporting Period, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

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 consolidated financial statements for the year ended 31 December 2018.

SCOPE OF WORK ON THE ANNUAL RESULTS ANNOUNCEMENT BY AUDITOR

The financial information set out in this announcement does not constitute the Group's audited consolidated financial statements for the year ended 31 December 2018, but represents an extract from those financial statements which have been agreed with Ernst & Young, the auditor of the Company. 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 2018 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 2018 annual report of the Company 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, 25 March 2019

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