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 2019

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 2019 (2018: HK$0.04 per share).

	Year ended 31 December			
	2019	2018	**Change**	**Percentage**
	RMB'000	*RMB'000*	***RMB'000***	**Change**
Revenue	**1,493,032**	1,167,954	**+325,078**	**+27.83%**
Gross profit	**577,202**	501,274	**+75,928**	**+15.15%**
Attributable to owners of the parent	**397,140**	356,371	**+40,769**	**+11.44%**
Core net profit*	**408,402**	355,875	**+52,527**	**+14.76%**
EBITDA	**651,105**	551,892	**+99,213**	**+17.98%**

* 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 2019	As at 31 December 2018	**Change**	**Percentage Change**
K-12 students enrolled	**34,271**	30,464	**+3,807**	**+12.50%**
University students enrolled	**16,888**	16,387	**+501**	**+3.06%**
Total number of students enrolled	**51,159**	46,851	**+4,308**	**+9.20%**

	As at 31 December 2019	As at 31 December 2018	**Change**	**Percentage**
	RMB'000	*RMB'000*	***RMB'000***	**Change**
Contract Liabilities	**861,780**	712,163	**+149,617**	**+21.01%**

The board (the "Board") of directors (the "Directors") 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 2019 (the "Reporting Period") together with the comparative figures for the year ended 31 December 2018 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	**2019**	2018
		RMB'000	*RMB'000*
Revenue	3	**1,493,032**	1,167,954
Cost of sales		**(915,830)**	(666,680)
Gross profit		**577,202**	501,274
Other income and gains	3	**51,401**	42,872
Selling and distribution expenses		**(6,431)**	(5,554)
Administrative expenses		**(117,718)**	(106,568)
Other expenses		**(8,736)**	(9,741)
Impairment losses on financial assets		**(2,426)**	—
Finance costs	4	**(78,961)**	(50,623)
Share of profits and losses of associates		**(2,400)**	(2,152)
PROFIT BEFORE TAX	8	**411,931**	369,508
Income tax expense	5	**(3,876)**	(6,347)
PROFIT FOR THE YEAR		**408,055**	363,161
Attributable to:			
Owners of the parent	7	**397,140**	356,371
Non-controlling interests		**10,915**	6,790
		408,055	363,161
Earnings per share attributable to ordinary equity holders of the parent – basic and diluted for the year	7	**RMB0.13**	RMB0.12

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2019

	2019	2018
	RMB'000	*RMB'000*
PROFIT FOR THE YEAR	**408,055**	363,161
OTHER COMPREHENSIVE INCOME		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(51)**	(161)
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods	**(51)**	(161)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**(51)**	(161)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**408,004**	363,000
Attributable to:		
Owners of the parent	**397,137**	356,272
Non-controlling interests	**10,867**	6,728
	408,004	363,000

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019

	Notes	2019	2018
		RMB'000	*RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**4,121,145**	3,543,997
Right-of-use assets	11	**1,118,059**	—
Prepaid land lease payments		**—**	370,465
Intangible assets		**2,908**	2,247
Investments in associates		**50,465**	58,818
Other non-current assets		**102,559**	30,377
Total non-current assets		**5,395,136**	4,005,904
CURRENT ASSETS			
Inventories		**193**	—
Prepayments, other receivables and other assets		**517,870**	231,694
Amounts due from related parties		**10,946**	5,874
Time deposits		**11,420**	52,572
Cash and cash equivalents		**394,386**	639,392
Total current assets		**934,815**	929,532
CURRENT LIABILITIES			
Trade payables	12	**38,861**	—
Other payables and accruals		**355,592**	237,320
Interest-bearing bank and other borrowings	10	**923,000**	474,000
Lease liabilities	11	**14,991**	—
Tax payable		**26,902**	26,975
Contract liabilities		**861,780**	712,163
Deferred income		**2,168**	2,073
Amounts due to related parties		**10,919**	33,228
Total current liabilities		**2,234,213**	1,485,759
NET CURRENT LIABILITIES		**(1,299,398)**	(556,227)
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,095,738**	3,449,677

	Notes	2019	2018
		RMB'000	*RMB'000*
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,095,738**	3,449,677
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	10	**1,021,903**	608,000
Lease liabilities	11	**202,009**	—
Deferred income		**9,593**	8,744
Amounts due to a related party		**108,166**	—
Total non-current liabilities		**1,341,671**	616,744
Net assets		**2,754,067**	2,832,933
EQUITY			
Equity attributable to owners of the parent			
Share capital		**26,051**	26,051
Reserves		**2,703,615**	2,783,761
		2,729,666	2,809,812
Non-controlling interests		**24,401**	23,121
Total equity		**2,754,067**	2,832,933

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. The financial statements are presented in Renminbi ("RMB").

2. ADOPTION OF NEW AND REVISED IFRSS

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2018, as described in those annual financial statements.

(i) The Group has adopted the following new and revised IFRSs for the first time for the current year's financial statements:

Amendments to IFRS 9	*Prepayment Features with Negative Compensation*
IFRS 16	*Leases*
Amendments to IAS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to IAS 28	*Long-term Interests in an Associate and Joint Ventures*
IFRIC 23	*Uncertainty over Income Tax Treatments*
Annual Improvements to 2015-2017 Cycle	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 28

The adoption of these new and revised IFRSs has had no significant financial effect on the financial position or performance of the Group except for the adoption of IFRS16, as explained below:

(ii) ADOPTION OF IFRS 16

The Group has adopted IFRS 16 using the modified retrospective method with the date of initial application of 1 January 2019. Under this method, the standard has been applied retrospectively with the cumulative effect of initial adoption recognised as an adjustment to the opening balance of retained profits at 1 January 2019, and the comparative information for 2018 was not restated and continued to be reported under IAS 17 and related interpretations.

NEW DEFINITION OF A LEASE

Under IFRS 16, a contract is, or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

As a lessee – Leases previously classified as operating leases

NATURE OF THE EFFECT OF ADOPTION OF IFRS 16

The Group has lease contracts for various items of property. As a lessee, the Group previously classified leases as operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under IFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low-value assets (elected on a lease-by-lease basis) and leases with a lease term of 12 months or less ("short-term leases") (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 January 2019, the Group recognises depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

IMPACTS ON TRANSITION

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and included in interest-bearing bank and other borrowings. The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019.

All these assets were assessed for any impairment based on IAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position.

The Group has used the following elective practical expedients when applying IFRS 16 at 1 January 2019:

- Applied the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application;

- Used hindsight in determining the lease term where the contract contains options to extend/terminate the lease; and

- Applying a single discount rate to a portfolio of leases with reasonably similar characteristic when measuring the lease liabilities at 1 January 2019.

Financial impact at 1 January 2019

The impact arising from the adoption of IFRS 16 at 1 January 2019 was as follows:

	Increase/
Assets	**(decrease)**
	RMB'000
Increase in right-of-use assets	589,101
Decrease in prepaid land lease payments	(381,494)
Increase in total assets	207,607
Liabilities	
Increase in lease liabilities	210,743
Decrease in other payables and accruals	(3,136)
Increase in total liabilities	207,607

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 are as follows:

	RMB'000
Operating lease commitments as at 31 December 2018	**118,355**
Less: Commitments relating to short-term leases and those leases with a remaining lease term ended on or before 31 December 2019	(1,508)
Add: Payments for optional extension periods not recognised as at 31 December 2018	226,657
	343,504
Weighted average incremental borrowing rate as at 1 January 2019	5.88%
Discounted operating lease commitments as at 1 January 2019	210,743
Lease liabilities as at 1 January 2019	**210,743**

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

		Effective for accounting periods beginning on or after
Amendments to IFRS 3	*Definition of a Business*	1 January 2020
Amendments to IFRS 9, IAS 39 and IFRS 7	*Interest rate Benchmark Reform*	1 January 2020
Amendments to IFRS 10 and IAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*	No mandatory effective date year determined but available for adoption
IFRS 17	*Insurance Contracts*	1 January 2021
Amendments to IAS 1 and IAS 8	*Definition of Material*	1 January 2020
Amendments to IAS 1	*Classification of Labilities as Current or Non-current*	1 January 2022

The above new standards and amendments to existing standards are effective for annual periods beginning on or after 1 January 2020 and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group.

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 2019**	2018
		RMB'000	*RMB'000*
Revenue from contracts with customers			
Tuition fees		**1,291,289**	1,120,649
School canteen operations fees (Note (i))		**144,313**	—
Boarding fees		**51,573**	46,047
Management and consultation service fees (Note (ii))		**5,857**	1,258
		1,493,032	1,167,954
Other income and gains			
Bank interest income	8	**2,654**	1,305
Other interest income (Note (iii))	8	**27,213**	10,203
Foreign exchange difference, net	8	**—**	7,286
Gain from derecognition of contingent consideration		**—**	10,508
Government grants			
— related to assets		**5,289**	2,349
— related to income		**5,348**	5,300
Rental Income		**2,311**	3,009
Others		**8,586**	2,912
		51,401	42,872

Notes:

(i) The canteen operation of schools has been consolidated since 2019.

(ii) The amount represented the income derived from whole year school management service provided to two government owned public schools and day-to-day operation management services provided to an associate school in 2019.

(iii) Other interest income recorded in 2019 is generated from third-party borrowings.

4. FINANCE COSTS

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Interest on bank and other borrowings	**91,822**	54,030
Interest on lease liabilities (a)	**12,085**	—
Less: interest capitalised	**(24,946)**	(3,407)
	78,961	50,623

(a) The amount recognised in the consolidated statements of comprehensive income in relation to leases disclosed in note 11.

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 and the Proposed Amendments on the Implementation Rules for the Law for Promoting Private Education, private schools for which the school sponsors do not require reasonable returns are eligible to enjoy the same preferential tax treatments as public schools. The preferential tax treatment policies applicable to private schools requiring reasonable returns are to be separately formulated by the relevant authorities under the State Council. Based on the historical tax returns filed to the relevant tax authorities and the confirmations obtained previously from the local tax bureaus and local offices of the State Administration of Taxation, except for the kindergarten, certain schools within the Group were exempted from corporate income tax in 2019 and 2018.

In 2018, Tibet Huatai Education Management Consulting Co., Ltd.("Tibet Huatai") was subject to the PRC income tax at an original tax rate of 15%, which was subsequently changed to 9% under the Tibet Autonomous Region's preferential investment policies upon the successful application by the company. As a result, there is an adjustment in respect of current tax of previous periods amounting to RMB2,356,000. In 2019, Tibet Huatai is subject to the PRC income tax rate of 9%.

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	
	2019	2018
	RMB'000	*RMB'000*
Current — PRC		
Charge for the year	**6,232**	6,347
Overprovision in prior years	**(2,356)**	—
Total tax charge for the year	**3,876**	6,347

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 2019 (2018: 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 (2018: 3,088,761,000) in issue during the Reporting Period.

There were no potentially dilutive ordinary shares in issue during the years ended 31 December 2019 and 2018, 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	
	2019	2018
Earnings		
Profit attributable to ordinary equity holders of the parent (RMB'000)	**397,140**	356,371
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)	**0.13**	0.12

8. PROFIT BEFORE TAX

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

	Notes	Year ended 31 December 2019 RMB'000	2018 RMB'000
Cost of services provided*		**356,028**	185,202
Research and development costs**		**19,520**	17,958
Employee benefit expense (excluding directors' and chief executive's remuneration):			
Wages, salaries and other allowances		**391,939**	337,753
Pension scheme contributions (defined contribution scheme)		**54,077**	51,622
Depreciation of property, plant and equipment		**133,771**	120,350
Amortization of intangible assets		**665**	469
Depreciation of right-of-use assets (2018: amortisation of land lease payments)		**25,777**	10,942
Impairment of investment in an associate***		**5,953**	7,221
Impairment of financial assets included in prepayments, other receivables and other assets		**2,426**	—
Minimum lease payments under operating leases		**—**	33,687
Lease payments not included in the measurement of lease liabilities		**21,735**	—
Auditors' remuneration			
— audit service		**2,594**	2,584
— non-audit service		**130**	160
Bank interest income	3	**(2,654)**	(1,305)
Other interest income	3	**(27,213)**	(10,203)
Foreign exchange difference, net	3	**347**	(7,286)
Loss on disposal of items of property, plant and equipment		**360**	80

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

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

*** *Impairment of investment in an associate for the year is included in "Other expenses" in the consolidated statement of profit or loss.*

9. CONTRACT LIABILITIES

Details of contract liabilities are as follows:

	31 December 2019	31 December 2018
	RMB'000	*RMB'000*
Tuition fees	**754,647**	681,976
Boarding fees	**32,234**	30,187
School canteen operations fees	**74,899**	—
	861,780	712,163

Contract liabilities include short-term advances received from students in relation to the services not yet provided. The Group receives tuition and boarding fees from students in advance prior to the beginning of each academic year. The Group receives school canteen operation fees from students in advance prior to the beginning of each academic year or each semester. Tuition, boarding fees and school canteen operations 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.

The increase in contract liabilities in 2019 and 2018 was mainly due to incorporating school canteens and the increase in tuition and boarding fees received from students in relation to the increasing number of new registered students during the year.

10. INTEREST – BEARING BANK AND OTHER BORROWING

	Notes	**31 December 2019** *RMB'000*	31 December 2018 *RMB'000*
Non-current			
Secured			
Bank loans	a	**798,000**	608,000
Other loan (i)	a	**223,903**	—
		1,021,903	608,000

	Notes	**31 December 2019** *RMB'000*	31 December 2018 *RMB'000*
Current			
Secured			
Bank loans	a	**790,000**	474,000
Other loan (i)	a	**40,000**	—
Unsecured			
Bank loans	a	**93,000**	—
		923,000	474,000

(i) Other loan represented the loan borrowed from a third party leasing company under a sales and leaseback arrangement for certain property, plant and equipment by Chengdu Institute Sichuan International Studies University, a consolidated affiliated entity of the Company.

a. More information in bank and other loans is analysed as follow:

For the year ended 31 December 2019

	Effective interest rate (%)	**Maturity**	**RMB'000**
Current			
Bank loans – unsecured	5.22	2020	93,000
Bank loans – secured	5.22-7.13	2020	790,000
Other loan – secured	8.10	2020	40,000
Non-current			
Bank loans – secured	5.64-7.13	2033	798,000
Other loan – secured	8.10	2024	223,903
			1,944,903

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

11. LEASE

(a) Amount recognised in the consolidated balance sheet

	31 December 2019 *RMB'000*	1 January 2019 *RMB'000*
Right-of-use assets		
Prepaid land lease payments (i)	**916,054**	381,494
Buildings and other premises	**202,005**	207,607
	1,118,059	589,101

	31 December 2019 *RMB'000*	1 January 2019 *RMB'000*
Lease liabilities		
Current	**14,991**	14,744
Non-current	**202,009**	195,999
	217,000	210,743

(i) The Group has land use rights arrangement with mainland China government. The prepaid land lease payments were reclassified as right-of-use assets on adoption of IFRS16.

(b) Amount recognised in the consolidated statements of comprehensive income

	2019
	RMB'000
Depreciation charge of right-of-use assets	
– Buildings and other premises	14,742
– Prepaid land lease payments	11,035
	25,777
– Interest on lease liabilities	12,085

For the year ended 31 December 2019, the cash outflows from financing activities for leases were RMB14,968,000.

12. TRADE PAYABLES

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

	2019	2018
	RMB'000	*RMB'000*
Within 1 year	**38,861**	—

Trade payables of RMB38,861,000 (2018: Nil) were due to canteen suppliers which are repayable within 90 days.

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

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-year compulsory education, while the pre-school and high school constitute the non-compulsory education.

The Group aims to provide high quality fundamental 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 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.

The Group will continue to focus on higher education and grasp the opportunity brought by the Belt and Road Initiative and the opening-up strategy of the PRC to cultivate foreign languages talents who are application-oriented with distinctive international features to serve Sichuan province and the Southwest China. As our country has promoted the conversion of independent colleges, based on the principle of "conversion as many as possible and as soon as possible", the Group believes that the policy will bring benefit to further expand the scale of our university, and the influences as well.

Business Overview

Fundamental Education

In 2019, the Group established three new schools in Chengdu City and Ya'an City, Sichuan Province, the PRC. As at 31 December 2019, the Group operated 21 schools in four cities and a county in Sichuan Province, China and Irvine, the United States. Those schools comprised of 27 schools are categorized based on the table disclosed at page 35 of this announcement. Through these schools, we offer formal education with comprehensive education programs from kindergarten through university.

Besides, the Group began to offer school management services to two government owned public schools in Chengdu City, the PRC.

Student Placement

The Group strives to cultivate all-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 its students a pathway to first-tier universities in China and reputable colleges and universities abroad. For example, for the National Higher Education Entrance Examinations (“Gaokao”) administered in 2017, 2018 and 2019, approximately 94.6%, 94.7% and 95.1%, 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. In 2018 and 2019, 37 and 38 of our high schools graduates were admitted into Peking University and Tsinghua University respectively.

For students who are interested in attending colleges and universities overseas, the Group established international programs at various schools 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 overseas high-school curriculum taught by foreign teachers as well as PRC high-school curriculum taught by PRC teachers. In 2019, 5 of our high school graduates were admitted into American Ivy League Schools, Oxford University and Cambridge University. In 2018 and 2019, 87 and 95 of our students were admitted into the top 100 universities in the 2019 QS World University Rankings respectively.

In addition, in 2018 and 2019, 87 and 81 of our graduating high school students were recommended for admission into first-tier universities without taking the Gaokao.

Besides, in 2019, 70 students won first prize in national academic contests including mathmatics, physics, chemistry, biology and information science. 20 of our students were elected into the Sichuan contests teams. Furthermore, 8 of our students won the gold medal in five academic contests and 1 student was elected into the national mathmatics contest team.

Higher Education

The university currently offers 28 bachelor programs and 15 college programs, including 3 bachelor programs namely Malay Language Studies, Leisure Sports, Art of Broadcast Hosting and 4 college programs namely Business Japanese, Han Language Studies, Flight Attendant Specialty and Civil Aviation Safety, all of which are newly approved by Ministry of Education of the People’s Republic of China and the Education Department of Sichuan Province. In 2019 Wu Shulian’s “China Independent College Rankings”, the university ranked 20th among all 255 independent colleges and first among independent colleges specializing in literature. The employment quality of our undergraduates ranked second nationwide, and the rate of our undergraduates’ pursuing further study ranked second in the country.

We also expect to open another campus of Chengdu Institute Sichuan International Studies University in Yibin City in September 2020 under the asset-light model. The campus occupies around 500 mu with total floor area over 300,000 square meters to accommodate approximately 12,000 students. All land, buildings, and major facilities were invested by a third party.

As at 31 December 2019, the Group's total student enrolment was 49,459, with 32,571 students enrolled in the K-12 schools and 16,888 students enrolled in the Chengdu Institute Sichuan International Studies University.

Revenue

During the Reporting Period, the Group has witnessed growth of the schools operated by the Group in terms of revenue. Revenue increased from RMB1,168.0 million for the year ended 31 December 2018 to RMB1,493.0 million for the year ended 31 December 2019. The Group generated its revenue from (i) student fees and (ii) management and consultation services provided to an associate school and two government owned public schools. Student fees are typically comprised of tuition fees, boarding fees and school canteen service fees, and tuition fees remained the major revenue, accounted for approximately 86.5% of the total revenue of the Company for the Reporting Period.

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

	Year ended 31 December 2019 *RMB'000*	Year ended 31 December 2018 *RMB'000*	**Change** *RMB'000*	**Percentage Change**
Tuition fees	**1,291,289**	1,120,649	**+170,640**	**+15.2%**
Boarding fees	**51,573**	46,047	**+5,526**	**+12.0%**
School canteen operations	**144,313**	—	**+144,313**	**+100.0%**
Management and consultation services	**5,857**	1,258	**+4,599**	**+365.6%**
Total	**1,493,032**	1,167,954	**+325,078**	**+27.8%**

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

	Year ended 31 December 2019 *RMB'000*	Year ended 31 December 2018 *RMB'000*	**Change** *RMB'000*	**Percentage Change**
High school – domestic program	**310,290**	266,840	**+43,450**	**+16.3%**
High school – international program	**40,723**	40,428	**+295**	**+0.7%**
Middle school	**432,209**	396,586	**+35,623**	**+9.0%**
Primary school	**269,441**	194,292	**+75,149**	**+38.7%**
Kindergarten	**15,473**	12,401	**+3,072**	**+24.8%**
University	**223,153**	210,102	**+13,051**	**+6.2%**
Total tuition fees	**1,291,289**	1,120,649	**+170,640**	**+15.2%**
Boarding fees	**51,573**	46,047	**+5,526**	**+12.0%**
School canteen operations	**144,313**	—	**+144,313**	**+100.0%**
Total	**1,487,175**	1,166,696	**+320,479**	**+27.5%**

The increase of the total revenue of the Group was mainly due to the increase of the Group's student enrollment and school canteen operations revenue.

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

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 2019	As at 31 December 2018	**Change**	**Percentage Change**
High school students – domestic program	**10,134**	8,694	**+1,440**	**+16.6%**
High school students – international program	**482**	472	**+10**	**+2.1%**
Middle school students	**13,126**	12,334	**+792**	**+6.4%**
Primary school students	**8,312**	7,417	**+895**	**+12.1%**
Kindergarten students	**517**	498	**+19**	**+3.8%**
K-12 students	**32,571**	29,415	**+3,156**	**+10.7%**
University students	**16,888**	16,387	**+501**	**+3.1%**
Total number of students	**49,459**	45,802	**+3,657**	**+8.0%**

As at 31 December 2019, the aggregate number of students enrolled at the schools of the Group increased to 49,459 from 45,802 as at 31 December 2018. The increase in the aggregate number of students enrolled was attributable to increase in number of students of certain schools opened since September 2017 which have gained better recognition in the neighborhood through two years of operation.

Gaoxin Campus

	As at 31 December 2019	As at 31 December 2018	**Change**	**Percentage Change**
High school students – domestic program	**1,700**	1,049	**+651**	**+62.1%**

As at 31 December 2019, the students in Gaoxin Campus increased to 1,700 from 1,049 as at 31 December 2018. Gaoxin Campus, the school sponsor's interest of which is owned as to 20% by the Group, is operated by the Group.

Teachers

	As at 31 December 2019	As at 31 December 2018
Total number of teachers	**3,350**	3,017

The Group believes the quality of education provided is strongly tied to the quality of its 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 2019, the Group had 3,350 teachers, of which approximately 95.7% hold a bachelor's degree or above, and approximately 26.4% hold a master's degree or above. The schools operated by the Group employed 38 foreign teachers as at 31 December 2019. Most of our teachers are full-time teachers. The Group also values the recognition bestowed upon teachers who have achieved teaching excellence. As at 31 December 2019, approximately 15.1% of our teachers held the advanced teaching qualification, and approximately 39 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. For our boarding schools, the estimated capacity for students is calculated based on the number of beds available in student dormitories. For our kindergarten, the estimated capacity for students is calculated based on the number of beds used for naps in the schools. For non-boarding schools, the estimated capacity is calculated based on the number of classroom multiplied by maximum number of students per classroom as allowed under relevant rules and regulation.

	As at 31 December 2019	As at 31 December 2018
Total number of students enrolled	**49,459**	45,802
Total student capacity	**70,620**	66,840
Overall utilization rate	**70.0%**	68.5%

The overall utilization rate increased from 68.5% as at 31 December 2018 to 70.0% as at 31 December 2019. The increase in overall utilization rate is mainly due to the number of new students enrolled has increased in September 2019 in the eight new schools opened in September 2017.

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 international programs in China;

iii) Provision of non-formal education services;

  a) Provide school management service to K-12 schools;

  b) Collaborate with certain commercial property owners to establish one-stop comprehensive education program;

iv) Increase utilization rate of our existing school network.

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

The Group commenced operation of one new school in Chengdu and two new schools in Ya'an, Sichuan Province in September 2019, namely the Longfor Xichen Yuanzhu Campus and Ya'an Campus. The following sets forth a summary of the estimated student capacity of the new school campuses that will be opened in September 2020 and 2021:

School campus	Commencement of school campus	Cooperation term	Estimated student capacity
Higher education			
Yibin Campus*	September 2020	long term	12,000
Fundamental education			
Yibin Campus	September 2020	long term	5,940
Deyang Campus	September 2020	long term	6,760
Xinjin Campus	September 2020	long term	4,920
Guiyang Campus	September 2021	long term	4,650
Luzhou Campus	September 2021	long term	5,280
Meishan Campus*	September 2021	long term	4,050
TianFu Lushan Campus*	September 2021	long term	4,320
TianFu Huahai Campus*	September 2021	long term	3,030
Renshou Campus	September 2021	long term	4,320
Total			55,270

* *The Group entered into the school establishment agreements with third parties to establish those school campuses in 2019*

(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. The Group started to offer the Program to students since September 2019.

In July 2019, the Group and Canon Park Consultancy Limited ("CPC") which is ultimately owned by North London Collegiate School entered into an "Educational Consultancy Services Agreement".

In addition to our traditional K12 programs, the group also established the international department. In 2019, the international department started to manage programs with elite international partners, offering A-level courses, Advanced Placement and Monash University Foundational Programs.

(iii) a. Education management and consultation service

Since 2019, the Group entered into school management cooperation agreements with two government owned public schools and started to provide school management services including, among others, education quality control, curriculum development, daily operation, teachers recruitment and training, branding, teaching methodology support and campus design.

(iii) b. One stop comprehensive education program

The Group has been cooperating with certain commercial property owners to establish one-stop comprehensive education program in commercial complex with a floor area of approximately 5,000 to 10,000 square meters where various types of tailor-made education services will be offered to both the parents and their 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 started a trial operation since September 2019.

The Group had added three new schools in its PRC school network in 2019/2020 school year, namely Primary School Attached to Chengdu Foreign Languages School (Xichen Campus), Virscend High School of Ya'an and Chengdu Experimental Foreign Languages School of Ya'an. 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 2019**	Schools established as at 31 December 2018
High school	**9***	8*
Middle school	**8**	7
Primary school	**6**	5
Kindergarten	**2**	2
University	**2**	2
	27	24

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

Impact of COVID-19 epidemic

In early 2020, the outbreak of novel coronavirus (COVID-19) has certain impact on the education business of the Group, mainly due to domestic travel restrictions and various precaution measurements undertaken by respective local authorities which inter alia, include closure of schools and delay in classroom commencement during the outbreaks period. The Group has put in place certain alternative action plans for the students during the schools closure period, which include implementation of on-line modules and website distance learning activities.

In view of the implementation of the above mentioned action plans, the management has assessed and preliminarily concluded that there was no significant impact on the financial position of the Group subsequent to the year ended 31 December 2019 and up to the date of this announcement. The Group will keep continuous attention on the situation of the COVID-19 outbreaks and react actively to its impacts on the operation and financial position of the Group, and will reflect in the Group's 2020 interim and annual financial statements.

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 medical emergency situations, the Group promptly sends the students to local hospitals for treatment. With respect to school safety, the Group engaged a qualified property management company to provide property security services at the Group's school premises.

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

Financial Review

Revenue

Revenue, which is also the Group's turnover, represents the value of services rendered, after deducting scholarships granted and refunds made to its students during the Reporting Period. Revenue of the Group is primarily derived from tuition fees, boarding fees and school canteen services 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 two government owned schools during the Reporting Period.

Revenue increased by RMB325.0 million, or 27.8%, from RMB1,168.0 million for the year ended 31 December 2018 to RMB1,493.0 million for the Reporting Period. This increase was primarily attributed to: (1) the result of revenue from tuition fees increased by RMB170.7 million, or 15.2%, from RMB1,120.6 million for the year ended 31 December 2018 to RMB1,291.3 million for the Report Period. The tuition fees the Group received increased mainly due to the increase in the number of students enrolled in 2019/2020 school year, and the increase in the capacity of schools comparing to the 2018/2019 school year. For more information on student enrolment and school utilization, please refer to the section headed "Business Overview" above. The revenue from school canteen operations increased by approximately RMB144.3 million for the Reporting Period, primarily as a result of consolidation of such revenue since 2019.

Cost of Sales

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

Cost of sales increased by RMB249.1 million, or 37.4%, from RMB666.7 million for the year ended 31 December 2018 to RMB915.8 million for the Reporting Period. This increase was primarily the result of, among others, an increase in staff costs, material consumption, depreciation and amortization, and research and development costs.

Staff costs increased by RMB68.6 million, or 18.0%, from RMB380.8 million for the year ended 31 December 2018 to RMB449.4 million for the Reporting Period, primarily as a result of increased salaries and benefits payable to the Group's teachers.

Material consumption costs increased by approximately RMB117.4 million as a result of all schools except the University started to operate canteens by themselves as mentioned in the section "Business Overview" above;

Depreciation and amortization increased by RMB30.6 million, or 24.2%, from RMB126.5 million for the year ended 31 December 2018 to RMB157.1 million for Reporting Period, mainly as a result of: (i) leasehold improvements to certain campuses; (ii) capital expenditure in 2019 on upgrading the existing school premises, purchasing educational facilities and equipment for the Group's schools.

Research and development costs increased by RMB1.5 million,or 8.3%, from RMB18.0 million for the year ended 31 December 2018 to RMB19.5 million for the Reporting Period, mainly as academic center carried out much more series of work such as development of school-based curriculum, dual-language immersion curriculum, proprietary pre-school courses, proprietary international integrated courses and etc. as a result of increased new schools.

Gross Profit and Gross Profit Margin

Gross profit totally increased by RMB75.9 million, or 15.1%, from RMB501.3 million for the year ended 31 December 2018 to RMB577.2 million for the Reporting Period, which was in line with the growth of the Group's business.

	Year ended 31 December	
Gross profit of the Group	**2019**	2018
	RMB'000	*RMB'000*
Revenue	1,493,032	1,167,954
Costs of sales	915,830	666,680
Gross profit	577,202	501,274
Gross profit margin	38.7%	42.9%

Gross profit margin of the Group decreased to 38.7% for the Reporting Period from 42.9% for the year ended 31 December 2018 mainly due to gross loss from providing school canteen service.

Selling and Distribution Expenses

Selling and distribution expenses primarily consist of advertising expenses, student admission expenses and business entertainment expenses. Selling and distribution expenses increased by RMB0.8 million, or 14.3%, from RMB5.6 million for the year ended 31 December 2018 to RMB6.4 million for the Reporting Period. The increase of selling and distribution expenses was primarily due to more advertising expenses incurred for student recruitment promotion for all new schools.

Administrative Expenses

Administrative expenses primarily consist of the salaries and other benefits paid for general and administrative staff, legislation, audit and evaluation consultation service fees, office-related expenses, depreciation of office buildings and equipment, travel expenses and other expenses. Administrative expenses increased by RMB11.2 million, or 10.5%, from RMB106.6 million for the year ended 31 December 2018 to RMB117.8 million for the Reporting Period, primarily due to the additional 291 administrative staff recruited by schools and the head office to accommodate the increase in new schools and students.

Other Income and Gains

Other income and gains primarily consist of foreign exchange gain, bank interest income, other interest income and rental income from leasing certain of the Group's properties to independent third parties. Other income and gains increased by RMB8.5 million, or 19.8%, from RMB42.9 million for the year ended 31 December 2018 to RMB51.4 million for the Reporting Period. The increase was primarily attributable to: (i) an interest income of RMB27.2 million was recognized for the Reporting Period, representing an increase of RMB17.0 million from the interest income of RMB10.2 million recognized for the year ended 31 December 2018; (ii) a net foreign exchange gain of RMB7.3 million recognized for the year ended 31 December 2018, while no foreign exchange gain was recognized for the Reporting Period; and (iii) gain of RMB10.5 million for the year ended 31 December 2018, representing the amount derived from derecognition of contingent consideration related to acquisition of an associate, while no such kind of gain was recognized for the Reporting Period.

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 RMB9.7 million for the year ended 31 December 2018 to RMB8.7 million for the Reporting Period. Such decrease was primarily due to the decrease in recognized impairment loss of the carrying amount of investment in associates.

Finance Costs

Finance costs primarily consist of the interest expenses for bank and other borrowings. Finance costs increased by RMB28.3 million, or 55.9%, from RMB50.6 million for the year ended 31 December 2018 to RMB78.9 million for the Reporting Period, mainly attributable to the combined effect of (i) the interest expenses for the bank loans and other loans of RMB91.8 million for the Reporting Period, representing an increase of RMB37.8 million as compared to the interest expenses of RMB54.0 million for the year ended 31 December 2018; (ii) interest on lease liabilities of RMB12.1 million was recognized on the adoption of IFRS16, while no such kind of interest was recognized for the year ended 31 December 2018; and minus (iii) the capitalized interest of RMB24.9 million recognized for the construction of the university in 2019, representing an increase of RMB21.5 million while the capitalized interest of RMB3.4 million was recognized for the year ended 31 December 2018.

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	
	2019	2018
	RMB'000	*RMB'000*
Profit for the year	**408,055**	363,161
Add:		
Foreign exchange loss	**347**	—
Less:		
Foreign exchange gain	**—**	7,286
Core net profit	**408,402**	355,875

Core net profit increased by RMB52.5 million, or 14.8%, from RMB355.9 million for the year ended 31 December 2018 to RMB408.4 million for the Reporting Period.

Capital Expenditure

Capital expenditure increased by RMB841.5 million, from RMB415.4 million for the year ended 31 December 2018 to RMB1,256.9 million for the Reporting Period, mainly attributed to, among others, (i) an increase of RMB394.3 million on purchasing assets including two pieces of lands of a total gross site area of approximately 51,609.83 square meters and four properties of a total gross floor area of 60,521.55 square meters. The Group plans to make continuous resources investment in campus upgrading at its own discretion once the properties turn to be self-owned and further reduce the amount of continuing connected transactions; (ii) an increase of RMB454.1 million on owning a piece of land of a total gross site area of approximately 200,000 square meters by merger transaction. As the Group plans to expand the university by establishing a practice and training base, which mainly includes the intership training base and the teaching workshop, for the purpose of enhancing the practical training for the students admitted or to be admitted in the courses of international nursing, international hotel management and other applied science courses under development. For more details of transactions, please refer to the Group's announcement issued on 14 June 2019.

Capital Commitments

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

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Contracted, but not provided for:		
Land and buildings, equipment	**71,512**	19,741
Capital contributions payable to an associate	**6,900**	—
	78,412	19,741

Gearing Ratio

The gearing ratio of the Group, which was calculated as total bank and other borrowings divided by total equity as at the end of the relevant financial year, increased from approximately 38.2% as at 31 December 2018 to approximately 70.6% as at 31 December 2019, primarily due to the increase in the Group's bank and other borrowings in relation to increase in capital expenditure in 2019.

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 2019, 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 2019, the Group had no material contingent liabilities.

Pledge of Assets

As at 31 December 2019, the Group had not pledged any asset to secure any guarantee.

Human Resources

As at 31 December 2019, the Group had 4,853 employees (31 December 2018: 4,301 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 2019 was approximately RMB546.3 million (2018: RMB466.5 million).

EVENTS AFTER THE REPORTING PERIOD

As the noval coronavirus (COVID-19) outbreak in early 2020, it brought influences and uncertainties to China. The Group has taken contingency measures to lower impact from this outbreak, but the outbreak of COVID-19 still has impact on the future growth. For more information, please refer to section "Impact of COVID-19 epidemic".

In March 2020, the Group signed a strategic cooperation agreement (the "Cooperation Agreement") with Chengdu Branch of Bank of Dalian (大連銀行成都分行) ("Bank of Dalian"). Pursuant to the Cooperation Agreement, Bank of Dalian agreed to advance to the Company or its subsidiaries a composite line of credit in the amount of up to RMB1,500,000,000 (One Billion and Five Hundred Million Renminbi) during the term of the agreement, being an initial term of two years, and an automatic extension of two years upon expiry if neither party has any objection at the end of the initial term. The composite line of credit shall be utilized for the purposes of including but not limited to replenishing cash flow and financing merger, acquisition, fixed assets or constructions activities; where the grant of the relevant facilities and their respective terms shall be subject to definitive agreements to be entered into between the parties.

FINAL DIVIDEND

The Board recommended the payment of a final dividend of HK$0.04 per share for the year ended 31 December 2019. 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 26 June 2020 (the "AGM") and the final dividend will be payable on or around 30 November 2020 to the Shareholders whose names appear on the register of members of the Company on 8 July 2020.

CLOSURE OF THE REGISTER OF MEMBERS

The register of members of the Company will be closed from 22 June 2020 to 26 June 2020, both days inclusive, in order to determine the identity of the Shareholders who are entitled to attend the AGM to be held on 26 June 2020, 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 19 June 2020.

The register of members of the Company will also be closed from 3 July 2020 to 8 July 2020, 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 2 July 2020.

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 annual results announcement and the consolidated financial statements for the year ended 31 December 2019.

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 2019, 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 2019 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 2019 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, 30 March 2020

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.