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Huali University Group Limited

华立大学集团有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1756)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED AUGUST 31, 2021

HIGHLIGHTS

| | As at August 31, 2021 | As at August 31, 2020 | Change | Percentage change |
|--|--|--|---------------------|----------------------|
| Number of Schools | 3 | 3 | — | — |
| Student enrollment | 46,669 | 43,314 | 3,355 | 7.7% |
| | Year ended August 31, 2021 (RMB'000) | Year ended August 31, 2020 (RMB'000) | Change (RMB'000) | Percentage change |
| Revenue | 881,656 | 761,481 | 120,175 | 15.8% |
| Gross profit | 470,513 | 452,579 | 17,934 | 4.0% |
| Profit for the year | 143,459 | 306,669 | (163,210) | (53.2%) |
| Adjusted net profit ⁽¹⁾ | 299,148 | 337,708 | (38,560) | (11.4%) |
| Earnings per share (RMB) | 0.120 | 0.270 | (0.150) | (55.8%) |
| | | | Percentage point | |
| Gross profit ratio | 53.4% | 59.4% | (6.0) | |
| Operating profit ratio | 25.5% | 46.5% | (21.0) | |
| Net Profit ratio | 16.3% | 40.3% | (24.0) | |
| Adjusted Net Profit ratio ⁽¹⁾ | 33.9% | 44.3% | (10.4) | |

Note:

- Adjusted net profit is a non-HKFRSs measure, which is derived from the profit after adjusting compensation fee for the conversion of Huali College in May 2021, interest expenses on discount of compensation payable for the conversion and amounts due to a related party, net foreign exchange losses, fair value gains on investment properties and listing expenses of last year.

A final dividend in respect of the year ended August 31, 2021 of HK\$0.0502 per ordinary share, amounting to a total dividend of HK\$60,240,000, is to be proposed at the AGM. These financial statements do not reflect such dividend payable.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

The Group's revenue mainly represents income derived from tuition fees and boarding fees for the education services provided in the normal course at its PRC operating schools. For the year ended August 31, 2021, the Group's revenue was approximately RMB881.7 million, representing an increase of approximately 15.8% year-on-year from approximately RMB761.5 million for the corresponding period of last year, which was attributable to the increases in both student enrollment and average tuition fees during the Reporting Period.

Cost of Sales

Cost of sales consists primarily of staff costs, depreciation and amortisation, joint tuition support fees, school consumables, property management and maintenance fees, utilities expenses and other expenses. For the year ended August 31, 2021, the Group's cost of sales amounted to approximately RMB411.1 million, increased by approximately 33.1% year-on-year from approximately RMB308.9 million for the year ended August 31, 2020.

Gross Profit and Gross Profit Margin

For the year ended August 31, 2021, the Group recorded a gross profit of approximately RMB470.5 million, representing an increase of approximately 4.0% year-on-year from approximately RMB452.6 million for the year ended August 31, 2020. For the year ended August 31, 2021, the Group achieved a gross profit margin of 53.4%, down by 6.0 percentage points year-on-year as compared with the corresponding period of last year. The growth in gross profit was mainly attributable to the increasing average tuition fees and student enrollment, while partially offset by the increase in cost of sales for the year ended August 31, 2021.

Selling Expenses

Selling expenses, primarily consisting of marketing staff costs, promotion expenses and other expenses, increased by approximately 68.4% from approximately RMB15.5 million for the year ended August 31, 2020 to approximately RMB26.1 million for the year ended August 31, 2021, which was due to an increase in promotion expenses resulting from the increase in student enrollment for the 2020/2021 academic year.

Administrative Expenses

Administrative expenses primarily consist of administrative staff costs, traveling and entertainment expenses, depreciation of property, plant and equipment relating to office buildings, office expenses, utilities expenses, auditors' remuneration and other miscellaneous expenses. Administrative expenses increased by approximately 4.1%, from RMB99.1 million for the year ended August 31, 2020 to approximately RMB103.2 million for the year ended August 31, 2021.

Other Income

Other income primarily consists of training service income, government subsidies, rental income, bookselling income and others. For the year ended August 31, 2021, the Group recorded other income of approximately RMB35.1 million, representing an increase of approximately 79.1% year-on-year from approximately RMB19.6 million for the year ended August 31, 2020.

Other Losses — Net

Other losses — net primarily consist of compensation fee for the conversion of Huali College, net exchange losses, losses on disposals of property, plant and equipment, fair value gains on investment properties and others. For the year ended August 31, 2021, the Group's other losses amounted to approximately RMB151.9 million, representing an increase of approximately 45.0 times year-on-year compared with approximately RMB3.3 million losses for the year ended August 31, 2020. It was mainly attributable to the compensation fee for the conversion of Huali College during the Reporting Period.

Finance Expenses — Net

The Group's finance expenses — net include any costs incurred by interest expenses on bank and other borrowings (after deducting amounts capitalised in the cost of property, plant and equipment), interest expenses on discount of compensation payable for the conversion of Huali College and interest income generated from bank deposits. For the year ended August 31, 2021, the Group recorded finance expenses of approximately RMB63.5 million, representing an increase of approximately 22.8% year-on-year as compared with approximately RMB51.7 million for the year ended August 31, 2020, which was mainly attributable to the increase in bank and other borrowings raised during the year ended August 31, 2021. For the year ended August 31, 2021, the Group recorded finance income of approximately RMB8.7 million, representing an increase of approximately 4.8% year-on-year as compared with approximately RMB8.3 million for the year ended August 31, 2020.

Profit Before Taxation

For the year ended August 31, 2021, the Group recorded a profit before taxation of approximately RMB169.6 million, representing a decrease of approximately 45.4% year-on-year from approximately RMB310.9 million for the year ended August 31, 2020.

Taxation

For the year ended August 31, 2021, the Group recorded approximately RMB26.2 million in taxation, representing an increase of approximately 509.3% year-on-year from approximately RMB4.3 million for the year ended August 31, 2020. As at August 31, 2021, the Group did not have any taxation related disputes with any authorities, or any other unresolved taxation issues.

Adjusted Net Profit

Adjusted net profit is calculated by adjusting profit for the Reporting Period of approximately RMB143.5 million (year ended August 31, 2020: approximately RMB306.7 million) for the effect of compensation fee for the conversion of Huali College of approximately RMB150.8 million (year ended August 31, 2020: Nil), net exchange losses of approximately RMB18.2 million (year ended August 31, 2020: approximately RMB5.5 million), fair value gains on investment properties of approximately RMB14.6 million (year ended August 31, 2020: approximately RMB2.8 million), discounted interest of compensation payable for the conversion of Huali College of approximately RMB1.2 million (year ended August 31, 2020: Nil), nil discounted interest on the amount due to a related party (year ended August 31, 2020: approximately RMB15.9 million) and nil listing expenses (year ended August 31, 2020: approximately RMB12.5 million). The Group's adjusted net profit decreased by approximately 11.4% from approximately RMB337.7 million for the year ended August 31, 2020 to approximately RMB299.1 million for the year ended August 31, 2021.

Property, Plant and Equipment

As at August 31, 2021, the Group's property, plant and equipment amounted to approximately RMB3,708.9 million, representing an increase of approximately 32.2% year-on-year from approximately RMB2,805.1 million recorded as at August 31, 2020. Such increase was a result of the expansion of new teaching buildings at Zengcheng, Guangdong Province and the establishment of new campus at Jiangmen, Guangdong Province.

Capital Expenditures

For the year ended August 31, 2021, the Group recorded approximately RMB1,148.5 million in capital expenditures, representing an increase of approximately 237.3% from approximately RMB340.5 million for the year ended August 31, 2020, which was mainly attributable to the costs incurred for maintaining and enhancing the existing school premises, construction of new school premises and acquisition of land for education purpose during the Reporting Period.

Bank Balances and Cash

As at August 31, 2021, the Group's bank balances and cash was approximately RMB893.0 million, representing an increase of approximately 1.9% from approximately RMB876.3 million as at August 31, 2020.

Liquidity, Financial Resources and Debt Ratio

As at August 31, 2021, the Group had liquid funds (representing bank balances and cash and financial assets at amortized cost) of approximately RMB899.4 million (August 31, 2020: RMB882.6 million) and borrowings of approximately RMB2,320.4 million (August 31, 2020: RMB1,767.9 million).

The Group's debt ratio as at August 31, 2021, represented by borrowings as a percentage of total assets, was 36.7% (August 31, 2020: 35.0%).

Foreign Exchange Risk Management

For the Group's operation in the PRC, the major revenue and expenses are denominated in RMB, while there are certain monetary assets and monetary liabilities that are denominated in Hong Kong dollars and United States dollars, which would expose the Group to foreign exchange risk. The Group currently does not have a foreign currency hedging policy. However, the management of the Company monitors foreign exchange exposure and will consider hedging significant foreign currency exposure when the need arises.

Material Acquisitions and Disposals

The Group did not have any material acquisitions or disposals for the year ended August 31, 2021.

Charge on the Group's Assets

As at August 31, 2021, the Group pledged the rights to receive the tuition fees and boarding fees of Huali Technician College, Huali Vocational College and Huali College as securities for the banking facilities granted to the Group.

Save as disclosed above, there was no other material charge on the Group's assets as at August 31, 2021.

Contingent Liabilities

As at August 31, 2021, the Group had no significant contingent liabilities.

BUSINESS OVERVIEW

We are a leading large-scale private higher education and vocational education group in South China, offering applied science-focused and practice-oriented programs. As at August 31, 2021, we had an aggregate of 46,669 students enrolled at our three schools, namely Huali College, Huali Vocational College and Huali Technician College.

Our schools offer private higher education and private vocational education in a wide range of fields in applied sciences with an aim to prepare our students with the necessary knowledge base, skill sets and accreditations to secure jobs and pursue careers in particular professions, trades and industries. As at August 31, 2021, we offered 37 undergraduate programs, 37 junior college programs, and 30 vocational programs.

Growth Strategies

We intend to maintain and strengthen our leading position in the private higher education industry and private vocational education industry in South China.

We continue to make demand-driven investments in our existing schools to upgrade the school facilities to accommodate more students and enhance their educational experience. According to the 14th Five-Year Plan for Economic and Social Development of the PRC, the student enrollment rate of higher education is expected to continue to rise and reach 60.0% in 2025. In response to the 14th Five-Year Plan, we have expanded the scale of our school operations and gradually increase the student enrollment in our schools. Specifically, we (i) expanded Huali College by constructing additional buildings in Zengcheng City, Guangdong Province, and establishing a new campus in Jiangmen City, Guangdong Province; (ii) expanded Huali Vocational College by constructing additional buildings in Zengcheng City and Yunfu City, Guangdong Province; (iii) applied for the establishment of a new junior college to provide higher education and vocational education as well as grant junior college diplomas accredited by the MOE by establishing a new campus in Jiangmen City, Guangdong Province. By expanding the scale of our schools, we will be able to recruit more students.

We continue to improve our profitability by optimizing our pricing strategies. During the year ended August 31, 2021, we raised the tuition fees of Huali College and Huali Vocational College for certain programs. Historically, we kept our tuition fees at levels we believe are competitive compared to our peers in order to attract more students, thereby increasing our student enrollment and market share. As we have established a strong reputation for providing quality education to our students, we believe we are in a good position to optimize our pricing without compromising our reputation and our ability to attract and retain students.

Student Enrollment

As at August 31, 2021, we had an aggregate of 46,669 students⁽¹⁾ enrolled in our three schools, comprising 18,307 students at Huali College, 18,822 students at Huali Vocational College and 9,540 students at Huali Technician College.

| School | As at August 31, 2021 | As at August 31, 2020 | Change | Percentage change |
|---------------------------------|--------------------------------------|--------------------------------------|---------------|------------------------------|
| Huali College | 18,307 | 17,765 | 542 | 3.1% |
| Huali Vocational College | 18,822 | 17,581 | 1,241 | 7.1% |
| Zengcheng campus | 14,596 ⁽²⁾⁽³⁾ | 16,531 ⁽⁴⁾ | (1,935) | (11.7%) |
| Yunfu campus | 4,226 | 1,050 | 3,176 | 302.5% |
| Huali Technician College | 9,540 | 7,968 | 1,572 | 19.7% |
| Zengcheng campus | 7,827 | 6,837 | 990 | 14.5% |
| Yunfu campus | 1,713 | 1,131 | 582 | 51.5% |
| Total | <u>46,669</u> | <u>43,314</u> | 3,355 | 7.7% |

Notes:

- 1) Including 1,367 students of Huali Technician College who also take junior college courses at Huali Vocational College (the “**Continuing Education Program**”) and obtain a junior college diploma awarded by Huali Vocational College, subject to, among other things, passing the National Higher Education Entrance Exam for Adults. Each student participating in the Continuing Education Program is required to pay additional tuition fee of RMB3,000 to Huali Vocational College. In order to reflect such business practice, the number of students of Huali Technician College who also participate in the Continuing Education Program was included in the number of students of Huali Vocational College, and the revenue from the additional tuition fees paid for the Continuing Education Program was fully included in the revenue from tuition fees of Huali Vocational College and Huali Technician college.
- 2) Including 1,294 students who are social personnel enrolled under the national policy of enrollment expansion of Higher Vocational Education, having passed the exam designed independently by Huali Vocational College. These students shall pay tuition fee of RMB8,000 per academic year to Huali Vocational College, and take junior college courses mainly through on-line and obtain a junior college diploma awarded by Huali Vocational College upon graduation.
- 3) Including 1,367 students of Huali Technician College who also participate in the Continuing Education Program.
- 4) Including 3,225 students of Huali Technician College who also participate in the Continuing Education Program.

Tuition Fees and Boarding Fees

For the year ended August 31, 2021, the Group’s schools recorded revenue growth, which was in line with the expansion of its business and student enrollment. Revenue increased from RMB761.5 million for the year ended August 31, 2020 to RMB881.7 million for the year ended August 31, 2021. The Group typically charges students fees comprising tuition fees and boarding fees. Tuition fees remained as the Group’s major revenue for the year ended August 31, 2021, accounting for approximately 92.2% of the total revenue of the Group for the year ended August 31, 2021.

The table below summarizes the amount of revenue generated from the tuition fees and boarding fees charged by the Group for the years indicated:

| | Year ended August 31, 2021 (RMB'000) | Year ended August 31, 2020 (RMB'000) | Change (RMB'000) | Percentage change |
|--------------------------|---|---|---------------------|----------------------|
| Tuition fees | | | | |
| Huali College | 462,431 | 416,456 | 45,975 | 11.0% |
| Huali Vocational College | 248,177 | 223,196 | 24,981 | 11.2% |
| Huali Technician College | 102,716 | 93,069 | 9,647 | 10.4% |
| | <u>813,324</u> | <u>732,721</u> | 80,603 | 11.0% |
| Boarding fees | | | | |
| Huali College | 29,128 | 13,798 | 15,330 | 111.1% |
| Huali Vocational College | 26,589 | 9,972 | 16,617 | 166.6% |
| Huali Technician College | 12,615 | 4,990 | 7,625 | 152.8% |
| | <u>68,332</u> | <u>28,760</u> | 39,572 | 137.6% |
| Total Revenue | <u><u>881,656</u></u> | <u><u>761,481</u></u> | 120,175 | 15.8% |

The increase in the total revenue of the Group for the year ended August 31, 2021 was mainly due to the increase in student enrollment and average tuition fees.

The following table sets forth the information relating to student enrollment and average tuition fees per student for the financial years for each of our schools, respectively:

| School | Student Enrollment Academic Year⁽¹⁾ | | Average Tuition Fees per student⁽²⁾ Year Ended August 31 | |
|---------------------------------|---|----------------------|--|---------------|
| | 2020/2021 | 2019/2020 | 2021 (RMB) | 2020 (RMB) |
| Huali College | 18,307 | 17,765 | 25,260 | 23,442 |
| Huali Vocational College | 18,822 | 17,581 | 13,185 | 12,695 |
| — Zengcheng campus | 14,596 | 16,531 | — | — |
| — Yunfu campus | 4,226 | 1,050 | — | — |
| | <u>9,540</u> | 7,968 | 10,767 | 11,680 |
| — Zengcheng campus | 7,827 | 6,837 | — | — |
| — Yunfu campus | 1,713 | 1,131 | — | — |
| Total | <u><u>46,669</u></u> | <u><u>43,314</u></u> | 17,428 | 16,916 |

Notes:

- 1) Except as specified otherwise in this announcement, we present our business operating data as at August 31 for each of the academic years.
- 2) Average tuition fees equal to the revenue from tuition fees for the relevant financial year divided by the student enrollment for the corresponding academic years.

The following table sets out the tuition fee rates of our schools for the 2019/2020 and 2020/2021 academic years:

| School | Tuition fee rates ⁽¹⁾ in academic year | |
|--|--|--------------------|
| | 2020/2021 (RMB) | 2019/2020 (RMB) |
| Huali College | | |
| Four-to five-year undergraduate program ⁽²⁾ | 28,800–32,800 | 25,500–29,500 |
| International program | 36,800 | 33,500 |
| Bilingual program | 31,800 | 27,500 |
| Huali Vocational College | | |
| Three-year junior college program | 9,880–17,880 | 14,800–17,800 |
| — Zengcheng campus | 15,880–17,880 | 14,800–17,800 |
| — Yunfu campus | 9,880 | 14,800–17,800 |
| International program | 25,880–30,880 | 23,000–28,000 |
| Bilingual program | 17,880 | 15,800–16,800 |
| Huali Technician College | | |
| Three-year vocational program ⁽³⁾ | 6,300–12,300 | 6,000–12,800 |
| — Zengcheng campus | 8,800–12,300 | 8,800–12,800 |
| — Yunfu campus | 6,300–7,500 | 6,000–7,500 |

Notes:

- (1) Tuition fee rates shown above for all of our schools are applicable to students admitted in the relevant academic year only.
- (2) Generally, Huali College offers four-year undergraduate programs, and a five-year undergraduate program in architecture.
- (3) Generally, Huali Technician College offers three-year vocational programs, as well as two-, four- and five-year programs to students of different education levels pursuing different types of technician diplomas of Huali Technician College. In addition, we offer students at Huali Technician College a dual-diploma program, in which students are permitted to take junior college courses at Huali Vocational College and obtain a junior college diploma awarded by Huali Vocational College, subject to, among other things, passing the National Higher Education Entrance Exam for adults.

During the year ended August 31, 2021, our boarding fee rates ranged from RMB600 to RMB6,000 per academic year depending on the location, room size and number of students housed in each room. Especially, we offered some studio apartments since the academic year 2020/2021, for which the boarding fee rates range from RMB3,000 to RMB6,000 per academic year.

School Utilization Rate

School utilization rate is calculated by dividing the number of boarding student enrollment in a particular academic year by the school capacity in the same academic year. The school capacity of each campus is calculated by the number of beds available in student dormitories. The following table sets out the school utilization rate of our schools for the 2019/2020 and 2020/2021 academic years:

| | Academic year | |
|-------------------------|---------------|-----------|
| | 2020/2021 | 2019/2020 |
| Zengcheng campus | | |
| School capacity | 30,079 | 29,203 |
| School utilization rate | 92.7% | 93.0% |
| Yunfu campus | | |
| School capacity | 8,000 | 8,000 |
| School utilization rate | 65.3% | 24.5% |

Conversion of Huali College

In May 2021, Huali College was converted into an independent private regular undergraduate school (the “**Conversion**”) with the official approval of the Commission of Guangdong Province on the Appraisal of the Establishment of Higher Education Schools and renamed from “Huali College Guangdong University of Technology” to “**Guangzhou Huali College**”. After the Conversion, Huali College is expected to further release the student incremental potential and increase the student enrollment. Joint tuition support fee payable to Guangdong University of Technology will also gradually diminish from the 2022 financial year, thereby reducing the Group’s costs and enhancing the Group’s profitability. For more details, please refer to the announcements of the Company dated January 28, 2021 and July 21, 2021. The Group believes that the Conversion will bring major development opportunity and has a positive impact on future development.

Awards and Recognitions Received During the Reporting Period

The Company and the three schools received numerous awards and recognitions during the Reporting Period in recognition of the quality of education we provide and the outstanding achievements of our operations. The following table sets forth some of the awards and recognitions we have received:

| | Award/ Recognition | Awarding Organization(s) | Awarded Entity |
|--------------------|--|--|--------------------------------|
| September, 2020 | Best IR Company for an IPO | Hong Kong Investor Relations Association | Company |
| September, 2020 | Outstanding Contribution Institution for the 40th Anniversary of Guangdong Private Education (“廣東民辦教育四十 周年突出貢獻機構”) | Guangdong Private Education Association (廣東省民辦教育 協會) | Huali Vocational College |
| September, 2020 | Outstanding Contribution Institution for the 40th Anniversary of Guangdong Private Education (“廣東民辦教育四十 周年突出貢獻機構”) | Guangdong Private Education Association (廣東省民辦教育 協會) | Huali Technician College |
| December, 2020 | Vice Chairman Unit | Guangdong Private College Science Association Alliance (廣東民辦高校科協聯盟) | Huali Vocational College |
| January, 2021 | Advanced Unit of Vocational Capacity Construction in Guangdong Province in 2020 (2020 年度廣東省職業能力建設 先進單位) | Guangdong Vocational Capacity Construction Association (廣東省職業能力建設協會) | Huali Technician College |

OUTLOOK

In continuing to strengthen the Group's position as a leading private higher education and vocational education group, the Group plans to pursue the following:

Endogenous growth

(i) Development of New Campuses

The Group will increase student enrollment through expanding the business operations in its existing schools and further promote the internal growth of the Group. The Group will continue to make demand-driven investments in its existing schools, improve and acquire school facilities, improve the quality of schools' education, enhancing student enrollment scale.

Jiangmen Binhai campus: Profiting from the policy of increasing the gross enrollment rate of higher education, as well as large population inflow in Guangdong Province will provide more room for the growth of new enrollments in higher education in the future, the Group has entered into an agreement with the Jiangmen Xinhui District Government, Xinhui Branch, which will provide up to 1,258 Mu of land to the Group to build a new campus for Huali College, which is expected to accommodate 25,000 students. By the end of August 2021, the first-phase campus has been completed and put into use in September 2021, which is expected to accommodate 4,000 students.

Jiangmen Yamen campus: The construction of the new campus of Huali Technician College in Jiangmen City has been proceeding as planned. The first phase with a capacity of 6,000 students is under construction and is expected to be completed by the end of August 2022. The new campus is expected to be put into use in September 2022.

With the completion of Jiangmen Binhai and Jiangmen Yamen new campuses, the Group's total four campuses in the core regions of the Greater Bay Area will offer considerable capacity for students.

(ii) Strategic Deployment of Vocational Training

The Group continues to cooperate with industry-leading institutions to offer vocational education business featuring high growth and high gross margin during the Reporting Period, which will become a new revenue driver for the Group. The Group expects that the revenue of this business segment will achieve a considerable growth from the 2021 financial year. It has provided the courses in Computer Aided Design Engineer Certification, Building Information Modeling Skill Level Examination, the Association of Chartered Certified Accountants, Computerized Numerical Control Miller Machine and Electrician.

(iii) Further Optimizing the Pricing of Tuition Fees and Boarding Fees

The Group has moderately raised its tuition fees and boarding fees in 2020/2021 academic year to reflect the changes in market demand, its increasing operating costs and the adjustment of its curriculum offerings. The Group believes that its leading position, established reputation and high-quality teaching services will enable it to further increase its tuition fees and boarding fees, while maintaining the competitiveness of the Group in the market.

Expanding the Group's network through mergers and acquisitions

Besides robust endogenous growth, the Group has also been looking for mergers and acquisitions to expand the Group's school network coverage. The Group will explore acquisitions opportunities in between private regular undergraduate colleges, independent colleges and regular junior colleges with attractive growth potential.

In terms of geographical coverage, the Group will continue to focus on expanding the school network in Guangdong Province and consolidating its leading position in the Pearl River Delta, while exploring the high-quality goals in China with developed economy, large population, low gross enrollment rate and large number of student pool.

On the strength of the Group's long operation history, strong brand reputation, high-quality of education services, outstanding students' employment and sufficient resources of college-enterprise cooperation, we will strive to combine the private educational resources, expand market share and continuously improve the quality of education to provide better educational services for students.

In general, the Group strives to maintain and strengthen its leading position in the private higher education industry and private vocational education industry in South China, continuing to increase the number of students through expanding the business operation of its existing schools, and further expand the school network in China and abroad.

SUBSEQUENT EVENTS AFTER REPORTING PERIOD

There was no significant events affecting the Company nor any of its subsidiaries after the Reporting Period and up to date of this announcement.

USE OF NET PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

The Company issued 300,000,000 new Shares with a par value of US\$0.0001 at an issue price of HK\$3.26 per Share in connection with the Listing. The net proceeds from the Listing, after deducting underwriting commission and other expenses, were approximately HK\$946.0 million (equivalent to approximately RMB850.9 million).

The following table sets forth a summary of the utilization of the net proceeds from the Listing:

| Purpose | % | Net Proceed (RMB' Million) | Utilized | Unutilized | Expected |
|--|---------------|-------------------------------|---|---|--|
| | | | amount as at August 31, 2021 (RMB' Million) | amount as at August 31, 2021 (RMB' Million) | timeline for utilizing the remaining net proceeds |
| Expansion of existing schools by constructing additional buildings for Huali College and Huali Vocational College | 53.0% | 451.0 | (451.0) | — | — |
| Establishment of a new junior college in Jiangmen City, Guangdong Province | 37.0% | 314.8 | (185.0) | 129.8 | 2021-2022 |
| Working capital and general corporate purposes | 10.0% | 85.1 | (75.1) | 10.0 | 2021-2022 |
| Total | 100.0% | 850.9 | (711.1) | 139.8 | |

EMPLOYEES AND REMUNERATION POLICIES

Recruitment

We strictly comply with the PRC Labor Law, the PRC Labor Contract Law, the PRC Employment Promotion Law, the PRC Labor Dispute Mediation and Arbitration Law as well as other applicable provincial and local labor laws and regulations in our recruitment process. We prohibit discrimination of staff by age, sex, race, nationality, religion or disability to ensure that everyone has equal employment opportunities and prospects.

We recruit teachers based on the size of our current student enrollment and the number of newly admitted students at the beginning of each academic year. We primarily seek to recruit (i) high quality and experienced teachers who are knowledgeable in both theory and practice and hold the necessary academic credentials and professional qualifications (i.e. diplomas and professional certificates); and (ii) teachers who have work experience in the relevant industries. We also invite industry experts from entities with which we have cooperative relationships to give lectures or teach classes as adjunct faculty members of our schools.

Our schools carry out their recruitment works based on our employee manual and our teachers' recruitment policy, and continuously improve and refine their recruitment processes. We actively approach talents through participating in talent recruitment fairs and industry conferences, and encourage our staff to take advantage of social media to refer and recommend talented candidates to join us. In addition, we provide continuing trainings to our teachers so that they can stay abreast of the changes in market demand, new teaching theories and/or methodologies, changing teaching and testing standards.

Remuneration

As at August 31, 2021, the Group had 2,157 employees (as at August 31, 2020: 1,640). The remuneration packages of the employees of the Group are determined with reference to individual qualification, experience and performance, contribution to the Group, prevailing market rate and our remuneration policy.

The remuneration policy of our schools is formulated under the guidance of PRC laws and is based on industry characteristics as well as various market factors. The staff congress, president's office and board of directors of our schools collectively approve the compensation range of their employees. Our schools determine their respective compensation standards based on employment by function (teachers and administrative personnel) and position. Our schools pay a fixed annual salary to senior management and top talents such as directors, deans/department heads, administrative heads and professors. Our schools participate in social insurance plans (pension, medical, unemployment, work injury and maternity insurance) under the guidance of the relevant national, provincial and municipalities policies, and provide a variety of benefits for their employees.

FINAL DIVIDEND

The Board has proposed a final dividend of HK\$0.0502 per ordinary share for the year ended August 31, 2021 (the “**Final Dividend**”), amounting to HK\$60,240,000 based on 1,200,000,000 Shares in issue as at the date of this announcement.

ANNUAL GENERAL MEETING

The forthcoming AGM will be held on January 21, 2022. Notice convening the forthcoming AGM will be published and dispatched to the Shareholders.

CLOSURE OF REGISTER OF MEMBERS

For the Forthcoming AGM

The register of members of the Company will be closed from Tuesday, January 18, 2022 to Friday, January 21, 2022, both days inclusive, during which period no transfer of Shares will be registered. The record date for the entitlement to attend and vote at the AGM is January 27, 2022. In order to be eligible to attend and vote at the forthcoming AGM, all transfer documents accompanied by the relevant share certificates must be lodged 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 for registration no later than 4:30 p.m. on Monday, January 17, 2022.

For the Proposed Final Dividend

The proposed Final Dividend is subject to the approval of the Shareholders at the forthcoming AGM. The register of members of the Company will be closed from February 7, 2022 to February 8, 2022, both days inclusive, during which period no transfer of Shares will be registered. In order to qualify for the proposed final dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited at the aforementioned address for registration not later than 4:30 p.m. on February 4, 2022.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association, or the applicable laws of the Cayman Islands where the Company was incorporated, which would oblige the Company to offer new Shares on a pro-rata basis to existing Shareholders.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended August 31, 2021.

SUFFICIENCY OF PUBLIC FLOAT

As at the date of this announcement, based on the information publicly available to the Company and to the knowledge of the Directors, the Company continues to meet the prescribed minimum percentage of public float under the Listing Rules (i.e. at least 25% of the Company's total issued share capital are held by the public at all times as of the date of this announcement).

CORPORATE GOVERNANCE PRACTICES

The Company has applied the principles of the code provisions set out in the CG Code. During the Reporting Period, the Company had complied with all the code provisions set out in the CG Code.

The Board believes that good corporate governance is essential in enhancing the confidence of the Shareholders, potential investors and business partners and is consistent with the Board's pursuit of value creation for the Shareholders. The Company is committed to enhancing its corporate governance practices appropriate to the conduct and growth of its business and to reviewing such practices from time to time to ensure that the Company complies with the statutory and professional standards and is aligned with the latest development.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as the Group's code of conduct to regulate the securities transactions of the Directors and the relevant employees of the Group who, because of his/her office or employment, is likely to possess inside information in relation to the Group or the Company's securities. Having made specific enquiries, all Directors confirmed that they had complied with the required standards set out in the Model Code throughout the year ended August 31, 2021. In addition, the Company is not aware of any non-compliance of the Model Code by the relevant employees of the Group during the year ended August 31, 2021.

AUDIT COMMITTEE AND REVIEW OF CONSOLIDATED FINANCIAL INFORMATION

The Audit Committee consists of three independent non-executive Directors, namely Ms. Chiu Lai Kuen Susanna, M.H., J.P. (Chairperson), Mr. Yang Ying and Mr. Ding Yi. The main duties of the Audit Committee are to assist the Board in providing an independent review of the completeness, accuracy and fairness of the financial information of the Group, as well as the efficiency and effectiveness of the Group's operations and internal controls. The Audit Committee has reviewed the annual results of the Group for the year ended August 31, 2021, including the accounting principles and practices adopted by the Group, and has discussed the internal control and financial reporting process with the management of the Group and the external auditor.

SCOPE OF WORK ON THE ANNUAL RESULTS ANNOUNCEMENT BY AUDITOR

The figures in respect of this preliminary announcement of the Group's results for the year ended August 31, 2021 have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers 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 PricewaterhouseCoopers on this preliminary announcement.

PUBLICATION OF THE ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This annual results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.hualioniversity.com). The annual report of the Company for the year ended August 31, 2021 will be dispatched to the Shareholders and made available on the same websites in due course.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED AUGUST 31, 2021

| | Note | Year ended August 31, | |
|---|------|-----------------------|------------------|
| | | 2021 | 2020 |
| | | <i>RMB'000</i> | <i>RMB'000</i> |
| Revenue | 3 | 881,656 | 761,481 |
| Cost of sales | 6 | <u>(411,143)</u> | <u>(308,902)</u> |
| Gross profit | | 470,513 | 452,579 |
| Selling expenses | 6 | (26,066) | (15,527) |
| Administrative expenses | 6 | (103,200) | (99,105) |
| Other income | 4 | 35,120 | 19,620 |
| Other losses — net | 5 | <u>(151,928)</u> | <u>(3,273)</u> |
| Operating profit | | 224,439 | 354,294 |
| Finance income | | 8,735 | 8,332 |
| Finance expenses | | <u>(63,543)</u> | <u>(51,692)</u> |
| Finance expenses — net | 7 | <u>(54,808)</u> | <u>(43,360)</u> |
| Profit before income tax | | 169,631 | 310,934 |
| Income tax expenses | 8 | <u>(26,172)</u> | <u>(4,265)</u> |
| Profit for the year | | <u>143,459</u> | <u>306,669</u> |
| Other comprehensive income | | | |
| <i>Item that will not be reclassified subsequently to profit or loss</i> | | | |
| Revaluation gains arising from transfer of property, plant and equipment and corresponding right-of-use assets to investment properties, net of tax | | <u>2,408</u> | <u>—</u> |
| Other comprehensive income for the year, net of tax | | <u>2,408</u> | <u>—</u> |
| Total comprehensive income for the year | | <u>145,867</u> | <u>306,669</u> |
| Total comprehensive income attributable to: | | | |
| — Owner of the Company | | <u>145,867</u> | <u>306,669</u> |
| Earnings per share for profit attributable to owner of the Company (expressed in RMB per share) | | | |
| Basic and diluted | 9 | 0.120 | 0.270 |

CONSOLIDATED BALANCE SHEET

AS AT AUGUST 31, 2021

| | | As at August 31, | |
|--|------|-------------------------|-------------------------|
| | | 2021 | 2020 |
| | Note | RMB'000 | RMB'000 |
| ASSETS | | | |
| Non-current assets | | | |
| Right-of-use assets | | 1,438,565 | 1,060,506 |
| Property, plant and equipment | | 3,708,910 | 2,805,085 |
| Investment properties | | 179,400 | 135,000 |
| Intangible assets | | 21,609 | 12,404 |
| Other financial assets at amortized cost | | — | 6,353 |
| Prepayments | | 37,387 | 133,116 |
| | | <u>5,385,871</u> | <u>4,152,464</u> |
| Current assets | | | |
| Prepayments | | 1,482 | 190 |
| Trade and other receivables | 11 | 16,526 | 12,519 |
| Amounts due from related parties | | 25,900 | 16,766 |
| Financial assets at amortized cost | | 6,450 | — |
| Restricted cash | | 12,246 | 11,205 |
| Cash and cash equivalents | | 880,752 | 865,062 |
| | | <u>943,356</u> | <u>905,742</u> |
| Total assets | | <u><u>6,329,227</u></u> | <u><u>5,058,206</u></u> |
| EQUITY | | | |
| Share capital and share premium | | 652,296 | 789,576 |
| Statutory surplus reserves | | 125,568 | 123,186 |
| Other reserves | | 338,526 | 336,118 |
| Retained earnings | | 1,569,015 | 1,427,938 |
| Total equity | | <u>2,685,405</u> | <u>2,676,818</u> |

| | | As at August 31, | |
|-------------------------------------|-------------|-------------------------|------------------|
| | | 2021 | 2020 |
| | <i>Note</i> | RMB'000 | RMB'000 |
| LIABILITIES | | | |
| Non-current liabilities | | | |
| Borrowings | | 2,096,850 | 1,622,731 |
| Accruals and other payables | 12 | 217,369 | 7,141 |
| Amounts due to related parties | 12 | 50,864 | — |
| Deferred income tax liabilities | | 43,832 | 36,461 |
| | | <u>2,408,915</u> | <u>1,666,333</u> |
| Current liabilities | | | |
| Accruals and other payables | 12 | 377,189 | 270,616 |
| Amounts due to related parties | 12 | 45,415 | 21,251 |
| Contract liabilities | | 567,766 | 271,771 |
| Current income tax liabilities | | 20,748 | 6,200 |
| Borrowings | | 223,535 | 145,217 |
| Deferred revenue | | 254 | — |
| | | <u>1,234,907</u> | <u>715,055</u> |
| Total liabilities | | <u>3,643,822</u> | <u>2,381,388</u> |
| Total equity and liabilities | | <u>6,329,227</u> | <u>5,058,206</u> |

NOTES

1 General information

Huali University Group Limited (the “**Company**”) was incorporated in the Cayman Islands on May 24, 2016 as an exempted company with limited liability under the Companies Law (as revised) of the Cayman Islands. The address of the Company’s registered office is P.O. Box 309, Uglan House, Grand Cayman, KY1-1104, the Cayman Islands. The Company is an investment holding company. The Company and its subsidiaries (collectively referred to as the “**Group**”) are principally engaged in providing private tertiary education services, including tuition services and student accommodation services in the People’s Republic of China (the “**PRC**”).

The ultimate holding company of the Company is HL-Diamond Limited (“**HL-Diamond**”). The directors of the Company (“**Directors**”) consider the ultimate controlling party to be Mr. Zhang Zhifeng, who is also an executive director and the chairman of the Board of the Company (the “**Owner**”).

The Company’s shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) since November 25, 2019.

The outbreak of the 2019 Novel Coronavirus (the “**COVID-19**”) had brought unprecedented challenges and added uncertainties to the economy. COVID-19 may affect the financial performance and position of the industry of education. Since the outbreak of COVID-19, the Group kept continuous attention on the situation of the COVID-19 and reacted actively to its impact on the financial position and operating results of the Group. As at the date that these consolidated financial statements are authorized for issue, COVID-19 doesn’t have any material adverse impact on the financial position and operating result of the Group.

Significant event

The conversion of Huali College Guangdong University of Technology

On January 28, 2021, Guangdong University of Technology, Guangzhou Huali Investment Company Limited (“**Huali Investment**”), being the Joint Sponsors of Huali College Guangdong University of Technology, and Huali College Guangdong University of Technology (“**Huali College**”) entered into the Transitional Cooperation Agreement of Huali College (the “**Transitional Cooperation Agreement**”), which has set out certain arrangements in relation to the management of Huali College during the transitional period of the conversion of Huali College from a private independent college into an independently established private general undergraduate college in the PRC (the “**Conversion of Huali College**”). Pursuant to the Transitional Cooperation Agreement, Huali Investment and Huali College have agreed to pay a one-off compensation fee amounting to RMB160,000,000 to Guangdong University of Technology for appreciating its contributions to the development of Huali College in past years. The one-off compensation fee will be settled in three installments, of which RMB53,340,000, RMB53,330,000 and RMB53,330,000 shall be paid by October 31, 2021, October 31, 2022 and October 31, 2023, respectively. The Transitional Cooperation Agreement came into effect on May 31, 2021, the date on which the Conversion of Huali College was completed and approved by the Ministry of Education (“**MoE**”) of the PRC, and will be expired when students recruited under the name of Huali College Guangdong University of Technology graduate.

Upon the completion of the Conversion of Huali College, Huali College Guangdong University of Technology changed its official name into Guangzhou Huali College (the “**Huali College**”). Pursuant to the Transitional Cooperation Agreement and the legal opinion issued by the lawyer, the rights and obligations of Huali College Guangdong University of Technology are legally undertaken by Guangzhou Huali College.

2 Summary of significant accounting policies

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated. The consolidated financial statements are for the Group consisting of the Company and its subsidiaries.

2.1 Basis of preparation

(i) *Going concern assumption*

As at August 31, 2021, the Group had recovered net current liabilities of RMB291,551,000, and capital commitment in relation to construction of property, plant and equipment within twelve months of RMB8,000,000. The Group's total borrowings as at August 31, 2021 amounted to RMB2,320,385,000, and RMB225,747,000 was repayable within the coming twelve months and interest payable amounting to RMB100,514,000 is expected to be accrued and paid within the coming twelve months, while its cash and cash equivalents amounting to RMB880,752,000 as at the same date.

Management closely monitors the Group's financial performance and liquidity position. A number of measures have been put in place by management to improve the financial position and relief the liquidity pressure. As at August 31, 2021, the Group had unused long-term banking facilities totaling RMB666,527,000. Management is of the opinion that such banking facilities are adequate for the capital expenditure and working capital purpose of the Group covering a period for not less than twelve months from August 31, 2021.

Also, management has prepared cash flow projections of the Group covering a period of not less than twelve months from August 31, 2021 on the basis that (i) the Group will continue to generate operating cash inflows; and (ii) there is continuous availability of the bank facilities.

The Directors have reviewed the cash flow projection and have made due enquiries and considered the basis and assumptions of management's projections as described above. The Directors are of the opinion that, taking into account the Group's future operational performance and the expected future operating cash inflows; and the continuous availability of bank facilities, the Group will have sufficient financial resources to support its operations and to meet its financial obligations as and when they fall due in the coming twelve months from August 31, 2021. Accordingly, the consolidated financial statements of the Group has been prepared on a going concern basis.

(ii) Compliance with HKFRSs and HKCO

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”) and requirements of the Hong Kong Companies Ordinance (“**HKCO**”) Cap. 622.

(iii) Historical cost convention

The consolidated financial statements have been prepared on a historical cost basis as modified by the revaluation of investment properties which are carried at fair value.

(iv) New and amended standards adopted by the Group

(a) The Group has applied the following standards and amendments for the first time for the annual reporting year commencing September 1, 2020:

- Amendments to HKAS 1 and HKAS 8 Definition of Material
- Amendments to HKFRS 3 Definition of a Business
- Conceptual Framework for Financial Reporting 2018 Revised Conceptual Framework for Financial Reporting
- Amendments to HKFRS 16 Leases — COVID-19 related rent concessions
- Amendments to HKFRS 9, HKAS 39 and HKFRS 7 Interest Rate Benchmark Reform
- Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 Interest Rate Benchmark Reform — Phase 2

The amendments listed above did not have any impact on the amounts recognized in prior periods and are not expected to significantly affect the current or future periods.

- (b) Certain new accounting standards and interpretations have been published that are not mandatory for application for the year ended August 31, 2021 and have not been early adopted by the Group. These standards are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions:

| | | Effective for accounting periods beginning on or after |
|-------------------------------------|---|---|
| Accounting Guideline 5 (revised) | Revised Accounting Guideline 5 Merger Accounting | January 1, 2022 |
| HKFRS 3 (Amendments) | Business combinations | January 1, 2022 |
| HKAS 16 (Amendments) | Property, plant and equipment | January 1, 2022 |
| HKAS 37 (Amendments) | Provisions, contingent liabilities and contingent assets | January 1, 2022 |
| Annual Improvements | Annual Improvements to HKFRS standards 2018–2020 (amendments) | January 1, 2022 |
| HKAS 1 (Amendment) | Presentation of financial statements' on classification of liabilities | January 1, 2023 |
| HKFRS 17 | Insurance contracts | January 1, 2023 |
| HK Interpretation 5 (Amendment) | Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause | January 1, 2023 |
| HKFRS 10 and HKAS 28 (Amendment) | Sale or contribution of assets between an investor and its associate or joint venture | To be determined |

3 Segment information

The Group is principally engaged in provision of private tertiary education and ancillary services in the PRC. The Group's chief operating decision-maker ("CODM") has been identified as the executive directors who considers the business from the service perspective.

Information reported to the CODM, 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 is subject to similar regulatory environment. Accordingly, their segment information is aggregated as a single reportable segment. CODM assesses the performance of the reportable segment based on the revenue and gross profit for the year of the Group as presented in the consolidated statements of comprehensive income. No analysis of the Group's assets and liabilities is regularly provided to the management of the Group for review.

As at August 31, 2021, approximately 85% of the carrying values of the Group's assets are situated in the PRC mainland. All of the Group's revenue are derived from activities in, and from customers located in the PRC mainland and no geographical segment analysis is prepared.

Revenue during the years ended August 31, 2021 and 2020 are as follows:

| | Year ended August 31, | |
|----------------------|-----------------------|----------------|
| | 2021 | 2020 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Recognized over time | | |
| — Tuition fees | 813,324 | 732,721 |
| — Boarding fees | 68,332 | 28,760 |
| | <u>881,656</u> | <u>761,481</u> |

Tuition fees and boarding fees are recognized proportionately over each school year. No customers individually accounted for more than 10% of the Group's revenue during the years ended August 31, 2021 and 2020.

4 Other income

| | Year ended August 31, | |
|---|-----------------------|---------------|
| | 2021 | 2020 |
| | RMB'000 | RMB'000 |
| Rental income | 11,199 | 7,522 |
| Government subsidies | 7,819 | 11,789 |
| Bookselling income | 7,213 | — |
| Training service income | 4,555 | — |
| Service income from a related party | 2,330 | — |
| Service income of school-enterprise cooperation projects | 1,101 | — |
| Interest income on other financial assets at amortized cost | 903 | 309 |
| | <u>35,120</u> | <u>19,620</u> |

5 Other losses — net

| | Year ended August 31, | |
|--|-----------------------|----------------|
| | 2021 | 2020 |
| | RMB'000 | RMB'000 |
| Compensation fee for the Conversion of Huali College (Note a) | (150,849) | — |
| Net exchange losses | (18,242) | (5,490) |
| Losses on disposals of property, plant and equipment | (73) | (2,208) |
| Fair value gains on investment properties | 14,561 | 2,800 |
| Others | 2,675 | 1,625 |
| | <u>(151,928)</u> | <u>(3,273)</u> |

- (a) Pursuant to the Transitional Cooperation Agreement as disclosed in Note 1, Huali Investment and Huali College have agreed to pay a one-off compensation fee to Guangdong University of Technology in three installments and in an aggregate amount of RMB160,000,000, of which RMB53,340,000, RMB53,330,000 and RMB53,330,000 shall be paid by October 31, 2021, October 31, 2022 and October 31, 2023, respectively. The compensation fee was therefore recognized at the fair value of RMB150,849,000 by discounting the future cash flows using the effective interest rate of 4.75% per annum.

6 Expenses by nature

| | Year ended August 31, | |
|--|-----------------------|----------------|
| | 2021 | 2020 |
| | RMB'000 | RMB'000 |
| Employee benefit expenses | 190,301 | 151,595 |
| Depreciation of property, plant and equipment | 79,610 | 76,815 |
| Joint tuition support fees (<i>Note a</i>) | 78,441 | 70,772 |
| Depreciation of right-of-use assets | 33,041 | 32,914 |
| School consumables | 31,522 | 8,407 |
| Property management fee | 28,200 | 6,041 |
| Utilities expenses | 21,903 | 11,319 |
| Marketing expenses | 21,596 | 11,744 |
| Travel and entertainment expenses | 10,782 | 10,548 |
| Office expenses | 10,258 | 8,408 |
| Rental expenses | 7,582 | 864 |
| Amortisation of intangible assets | 4,887 | 1,793 |
| Maintenance fee | 3,433 | 2,778 |
| Auditors' remuneration | | |
| — Audit services | 2,849 | 3,186 |
| Other taxes | 1,207 | 1,220 |
| Training expenses | 1,094 | 1,026 |
| Listing expenses | — | 12,453 |
| Other expenses | 13,703 | 11,651 |
| | <hr/> | <hr/> |
| Total cost of sales, selling expenses and administrative expenses | 540,409 | 423,534 |
| | <hr/> <hr/> | <hr/> <hr/> |

- (a) Huali College, a group entity entered into an agreement of cooperation with Guangdong University of Technology, the joint sponsor of Huali College, under which the Group will pay joint tuition support fees to Guangdong University of Technology in each academic year based on 17% of the tuition income from students covered by the agreement of Huali College. The Group expects that the agreement will remain enforceable until the completion of the Transitional Cooperation Agreement.

7 Finance expenses – net

| | Year ended August 31, | |
|---|-----------------------|-----------------|
| | 2021 | 2020 |
| | RMB'000 | RMB'000 |
| Finance income: | | |
| — Bank interest income | 8,735 | 8,332 |
| Finance expenses: | | |
| — Interest expenses on bank borrowings | (86,701) | (67,210) |
| — Interest expenses on other borrowings due to a related party | (10,222) | — |
| Less: borrowing costs capitalized in property, plant and equipment (<i>Note a</i>) | 34,539 | 31,414 |
| — Interest expenses on discount of compensation payable for the Conversion of Huali College | (1,159) | — |
| — Interest expenses on discount of amount due to a related party | — | (15,896) |
| | <u>(63,543)</u> | <u>(51,692)</u> |
| Net finance expenses | <u>(54,808)</u> | <u>(43,360)</u> |

- (a) The capitalization rate used to determine the amount of borrowing costs to be capitalized is the interest rate applicable to the entity's borrowings for construction during the year. The capitalization rates were 4.75% and 5.38% for the years ended August 31, 2021 and 2020 respectively.

8 Income tax expenses

(a) *Cayman Islands profits tax*

The Company and its direct subsidiary were incorporated in the Cayman Islands as exempted companies with limited liability under the Companies Law of the Cayman Islands and accordingly, are exempted from income tax.

(b) *Hong Kong profits tax*

No provision for Hong Kong profits tax was provided as the Group did not have assessable profits in Hong Kong during the years ended August 31, 2021 and 2020.

(c) *PRC corporate income tax (“CIT”)*

The corporate income tax rate applicable to the Group’s entities located in the Mainland China (the “**PRC entities**”) is 25% according to the Corporate Income Tax Law of the People’s Republic of China effective on January 1, 2008.

According to the Implementation Rules for the Law for Promoting Private Education (“**Implementing Rules**”), private schools, whether requiring reasonable returns or not, may enjoy preferential tax treatment. The Implementing Rules provide that the private schools for which the sponsors do not require reasonable returns are eligible to enjoy the same preferential tax treatment as public schools, and relevant authorities under the State Council may introduce preferential tax treatments and related policies applicable to private schools requiring reasonable returns. Despite the fact that no separate policies, regulations or rules have been introduced by the authorities during the years ended August 31, 2021 and 2020 and up to date of this report, based on the historical tax returns filed to the relevant tax authorities, the colleges within the Group have historically enjoyed preferential tax treatment since their establishment.

Management considered that no CIT would be imposed by the local tax bureau on the income from provision of formal educational services based on the PRC relevant tax regulation. As a result, no income tax expense was recognized for the income from the provision of educational services in respect of the PRC Operating Entities during the period.

Certain wholly-owned subsidiaries of the Group registered in minority autonomous regions, the PRC enjoyed preferential CIT rate, of which the tax rate for XZ Huali is 15% based on the relevant tax regulations of Tibet Autonomous Region, and the tax rate for Guangdong Huaqin Property Management Co.,Ltd, Guangdong Huali Technology Co.,Ltd, Guangdong Huashi Education Support Service Co.,Ltd and Guangdong Shengli Technology Co.,Ltd is also 15% based on the relevant tax preferential policy granted to Ruyuan Yao Autonomous County.

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. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. The Group is liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated in the periods subsequent to January 1, 2008.

(d) United States of America (“USA”) corporate income tax

No provision for USA corporate income tax was provided as the Group did not have assessable profits in USA during the years ended August 31, 2021 and 2020.

Analysis of the Group’s income tax expense is as follow:

| | Year ended August 31, | |
|-------------------------------------|-----------------------|--------------|
| | 2021 | 2020 |
| | RMB’000 | RMB’000 |
| Current tax on profits for the year | 19,604 | 2,493 |
| Deferred income tax | 4,424 | 1,772 |
| Deferred withholding tax | 2,144 | |
| | <u>26,172</u> | <u>4,265</u> |

9 Earnings per share

(a) Basic

The basic earnings per share is calculated on the profit attributable to owner of the Company by the weighted average number of ordinary shares in issue during the years ended August 31, 2021 and 2020.

| | Year ended August 31, | |
|--|-----------------------|------------------|
| | 2021 | 2020 |
| Profit attributable to owner of the Company (RMB’000) | 143,459 | 306,669 |
| Weighted average number of ordinary shares in issue (thousand shares) | <u>1,200,000</u> | <u>1,134,000</u> |
| Basic earnings per share (expressed in RMB) | <u>0.120</u> | <u>0.270</u> |

(b) Diluted

Diluted earnings per share presented is the same as the basic earnings per share as there were no potentially dilutive ordinary shares issued during the years ended August 31, 2021 and 2020.

10 Dividends

| | Year ended August 31, | |
|--|-----------------------|-------------------|
| | 2021 | 2020 |
| | RMB'000 | RMB'000 |
| Final dividend, declared and paid, of RMB0.0626 (2020: nil) per ordinary share (<i>Note(a)</i>) | 75,120 | — |
| Special dividend, proposed and declared, of RMB0.0518 (2020: nil) per ordinary share (<i>Note(b)</i>) | 62,160 | — |
| Interim dividend, declared and paid, of nil (2020: RMB0.051) per ordinary share (<i>Note(c)</i>) | — | 61,620 |
| | <u> </u> | <u> </u> |
| Total dividends provided for or paid | <u>137,280</u> | <u>61,620</u> |

During the year ended August 31, 2021, dividends were distributed out of the Company's share premium and were paid in cash (2020: paid in cash).

- (a) A final dividend for the year ended August 31, 2020 of RMB0.0626 per ordinary share, totaling approximately RMB75,120,000 has been declared by the Company's Annual General Meeting on January 20, 2021 and paid during the year ended August 31, 2021.
- (b) A special dividend for the year ended August 31, 2021 of RMB0.0518 per ordinary share, totaling approximately RMB62,120,000 has been declared by the Board on July 21, 2021 and yet to be paid as at August 31, 2021.
- (c) An interim dividend for the six months ended February 29, 2020 of RMB0.051 per ordinary share, totaling approximately RMB61,620,000 has been declared by the Board on April 16, 2020 and paid during the year ended August 31, 2020.
- (d) Dividends not recognized at the end of the reporting years

| | Year ended August 31, | |
|--|-----------------------|-------------------|
| | 2021 | 2020 |
| | RMB'000 | RMB'000 |
| Proposed final dividend of RMB0.0411 (2020: RMB0.0626) per ordinary share | 49,320 | 75,120 |
| | <u> </u> | <u> </u> |

A dividend in respect of the year ended August 31, 2021 of RMB0.0411 per ordinary share, amounting to a total dividend of RMB49,320,000, is to be proposed at the annual general meeting to be held on January 21, 2022. These financial statements do not reflect this dividend payable.

11 Trade and other receivables

| | As at August 31, | |
|---|-------------------------|----------------------|
| | 2021 | 2020 |
| | RMB'000 | RMB'000 |
| Trade receivables | | |
| — Government subsidies receivables granted to students for tuition fees deduction | 3,792 | — |
| — Tuition fees receivables from students | 3,677 | 1,702 |
| — Boarding fees receivables from students | 129 | 79 |
| | <u>7,598</u> | <u>1,781</u> |
| Other receivables | | |
| — Deposits | 2,400 | 7,139 |
| — Utilities receivables from campus logistics service providers | 2,387 | 1,143 |
| — Tuition fees receivables from financial institution | 1,045 | 763 |
| — Interest receivables | 204 | 216 |
| — Others | 2,892 | 1,477 |
| | <u>8,928</u> | <u>10,738</u> |
| | <u><u>16,526</u></u> | <u><u>12,519</u></u> |

As at August 31, 2021 and 2020, the aging analysis of the trade receivables based on the recognition date is as follows:

| | As at August 31, | |
|------------------|-------------------------|----------------|
| | 2021 | 2020 |
| | RMB'000 | RMB'000 |
| Less than 1 year | 7,132 | 1,677 |
| 1 to 2 years | 466 | 104 |
| | <u>7,598</u> | <u>1,781</u> |

Other than other receivables of RMB310,000 as at August 31, 2021 (2020: RMB216,000) which were denominated in US\$, all other trade and other receivables of the Group were denominated in RMB as at August 31, 2021 and 2020.

As at August 31, 2021 and 2020, the Group's maximum exposure to credit risk was the carrying value of each class of trade and other receivables mentioned above. The Group does not hold any other collateral as security.

Management has closely monitored the credit qualities and the collectability of these receivables and considers that the expected credit risks of them are minimal in view of the history of cooperation with them and forward looking information. The loss allowance provision for these balances was not material and no provision was recorded during the years ended August 31, 2021 and 2020.

As at August 31, 2021 and 2020, the fair values of trade and other receivables approximate their carrying amounts.

12 Accruals and other payables and amounts due to related parties

| | As at August 31, | |
|--|-------------------------|----------------|
| | 2021 | 2020 |
| | RMB'000 | RMB'000 |
| Payable for construction and purchase of non-current assets | 228,008 | 139,320 |
| Compensation payable for the Conversion of Huali College (<i>Note 1</i>) | 152,008 | — |
| Payable for joint tuition support fees (<i>Note (a)</i>) | 78,441 | 70,772 |
| Dividend payables | 62,160 | — |
| Miscellaneous fee received from students (<i>Note (b)</i>) | 20,714 | 21,146 |
| Government subsidies payable to students | 17,792 | 18,796 |
| Employee benefits payable | 12,448 | 9,517 |
| Payable for property management service | 7,916 | 299 |
| Interest payable | 4,978 | 3,828 |
| Network and telecommunication fee payable | 3,280 | 2,585 |
| Other taxes payable | 1,664 | 1,290 |
| Auditor's remuneration payable | 1,620 | 2,800 |
| Others | 3,529 | 7,404 |
| | 594,558 | 277,757 |
| Less: non-current portion (<i>Note (d)</i>) | | |
| Payable for construction of non-current assets | (118,701) | (7,141) |
| Compensation payable for the Conversion of Huali College | (98,668) | — |
| Current portion | 377,189 | 270,616 |
| Amounts due to related parties | | |
| — Current | 45,415 | 21,251 |
| — Non-Current | 50,864 | — |
| | 96,279 | 21,251 |

- (a) As at August 31, 2021 and 2020, the aging analysis of the payables for joint tuition support fees was as follows:

| | As at August 31, | |
|------------------|-------------------------|-----------------------|
| | 2021 | 2020 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Less than 1 year | <u>78,441</u> | <u>70,772</u> |

- (b) The amounts represent the miscellaneous fee received from students which would be paid out by the Group on behalf of students.
- (c) As at August 31, 2021 and 2020, the fair values of current accruals and other payables and current amounts due to related parties approximated their carrying amounts due to their short-term maturities.
- (d) As at August 31, 2021 and 2020, the non-current accruals and other payables and non-current amounts due to related parties were initially recognized at fair value at discount rate available to the Group and subsequently measured at amortized cost using the effective interest rate method.

DEFINITIONS

| | |
|------------------------------------|---|
| “academic year” | the academic year for all our school, which generally starts on September 1 of each calendar year and ends on August 31, of the next calendar year |
| “AGM” | annual general meeting of the Company to be held on January 21, 2022 |
| “Articles of Association” | the articles of association of the Company, as amended from time to time |
| “Audit Committee” | the audit committee of the Board |
| “Board” | the board of directors of the Company |
| “Business Cooperation Agreement” | the Business Cooperation Agreement entered into by and among XZ Huali, Huali Investment, our PRC Operating Entities and the Registered Shareholder dated March 23, 2017 (supplemented on November 27, 2017 and August 30, 2018) |
| “BVI” | the British Virgin Islands |
| “CG Code” | the Corporate Governance Code contained in Appendix 14 to the Listing Rules |
| “China” or “PRC” | the People’s Republic of China and for the purposes of this announcement only, except where the context requires otherwise, references to China or the PRC exclude Hong Kong, the Macau Special Administrative Region and Taiwan |
| “Company” | Huali University Group Limited (华立大学集团有限公司), a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board (stock code: 1756) |
| “consolidated affiliated entities” | the entities the Company controls through the structured contracts as further elaborated in the section headed “Structured Contracts” in the Prospectus, namely Huali Investment, Huali College, Huali Vocational College and Huali Technician College, and each a “consolidated affiliated entity” |
| “Controlling Shareholder(s)” | has the meaning as defined in the Listing Rules and, unless the context otherwise requires, refers to Mr. Zhang, Trust Co and Huali Education |
| “Director(s)” | the director(s) of the Company |

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|--|--|
| “Equity Pledge Agreement” | The Equity Pledge Agreement entered into by and among the Registered Shareholder, XZ Huali and Huali Investment dated August 30, 2018 |
| “Exclusive Call Option Agreement” | the Exclusive Call Option Agreement entered into by and among the Registered Shareholder, Huali Investment, the PRC Operating Entities and XZ Huali dated March 23, 2017 and August 30, 2018 |
| “Exclusive Technical Service and Management Consultancy Agreement” | the Exclusive Technical Service and Management Consultancy Agreement entered into by and among XZ Huali, Huali Investment and the PRC Operating Entities dated March 23, 2017 (supplemented on August 30, 2018) |
| “Group”, “We”, “us”, or “our” | the Company, its subsidiaries and its consolidated affiliated entities |
| “Hong Kong” | the Hong Kong Special Administrative Region of the PRC |
| “Hong Kong dollars” or “HK\$” | Hong Kong dollars, the lawful currency of Hong Kong |
| “Huali College” | Guangzhou Huali College (廣州華立學院) (formerly known as Huali College Guangdong University of Technology (廣東工業大學華立學院)), a private independent college established under the laws of the PRC on January 1, 2006, was converted into an independently established private general undergraduate college with the official approval by MOE in May 2021, and a consolidated affiliated entity of the Company |
| “Huali Education” | Huali Education Holdings Limited, a limited liability company incorporated in BVI and wholly owned by Trust Co |
| “Huali (HK) Education” | Huali (HK) Education Investment Limited (香港華立教育投資有限公司), a limited liability company incorporated in Hong Kong on May 18, 2016 and an indirect wholly owned subsidiary of the Company |
| “Huali Investment” | Guangzhou Huali Investment Company Limited (廣州華立投資有限公司), being the School Sponsor of each of the PRC Operating Entities, a company established in the PRC with limited liability on June 15, 1999 and a consolidated entity of the Company |
| “Huali Property” | Guangdong Huali Property Company Limited (廣東華立地產集團有限公司), a company with limited liability established under the laws of the PRC on July 1, 2008 and held as to 99% by Mr. Zhang and as to 1% by an independent third party, and which is not a member of the Group |

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|----------------------------|---|
| “Huali Shengrong” | Guangzhou Huali Shengrong Education Technology Company Limited (廣州華立盛榮教育科技有限公司), a wholly foreign-owned enterprise with limited liability established under the laws of the PRC on December 27, 2016, which is wholly owned by Huali (HK) Education |
| “Huali Technician College” | Guangdong Province Huali Technician College (廣東省華立技師學院), a private tertiary vocational school established under the laws of the PRC on August 20, 2003, of which the School Sponsor’s interest is wholly owned by Huali Investment, and a consolidated affiliated entity of the Company |
| “Huali Vocational College” | Guangzhou Huali Science and Technology Vocational College (廣州華立科技職業學院), a formal higher education institution established under the laws of the PRC on July 19, 2005, of which the school sponsor’s interest is wholly owned by Huali Investment, and a consolidated affiliated entity of the Company |
| “Hualiyuan Technology” | Guangdong Hualiyuan Technology Company Limited (廣東華立園科技有限公司), a company with limited liability established under the laws of the PRC on January 6, 2004 held as to 99% by Mr. Zhang and as to 1% by Huali Property, and which is not a member of the Group |
| “Implementation Rules” | the Regulations of the Implementation Rules for the Law for Promoting Private Education of the PRC 《中華人民共和國民辦教育促進法實施條例》 issued by the State Council on April 7, 2021, and effective from September 1, 2021 |
| “Listing” | the listing of the Shares on the Main Board on the Listing Date |
| “Listing Date” | November 25, 2019, the date on which the Shares were listed and on which dealings in the Shares were first permitted to take place on the Main Board |
| “Listing Rules” | The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time |
| “Main Board” | the Main Board of the Stock Exchange |
| “Model Code” | the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules |

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| “MOE” | the Ministry of Education of the PRC (中華人民共和國教育部) |
| “Mr. Zhang” | Mr. Zhang Zhifeng, chairman of the Board, executive Director and one of our controlling shareholders |
| “Mu” | the Chinese urban land area unit, whereby a mu equals to approximately 666.67 square meters |
| “PRC Operating Entities” | the Company’s consolidated affiliated entities, namely, Huali College, Huali Vocational College and Huali Technician College |
| “Prospectus” | the prospectus of the Company dated November 14, 2019 |
| “Registered Shareholder” | Mr. Zhang, the sole shareholder of Huali Investment |
| “Registered Shareholder’s Right Entrustment Agreement and Registered Shareholder’s Power of Attorney” | the Registered Shareholder’s Right Entrustment Agreement and Registered Shareholder’s Power of Attorney entered into by and among Huali Investment, the Registered Shareholder and XZ Huali in favor of XZ Huali dated September 19, 2017 (supplemented on August 30, 2018) |
| “Reporting Period” | the year ended August 31, 2021 |
| “RMB” or “Renminbi” | Renminbi, the lawful currency of the PRC |
| “School Directors” | the directors nominated by Huali Investment to each of our PRC Operating Entities |
| “School Directors’ Power of Attorney” | the School Directors’ Power of Attorney executed by each of the School Directors in favor of XZ Huali dated March 23, 2017 (supplemented on August 30, 2018, September 28, 2018, April 23, 2019, July 22, 2019, October 10, 2019 and January 17, 2020) |
| “School Sponsor(s)” | the individual(s) or entity(ies) that funds or holds interests in an educational institution |
| “School Sponsor’s and Directors’ Rights Entrustment Agreement” | the School Sponsor’s and Directors’ Rights Entrustment Agreement entered into by and among Huali Investment, the School Directors and XZ Huali dated March 23, 2017 (supplemented on August 30, 2018, September 28, 2018, April 23, 2019, July 22, 2019, October 10, 2019 and July 20, 2020) |
| “School Sponsor’s Power of Attorney” | the School Sponsor’s Power of Attorney executed by Huali Investment in favor of XZ Huali dated March 23, 2017 |

| | |
|------------------------|--|
| “SFO” | the securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time |
| “Shareholder(s)” | holder(s) of the Share(s) |
| “Shares” | ordinary shares in the Company of par value US\$0.0001 each |
| “South China” | Guangdong Province, Guangxi Province and Hainan Province of the PRC |
| “Spouse Undertaking” | the Spouse Undertaking executed by the spouse of the Registered Shareholder dated March 23, 2017 (supplemented on August 30, 2018) |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited |
| “Structured Contracts” | collectively, the Business Cooperation Agreement, the Exclusive Technical Service and Management Consultancy Agreement, the Exclusive Call Option Agreement, the Equity Pledge Agreement, the School Sponsor’s and Directors’ Rights Entrustment Agreement, the School Sponsor’s Power of Attorney, the School Directors’ Power of Attorney, the Spouse Undertaking, the Registered Shareholder’s Right Entrustment Agreement and the Registered Shareholder’s Power of Attorney |
| “subsidiary(ies)” | has the meaning ascribed thereto in section 15 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) |
| “Trust Co” | Huali-Diamond Limited, a holding vehicle incorporated in BVI indirectly controlled by UBS Trustee (B.V.I.) Limited, the trustee of HL-Diamond Trust, to hold the entire issued share capital of Huali Education |
| “US\$” | United States dollars, the lawful currency of the United States |
| “XZ Huali” | Xizang Huali Shengda Information Technology Limited (西藏華立盛大信息科技有限公司), an enterprise established under the laws of PRC on January 18, 2017, which is a wholly owned subsidiary of Huali Shengrong |
| “%” | per cent |

The English names of the PRC entities (including schools), PRC laws or regulations, and the PRC government authorities referred to in this report are merely translations from their Chinese names and are for identification purposes. If there is any inconsistency, the Chinese names shall prevail.

By order of the Board
Huali University Group Limited
Zhang Zhifeng
Chairman

Hong Kong, November 19, 2021

As at the date of this announcement, the executive Directors are Mr. Zhang Zhifeng, Mr. Ye Yaming, Mr. Zhang Yude and Mr. Zou Kang; and the independent non-executive Directors are Ms. Chiu Lai Kuen Susanna, M.H., J.P., Mr. Yang Ying and Mr. Ding Yi.