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 2016

ANNUAL RESULTS HIGHLIGHTS

The Board has resolved to recommend the payment of a final dividend of HK$0.07 per share for the year ended 31 December 2016.

	Year ended 31 December			
	2016	2015	**Change**	**Percentage**
	RMB'000	*RMB'000*	***RMB'000***	**Change**
Revenue	**827,205**	707,690	**119,515**	**16.9**
Gross profit	**391,190**	296,353	**94,837**	**32.0**
Profit for the year	**302,161**	125,150	**177,011**	**141.4**
Adjusted net profit*	**302,161**	151,444	**150,717**	**99.5**
Profit attributable to equity holders of the Company	**302,306**	109,677	**192,629**	**175.6**
EPS (RMB per share)	**0.10**	0.05	**0.05**	**100.0**
Adjusted EPS (RMB per share)*	**0.10**	0.06	**0.04**	**66.7**

* Adjusted net profit was derived from the profit for the year after adjusting the expenses relating to the listing, a non-recurring item for the year ended 31 December 2015.

	As at 31 December 2016	As at 31 December 2015	**Change**	**Percentage Change**
K-12 students enrolled	**19,758**	18,454	**1,304**	**7.1**
University students enrolled	**14,719**	14,252	**467**	**3.3**
Total number of students enrolled	**34,477**	32,706	**1,771**	**5.4**

The board of directors (the "Board") 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 2016 (the "Reporting Period") together with the comparative figures for the year ended 31 December 2015 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	**2016**	2015
		RMB'000	*RMB'000*
Revenue	3	**827,205**	707,690
Cost of sales		**(436,015)**	(411,337)
Gross profit		**391,190**	296,353
Other income and gains	3	**56,996**	5,184
Selling and distribution expenses		**(3,092)**	(2,789)
Administrative expenses		**(66,471)**	(69,458)
Other expenses		**(2,308)**	(1,595)
Finance costs	4	**(54,291)**	(102,545)
PROFIT BEFORE TAX	8	**322,024**	125,150
Income tax expense	5	**(19,863)**	—
PROFIT FOR THE YEAR		**302,161**	125,150
Attributable to:			
Owners of the parent		**302,306**	109,677
Non-controlling interests		**(145)**	15,473
		302,161	125,150
Earnings per share attributable to ordinary equity holders of the parent — basic and diluted for the year	7	**RMB0.10**	RMB0.05

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016

	2016	2015
	RMB'000	*RMB'000*
PROFIT FOR THE YEAR	**302,161**	125,150
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**44**	(13)
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods	**44**	(13)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX	**44**	(13)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**302,205**	125,137
Attributable to:		
Owners of the parent	**302,343**	109,660
Non-controlling interests	**(138)**	15,477
	302,205	125,137

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016

	Notes	**2016**	2015
		RMB'000	*RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**2,518,179**	2,064,117
Prepaid land lease payments		**392,436**	259,995
Intangible assets		**215**	—
Other non-current assets		**196,800**	375
Total non-current assets		**3,107,630**	2,324,487
CURRENT ASSETS			
Prepayments, deposits and other receivables		**55,330**	40,188
Pledged deposits		**474,090**	—
Cash and cash equivalents		**564,196**	248,600
Total current assets		**1,093,616**	288,788
CURRENT LIABILITIES			
Other payables and accruals		**153,272**	233,054
Tax payable		**19,361**	—
Interest-bearing bank and other borrowings	10	**899,284**	589,000
Deferred revenue	9	**480,200**	435,743
Deferred income — current		**263**	190
Amounts due to related parties		**669**	14,653
Total current liabilities		**1,553,049**	1,272,640
NET CURRENT LIABILITIES		**(459,433)**	(983,852)
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,648,197**	1,340,635

	Note	2016	2015
		RMB'000	*RMB'000*
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,648,197**	1,340,635
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	10	**95,000**	746,021
Deferred income — non-current		**6,626**	6,163
Total non-current liabilities		**101,626**	752,184
Net assets		**2,546,571**	588,451
EQUITY			
Equity attributable to owners of the parent			
Share capital		**26,051**	310
Reserves		**2,520,488**	587,971
		2,546,539	588,281
Non-controlling interests		**32**	170
Total equity		**2,546,571**	588,451

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

1. GENERAL INFORMATION, BASIS OF PREPARATION AND PRESENTATION

The Company was incorporated in the Cayman Islands on 13 March 2015 as an exempted company with limited liability under the Companies Law (2013 Revision) of the Cayman Islands. The address of the registered office of the Company is Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands. Its shares have been listed (the "Listing") on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 15 January 2016 (the "Listing Date").

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

The financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRSs"). The financial statements have been prepared under the historical cost convention. 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 2016. The adoption of these amendments to standards does not have any significant impact on the financial statements of the Group.

Amendments to IFRS 10, IFRS 12 and IAS 28 (2011)	*Investment Entities: Applying the Consolidation Exception*
Amendments to IFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*
IFRS 14	*Regulatory Deferral Accounts*
Amendments to IAS 1	*Disclosure Initiative*
Amendments to IAS 16 and IAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*
Amendments to IAS 16 and IAS 41	*Agriculture: Bearer Plants*

Amendments to IAS 27 (2011)	*Equity Method in Separate Financial Statements*
Annual Improvements 2012-2014 Cycle	*Amendments to a number of IFRSs*

New and revised IFRSs issued but not yet effective

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

Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*[2]
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*[2]
IFRS 9	*Financial Instruments*[2]
Amendments to IFRS 10 and IAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
IFRS 15	*Revenue from Contracts with Customers*[2]
Amendments to IFRS 15	*Clarifications to IFRS 15 Revenue from Contracts with Customers*[2]
IFRS 16	*Leases*[3]
Amendments to IAS 7	*Disclosure Initiative*[1]
Amendments to IAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*[1]
IFRIC Interpretation 22	*Foreign Currency Transactions and Advance Consideration*[2]
Amendments to IAS 40	*Transfer of Investment Property*[2]
Annual Improvements 2014-2016 Cycle	*Amendments to three standards*[2]

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

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

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

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 year.

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

	Note	**Year ended 31 December 2016** *RMB'000*	2015 *RMB'000*
Revenue			
Tuition fees		**787,666**	668,824
Boarding fees		**39,539**	38,866
		827,205	707,690
Other income and gains			
Interest income	8	**3,465**	823
Foreign exchange difference, net (i)	8	**42,927**	—
Fee sharing income (ii)		**1,175**	949
Donation income		**—**	16
Government grants			
— related to assets		**190**	174
— related to income		**4,377**	333
Others		**4,862**	2,889
		56,996	5,184

Notes:

(i) Foreign exchange difference is generated from the translation of the Hong Kong dollars bank deposits resulted from the depreciation of Renminbi against Hong Kong dollars.

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

4. FINANCE COSTS

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Interest on bank loans and other borrowings	**62,023**	102,545
Less: interest capitalised	**(7,732)**	—
	54,291	102,545

5. INCOME TAX

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

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

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

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

According to the Implementation Rules for the Law for Promoting Private Education (the "Implementation Rules"), private schools, whether requiring reasonable returns or not, may enjoy preferential tax treatment. Each of our schools requires reasonable returns. The Implementation Rules provide that the relevant authorities under the State Council may introduce preferential tax treatments and related policies applicable to private schools requiring reasonable returns. In accordance with the historical tax returns filed to the relevant tax authorities and the confirmation obtained previously, our schools have enjoyed the preferential corporate income tax exempt treatment since their establishment.

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

After the corporate reorganisation, Tibet Huatai Education Management Consulting Co., Ltd. is initially subject to a PRC income tax rate of 9%, which will be increased to 15% beginning in 2018 when the three-year exemption granted by Tibet local government expires in accordance with the relevant tax regulations.

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	
	2016	2015
	RMB'000	*RMB'000*
Current — PRC		
Charge for the year	**19,863**	—
Total tax charge for the year	**19,863**	—

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

Deferred tax assets have not been recognised in respect of the losses amounting to RMB1,200,000 as at 31 December 2016 (31 December 2015: RMB6,965,000) as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the taxable losses can be utilised.

As at 31 December 2016, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the Directors, the Group's fund will be retained in Mainland China for the expansion of the Group's operation, so it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB275,690,000 as at 31 December 2016 (31 December 2015: RMB70,122,000).

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$0.07 per share in respect of the year ended 31 December 2016 has been proposed by the Board and is subject to approval by the shareholders at the forthcoming annual general meeting of the Company.

Prior to the reorganization, dividends of RMB220,000,000 have been declared by certain of our schools during the year ended 31 December 2015.

7. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average numbers of ordinary shares of 3,046,867,541 (2015: 2,250,000,000) in issue during the year.

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

There were no potentially dilutive ordinary shares in issue during the years ended 31 December 2016 and 2015, and therefore the diluted earnings per share amount is equivalent to the basic earnings per share.

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

	Year ended 31 December	
	2016	2015
Earnings		
Profit attributable to ordinary equity holders of the parent (RMB'000)	**302,306**	109,677
Shares		
Weighted average number of ordinary shares in issue	**3,046,867,541**	2,250,000,000
Basic and diluted earnings per share (expressed in RMB per share)	**0.10**	0.05

8. PROFIT BEFORE TAX

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

	Note	Year ended 31 December 2016 *RMB'000*	2015 *RMB'000*
Employee benefit expense (excluding directors' and chief executive's remuneration):			
Wages, salaries and other allowances		**272,697**	263,211
Pension scheme contributions (defined contribution scheme)		**30,359**	32,497
Depreciation of property, plant and equipment		**67,645**	56,300
Amortization of land lease payments		**9,295**	6,130
Amortization of intangible assets		**4**	—
Minimum lease payments under operating leases		**16,160**	6,922
Auditors' remuneration			
— audit service		**2,104**	838
— non-audit service		**102**	346
Listing expenses		**—**	26,294
Bank interest income	3	**(3,465)**	(823)
Foreign exchange difference, net	3	**(42,927)**	—
Loss on disposal of items of property, plant and equipment		**343**	3
Loss on disposal of a subsidiary		**—**	487

9. DEFERRED REVENUE

	As at 31 December 2016 *RMB'000*	2015 *RMB'000*
Tuition fees	**455,965**	411,815
Boarding fees	**24,235**	23,928
	480,200	435,743

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

10. INTEREST-BEARING BANK AND OTHER BORROWINGS

31 December 2016

	Effective interest rate (%)	Maturity	RMB'000
Current			
Bank loans — secured	2.57-5.66	2017	899,284
Non-current			
Bank loans — secured	7.06-7.84	2018	95,000
			994,284

31 December 2015

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

Market Review

The PRC formal education industry primarily consists of fundamental education and higher education. The PRC fundamental education market includes four phases, which are pre-school, primary school, middle school and high school education. 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.

Market Size of PRC Private Education Industry

The PRC private education has become an important force in the Chinese education system. More and more parents in China tend to send their children to private schools because the private schools tend to have more diverse and broader curriculums than the public schools. The development of the PRC private education industry has exhibited strong growth over the past five years, primarily driven by favorable policies and regulations on private education and rising private consumption in the PRC. According to the market research report on the private education market prepared by Frost & Sullivan ("Frost & Sullivan Report"), as at the end of 2015, total revenue generated by the PRC private education industry was RMB287.9 billion, compared to RMB174.0 billion in 2011, representing a compound annual growth rate ("CAGR") of approximately 13.4%. Total revenue generated by the PRC private education industry is expected to increase from RMB287.9 billion in 2015 to RMB494.8 billion in 2020, representing a CAGR of approximately 11.4% from 2015 to 2020. The number of student enrollment and student enrollment rate in the PRC private education industry primarily depend on the school-age population, which is expected to increase over the next five years.

Student Enrolment in PRC Fundamental Private Education

According to the Frost & Sullivan Report , the total number of students enrolled in PRC private schools offering fundamental education increased from 29.4 million in 2011 to 37.8 million in 2015, representing a CAGR of approximately 6.5%. As the PRC government terminated the "One-child Policy" and adopted a universal "Two-child Policy" in 2015, and continues to support pre-school education, the number of students enrolled in the PRC private fundamental education industry is expected to rise to 48.0 million in 2020, with at a CAGR of approximately 4.9% from 2015 to 2020. This growth was primarily driven by favorable government policies and support for private schools in China and the increased demand for private school education from parents.

Penetration Rate of Private Schools

The penetration rate of private schools in the PRC fundamental education market, which represents the number of students enrolled in the private schools as a percentage of the total students enrolled in private and public schools, increased from 14.1% in 2011 to 18.3% in 2015, indicating an increasing preference for private schools over public schools for the students and parents, according to the Frost & Sullivan Report. The penetration rate of private schools in the PRC fundamental education market is expected to reach approximately 21.3% in 2020.

Overview of Private Fundamental Education Industry in Sichuan

According to the Frost & Sullivan Report, as at the end of 2015, total revenue generated by the private fundamental education industry in Sichuan was RMB8.1 billion, compared to RMB3.9 billion in 2011, representing a CAGR of approximately 20.3%. Total revenue generated by the private fundamental education industry in Sichuan is expected to increase from RMB8.1 billion in 2015 to RMB15.2 billion in 2020, representing a CAGR of approximately 13.4% from 2015 to 2020. The total number of students enrolled in private schools offering fundamental education in Sichuan increased from 1.6 million in 2011 to 2.0 million in 2015, representing a CAGR of approximately 5.3%. The number of students enrolled in the private fundamental education industry in Sichuan is expected to rise to 2.6 million in 2020, representing a CAGR of approximately 5.1% from 2015 to 2020. In 2015, the penetration rate of private fundamental education in Sichuan reached 16.8% based on an approximately 1,987,600 total enrolments.

Market Position

The Group is the leading provider of pre-school to grade 12 ("K-12") private education services in Sichuan, Guizhou and Yunan Provinces and Chongqing Municipality ("Southwest China") in terms of student enrollment. According to the Frost & Sullivan Report, as measured by student enrollment, the Group ranked first in the highly fragmented private fundamental education industry in Southwest China with a 0.43% market share as at 31 December 2015. In terms of student enrollment, the Group is the largest market player in the private fundamental education industry in Sichuan with the market share of 0.93% and in Chengdu with the market share of 3.44% as at 31 December 2016. The Group also leads the market of middle school in Chengdu with a market share of approximately 13.2% as at 31 December 2016.

As at 31 December 2016, all the six schools operated by the Group were located in Chengdu, Sichuan province. Through the schools operated by the Group, the Group provides high-quality formal educational services to students in every age group from kindergarten to university.

Business Overview

As at 31 December 2016, the Group had established and operated five schools for grades K-12 education, namely, Chengdu Foreign Languages School, Chengdu Experimental Foreign Languages School, Chengdu Experimental Foreign Languages School (Western Campus), the Primary School Attached to Chengdu Foreign Languages School (the "Primary School") and the Chengdu Foreign Languages Kindergarten (the "Kindergarten"). In addition, the Group operates one university, namely Chengdu Institute Sichuan International Studies University. As at 31 December 2016, the Group's K-12 student enrollment increased to approximately 19,758 and the University student enrollment increased to approximately 14,719.

Students

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

The Group provides high-quality education to the students. The Group aspires to provide a pathway to first-tier universities in China and reputable colleges and universities abroad for interested students. For example, for college entrance examination administered in 2014, 2015 and 2016, approximately 69.5%, 77.4% and 87.0% of the Group's graduating high school students who participated in such examinations achieved scores that allowed them to apply to and be accepted by first-tier universities in China, including Peking University, Tsinghua University, Fudan University, Zhejiang University and Shanghai Jiaotong University, among others. Moreover, during the Reporting Period, certain of the Group's high school graduating students were accepted by colleges and universities overseas. For example, a total of six graduating students from Chengdu Foreign Languages School were accepted by Harvard University, University of California-Berkeley, University of California-Los Angeles, New York University and Northwestern University during the Reporting Period. For students who are interested in attending colleges and universities in the United States or Canada and in preparing for overseas standardized college entrance examinations, such as TOEFL and SAT, the Group established international programs at Chengdu Foreign Languages School under which dual high school diplomas (PRC diplomas and American or Canadian diplomas) are offered to them through collaboration with third-party educational service providers. Such programs allow students to take either American or Canadian coursework taught by foreign teachers as well as PRC coursework taught by PRC teachers.

Teachers

The Group believes the quality of education provided is strongly tied to the quality of the Group's teachers. The Group considers that teachers who are capable and are dedicated to teaching will be instrumental in shaping the learning habits of students, which will be crucial to the Group's success and educational philosophy. The Group seeks to hire teachers who (i) demonstrate outstanding teaching track record, (ii) hold necessary academic credentials (i.e. diplomas), (iii) are passionate about education and improving students' academic performance and overall 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 2016, the Group had approximately 2,185 teachers, of which approximately 94.3% have a bachelor's degree or above, and approximately 29.5% have a master's degree or above. The schools operated by the Group employed approximately 22 foreign teachers as at 31 December 2016. Most of the teachers are full-time teachers. The Group also values the recognition bestowed upon the teachers who have achieved teaching excellence. As at 31 December 2016, approximately 17.8% of the teachers held the advanced teaching qualification, and approximately 17 of the Group's teachers were recognized as exceptional teachers.

In November 2016, the Group acquired certain properties and plans to transform the properties to a dedicated teacher and staff training and professional development centre ("Training Centre"). The Training Centre is expected to offer mandatory and continuing training courses and seminars to the Group's teachers and other staff and to offer mandatory professional teaching technique training courses for newly hired teachers.

Risk Management

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

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

Interest Rate Risk

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

Liquidity Risk

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

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

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

- The Group maintains insurance coverage, which the Group believes is in line with customary practice in the PRC education industry, including school liability insurance; and

- The Group has made arrangements with the Group's lenders to ensure that the Group will be able to obtain credit to support for its business operation and expansion.

Environment, Health and Safety

The 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

To maintain and further strengthen the position of the Company as the largest provider of K-12 private education services in Southwest China in terms of student enrollment as at 31 December 2016, the Group intends to continue to enhance its reputation as a provider of high-quality education and improve the quality of the teachers and staff of the Group. The Group also intends to expand its school network and increase its market penetration. Furthermore, the Group intends to enhance the Group's profitability by optimizing the pricing of the schools of the Group, diversifying its service offerings and increasing revenue sources. In addition, the Group intends to expand its international programs.

Revenue

For the year ended 31 December 2016, the Company has witnessed growth of the schools operated by the Group in terms of revenue. Revenue increased from RMB707.7 million for the year ended 31 December 2015 to RMB827.2 million for the year ended 31 December 2016. The Group typically charges students fees comprising tuition fees and boarding fees and tuition fees remained the major revenue, accounted for approximately 95.2% of the total revenue of the Company for the year ended 31 December 2016.

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

	Year ended 31 December 2016	**Year ended 31 December 2015**	**Change**	**Percentage Change**
	RMB'000	*RMB'000*	*RMB'000*	
Middle and High School	520,566	429,119	91,447	21.3
The Primary School	80,814	66,807	14,007	21.0
The Kindergarten	7,493	6,744	749	11.1
The University	178,793	166,154	12,639	7.6
Total tuition fees	787,666	668,824	118,842	17.8
Boarding fees	39,539	38,866	673	1.7
Total	827,205	707,690	119,515	16.9

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

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

	School Year			
Categories of the schools	**2015/2016 Gross Tuition Fees**	**2015/2016 Average Tuition Fees**	**2014/2015 Gross Tuition Fees**	**2014/2015 Average Tuition Fees**
	RMB'000	*RMB*	*RMB'000*	*RMB*
Middle and High School	512,115	33,384	456,713	30,677
The Primary School	73,087	27,220	65,846	24,424
The Kindergarten	7,367	22,123	6,747	21,625
The University	176,262	12,458	161,605	11,810

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

Student Enrollment

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

	As at 31 December 2016	As at 31 December 2015	Change	Percentage Change
High school students	6,122	5,491	631	11.5
Middle school students	10,491	9,960	531	5.3
Primary school students	2,792	2,678	114	4.3
Kindergarten students	353	325	28	8.6
K-12 students	19,758	18,454	1,304	7.1
University students	14,719	14,252	467	3.3
Total number of students	34,477	32,706	1,771	5.4

As at 31 December 2016, the aggregate number of students enrolled at the schools of the Group increased to approximately 34,477 from 32,706 as at 31 December 2015. The increase in the aggregate number of students enrolled was attributable to the increases in the capacity of certain existing schools.

Future Development

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 school due to the strong needs of applying for better universities. Therefore, the K-12 private education providers with reputable high schools 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. In addition, the Group is also under discussion with prestigious overseas schools to explore the possibility of opening new international schools. As at the date of this announcement, no definitive agreements have been entered into. In order to solidify and strengthen its market-leading position in the region, the Group plans to establish new schools or acquire existing schools. The Group intends to achieve future growthby 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:

1) Expand its existing business by collaborating with third-party business partners such as local governments, famous real estate listed companies in China and celebrated private enterprises in local cities; and

2) Establish or acquire new schools directly.

In particular, the Group will open 5 new school campuses, with a total of 9 new schools, in 3 cities in China, namely Chengdu, Panzhihua and Zigong in Sichuan Province, and these schools are expected to commence their first school year on 1 September 2017. The Group expects to open one new school in Chengdu in 2020. Details of these new schools are as below:

1) Chengdu Experimental Foreign Languages School — Wulongshan Campus ("Wulongshan Campus")

   The Wulongshan Campus will be located at Wulongshan, Xindu district, Chengdu, Sichuan Province with a land area of 142 mu, which is developed under asset light business model. Wulongshan Campus shall operate under the name of "Chengdu Experimental Foreign Languages School" with expected student capacity of approximately 5,000 students. The Wulongshan Campus consists of one primary and middle school, and one high school, and will offer programs to students from primary to high school. Upon its establishment, the school sponsor interest in these schools in Wulongshan Campus shall be owned as to 45% by the Group, 15% by Chengdu Wanke Xindu Zhiye Co., Ltd.* (成都萬科新都置業有限公司), an independent property management company, and 40% by Chengdu Yirui Education Consulting Co., Ltd.* (成都益瑞教育諮詢有限公司) ("Chengdu Yirui"), an independent educational consulting company. The Chengdu Wanke Xindu Zhiye Co., Ltd. and Chengdu Yirui shall be responsible for providing and developing the land and building to be used as campus of Wulongshan Campus. Upon completion of the development of the land and establishment of Wulongshan Campus, the Group shall contribute funds to the schools in Wulongshan Campus depending on the capital needs of schools. The schools in Wulongshan Campus are expected to commence their first school year on 1 September 2017. Please refer to the announcement of the Company dated 10 February 2016 for further details.

2) Primary School Attached to Chengdu Foreign Languages School — Meinian Campus ("Meinian Campus")

The Meinian Campus will be located in Fantasia MIC Plaza, Chengdu Hi-tech Industrial Development Zone, Sichuan Province with a total gross site area of approximately 56,711.19 sq. m, which is developed under asset light business model. The Meinian Campus shall operate under the name of "Primary School Attached to Chengdu Foreign Languages School" with expected student capacity of approximately 2,200 to 2,400 students. The Meinian Campus consists of one kindergarden and one primary school, and will offer programs for students from kindergarden to primary school. Upon its establishment, the school sponsor interest in these schools in Meinian Campus shall be owned as to 40.0% and 60.0% by the Group and the independent third parties respectively, which include a subsidiary of Fantasia Holdings Group Co., Limited, a real estate company listed on the Main Board of the Stock Exchange. The independent third parties shall be responsible for providing and developing the land and building to be used as campus of Meinian Campus. The Meinian Campus is expected to commence its first school year on 1 September 2017. Please refer to the announcement of the Company dated 25 July 2016 for further details.

3) Chengdu Foreign Languages School - Panzhihua Campus ("Panzhihua Campus")

The Panzhihua Campus will be located at Panzhihua, Sichuan Province with a total gross site area of approximately 54,349.72 sq. m, which is developed under asset light business model. Panzhihua Campus shall operate under the name of "Chengdu Foreign Languages School" with expected student capacity of approximately 3,300 students. The Panzhihua Campus consists of one middle and high school and will offer programs for students from middle to high school. The school sponsor interest in the school in Panzhihua Campus shall be wholly owned by the Group. Under the agreement, the state-owned investment company in Panzhihua City will invest to construct the school facilities on such land (with expected completion of construction before May 2017). The Group will lease the premises for the new school under a separate lease agreement, which was entered into concurrently with the cooperation agreement. The lease term for the school premises will be 20 years beginning on 1 September 2017 and Chengdu Foreign Languages School will pay to the state-owned investment company certain rental fees for the school premises beginning in the fourth year of the rental period. No rental fees will be payable by Chengdu Foreign Languages School for the first three years of the rental period. The Panzhihua Campus is expected to commence its first school year on 1 September 2017. Please refer to the section headed "Business" in the prospectus of the Company dated 31 December 2015 (the "Prospectus") for further details.

4) Chengdu Foreign Languages School — Zigong Purun Campus ("Zigong Purun Campus")

The Zigong Purun Campus will be located inside the Purun City development* (普潤城園區) in Zigong, Sichuan Province with a land area of not less than 150 mu, which is developed under asset light business model. Zigong Purun Campus shall operate under the name of "Chengdu Foreign Languages School" with expected student capacity of approximately 4,500 students. The Zigong Purun Campus consists of one kindergarten, one primary and middle school, and one high school, and will offer programs to students from kindergarten to high school. Upon its establishment, the school sponsor interest in these schools in Zigong Purun Campus shall be owned as to 47.0% and 53.0% by the Group and the independent third parties, respectively. The independent third parties shall be responsible for providing and developing the land and building to be used as campus of Zigong Purun Campus and shall provide the land and building to Zigong Purun Campus for its use during the subsistence of the school. The total investment of the Group in the Zigong Purun Campus is currently estimated to be approximately RMB50.0 million, which will be funded by the net proceeds from the global offering. The Zigong Purun Campus is expected to commence its first school year on 1 September 2017. Please refer to the announcement of the Company dated 30 June 2016 for further details.

5) Chengdu Experimental Foreign Languages School — Wenjiang Campus ("Wenjiang Campus")

The Wenjiang Campus will be located at Wenjiang district, Sichuan Province with a land area of 245 mu. Wenjiang Campus is the new campus for Chengdu Experimental Foreign Languages School and Chengdu Experimental Foreign Languages Primary school, which are wholly owned by the Group, with expected student capacity of approximately 6,500 students. Upon establishment of the Wenjiang Campus, Chengdu Experimental Foreign Languages School will further expand its student capacity for both middle and high school. The Wenjiang Campus consists of one new primary school and one middle and high school, and will offer programs to students from primary to high school. The school site of Wenjiang Campus is now under construction and is expected to be completed before April 2017. Subject to the approval by and registration with competent authorities, the Wenjiang Campus is expected to commence its first school year on 1 September 2017. The capital expenditure relating to the establishment of the Wenjiang Campus will be financed by the proceeds of the global offering and the Group's internal funds. Please refer to the section headed "Business" in the Prospectus for further details.

6) Longfor Xichen Yuanzhu Primary School Attached to Chengdu Foreign Languages School — Xichen Yuanzhu Campus ("Xichen Yuanzhu Campus")

   The Xichen Yuanzhu Campus will be located at Yuren road, Chengdu, Sichuan Province with a land area of 21 mu and a total gross site area of approximately 48,000 sq. m, which is developed under asset light business model. The Xichen Yuanzhu Campus shall operate under the name of "Primary School Attached to Chengdu Foreign Languages School" with expected student capacity of approximately 1,890 students. The Xichen Yuanzhu Campus consists of one primary school and will offer 6-year full-time primary education. Upon its establishment, the school sponsor interest in the school in Xichen Yuanzhu Campus shall be wholly owned by the Group and the Xichen Yuanzhu Campus will pay certain rental fees for the school premises to a subsidiary of Longfor Properties Co. Ltd., a real estate company listed on the Main Board of the Stock Exchange. The subsidiary of Longfor Properties Co. Ltd. shall be responsible for providing and developing the land and building to be used as campus of Xichen Yuanzhu Campus during the subsistence of the school. The Xichen Yuanzhu Campus is expected to commence its first school year on 1 September 2020.

In addition, the Group has entered into agreement with third party education consulting company and will make investment in new school in order to extend its school network. Detail of the investment is as below:

Investment in Chengdu Foreign Languages School — Western Hi-Tech Campus ("Western Hi-Tech Campus")

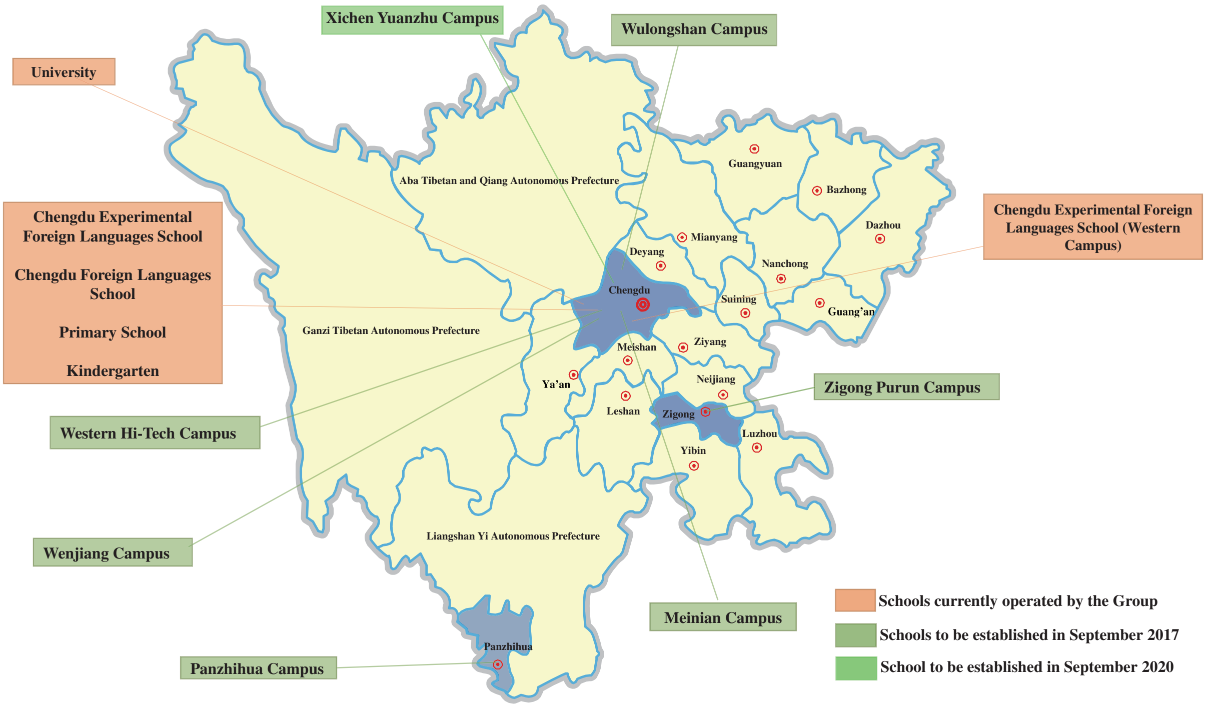
The Western Hi-Tech Campus will be located in Western Hi-Tech district, Chengdu, Sichuan Province with a total gross site area of approximately 77,067.19 sq. m, which is developed under asset light business model. The expected student capacity of the Western Hi-Tech Campus is approximately 3,300 students. Western Hi-Tech Campus will offer high school education programs. Upon its establishment, the school sponsor interest in the school in Western Hi-Tech Campus shall be owned as to 20.0% and 80.0% by the Group and the independent third party, respectively. The independent third party shall provide the land and building to the Western Hi-Tech Campus for its use without any charge during the subsistence of the school. The Western Hi-Tech Campus is expected to commence its first school year on 1 September 2017.

The Group had 6 schools as at 31 December 2016, and will add 10 new schools in our school network upon commencement of 2017/2018 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 2016	Schools expected to be operated as at 1 September 2017
high school	3	7*
middle school	3	6
primary school	1	5
kindergarten	1	3
university	1	1
	9	22

* Western Hi-Tech Campus, the school sponsor interest of which is owned as to 20% by the Group, is included in the high school.

OUR SCHOOL NETWORK IN SICHUAN PROVINCE, CHINA



Financial Review

Revenue

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

Revenue increased by RMB119.5 million, or 16.9%, from RMB707.7 million for the year ended 31 December 2015 to RMB827.2 million for the year ended 31 December 2016. This increase was primarily the result of revenue from tuition fees increasing by RMB118.9 million, or 17.8%, from RMB668.8 million for the year ended 31 December 2015 to RMB787.7 million for the year ended 31 December 2016. The tuition fees the Group received increased because (i) the Group raised tuition fees for newly admitted students for the middle schools, the high schools and the Primary School in 2015 and the University in 2014, which initially applied to newly admitted students (i.e., students in the first, seventh and tenth grades and freshmen students at the University) only, while other students were not affected by the fee change and would continue to pay the tuition fee at pre-existing levels. As students advance each year, the aggregate number of students paying higher tuition fees would increase, such that the tuition fee income from the Group's schools would increase correspondingly; and (ii) the Group's student enrollment increased.

Cost of Sales

Cost of sales 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 RMB24.7 million, or 6.0%, from RMB411.3 million for the year ended 31 December 2015 to RMB436.0 million for the year ended 31 December 2016. This increase was primarily the result of an increase in staff costs, depreciation and amortization. Staff costs increased by RMB7.9 million, or 3.0%, from RMB263.7 million for the year ended 31 December 2015 to RMB271.6 million for the year ended 31 December 2016, primarily as a result of increased salaries and benefits payable to the Group's teachers. Depreciation and amortization increased by RMB12.0 million, or 19.5%, from RMB61.6 million for the year ended 31 December 2015 to RMB73.6 million for the year ended 31 December 2016, mainly as a result of an increase in fixed assets as the properties, equipment and leasehold lands in phase 2 of the University's campus were transferred to the Group on 30 June 2015.

Gross Profit and Gross Profit Margin

Gross profit increased by RMB94.8 million, or 32.0%, from RMB296.4 million for the year ended 31 December 2015 to RMB391.2 million for the year ended 31 December 2016, which was in line with the growth of the Group's business. Gross profit margin increased to 47.3% for the year ended 31 December 2016 from 41.9% for the year ended 31 December 2015 mainly due to the increase of the Group's student enrollments and average tuition fee.

Selling and Distribution Expenses

Selling and distribution expenses primarily consist of advertising expenses, student admission expenses and business entertainment expenses. Selling and distribution expenses increased by RMB0.3 million, or 10.7%, from RMB2.8 million for the year ended 31 December 2015 to RMB3.1 million for the year ended 31 December 2016. The increase of selling and distribution expenses was primarily because the Group incurred more student admission expenses as the Group enrolled more students for the University this year.

Administrative Expenses

Administrative expenses primarily consist of the salaries and other benefits for general and administrative staff, office-related expenses, depreciation of office buildings and equipment, travel expenses and other expenses. Administrative expenses decreased by RMB3.0 million, or 4.3%, from RMB69.5 million for the year ended 31 December 2015 to RMB66.5 million for the year ended 31 December 2016, primarily due to the listing expenses incurred in 2015.

Other Income and Gains

Other income and gains primarily consist of foreign exchange gain, interest income from bank deposits, fee sharing income from service fee sharing arrangements with China Telecom. Other income and gains increased from RMB5.2 million for the year ended 31 December 2015 to RMB57.0 million for the year ended 31 December 2016. The increase was primarily attributable to (i) an increase in foreign exchange gain of RMB42.9 million generated from the translation of the Hong Kong dollars bank deposits resulted from the depreciation of Renminbi against Hong Kong dollars; and (ii) an increase in interest income of RMB2.6 million from bank deposits attributable to unutilized listing proceeds.

Finance Costs

Finance costs primarily consist of the interest expenses for bank borrowings and borrowings from other financial institutions. Finance costs decreased by RMB48.2 million, or 47.0%, from RMB102.5 million for the year ended 31 December 2015 to RMB54.3 million for the year ended 31 December 2016, mainly reflecting lower amount of interest expenses the Group paid on bank loans and other borrowings because of the repayment of bank loan of approximately RMB341 million during the year.

Adjusted Net Profit

Adjusted net profit was derived from the profit for the year after adjusting the expenses relating to the Listing, a non-recurring item occurred during the year ended 31 December 2015. The following table reconciles from profit for the year to adjusted net profit for both financial years:

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Profit for the year	**302,161**	125,150
Add:		
Listing expenses	**—**	26,294
Adjusted net profit	**302,161**	151,444

Adjusted net profit increased by RMB150.8 million, or 99.6%, from RMB151.4 million for the year ended 31 December 2015 to RMB302.2 million for the year ended 31 December 2016, primarily due to (i) the increase of tuition fees for newly admitted students for the middle schools, the high schools and the Primary School in

2015 and the University in 2014; (ii) the increase of the Group's student enrollments; (iii) an increase in foreign exchange gain from the translation of the Hong Kong dollars bank deposits resulted from the depreciation of Renminbi against Hong Kong dollars; and (iv) the decrease in finance costs as mentioned above.

Capital Expenditure

Capital expenditures during the year primarily related to constructing Wenjiang campus, maintaining and upgrading the existing school premises and purchasing additional educational facilities and equipment for the schools. Capital expenditure decreased by RMB565.3 million, from RMB1,424.8 million for the year ended 31 December 2015 to RMB859.5 million for the year ended 31 December 2016, mainly because the property, plant and equipment and leasehold lands in phase 2 of the University were transferred to the Group on 30 June 2015.

Capital Commitment

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

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Contracted, but not provided for:		
Land and buildings	**340,112**	—

As at 31 December 2016, the significant contracted, but not provided for capital commitments include RMB182.4 million related to the construction of Wenjiang Campus and RMB131.2 million related to the acqusition of Training Centre.

Operating Lease Commitments

As lessee

The Group leases certain of its buildings under operating lease arrangements. Leases for buildings were negotiated for terms of 3 to 20 years. As at the end of 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	
	2016	2015
	RMB'000	*RMB'000*
Within one year	**18,136**	13,550
In the second to fifth years, inclusive	**19,992**	33,952
Beyond five years	**18,291**	20,755
	56,419	68,257

As at 31 December 2016, the Group had total future minimum lease payments under non-cancellable operating leases amounting to RMB56.4 million. Certain of our schools have entered into a number of continuing lease agreements and arrangements with our connected persons in September 2015 to lease certain buildings for use in the operation of the respective schools for a period of three years. The decrease of total future minimum lease payments under non-cancellable operating leases was mainly because the remaining lease period as at 31 December 2016 was less than that of the year of 2015.

Gearing Ratio

The gearing ratio of the Group, which was calculated as total interest-bearing bank loans and other borrowings divided by total equity as at the end of the relevant financial year, decreased from approximately 226.9% as at 31 December 2015 to 39.0% as at 31 December 2016, primarily due to the increase in the Group's total equity as a result of the Listing.

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 2016, certain bank balances were denominated in HKD and USD. During the year ended 31 December 2016, 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 2016, the Group had no material contingent liabilities.

Pledge of Assets

As at 31 December 2016, the pledged bank deposits of RMB474.1 million (as at 31 December 2015: nil) were pledged to secure general banking facilities granted to the Group.

Human Resources

As at 31 December 2016, the Group had 3,054 employees (2015: 2,890 employees).

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

The total remuneration cost incurred by the Group for the year ended 31 December 2016 was RMB307.2 million (2015: RMB297.0 million).

OTHER UPDATE

Impact from the Decision on Amending the Law for Promoting Private Education of the PRC

On 7 November 2016, the Decision on Amending the Law for Promoting Private Education of the PRC (關於修改《中華人民共和國民辦教育促進法》的決定) was approved by the Standing Committee of the National People's Congress (the "Decision"), which will become effective on 1 September 2017. The Decision has made certain amendments to the Law for Promoting Private Education of the PRC. According to the Decision, school sponsors of private schools can choose to establish schools as non-for-profit or for-profit entities, with the exception of schools providing compulsory education, which can only be established as non-for-profit entities.

As at the date of this announcement, the Decision has not taken effect yet and the detailed rules and regulations regarding the conversion of existing private schools into for-profit or non-for-profit schools have not been promulgated by local governmental authorities. There are uncertainties involved in interpreting and implementing the Decision, therefore, the Company has not decided (1) when the schools which provide compulsory education shall be converted into non-for-profit schools and (2) whether the schools which engage in non-compulsory education will be for-profit private schools or non-for-profit private schools.

As at the date of this announcement, to the best knowledge of the Company, the Decision, after it becomes effective, will not have material adverse impact on the business, including the existing operation and potential expansion plan, and financial impact on the Company's private school operation, because, among others, the Group derives the economic benefits arising from the operating schools within the Group through the entity wholly owned by the Company's provision of services to them in return pursuant to the structured contracts. For further details of the above the structured contracts, please refer to the section headed "Structured Contracts" of the Prospectus. According to the Company's PRC legal advisors, the arrangement under the existing structured contracts does not violate the Decision, because the Decision does not prohibit any for-profit or non-for-profit private schools from payment of services fees for their operation or impose any limit on the amount of the service fees to be paid by for-profit or non-for-profit private schools. After the Decision takes effect and the detailed rules and regulations regarding the conversion of existing private schools into for-profit or non-for-profit schools are promulgated, the Company will take measures to comply with the Decision by converting the schools which engage in compulsory education into non-for-profit school according to the detailed rules and regulations in due course and will finally decide whether to convert the existing private schools into for-profit or non-for-profit schools.

USE OF NET PROCEEDS FROM LISTING

Net proceeds from the Listing (after deducting underwriting fee and relevant expenses) amounted to approximately HK$1,932.4 million (RMB1,629.2 million). As at 31 December 2016, a total amount of HK$1,303.6 million (RMB1,166.1 million) out of the net proceeds had been used by the Group according to the allocation set out in the Prospectus. The following sets forth a summary of the utilisation of the net proceeds:

Purpose	**Percentage to total amount**	**Net proceeds**	**Utilised amount (at 31 December 2016)**	**Unutilised amount (at 31 December 2016)**
		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	485.6	314.8
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	196.8	134.8
Fund the working capital and general corporate purposes	9.2%	149.2	135.7	13.5
Total	100.0%	1,629.2	1,166.1	463.1

FINAL DIVIDEND

The Board recommended the payment of a final dividend of HK$0.07 per share for the year ended 31 December 2016. 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 23 June 2017 (the "AGM") and the final dividend will be payable on or around 31 July 2017 to the Shareholders whose names appear on the register of members of the Company on 4 July 2017.

CLOSURE OF THE REGISTER OF MEMBERS

The register of members of the Company will be closed from 20 June 2017 to 23 June 2017, both days inclusive, in order to determine the identity of the Shareholders who are entitled to attend the AGM to be held on 23 June 2017, 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 2017.

The register of members of the Company will also be closed from 29 June 2017 to 4 July 2017, 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 28 June 2017.

CORPORATE GOVERNANCE

The Group is committed to maintaining high standards of corporate governance to safeguard the interests of the Shareholders and to enhance corporate value and accountability. The Company has adopted the Corporate Governance Code and Corporate Governance Report (the "CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") as its own code of corporate governance. The Company has complied with all applicable code provisions of the CG Code since the Listing Date to 31 December 2016. The Company will continue to review and monitor its corporate governance practices to ensure compliance with the CG Code.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as its own code of conduct regarding directors' securities transactions. Having made specific enquiries of all directors of the Company (the "Directors"), each of the Directors has confirmed that he/she has complied with the required standards as set out in the Model Code from the Listing Date to 31 December 2016.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the period commencing from the Listing Date to 31 December 2016, 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 auditors, has reviewed the Group's consolidated financial statements for the year ended 31 December 2016.

SCOPE OF WORK ON THE ANNUAL RESULTS ANNOUNCEMENT BY AUDITORS

The financial information set out in this announcement does not constitute the Group's audited consolidated financial statements for the year ended 31 December 2016, but represents an extract from those financial statements. 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 2016 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 2016 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, 24 March 2017

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