# CHINA CHUNLAI EDUCATION GROUP CO., LTD.
# 中國春來教育集團有限公司

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 1969)**

## ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 AUGUST 2020

### HIGHLIGHTS

The board (the "**Board**") of directors (the "**Directors**") of China Chunlai Education Group Co., Ltd. (the "**Company**", together with its subsidiaries and its consolidated affiliated entities, the "**Group**") is pleased to announce the audited consolidated annual results of the Group for the year ended 31 August 2020 (the "**Reporting Period**"). These audited consolidated annual results have been reviewed by the Company's audit committee together with the management of the Company.

| | Year ended 31 August | | |
|---|---|---|---|
| | **2020** | 2019 | **Change (%)** |
| | (RMB in thousands, except percentages) | | |
| Revenue | **702,493** | 559,380 | +25.6% |
| Gross Profit | **369,577** | 293,650 | +25.9% |
| Profit before taxation | **148,205** | 169,310 | -12.5% |
| Profit for the year | **141,332** | 164,734 | -14.2% |
| Non-IFRS Measure: | | | |
| Adjusted net profit[1] | **173,186** | 159,463 | +8.6% |

*Note:*

(1) Adjusted net profit is calculated as profit for the year excluding (i) share-based compensation, (ii) foreign exchange loss/(gain), and (iii) listing expenses. For details of the reconciliation of the profit for the year to the adjusted net profit of the Group, please refer to the section headed "Financial Review" in this announcement.

**Non-IFRS Measures**

To supplement the Group's consolidated financial statements which are presented in accordance with the International Financial Reporting Standards ("**IFRS**"), the Company also uses adjusted net profit as an additional financial measure. The Company presents this financial measure because it is used by management of the Company to evaluate the Group's financial performance by eliminating the impact of items that the Company does not consider indicative of the performance of the Group's business. The Company also believes that this non-IFRS measure provides additional information to investors and others in understanding and evaluating the Group's consolidated results of operations in the same manner as they help management of the Group and in comparing financial results across accounting periods and to those of peer companies. However, the Company's presentation of such adjusted figure may not be comparable to a similarly titled measure presented by other companies. The use of this non-IFRS measure has limitations as an analytical tool, and you should not consider it in isolation from, or as substitute for analysis of, the Group's results of operations or financial condition as reported under IFRS.

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 AUGUST 2020

| | *Notes* | **2020** **RMB'000** | 2019 RMB'000 |
|---|---|---|---|
| **Revenue** | *4* | **702,493** | 559,380 |
| Cost of revenue | | **(332,916)** | (265,730) |
| **Gross profit** | | **369,577** | 293,650 |
| Other income | *5* | **39,345** | 47,778 |
| Other gains and losses, net | *6* | **(26,356)** | 22,832 |
| Selling expenses | | **(2,594)** | (3,642) |
| Administrative expenses | | **(139,439)** | (130,748) |
| **Profit from operations** | | **240,533** | 229,870 |
| Finance costs | *7* | **(92,328)** | (60,560) |
| **Profit before tax** | | **148,205** | 169,310 |
| Income tax expense | *8* | **(6,873)** | (4,576) |
| **Profit for the year** | | **141,332** | 164,734 |
| **Other comprehensive income/(loss) after tax:** | | | |
| *Items that may be reclassified to profit or loss:* | | | |
| Fair value loss on debt investment at fair value through other comprehensive income | | **491** | (491) |
| **Other comprehensive income/(loss) for the year, net of tax** | | **491** | (491) |
| **Total comprehensive income for the year** | | **141,823** | 164,243 |
| Profit and total comprehensive income for the year attributable to owners of the Company | | **141,823** | 164,243 |
| **Earnings per share** | *9* | | |
| Basic (RMB cents per share) | | **12** | 14 |
| Diluted (RMB cents per share) | | **12** | 14 |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 AUGUST 2020

| | Notes | 2020 RMB'000 | 2019 RMB'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | *11* | **1,928,004** | 1,390,998 |
| Right-of-use assets | | **440,482** | – |
| Prepaid lease payments | | **–** | 346,112 |
| Prepayment for cooperation agreements | *12* | **500,056** | 500,056 |
| Other non-current assets | *13* | **456,857** | 235,190 |
| | | **3,325,399** | 2,472,356 |
| **Current assets** | | | |
| Trade and other receivables | *14* | **224,101** | 388,858 |
| Prepaid lease payments | | **–** | 8,387 |
| Debt investment at fair value through other comprehensive income | | **–** | 109,857 |
| Amount due from a shareholder | | **7** | 7 |
| Cash and cash equivalents | | **204,011** | 473,619 |
| | | **428,119** | 980,728 |
| **Current liabilities** | | | |
| Accruals and other payables | *15* | **412,129** | 184,483 |
| Deferred revenue | | **2,874** | 2,928 |
| Contract liabilities | | **89,092** | 447,130 |
| Lease liabilities | | **140** | – |
| Borrowings | *16* | **1,294,203** | 1,291,111 |
| Current tax liabilities | | **12,031** | 5,402 |
| | | **1,810,469** | 1,931,054 |

| | Notes | **2020** **RMB'000** | 2019 RMB'000 |
|---|---|---|---|
| **Net current liabilities** | | **(1,382,350)** | (950,326) |
| **Total assets less current liabilities** | | **1,943,049** | 1,522,030 |
| **Non-current liabilities** | | | |
| Deferred revenue | | **2,792** | 5,667 |
| Borrowings | *16* | **498,808** | 229,000 |
| | | **501,600** | 234,667 |
| **NET ASSETS** | | **1,441,449** | 1,287,363 |
| **Capital and reserves** | | | |
| Share capital | *17* | **10** | 10 |
| Reserves | | **1,441,439** | 1,287,353 |
| **TOTAL EQUITY** | | **1,441,449** | 1,287,363 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 AUGUST 2020

## 1. GENERAL INFORMATION

The Company was incorporated as an exempted company with limited liability under the Companies Law of the Cayman Islands on 15 November 2017. The address of registered office of the Company is Cayman Corporate Centre, 27 Hospital Road, George Town, Grand Cayman KY1-9008, Cayman Islands. The address of principal place of business of the Company is 40/F, Sunlight Tower, 248 Queen's Road East, Wanchai, Hong Kong. Its ultimate holding company is Chunlai Investment Co., Limited ("**Chunlai Investment**"), which was incorporated in the British Virgin Islands, and its ultimate controlling shareholder is Mr. Hou Junyu ("**Mr. Hou**"). The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 13 September 2018 (the "**Listing**").

The Company is an investment holding company. The principal activities of its subsidiaries are mainly engaged in the operation of private higher education institutions. The Company, and its subsidiaries and its consolidated affiliated entities are collectively referred to as the "**Group**".

The consolidated financial statements are presented in Renminbi ("**RMB**"), which is the same as the functional currency of the Group.

## 2. GOING CONCERN BASIS

The Group had net current liabilities of approximately RMB1,382,350,000 as at 31 August 2020. This condition indicates the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. Therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

The directors have been undertaking the following plans and measures to improve the Group's liquidity and financial position:

(i) the directors have reviewed the Group's cash flow projection prepared by management, which covered a period of not less than twelve months from 31 August 2020. In the opinion of the directors, the Group will have sufficient working capital to meet its financial obligations as and when they fall due and carry on its business without a significant curtailment of operations of not less than twelve months from 31 August 2020;

(ii) the Group has entered into two loan facility agreements after the reporting period, under which loan facilities up to a maximum amount of approximately RMB1,306,917,000 are available to the Group for not less than twelve months from 31 August 2020;

(iii) the ultimate controlling shareholder has agreed to provide adequate funds for the Group to meet its liabilities as they fall due; and

(iv) the Group shall implement cost-saving measures to maintain adequate cash flows for the Group's operations.

The directors of the Company are therefore of the opinion that it is appropriate to prepare the consolidated financial statements on a going concern basis. Should the Group be unable to continue as a going concern, adjustments would have to be made to the consolidated financial statements to adjust the value of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively.

3. **APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS**

In the current year, the Group has adopted all the new and revised International Financial Reporting Standards ("**IFRSs**") issued by the International Accounting Standards Board ("**IASB**") that are relevant to its operations and effective for its accounting year beginning on 1 September 2019. IFRSs comprise International Financial Reporting Standards; International Accounting Standards ("**IAS**") and Interpretations. The adoption of these new and revised IFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's consolidated financial statements and amounts reported for the current year and prior years except as stated below.

**IFRS 16 "Leases"**

On adoption of IFRS 16, the Group recognised right-of-use assets and lease liabilities in relation to leases which had previously been classified as 'operating leases' under IAS 17 "Leases."

IFRS 16 has been applied using the modified retrospective approach, with the cumulative effect of adopting IFRS 16 being recognised at the date of initial application of IFRS 16, being 1 September 2019. Prior periods have not been restated.

The Group has elected not to include initial direct costs in the measurement of the right-of-use asset for operating leases in existence at the date of initial application of IFRS 16, being 1 September 2019. At this date, the Group has also elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition.

Instead of performing an impairment review on the right-of-use assets at the date of initial application, the Group has relied on its historical assessment as to whether leases were onerous immediately before the date of initial application of IFRS 16.

On transition, for leases previously accounted for as operating leases with a remaining lease term of less than 12 months and for leases of low-value assets, the Group has applied the optional exemptions to not recognise right-of-use assets but to account for the lease expense on a straight-line basis over the remaining lease term.

The operating lease commitments disclosed as at 31 August 2019 were RMB1,302,000 while the lease liabilities recognised as at 1 September 2019 were RMB1,269,000.

The differences between the operating lease commitments discounted using the lessee's incremental borrowing rate of 5% and the total lease liabilities recognised in the consolidated statement of financial position at the date of initial application of IFRS 16 comprised the exclusion of short-term lease recognised on a straight-line basis as expenses.

The Group has adopted IFRS 16 retrospectively from 1 September 2019, but has not restated comparatives as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the adoption of IFRS 16 are therefore recognised in the opening consolidated statement of financial position on 1 September 2019 as follows:

| | As originally stated 31 August 2019 *RMB'000* | IFRS 16 Adjustments *RMB'000* | As adjusted 1 September 2019 *RMB'000* |
|---|---|---|---|
| **Non-current assets** | | | |
| Right-of-use assets | – | 355,768 | 355,768 |
| Prepaid lease payments | 346,112 | (346,112) | – |
| **Current assets** | | | |
| Prepaid lease payments | 8,387 | (8,387) | – |
| **Current liabilities** | | | |
| Lease liabilities | – | 1,269 | 1,269 |

The Group has not applied the new and revised IFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new and revised IFRSs but is not yet in a position to state whether these new and revised IFRSs would have a material impact on its results of operations and financial position.

## 4. REVENUE AND SEGMENT INFORMATION

The Group is mainly engaged in the operation of private higher education institutions in the People's Republic of China ("**PRC**"). Revenue represents tuition and boarding fees from education institutions less sales related tax.

Information reported to the Group's chief operating decision maker ("**CODM**"), Mr. Hou, for the purpose of resource allocation and assessment of segment performance is on a school by school basis. Each individual school constitutes an operating segment. The services provided and type of customers are similar in each operating segment, and each operating segment are subject to similar regulatory environment. Accordingly, their segment information is aggregated as a single reportable segment which is the same as the consolidated statement of profit or loss and other comprehensive income.

| | **2020** ***RMB'000*** | 2019 *RMB'000* |
|---|---|---|
| Tuition fees | **668,082** | 501,960 |
| Boarding fees | **34,411** | 57,420 |
| Total revenue | **702,493** | 559,380 |

All revenue is recognised over time. The Group primarily operates in the PRC. All of the Group's revenue was generated in the PRC and all of the Group's non-current assets are located in the PRC.

No single customer contributes 10% or more of total revenue of the Group during the year ended 31 August 2020 (2019: nil).

Revenue is recognised over the relevant period of schooling semesters, i.e. over the period of time when the students simultaneously receive and consume the benefits provided by the Group.

Tuition and boarding fees are generally received in advance prior to the beginning of each school year, and are initially recorded as contract liabilities. The fees are recognised proportionately over the relevant period of the applicable programme. The portion of the fees received from students but not earned is recorded as contract liabilities under current liabilities as such amounts represent revenue that the Group expects to earn within one year.

## 5. OTHER INCOME

| | 2020<br>*RMB'000* | 2019<br>*RMB'000* |
|---|---|---|
| Government grants *(note i)* | **2,964** | 3,146 |
| Academic administrative income | **–** | 2,149 |
| Interest income | **4,590** | 14,162 |
| Service income | **14,623** | 12,264 |
| Consultancy income *(note ii)* | **16,038** | 15,330 |
| Others | **1,130** | 727 |
| | **39,345** | 47,778 |

*Notes:*

(i) Government grants mainly represent unconditional subsidies from government for recognition of the relevant academic performance of the schools of the Group.

(ii) It represents the provision of technical and management consultancy services to its target college known as College of Engineering and Technology of Yangtze University ("**Hubei College**").

## 6. OTHER GAINS AND LOSSES, NET

| | 2020<br>*RMB'000* | 2019<br>*RMB'000* |
|---|---|---|
| Net foreign exchange (loss)/gain | **(19,591)** | 22,837 |
| Loss on disposals of property, plant and equipment | **–** | (5) |
| Loss on initial recognition of refund of prepayment for land use rights | **(1,499)** | – |
| Waiver of interest receivable from Hubei College | **(4,483)** | – |
| Loss on redemption of debt investment at fair value through other comprehensive income | **(783)** | – |
| | **(26,356)** | 22,832 |

## 7. FINANCE COSTS

| | 2020<br>*RMB'000* | 2019<br>*RMB'000* |
|---|---|---|
| Interest expenses in relation to: | | |
| – Bank borrowings | **55,101** | 38,517 |
| – Borrowings from non-banking institutes | **40,314** | 35,681 |
| – Lease liabilities | **33** | – |
| | **95,448** | 74,198 |
| Less: capitalised in construction in progress | **(3,120)** | (13,638) |
| | **92,328** | 60,560 |

Borrowing costs on funds borrowed generally are capitalised at a rate of 6.2% per annum (2019: 7.8%).

## 8. INCOME TAX EXPENSE

| | **2020** | 2019 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Current tax – PRC Enterprise Income Tax | **6,873** | 4,576 |

**Reconciliation between income tax expense and accounting profit at applicable tax rate**

| | **2020** | 2019 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Profit before tax | **148,205** | 169,310 |
| Tax calculated at applicable tax rate of 25% (2019: 25%) | **37,051** | 42,328 |
| Tax effect of expenses not deductible/income not taxable for tax purpose | **28,321** | 11,515 |
| Tax effect of profit from non-profit making organisation exempted for tax purpose | **(58,499)** | (49,267) |
| Income tax expense | **6,873** | 4,576 |

## 9. EARNINGS PER SHARE

| | **2020** | 2019 |
|---|---|---|
| Earnings: | | |
| Earnings for the purpose of calculating basic and diluted earnings per share (Profit attributable to owners of the Company) (in RMB'000) | **141,332** | 164,734 |
| Number of shares: | | |
| Weighted average number of ordinary shares for the purpose of calculating basic earnings per share | **1,200,000,000** | 1,190,136,986 |
| Effect of dilutive potential ordinary shares: | | |
| Pre-IPO share options | **9,470,031** | 2,076,133 |
| Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share | **1,209,470,031** | 1,192,213,119 |

The computation of diluted earnings per share assumes the exercise of the Company's share options granted under the Pre-IPO share option scheme as the potential ordinary shares are dilutive for the year ended 31 August 2020.

## 10. DIVIDENDS

The directors do not recommend or declare the payment of any dividend in respect of the years ended 31 August 2020 and 2019.

## 11. PROPERTY, PLANT AND EQUIPMENT

| | Buildings | Furniture and fixtures | Motor vehicles | Teaching and electronic equipment | Construction in progress | Total |
|---|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Cost** | | | | | | |
| 1 September 2018 | 836,055 | 100,285 | 13,315 | 170,946 | 122,919 | 1,243,520 |
| Additions | 49,980 | 14,533 | 2,414 | 32,517 | 488,854 | 588,298 |
| Disposals | – | (28) | (11) | – | – | (39) |
| Transfer from construction in progress | 110,554 | – | – | – | (110,554) | – |
| At 31 August 2019 and 1 September 2019 | 996,589 | 114,790 | 15,718 | 203,463 | 501,219 | 1,831,779 |
| Additions | 109,495 | 39,147 | 2,731 | 157,187 | 341,627 | 650,187 |
| Transfer from construction in progress | 591,763 | 6,212 | – | 5,112 | (603,087) | – |
| At 31 August 2020 | **1,697,847** | **160,149** | **18,449** | **365,762** | **239,759** | **2,481,966** |
| **Accumulated depreciation** | | | | | | |
| 1 September 2018 | 211,757 | 50,457 | 7,546 | 95,629 | – | 365,389 |
| Charge for the year | 48,666 | 11,542 | 1,207 | 14,011 | – | 75,426 |
| Disposals | – | (27) | (7) | – | – | (34) |
| At 31 August 2019 and 1 September 2019 | 260,423 | 61,972 | 8,746 | 109,640 | – | 440,781 |
| Charge for the year | 70,550 | 13,673 | 1,596 | 27,362 | – | 113,181 |
| At 31 August 2020 | 330,973 | 75,645 | 10,342 | 137,002 | – | 553,962 |
| **Carrying amount** | | | | | | |
| At 31 August 2020 | **1,366,874** | **84,504** | **8,107** | **228,760** | **239,759** | **1,928,004** |
| At 31 August 2019 | 736,166 | 52,818 | 6,972 | 93,823 | 501,219 | 1,390,998 |

As of 31 August 2020, the Group was in the process of obtaining the property certificates for the buildings with an aggregate carrying value of approximately RMB1,300,120,000 (2019: RMB716,467,000) which are located in the PRC.

At 31 August 2020, the carrying amount of property, plant and equipment pledged as security for the Group's other loans amounted to RMB43,653,000.

## 12. PREPAYMENT FOR COOPERATION AGREEMENTS

| | **2020** | 2019 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Prepayment for cooperation agreements – Hubei College *(note i)* | **100,000** | 100,000 |
| Prepayment for cooperation agreements – Tianping College *(note ii)* | **400,056** | 400,056 |
| | **500,056** | 500,056 |

*Notes:*

(i) Hubei College is an independent college and originally established by "Yangtze University" 長江大學 ("**YU**") in Hubei Province. In December 2014, the Group entered into a cooperation agreement and supplementary agreements. Pursuant to these agreements, the Group has obtained the right to manage Hubei College at a consideration of RMB120 million, among which RMB100 million has been paid upon entering the agreements in December 2014. These agreements have also authorised the Group the right to transfer the sponsorship of Hubei College from YU. Up to the date of issuance of the announcement, the transfer of sponsorship has not yet been completed as the transfer is pending for the final approval of the Ministry of Education of the PRC and the registration with the provincial civil affairs authorities. Upon the approvals and registration of the governments, the down payment for cooperation agreement of RMB100 million will be treated as part of the consideration of the acquisition.

(ii) Tianping College of Suzhou University of Science and Technology ("**Tianping College**") is an independent college and originally sponsored by Suzhou University of Science and Technology and the Suzhou University of Science and Technology Education Development Foundation (the "**Foundation**") in Jiangsu Province. In August 2019, the Group entered into an agreement which authorised the Group the right to transfer the sponsorship of Tianping College from Suzhou University of Science and Technology and the Foundation at a consideration of approximately RMB800 million, among which approximately RMB400 million has been paid in July 2019. Up to the date of issuance of the announcement, the transfer of sponsorship has not yet been completed as the transfer is still in preparatory period. Upon the completion of transfer, the down payment for the agreement of RMB400 million will be treated as part of the consideration of the acquisition.

Up to the approval date of the consolidated financial statements, approximately RMB640,056,000 were paid to Suzhou University of Science and Technology for the cooperation agreements.

## 13. OTHER NON-CURRENT ASSETS

| | **2020** | 2019 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Prepayment for prepaid lease payments | **–** | 90,448 |
| Prepayments/deposits paid for acquisition of property, plant and equipment | **35,738** | 30,194 |
| Prepayment for investment fund of Hubei College | **80,000** | – |
| Refund of prepayment for land use rights | **14,430** | – |
| Advance to Hubei College | **–** | 114,548 |
| Pledged deposit *(note i)* | **276,689** | – |
| Deposit paid *(note ii)* | **50,000** | – |
| | **456,857** | 235,190 |

*Notes:*

(i) Offshore foreign deposit of USD40,000,000 is treated as a security to borrow an equivalent onshore loan denominated in RMB in the PRC from a third party. During the year, the repayment date of the onshore loan was extended to July 2023. The offshore foreign deposit was reclassified as non-current asset accordingly as at 31 August 2020.

(ii) Deposit paid of RMB50,000,000 represents the refundable security deposit paid to Suzhou University of Science and Technology.

To guarantee that the Group will safeguard the school facilities and reputation of Suzhou University of Science and Technology and that the Group will operate the Tianping College properly, the Group paid RMB50 million as security deposit and provided a guarantee of RMB150 million (the "**Guarantee**") to Suzhou University of Science and Technology. The Guarantee is provided by a financial institution and counter guaranteed by Mr. Hou.

## 14. TRADE AND OTHER RECEIVABLES

| | **2020** | 2019 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Tuition and boarding fee receivables *(note i)* | **5,691** | 1,046 |
| Third party payment platform receivables | **–** | 12,213 |
| Service income receivables | **25,000** | 9,500 |
| Consultancy income receivables from Hubei College | **13,250** | 16,250 |
| Advance to a third party *(note ii)* | **26,509** | 45,620 |
| Advance to Tianping College *(note iii)* | **500** | – |
| Advance to Hubei College *(note iv)* | **105,900** | – |
| Refund of prepayment for land use right | **27,714** | – |
| Other receivables | **17,637** | 17,880 |
| Interest receivables | **770** | 567 |
| Prepaid expenses | **1,130** | 91 |
| Pledged deposit | **–** | 285,691 |
| | **224,101** | 388,858 |

*Notes:*

(i) The students are required to pay tuition and boarding fees in advance for the upcoming school years, which normally commences in August and September. The outstanding receivables mainly represent amounts related to the registered students who have applied for the delayed payment of tuition fees and boarding fees. These delay payments were primarily due to the application of students' loan, which generally take a few months to be settled from governmental institutions. There is no fixed credit term for payments. The Group's tuition receivables were due to a large number of individual students, there is no significant concentration of credit risk and no impairment is considered necessary based on the historical settlement pattern from students. The Group does not hold any collateral or other credit enhancement over its tuition receivables balance.

(ii) As at 31 August 2020, the advance with principal amount of HK$30,000,000 is unsecured, interest bearing at 4% per annum and repayable in December 2020.

As at 31 August 2019, the advance with principal amount of HK$50,000,000 was unsecured, interest bearing at 2.5% per annum and fully repaid in March 2020.

(iii) The advance to Tianping College is unsecured, non-interest bearing and repayable on 31 August 2021.

(iv) The advance to Hubei College is unsecured, non-interest bearing (2019: bearing interest at 4.75% per annum) and repayable on 30 August 2021.

An ageing analysis of tuition and boarding fee receivables as at the end of the reporting period, based on the transaction date, is as follows:

| | **2020** | 2019 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| 181-365 days | **5,691** | 1,040 |
| More than 1 year | **–** | 6 |
| | **5,691** | 1,046 |

The Group applies the simplified approach under IFRS 9 to provide for expected credit losses using the lifetime expected loss provision for all tuition and boarding fee receivables. To measure the expected credit losses, tuition and boarding fee receivables have been grouped based on shared credit risk characteristics and the days past due. The expected credit losses also incorporate forward looking information.

| | Current |
|---|---|
| **At 31 August 2020** | |
| Weighted average expected loss rate | **0%** |
| Receivable amount (RMB'000) | **5,691** |
| Loss allowance (RMB'000) | **–** |
| **At 31 August 2019** | |
| Weighted average expected loss rate | 0% |
| Receivable amount (RMB'000) | 1,046 |
| Loss allowance (RMB'000) | – |

## 15. ACCRUALS AND OTHER PAYABLES

| | **2020** | 2019 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Interest payables | **2,151** | 8,927 |
| Accrued staff benefits and payroll | **29,990** | 19,026 |
| Payables for purchase of property, plant and equipment and construction | **274,618** | 97,599 |
| Receipt on behalf of ancillary services providers | **8,313** | 20,461 |
| Advance from Tianping College *(note i)* | **50,000** | – |
| Other payables, accruals and deposits received | **36,522** | 29,491 |
| Other taxes payables | **10,535** | 8,979 |
| | **412,129** | 184,483 |

*Note:*

(i) The amount advanced from Tianping College is non-trade in nature, unsecured, non-interest bearing and repayable on demand.

## 16. BORROWINGS

| | **2020** | 2019 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Unsecured and unguaranteed | **3,824** | 3,824 |
| Secured and guaranteed *(note i)* | **1,182,545** | 545,000 |
| Secured and unguaranteed *(note ii)* | **282,642** | 534,940 |
| Unsecured and guaranteed *(note iii)* | **324,000** | 436,347 |
| | **1,793,011** | 1,520,111 |
| The borrowings are repayable as follows: | | |
| On demand or within one year | **1,294,203** | 1,291,111 |
| In the second year | **60,630** | 125,000 |
| In the third to fifth years, inclusive | **438,178** | 104,000 |
| | **1,793,011** | 1,520,111 |
| Less: Amount due for settlement within 12 months (shown under current liabilities) | **(1,294,203)** | (1,291,111) |
| Amount due for settlement after 12 months | **498,808** | 229,000 |
| The exposure of borrowings | | |
| – Fixed rate | **1,453,011** | 928,611 |
| – Variable rate | **340,000** | 591,500 |
| | **1,793,011** | 1,520,111 |

*Notes:*

(i) Certain bank borrowings of RMB930,000,000 (2019: RMB805,000,000) were secured and/or guaranteed by the followings:

(a) secured by the rights to receive the tuition fees of Anyang University, Shangqiu University and Kaifeng Campus (collectively the "**Schools**");

(b) secured by equity share of Shangqiu University and Kaifeng Campus;

(c) guaranteed by Mr. Hou Chunlai, Mr. Hou and Ms. Jiang Shuqin jointly and severally; and

(d) guaranteed by several subsidiaries of the Company.

As at 31 August 2020, the Schools has receivables of tuition fees of RMB5,691,000.

Certain borrowing with carrying amount of RMB252,545,000 (2019: nil) is secured by the Group's plant and equipment of RMB43,653,000 and guaranteed by Mr. Hou and Ms. Jiang Shuqin.

(ii) A loan from a third party with carrying amount of RMB282,642,000 (2019: RMB274,940,000) is secured by a deposit of USD40,000,000 (equivalent to approximately RMB276,689,000) (Note 13).

(iii) Certain bank borrowing were unsecured and guaranteed by Mr. Hou Chunlai, Mr. Hou and Ms. Jiang Shuqin jointly and severally and guaranteed by a subsidiary of the Company.

All borrowings are denominated in RMB. The variable-rate borrowings carry interest with reference to the benchmark borrowing rate of the People's Bank of China.

The range of effective interest rates per annum (which are also equal to contracted interest rates) on the Group's borrowings is as follows:

| | **2020** | 2019 |
|---|---|---|
| **Effective interest rate:** | | |
| Fixed-rate | **2.5% – 7.6%** | 2.5% – 8.0% |
| Variable-rate | **4.4% – 6.5%** | 4.4% – 7.1% |

## 17. SHARE CAPITAL

| | **Number of shares** | **Amount** *HK$* | **Amount** *RMB* | **Amount** *RMB'000* |
|---|---|---|---|---|
| Ordinary shares of HK$0.00001 each | | | | |
| **Authorised:** | | | | |
| As at 1 September 2018, 31 August 2019, 1 September 2019 and 31 August 2020 | 50,000,000,000 | 500,000 | 424,570 | 425 |
| **Issued and fully paid:** | | | | |
| As at 1 September 2018 | 900,000,000 | 9,000 | 7,251 | 7 |
| Issue of shares on 13 September 2018 | 300,000,000 | 3,000 | 2,616 | 3 |
| As at 31 August 2019, 1 September 2019 and 31 August 2020 | 1,200,000,000 | 12,000 | 9,867 | 10 |

On 13 September 2018, the Company issued a total of 300,000,000 ordinary shares at par value of HK$0.00001 each, pursuant to the global offering at the price of HK$2.08 per share and the Company's shares were listed on Main Board of the Stock Exchange on the same date. The premium on the issue of shares amounting to approximately RMB516,431,000, after net of share issue expenses of approximately RMB27,755,000, was credited to the Company's share premium account.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Market Overview

The formal education system in the People's Republic of China ("**PRC**" or "**China**") comprises fundamental education, which includes education from preschool to high school, secondary vocational education and higher education. Formal higher education can be further categorised into junior colleges and universities. Junior colleges only offer junior college programmes while universities can offer both junior college programmes and bachelor's degree programmes.

#### *The Private Higher Education Industry in China*

The private higher education industry in China has experienced rapid growth since the beginning of the 1990s as the relevant government authorities made great endeavour in developing the regulatory framework for private higher education. The number of student enrolments in private higher education in China has continued to increase in recent years, with more and more students having chosen to go to private universities or colleges instead of public schools. According to Frost & Sullivan, the total number of private higher education institutions in China grows continuously, and the development of private higher education is primarily driven by a number of factors, including (i) support by PRC government policies and initiatives; (ii) increasing resident income and demand for higher education; (iii) growing market demand for technical talents; and (iv) increasing diversification and strengthened education quality. With the help of these factors, the rapid growth in higher education in China is expected to continue, and the private higher education landscape remains competitive.

### Business Review

The Company is one of the leading providers of private higher education in China. Since our inception in 2004, we have grown to operate three colleges in Henan Province, namely Shangqiu University, Anyang University and Shangqiu University Kaifeng Campus, and participate in the operation of College of Engineering and Technology of Yangtze University (長江大學工程技術學院) ("**Hubei College**"), an independent college of Yangtze University in Hubei Province, and Tianping College of Suzhou University of Science and Technology (蘇州科技大學天平學院) ("**Tianping College**"). We are in the process of acquiring the sponsor interest of Hubei College and Tianping College. We believe that we have strong potential to further grow our business, and the private higher education market in China presents many market opportunities.

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 precautionary measurements undertaken by respective local authorities which inter alia, include closure of schools and delays in classroom commencement during the outbreak period. The Group has put in place certain alternative action plans for the students during the schools' closure period, which include implementation of online modules and website distance learning activities.

In view of the implementation of the above mentioned action plans, management of the Group has assessed and preliminarily concluded that at this stage, there was no significant impact on the financial position of the Group as at 31 August 2020. The Company is of the view that the business of the Group remained relatively stable for the year ended 31 August 2020, notwithstanding the impact of COVID-19.

Our employment-oriented curricula are focused on equipping our students with practicable skills that meet the demand of economic development in China. The effectiveness of our practical curricula and training programmes is reflected in our historically high graduate employment rates. For the 2018/2019 and 2019/2020 school years, the average initial employment rate of our higher education programmes was approximately 95.8% and 85.1%, respectively. The employment rate of our graduates for the 2019/2020 school year dropped given the impact of COVID-19 on the employment market in the PRC in 2020.

### *Our Colleges*

*Shangqiu University*

Shangqiu University is located in Shangqiu, Henan Province. The predecessor of Shangqiu University was Huayu College of Henan Agricultural University (河南農業大學華豫學院), which we co-founded with Henan Agricultural University in 2004. Shangqiu University currently offers 46 bachelor's degree programmes, 20 junior college to bachelor's degree transfer programmes, 32 junior college diploma programmes, 14 combined vocational education and junior college diploma programmes and 32 vocational education programmes. Shangqiu University has also been approved to offer double-major bachelor's degree programmes in marketing, Chinese language and literature, and economics. For the 2019/2020 school year, Shangqiu University had a total enrolment of 23,975 students.

In April 2017, Shangqiu University established Chunlai Institute, a two-year honours programme that aims to promote comprehensive and individualised education of its selected students. Chunlai Institute offers courses in, among others, management, world history, introduction to traditional Chinese culture, conversational English and art. To increase the competitiveness of its enrolees, Chunlai Institute also offers courses that prepare students for graduate school entrance examinations and civil service examinations.

*Anyang University*

Anyang University is located in Anyang, Henan Province. The predecessor of Anyang University was College of Humanities and Management of Anyang Normal University (安陽師範學院人文管理學院) (the "**College of Humanities and Management**"), which was co-founded by Anyang Normal University and Anyang Iron and Steel Group in 2003. Anyang University currently offers 38 bachelor's degree programmes, 25 junior college to bachelor's degree transfer programmes, 25 junior college diploma programmes, 18 combined vocational education and junior college diploma programmes and five vocational education programmes. For the 2019/2020 school year, Anyang University had a total enrolment of 27,675 students.

*Shangqiu University Kaifeng Campus*

Shangqiu University Kaifeng Campus is located in Kaifeng, Henan Province. It was established in 2013 as a branch college (下屬學院) of Shangqiu University. Shangqiu University Kaifeng Campus currently offers 17 bachelor's degree programmes, 6 junior college to bachelor's degree transfer programmes and 8 junior college diploma programmes. For the 2019/2020 school year, Shangqiu University Kaifeng Campus had a total enrolment of 9,748 students.

***Student Enrolment***

The table below sets forth the enrolment statistics of our colleges for the 2018/2019 and 2019/2020 school years:

| | **Student enrolment[1] for the school year** | | | |
|---|---|---|---|---|
| | **2019/2020** | 2018/2019 | Change in number | Percentage change (approximately) |
| **Shangqiu University** | | | | |
| Bachelor's degree programmes | **10,836** | 10,103 | 733 | 7.3% |
| Junior college to bachelor's degree transfer programmes | **1,610** | 1,216 | 394 | 32.4% |
| Junior college diploma programmes[2] | **7,335** | 4,884 | 2,451 | 50.2% |
| Vocational education programmes[3] | **4,194** | 3,402 | 792 | 23.3% |
| **School subtotal** | **23,975** | 19,605 | 4,370 | 22.3% |
| **Anyang University** | | | | |
| Bachelor's degree programmes | **12,013** | 11,589 | 424 | 3.7% |
| Junior college to bachelor's degree transfer programmes | **3,152** | 2,439 | 713 | 29.2% |
| Junior college diploma programmes[2] | **6,088** | 3,303 | 2,785 | 84.3% |
| Vocational education programmes[3][4] | **6,422** | 4,712 | 1,710 | 36.3% |
| **School subtotal** | **27,675** | 22,043 | 5,632 | 25.6% |
| **Shangqiu University Kaifeng Campus** | | | | |
| Bachelor's degree programmes[5] | **6,881** | 6,096 | 785 | 12.9% |
| Junior college to bachelor's degree transfer programmes[6] | **1,341** | 974 | 367 | 37.7% |
| Junior college diploma programmes[7] | **1,526** | 1,162 | 364 | 31.3% |
| **School subtotal** | **9,748** | 8,232 | 1,516 | 18.4% |
| **Total number of students** | **61,398** | 49,880 | 11,518 | 23.1% |

*Notes:*

(1) As our school year typically ends in late June or early July, we present student enrolment statistics as of 30 June for the 2018/2019 and 2019/2020 school years.

(2) Including (i) students enrolled in junior college diploma programmes and (ii) students enrolled in the last three years of combined vocational education and junior college diploma programmes.

(3) Including (i) students enrolled in vocational education programmes and (ii) students enrolled in the first two years of combined vocational education and junior college diploma programmes.

(4) Anyang University started its vocational education programmes and combined vocational education and junior college diploma programmes in 2016.

(5) Shangqiu University Kaifeng Campus started its bachelor's degree programmes in 2013.

(6) Shangqiu University Kaifeng Campus started its junior college to bachelor's degree transfer programmes in 2017.

(7) Shangqiu University Kaifeng Campus started its junior college diploma programmes in 2013.

For the 2019/2020 school year, the number of students increased by 23.1% from 49,880 in the prior school year to 61,398, achieving the Company's goal and realizing steady improvement in performance. We also achieved expected results through increasing our efforts and expanding our footprint, thereby driving solid momentum for future sustainable development.

The Group believes the educational philosophies of its schools and its well-developed curricula as well as its high graduate employment rates enable the Group to attract high-quality students who are seeking a pathway to satisfactory employment. In addition, the quality faculty team is also a major factor that has played in the past, and will continue to play in the future, an important role in the success of the schools.

### *Student Recruitment*

Our new student enrolment has historically been driven primarily by word-of-mouth referrals. We believe we generally have a good reputation in providing high quality education services among our students and their parents. In addition, after over 15 years of operations, we have built a highly engaged and vibrant community of alumni, who we believe would assist us to continuously attract outstanding students. Other than referrals from alumni network, we also employ a range of marketing and recruiting methods to attract students and increase enrolment at our colleges, such as information sessions, advertisements and brochures.

Our recruitment efforts, coupled with the quality and reputation of our education programmes, have helped us achieve high admission yields. For example, for the 2019/2020 school year, the overall yield of our three colleges, as defined by the number of students who enrolled in a programme divided by the number of students who were admitted in that programme, was 97.8% for the bachelor's degree programmes.

### *Our Teachers*

We believe that our team of experienced and dedicated teachers are crucial to our success. As an operator of private schools, we can provide better incentives to qualified teachers who fit our hiring criteria. Teachers are the key to maintaining high-quality educational programmes and services as well as maintaining our brand and reputation. Our aim is to continue hiring teachers with a strong command of their respective subject areas who are open to innovative teaching methods and a caring heart towards students' well-being.

### *Acquisition of Sponsor Interest of Tianping College*

On 19 August 2019, Henan Shangqiu Chunlai Education Corporation (河南商丘春來教育集團) (the "**School Sponsor**"), a consolidated affiliated entity of the Company, entered into an agreement with Suzhou University of Science and Technology (蘇州科技大學) ("**Suzhou University of Science and Technology**") and Suzhou University of Science and Technology Education Development Foundation (蘇州科技大學教育發展基金會), which was amended by a supplemental agreement dated 20 August 2019 between the School Sponsor and Suzhou University of Science and Technology (collectively, the "**Formal Agreement**"). Pursuant to the Formal Agreement, the School Sponsor agreed to be the new school sponsor of Tianping College and to cooperate with Suzhou University of Science and Technology to jointly operate Tianping College during a certain preparatory period for converting Tianping College into a standalone private ordinary college without the name of Suzhou University of Science and Technology (the "**Preparatory Period for Conversion**") for a total consideration of RMB800,111,100 (equivalent to approximately HK$909,217,159). The change of school sponsor of Tianping College and the conversion of Tianping College into a standalone private ordinary college is subject to the approval of and registration by the relevant authorities in the PRC (the "**Acquisition**"). For further details, please refer to the announcements of the Company dated 23 July 2019 and 20 August 2019 and the major transaction circular to be published in due course.

## Future Development

In order to continuously increase our total enrolment, we plan to acquire additional land use rights and construct new educational and living facilities. We consider that the increase in capacity under the expansion plan is essential to accommodate our growth strategy of increasing student enrolment going forward. Each of our colleges generally requires its students to live on campus in dormitories. Therefore, a college's student enrolment is largely limited by the capacity of its student dormitories. Taking into account of the gender specificity of our student dormitories and the gender mix of our students, there is currently limited capacity for a significant growth in student enrolment. We expect to increase the capacity of our colleges progressively to strike a reasonable balance between student enrolment and utilisation. We believe the planned increase in capacity is appropriate and will enable our colleges to grow sustainably.

We consider that, given our track record of delivering quality private higher education and industry reputation, the education authorities in the PRC will be receptive to our application for increasing admission quota provided that we are able to demonstrate that we have sufficient school capacity, appropriate facilities available and quality education programmes to offer, which are among the key objectives of our expansion plans.

## FINANCIAL REVIEW

### Overview

For the year ended 31 August 2020, we recorded a revenue of RMB702.5 million and a gross profit of RMB369.6 million. The gross profit margin was 52.6% for the year ended 31 August 2020 as compared with 52.5% for the corresponding period in 2019.

The adjusted net profit of the Group for the year ended 31 August 2020 was RMB173.2 million, representing an increase of RMB13.7 million or 8.6% from the corresponding period in 2019. The adjusted net profit margin of the Group was 24.7% and 28.5% for the years ended 31 August 2020 and 31 August 2019, respectively. The increase in the adjusted net profit was mainly due to the increase in student enrolment.

The net profit of the Group amounted to RMB141.3 million and RMB164.7 million for the years ended 31 August 2020 and 31 August 2019, respectively. The net profit margin of the Group amounted to 20.1% and 29.4% for the years ended 31 August 2020 and 31 August 2019, respectively.

### Revenue

Our revenue increased by 25.6% from RMB559.4 million for the year ended 31 August 2019 to RMB702.5 million for the year ended 31 August 2020, primarily due to the increase of the Group's student enrolment.

Revenue from Shangqiu University Kaifeng Campus increased by 23.2% from RMB105.9 million for the year ended 31 August 2019 to RMB130.5 million for the year ended 31 August 2020. The increase was primarily due to an increase in student enrolment from 8,232 for the 2018/2019 school year to 9,748 for the 2019/2020 school year. The capacity of Shangqiu University Kaifeng Campus is 9,965 for the 2019/2020 school year. The increase in revenue from Shangqiu University Kaifeng Campus was due to an increase of the student enrolment and an increase in the average tuition fee level, as Shangqiu University Kaifeng Campus increased the average tuition fee rate applicable to students newly admitted in the 2019/2020 school year.

Revenue from Anyang University increased by 25.2% from RMB246.1 million for the year ended 31 August 2019 to RMB308.2 million for the year ended 31 August 2020. The increase was primarily due to an increase in student enrolment from 22,043 for the 2018/2019 school year to 27,675 for the 2019/2020 school year. As Anyang University increased its capacity from 23,806 for the 2018/2019 school year to 28,330 for the 2019/2020 school year, it received a larger admission quota for the 2019/2020 school year, which contributed to the increase in its student enrolment. The increase in revenue from Anyang University was also due to an increase of the student enrolment and an increase in the average tuition fee level, as Anyang University increased the average tuition fee rate applicable to students newly admitted in the 2019/2020 school year.

Revenue from Shangqiu University increased by 27.2% from RMB207.3 million for the year ended 31 August 2019 to RMB263.7 million for the year ended 31 August 2020. The increase was primarily due to an increase in student enrolment from 19,605 for the 2018/2019 school year to 23,975 for the 2019/2020 school year. The capacity of Shangqiu University is 24,383 for the 2019/2020 school year.

Overall, revenue from tuition fees and boarding fees increased by 33.1% and decreased by 40.0%, respectively, from the year ended 31 August 2019 to the year ended 31 August 2020.

**Cost of Revenue**

Our cost of revenue increased by 25.3% from RMB265.7 million for the year ended 31 August 2019 to RMB332.9 million for the year ended 31 August 2020. As a percentage of revenue, our cost of revenue decreased from 47.5% for the year ended 31 August 2019 to 47.4% for the year ended 31 August 2020. These decrease were primarily due to the increase in student enrolment and the increase in revenue, while the teaching staff costs and depreciation cost have not increased significantly.

**Gross Profit and Gross Margin**

As a result of the foregoing, our gross profit increased by 25.9% from RMB293.7 million for the year ended 31 August 2019 to RMB369.6 million for the year ended 31 August 2020, and our gross profit margin increased from 52.5% for the year ended 31 August 2019 to 52.6% for the year ended 31 August 2020, primarily due to revenue has increased more than teaching staff costs and depreciation costs.

**Other Income**

Our other income decreased by 17.7% from RMB47.8 million for the year ended 31 August 2019 to RMB39.3 million for the year ended 31 August 2020, primarily due to decrease of interest income. Hubei College is exempted from interest income from the 2019/2020 school year.

**Other Gains and Losses**

We recorded other gains of RMB22.8 million for the year ended 31 August 2019, while we recorded other losses of RMB26.4 million for the year ended 31 August 2020. The other losses for the year ended 31 August 2020 were primarily attributable to net foreign exchange losses.

**Selling Expenses**

Our selling expenses decreased by 28.8% from RMB3.6 million for the year ended 31 August 2019 to RMB2.6 million for the year ended 31 August 2020, primarily because we established long-term cooperation with some fixed advertisers to enjoy discounts.

**Administrative Expenses**

Our administrative expenses increased by 6.6% from RMB130.7 million for the year ended 31 August 2019 to RMB139.4 million for the year ended 31 August 2020, primarily due to increases in depreciation and amortization, staff costs and travelling expenses.

### Listing Expenses

We did not record any listing expenses for the year ended 31 August 2020 in connection with the listing of the shares of the Company (the "**Global Offering**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). We recorded listing expenses of RMB5.7 million for the year ended 31 August 2019.

### Finance Costs

Our finance costs increased by 52.5% from RMB60.6 million for the year ended 31 August 2019 to RMB92.3 million for the year ended 31 August 2020, primarily due to higher average borrowings from interest-bearing bank loans during the Reporting Period and interest capitalization.

### Taxation

We recorded income tax of RMB4.6 million for the year ended 31 August 2019 as compared to income tax of RMB6.9 million for the year ended 31 August 2020 due to service revenue and other income.

### Profit for the Year

As a result of the foregoing, our profit for the year decreased by 14.2% from RMB164.7 million for the year ended 31 August 2019 to RMB141.3 million for the year ended 31 August 2020.

### Adjusted Net Profit

Our adjusted net profit increased by 8.6% from RMB159.5 million for the year ended 31 August 2019 to RMB173.2 million for the year ended 31 August 2020. Adjusted net profit (as a non-IFRS measure) was calculated as profit for the year excluding (i) share-based compensation; (ii) foreign exchange loss/(gain); and (iii) listing expenses. The following table reconciles profit for the year to adjusted net profit for both years:

| | **For the year ended 31 August** | |
|---|---|---|
| | **2020** | 2019 |
| | **(RMB in thousands)** | |
| Profit for the year | **141,332** | 164,734 |
| Add: | | |
| Share-based compensation | **12,263** | 11,852 |
| Foreign exchange loss/(gain) | **19,591** | (22,837) |
| Listing expenses | – | 5,714 |
| Adjusted net profit | **173,186** | 159,463 |

**Liquidity and Source of Funding and Borrowing**

As at 31 August 2020, the Company had funded the Group's cash requirements principally from cash generated from our operation and external borrowings. The Company had cash and cash equivalents of RMB473.6 million and RMB204.0 million as of 31 August 2019 and 2020, respectively. The Company generally deposit the Group's excess cash in interest-bearing bank accounts and current accounts.

The Group's principal uses of cash have been for funding of the acquisition of Tianping College (details of which are set out under the heading "Acquisition of Sponsor Interest of Tianping College" in this announcement and the announcements of the Company dated 23 July 2019 and 20 August 2019), funding of required working capital, capital expenditures and other recurring expenses to support the expansion of the Group's operations. Going forward, the Company believes the liquidity requirements will be satisfied by using funds from a combination of internally generated cash, external borrowings, proceeds from the Global Offering and other funds raised from the capital markets from time to time. Any significant decrease in student enrolment, or our tuition fees and boarding fees, or a significant decrease in the availability of bank loans or other financing may adversely impact the Group's liquidity.

The Directors have given careful consideration to the going concern status of the Group in light of the fact that the Group had net current liabilities of approximately RMB1,382,350,000 as at 31 August 2020, and the Group had cash and cash equivalents of approximately RMB204.0 million against the Group's total borrowings of approximately RMB1,793,011,000 as at 31 August 2020. For the remaining balance of the Group's total borrowings, approximately RMB1,294,203,000 will be due in the coming twelve months.

The directors have been undertaking the following plans and measures to improve the Group's liquidity and financial position:

(i) the directors have reviewed the Group's cash flow projection prepared by management, which covered a period of not less than twelve months from 31 August 2020. In the opinion of the directors, the Group will have sufficient working capital to meet its financial obligations as and when they fall due and carry on its business without a significant curtailment of operations of not less than twelve months from 31 August 2020;

(ii) the Group has entered into two loan facility agreements after the reporting period, under which loan facilities up to a maximum amount of approximately RMB1,306,917,000 are available to the Group for not less than twelve months from 31 August 2020;

(iii) the ultimate controlling shareholder has agreed to provide adequate funds for the Group to meet its liabilities as they fall due; and

(iv) the Group shall implement cost-saving measures to maintain adequate cash flows for the Group's operations.

The Directors are satisfied that it is appropriate to prepare these consolidated financial statements on a going concern basis.

**Gearing Ratio**

As at 31 August 2020, the gearing ratio of the Group, which was calculated as total borrowings divided by total equity as of the end of the year, was approximately 124.4%, representing an increase of 6.3 percentage point(s) as compared with 118.1% as at 31 August 2019. The increase was mainly due to increased borrowings.

**Significant Investments**

Save as disclosed in this announcement, the Group did not make or hold any significant investments during the year ended 31 August 2020.

**Material Acquisitions and Disposals**

The Group did not have any material acquisitions or disposals of subsidiaries, consolidated affiliated entities or associated companies during the year ended 31 August 2020.

**Pledge of Assets**

On 27 December 2019 and 25 December 2019, Henan Shangqiu Chunlai Education Corporation (河南商丘春來教育集團) ("**Henan Shangqiu**"), one of the Group's consolidated affiliated entities, as borrower and Zhongyuan Bank Co., Ltd., Shangqiu Branch (中原銀行股份有限公司商丘分行) ("**Zhongyuan Bank**") as lender entered into (i) a loan agreement (the "**First Loan Agreement**"), pursuant to which Zhongyuan Bank has agreed to make available a term loan facility in an amount of RMB150,000,000 (the "**First Loan**") to Henan Shangqiu and (ii) a loan agreement (the "**Second Loan Agreement**" and together with the First Loan Agreement, the "**Loan Agreements**"), pursuant to which Zhongyuan Bank has agreed to make available a term loan facility in an amount of RMB40,000,000 (the "**Second Loan**" and together with the First Loan, the "**Combined Loans**") to Henan Shangqiu. In connection with the Combined Loans, on 25 December 2019, each of Shangqiu University and Anyang University respectively entered into an account receivables pledge agreement with Zhongyuan Bank, pursuant to which each of Shangqiu University and Anyang University agreed to pledge its account receivables in favour of Zhongyuan Bank for Henan Shangqiu's liabilities under the Loan Agreements (including but not limited to the Combined Loans, interest, damages, compensation, and fees incurred by Zhongyuan Bank in connection with any enforcement actions). Further details of the Combined Loans and the related account receivables pledge agreements are set out in the announcement of the Company dated 27 December 2019.

On 14 May 2020, Anyang University (as borrower) entered into a loan agreement (the "**Anyang University Loan Agreement**") with Zhongyuan Bank (as lender) in relation to a term loan facility in an aggregate amount of RMB300,000,000 (the "**Anyang Loan**") with an annual interest rate of 6.0%, being 2.15% above the one-year loan prime rate promulgated by the National Interbank Funding Center under the authority of the People's Bank of China as at the date immediately before the date of the Anyang University Loan Agreement of 3.85% made by Zhongyuan Bank to Anyang University. On the same day, Anyang University and Zhongyuan Bank entered into an account receivables pledge agreement (the "**Anyang University Pledge Agreement**"), pursuant to which Anyang University agreed to pledge its account receivables in favour of Zhongyuan Bank for Anyang University's liabilities under the Anyang University Loan Agreement (including but not limited to the Anyang Loan, interest, damages, compensation, and fees incurred by Zhongyuan Bank in connection with any enforcement actions). Further details of the Anyang Loan and the Anyang University Pledge Agreement are set out in the announcement of the Company dated 21 May 2020.

On 22 June 2020, Shangqiu University (as borrower) entered into a loan agreement (the "**Shangqiu University Loan Agreement**") with Zhongyuan Bank (as lender) in relation to a term loan facility in an aggregate amount of RMB180,000,000 (the "**Shangqiu Loan**") with an annual interest rate of 5%, being 1.15% above the one-year loan prime rate promulgated by the National Interbank Funding Center under the authority of the People's Bank of China made by Zhongyuan Bank to Shangqiu University. On the same day, Shangqiu University and Zhongyuan Bank entered into an account receivables pledge agreement (the "**Shangqiu University Pledge Agreement**"), pursuant to which Shangqiu University agreed to pledge its account receivables in favour of Zhongyuan Bank for Shangqiu University's liabilities under the Shangqiu University Loan Agreement (including but not limited to the Shangqiu Loan, interest, damages, compensation, and fees incurred by Zhongyuan Bank in connection with any enforcement actions). Further details of the Shangqiu Loan and the Shangqiu University Pledge Agreement are set out in the announcement of the Company dated 22 June 2020.

Save as disclosed in this announcement, as at 31 August 2020, no assets of the Group were pledged to secure its loans and banking facilities.

**Contingent Liabilities**

The Group had no material contingent liabilities as at 31 August 2020.

**Foreign Exchange Exposure**

During the year ended 31 August 2020, the Group mainly operated in the PRC and the majority of the transactions were settled in Renminbi ("**RMB**"), the functional currency of the Group's PRC subsidiaries and consolidated affiliated entities. The Group has certain exposure to foreign currency risk as part of its business transactions, assets and liabilities are denominated in United States dollar and Hong Kong dollar which are currencies other than RMB. The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

**Future Plans for Material Investments or Capital Assets**

Save as disclosed in this announcement, as at 31 August 2020, the Company has no future plans for material investments or capital assets.

**Employee and Remuneration Policy**

As of 31 August 2019 and 2020, we had 3,509 and 2,710 employees, respectively.

The number of employees employed by the Group varies from time to time depending on need. Employees' remuneration is determined in accordance with prevailing industry practice and employees' educational backgrounds, experiences and performance. The remuneration policy and package of the Group's employees are periodically reviewed. As required by the PRC laws and regulations, the Company participates in various employee social security plans for its employees that are administered by local governments, including, among others, housing provident funds, pensions, medical insurance, social insurance and unemployment insurance. According to the relevant laws and regulations in the PRC, the amount we are required to contribute for each of our employees under such plans should be calculated based on the employee's actual salary level of previous year, and be subject to a minimum and maximum level as from time to time prescribed by local authorities.

Compensation of key executives of the Group is reviewed by the Company's remuneration committee which is based on the Group's performance and the executives' respective contributions to the Group.

The Company has also adopted a Pre-IPO share option scheme and a share award scheme.

The total remuneration costs incurred by the Group for the Reporting Period was RMB217.3 million (for the year ended 31 August 2019: RMB207.9 million).

## EVENTS AFTER THE REPORTING PERIOD

As at the date of this announcement, it is uncertain how long the COVID-19 outbreak will last. The Group will keep continuous attention on the development of COVID-19 and react actively to its impact on the operation and financial position of the Group. In the event that there is any significant impact, the Company will update the market as and when appropriate.

Save as disclosed in this announcement, there was no other significant event that might affect the Group since the end of the year ended 31 August 2020.

## FINAL DIVIDEND

The Board does not recommend the payment of final dividend for the year ended 31 August 2020 (2019: nil).

## CLOSURE OF REGISTER OF MEMBERS

The Company's annual general meeting ("**AGM**") will be held on Friday, 5 February 2021. The register of members of the Company will be closed from Tuesday, 2 February 2021 to Friday, 5 February 2021, both days inclusive, in order to determine the identity of the shareholders who are entitled to attend the AGM, during which period no share transfers will be registered. To be eligible to attend the AGM, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's share registrar in Hong Kong, 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 Monday, 1 February 2021.

## EXTRACT FROM INDEPENDENT AUDITOR'S REPORT

The following is an extract of the independent auditor's report on the Group's consolidated financial statements for the year ended 31 August 2020.

## MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

We draw attention to note 2 to the consolidated financial statements which mentions that the Group had net current liabilities of approximately RMB1,382,350,000 as at 31 August 2020. This condition indicates a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

The aforesaid "note 2 to the consolidated financial statements" in the extract from the Auditor's Report is disclosed as note 2 to the notes to the consolidated financial statements in this announcement.

## CORPORATE GOVERNANCE AND OTHER INFORMATION

The Board is committed to achieving high corporate governance standards. The Board believes that high corporate governance standards are essential in providing a framework for the Group to safeguard the interests of shareholders and to enhance corporate value and accountability.

### Compliance with the Code on Corporate Governance Practices

The Company has adopted the principles and code provisions of the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") as the basis of the Company's corporate governance practices.

During the year ended 31 August 2020, the Company has complied with all the code provisions set out in the CG Code. The Company will continue to regularly review and monitor its corporate governance practices to ensure compliance with the CG Code, and maintain a high standard of corporate governance practices of the Company.

### Compliance with the Model Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as the code of conduct regarding the Directors' dealings in the securities of the Company.

Having made specific enquiry of all the Directors, all the Directors confirmed that they have strictly complied with the required standards set out in the Model Code during the year ended 31 August 2020.

### Scope of Work of the Company's Auditor

The figures contained in this announcement of the Group's consolidated results for the year ended 31 August 2020 have been agreed by the Company's auditor, ZHONGHUI ANDA CPA Limited (the "**Auditor**"), to the figures set out in the audited consolidated financial statements of the Group for the year ended 31 August 2020. The work performed by the Auditor in this respect does 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 the Auditor on this announcement.

**Audit Committee**

The Company has established an audit committee with written terms of reference in accordance with the Listing Rules. The audit committee comprises three independent non-executive Directors, namely, Mr. Lau, Tsz Man, Dr. Jin Xiaobin and Ms. Fok, Pui Ming Joanna. Mr. Lau, Tsz Man is the chairman of the audit committee.

The audit committee has reviewed the audited consolidated financial statements of the Group for the year ended 31 August 2020 and has discussed with the Auditor matters with respect to the accounting policies and practices adopted by the Company and internal control. The audit committee has also discussed matters with respect to the accounting policies and practices adopted by the Company and internal control with senior management members of the Company.

**Purchase, Sale or Redemption of the Company's Listed Securities**

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

**Use of Proceeds from Global Offering**

Our shares were listed on the Stock Exchange on 13 September 2018. The net proceeds from the Global Offering amounted to approximately RMB489.8 million (equivalent to approximately HK$552.6 million). As of 31 August 2020, the utilization breakdown of the net proceeds from the Global Offering is set out below:

| | **Net proceeds from the Global offering** | **Unutilized amount as of 31 August 2019** | **Utilization during the year ended 31 August 2020** | **Unutilized amount as of 31 August 2020** |
|---|---|---|---|---|
| | *RMB million* | *RMB million* | *RMB million* | *RMB million* |
| Acquisition of land use rights and building educational and living facilities of our current colleges | 244.9 | 156.7 | 10.3 | 146.4 |
| Acquisition of or cooperation with other universities in China | 146.9 | 0.0 | 0.0 | 0.0 |
| Repayment of loans | 49.0 | 0.0 | 0.0 | 0.0 |
| Working capital and general corporate purposes | 49.0 | 47.5 | 12.7 | 34.8 |
| **Total** | 489.8 | 204.2 | 23.0 | 181.2 |

The remaining balance of the net proceeds (approximately RMB181.2 million) is held as short-term deposits. The Company expects to gradually apply the remaining net proceeds in the manner set out in the prospectus of the Company dated 31 August 2018 in accordance with business needs.

**PUBLICATION OF THE ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT**

This annual results announcement is published on the website of the Stock Exchange at www.hkexnews.hk and the website of the Company at www.chunlaiedu.com. The annual report of the Group for the year ended 31 August 2020 will be published on the aforesaid websites of the Stock Exchange and the Company and will be dispatched to the Company's shareholders in due course.

By Order of the Board
**China Chunlai Education Group Co., Ltd.**
**Zhang Jie**
*Executive Director*

Hong Kong, 30 November 2020

*As at the date of this announcement, the Board comprises Mr. Hou Junyu and Ms. Jiang Shuqin as executive Directors, Ms. Zhang Jie as executive Director and chief executive officer, Mr. Hou Chunlai as non-executive Director and chairman, Mr. Hao Xiaohui as non-executive Director and vice chairman, and Dr. Jin Xiaobin, Ms. Fok, Pui Ming Joanna and Mr. Lau, Tsz Man as independent non-executive Directors.*