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China Kepei Education Group Limited

中國科培教育集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1890)

ANNUAL RESULTS ANNOUNCEMENT FOR THE EIGHT MONTHS ENDED 31 AUGUST 2021

ANNUAL RESULTS HIGHLIGHTS

The Board has resolved to recommend the payment of a final dividend of HK\$0.06 per share for the eight months ended 31 August 2021.

On 31 August 2021, the Company announced the change of its financial year-end date from 31 December to 31 August so as to align the financial year of the Group with the academic year of the schools operated by the Group in the PRC, which ends in August each year.

	Eight months ended 31 August 2021 RMB'000	Year ended 31 December 2020 RMB'000
Revenue	671,295	867,251
Gross profit	424,274	606,057
Profit for the period/year	272,152	564,790
Core net profit**	298,840	608,054
Adjusted EBITDA*	455,747	693,659

	2020/2021 School Year***	2019/2020 School Year***	Change	Percentage Change (%)
Number of students enrolled	104,696	81,291	23,405	+28.8

Note 1 : As of the date of this announcement, the number of enrolled students is approximately 123,010, hitting another record high and further strengthening the Group's position as a leading provider of private vocational education in China and contributing to the establishment of a skill-based society.

* Adjusted EBITDA is defined as to earnings before interest, income tax expenses, depreciation and amortisation after adjusting for the item which is not indicative of the Group's operating performance.

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

*** A school year generally starts from 1 September of each calendar year to 31 August of the following calendar year.

The annual results covered a period of eight months from 1 January 2021 to 31 August 2021. To provide meaningful comparative information, the Group prepared pro forma financial information covering the twelve-month period ended 31 August 2021 and 31 August 2020 (the “**Pro Forma Period**”), and such pro forma figures are detailed in the following table and have not been audited.

	Year ended 31 August		Change <i>RMB'000</i>	Percentage Change <i>(%)</i>
	2021 (Pro forma) <i>RMB'000</i>	2020 (Pro forma) <i>RMB'000</i>		
Revenue	1,119,626	773,852	345,774	+44.7
Cost of sales	350,575	255,686	94,889	+37.1
Gross profit	769,051	518,166	250,885	+48.4
Profit before tax	633,407	481,759	151,648	+31.5
Profit for the year	592,938	484,691	108,247	+22.3
Core net profit**	657,545	499,475	158,070	+31.6
Adjusted EBITDA*	847,313	582,867	264,446	+45.4

Note: The pro forma financial information for the twelve months ended 31 August 2021 is comprised of: (1) the financial results for the period from 1 September 2020 to 31 December 2020, which is derived from the 2020 annual financial results after deduction of the unaudited financial results for the eight months from 1 January to 31 August 2020; and (2) the eight-month financial results derived from the audited annual financial results for the eight months ended 31 August 2021.

The pro forma financial information for the twelve months ended 31 August 2020 is comprised of: (1) the financial results for the period from 1 September 2019 to 31 December 2019, which is derived from the 2019 annual financial results after deduction of the unaudited financial results for the eight months from 1 January to 31 August 2019; and (2) the unaudited financial results for the eight months from 1 January 2020 to 31 August 2020.

The board (the “**Board**”) of directors (the “**Directors**”) of China Kepei Education Group Limited (the “**Company**”) is pleased to announce the consolidated annual results of the Company and its subsidiaries (the “**Group**”) for the eight months ended 31 August 2021 (the “**Reporting Period**”) together with the comparative figures for the year ended 31 December 2020 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the eight months ended 31 August 2021

	<i>Notes</i>	Eight months ended 31 August 2021 RMB'000	Year ended 31 December 2020 RMB'000
Revenue	3	671,295	867,251
Cost of sales		<u>(247,021)</u>	<u>(261,194)</u>
Gross profit		424,274	606,057
Other income and gains	3	45,529	128,928
Selling and distribution expenses		(23,533)	(22,892)
Administrative expenses		(100,165)	(111,486)
Other expenses		(1,370)	(24,316)
Finance costs	4	(29,222)	(8,875)
Share of losses of:			
A joint venture		(421)	(118)
An associate		(2,676)	(5,452)
PROFIT BEFORE TAX	8	312,416	561,846
Income tax (expense)/credit	5	(40,264)	2,944
PROFIT FOR THE PERIOD/YEAR		<u>272,152</u>	<u>564,790</u>
Attributable to:			
Owners of the parent		<u>272,152</u>	<u>564,790</u>
Earnings per share attributable to ordinary equity holders of the parent	7		
Basic			
– For profit for the period/year		<u>RMB0.1360</u>	<u>RMB0.2823</u>
Diluted			
– For profit for the period/year		<u>RMB0.1354</u>	<u>RMB0.2821</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the eight months ended 31 August 2021

	Eight months ended 31 August 2021 RMB'000	Year ended 31 December 2020 RMB'000
PROFIT FOR THE PERIOD/YEAR	<u>272,152</u>	<u>564,790</u>
OTHER COMPREHENSIVE LOSS		
Other comprehensive loss that will not be reclassified to profit or loss in subsequent periods:		
Equity investment designated at fair value through other comprehensive income:		
Changes in fair value	<u>(38,023)</u>	<u>(16,783)</u>
Net other comprehensive loss that will not be reclassified to profit or loss in subsequent periods	<u>(38,023)</u>	<u>(16,783)</u>
OTHER COMPREHENSIVE LOSS FOR THE PERIOD/YEAR	<u>(38,023)</u>	<u>(16,783)</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD/YEAR	<u>234,129</u>	<u>548,007</u>
Attributable to:		
Owners of the parent	<u>234,129</u>	<u>548,007</u>

Note: As a result of the change of financial year-end date from 31 December to 31 August, the annual results covered a period of eight months from 1 January 2021 to 31 August 2021. The corresponding comparative amounts shown in consolidated statement of profit or loss and consolidated statement of comprehensive income covered a period of twelve months from 1 January 2020 to 31 December 2020.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION*As at 31 August 2021*

	<i>Notes</i>	31 August 2021 RMB'000	31 December 2020 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		2,992,446	1,712,392
Right-of-use assets		768,614	201,483
Goodwill		692,121	–
Other intangible assets		401,251	–
Investment in a joint venture		–	2,052
Investment in an associate		–	136,243
An equity investment designated at fair value through other comprehensive income		7,847	45,870
Prepayments, other receivables and other assets		324,439	454,885
Time deposits		25,000	–
Deferred tax assets		–	4,762
		<hr/>	<hr/>
Total non-current assets		5,211,718	2,557,687
CURRENT ASSETS			
Trade receivables	9	43,420	34,128
Prepayments, other receivables and other assets		149,251	212,221
Financial assets at fair value through profit or loss		63,714	59,833
Amounts due from an associate		–	158,329
Time deposits		50,000	100,000
Cash and cash equivalents		1,228,699	1,294,204
		<hr/>	<hr/>
Total current assets		1,535,084	1,858,715
CURRENT LIABILITIES			
Contract liabilities		330,147	524,366
Other payables and accruals	10	1,498,048	170,406
Dividend payable		164,295	–
Interest-bearing bank and other borrowings		810,779	265,015
Lease liabilities		1,666	1,609
Tax payable		2,850	2,850
Deferred income		1,514	996
		<hr/>	<hr/>
Total current liabilities		2,809,299	965,242
NET CURRENT (LIABILITIES)/ASSETS		(1,274,215)	893,473
TOTAL ASSETS LESS CURRENT LIABILITIES		3,937,503	3,451,160

	31 August 2021 RMB'000	31 December 2020 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>3,937,503</u>	<u>3,451,160</u>
NON-CURRENT LIABILITIES		
Interest-bearing bank and other borrowings	645,294	262,258
Lease liabilities	6,315	7,434
Deferred tax liabilities	35,502	–
Deferred income	<u>9,983</u>	<u>7,741</u>
Total non-current liabilities	<u>697,094</u>	<u>277,433</u>
Net assets	<u><u>3,240,409</u></u>	<u><u>3,173,727</u></u>
EQUITY		
Equity attributable to owners of the parent		
Share capital	137	137
Reserves	<u>3,240,272</u>	<u>3,173,590</u>
Total equity	<u><u>3,240,409</u></u>	<u><u>3,173,727</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

China Kepei Education Group Limited was incorporated in the Cayman Islands on 24 August 2017 as an exempted company with limited liability under the Companies Law of the Cayman Islands. The address of the registered office of the Company is P.O. Box 309, Uglan House, Grand Cayman, KY1-1104, Cayman Islands. The Company was listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 25 January 2019.

The principal activity of the Company is investment holding. The Company and its subsidiaries principally engages in providing private higher education services in the People’s Republic of China (the “**PRC**”).

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“**HKASs**”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”), the accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for certain financial instruments which have been measured at fair value. These financial statements are presented in Renminbi (“**RMB**”) and all values are rounded to the nearest thousand except when otherwise indicated.

The Group has prepared the financial statements on the basis of going concern. The Group recorded net current liabilities of RMB1,274,215,000 as at 31 August 2021. Included therein were the contract liabilities of RMB330,147,000 as at 31 August 2021, which will be settled by education services to be provided by the Group. In view of the net current liabilities position, the Directors have given a careful consideration to the future liquidity and performance of the Group and its available sources of finance when assessing whether the Group will have sufficient financial resources to continue as a going concern and meet its liabilities as and when they fall due in the foreseeable future.

The Directors have prepared a cashflow forecast for the Group which covers a period of twelve months from the end of the reporting period. Taking into account the positive cashflow from operation, adequate loan facilities from reputable financial institutions and the ability of management in adjusting the pace of its operation expansion, the Directors consider that the Group will have sufficient working capital to finance its operations and meet its financial obligations as and when they fall due. Therefore, there are no material uncertainties that may cast significant doubt over the going concern assumption and the Directors have formed a judgement that there is a reasonable expectation that the Group has adequate resources to operate for the foreseeable future.

As set out in the announcement of the Company issued on 31 August 2021, the financial year end date of the Company and the Group has been changed from 31 December to 31 August to align the financial year end date of the Group with the academic year of the schools operated by the Group in the PRC, which ends in August each year. Accordingly, the current accounting period covers a period of eight months from 1 January 2021 to 31 August 2021. The corresponding comparative amounts shown for the consolidated statement of profit or loss, consolidated statement of comprehensive income and related notes cover a period of twelve months from 1 January 2020 to 31 December 2020 are therefore not entirely comparable with those of the current period.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised HKFRSs for the first time for the current period’s financial statements.

Amendments to HKFRS 9, HKAS 39,
HKFRS 7, HKFRS 4 and HKFRS 16
Amendment to HKFRS 16

Interest Rate Benchmark Reform – Phase 2

*Covid-19-Related Rent Concessions beyond 30 June 2021
(early adopted)*

3. REVENUE, OTHER INCOME AND GAINS

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

	<i>Notes</i>	Eight months ended 31 August 2021 RMB'000	Year ended 31 December 2020 RMB'000
<u>Revenue</u>			
<i>Revenue from contracts with customers</i>			
Tuition fees	<i>(a)</i>	625,099	820,155
Boarding fees	<i>(a)</i>	40,538	37,019
Other education service fees	<i>(b)</i>	5,658	10,077
		671,295	867,251
<u>Other income and gains</u>			
Management service income	<i>(c)</i>	5,189	91,079
Bank interest income		9,169	11,682
Interest income on loans to an associate	<i>(d)</i>	3,231	8,086
Interest expense on other borrowings	<i>(d)</i>	(3,231)	(8,086)
Dividend income from an equity investment designated at fair value through other comprehensive income		830	1,180
Remeasurement gain of the previously held equity interests in an associate	<i>(e)</i>	12,433	–
Rental income		11,358	8,757
Government grants			
Related to assets		917	733
Related to income		1,752	5,352
Fair value gains, net			
Financial assets at fair value through profit or loss		3,881	10,091
Gain on disposal of items of property, plant and equipment		–	54
		45,529	128,928

- (a) During the period, tuition fees and boarding fees mainly represented income received from the provision of education and boarding services to the students, which was recognised over time, i.e. the academic year of the services rendered.
- (b) During the period, other education service fees mainly represented income received from the provision of other education services including training services to the students, which was amortised over time, i.e. the training periods of the services rendered.
- (c) Pursuant to the share management agreement in relation to the acquisition of Harbin Institute of Petroleum (哈爾濱石油學院), the entire management of Harbin Institute of Petroleum shall be entrusted to a subsidiary of the Company with effect from the effective date of the entrustment until the completion of acquisition. In consideration for the management services provided by the subsidiaries of the Company, the Group shall be entitled to the management service income during the term of the share management agreement. On 29 March 2021, the Group completed the acquisition of Harbin Institute of Petroleum and terminated the share management agreement, and has consolidated the financial results of the school into the Group since then.

- (d) During the Reporting Period, pursuant to an agreement entered into between the Group and Huaibei Kepei Education Investment Development Company Limited# (淮北科培教育投資開發有限公司) (“**Huaibei Kepei**”), Huaibei Kepei would reimburse the interest expenses incurred by the Group in respect of certain other borrowings.
- (e) On 31 March 2021, the Group obtained control of Huaibei Kepei which was previously recorded as an associated. According, the previously held equity interests in Huaibei Kepei were remeasured at fair value on that day at RMB146,000,000, which resulting a remeasurement gain of RMB12,433,000 recognised in profit or loss for the current period.

Contract liabilities

The Group receives tuition and boarding fees from students in advance prior to the beginning of each academic year. The performance obligation is satisfied proportionately over the relevant period of the applicable program. The students are entitled to refunds of the payments in relation to the proportionate services not yet provided.

Significant changes in the contract liability balances during the period/year are as follows:

	Eight months ended 31 August 2021 RMB'000	Year ended 31 December 2020 RMB'000
At the beginning of the period/year	524,366	411,870
Revenue recognised that was included in the balance of contract liabilities at the beginning of the period/year	(524,366)	(400,084)
Increases due to cash received, excluding amounts recognised as revenue during the period/year	330,147	524,366
Transfer to refund liabilities	-	(11,786)
	<u>330,147</u>	<u>524,366</u>
At the end of the period/year	<u>330,147</u>	<u>524,366</u>

Revenue recognised in relation to contract liabilities

The following table shows the amounts of revenue recognised in the current period that were included in the contract liabilities at the beginning of the Reporting Period:

	Eight months ended 31 August 2021 RMB'000	Year ended 31 December 2020 RMB'000
Revenue recognised that was included in the balance of contract liabilities at the beginning of the period/year		
Tuition fees	484,901	382,295
Boarding fees	39,465	17,789
	<u>524,366</u>	<u>400,084</u>

Unsatisfied performance obligations

The amounts of transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 August 2021 are as follows:

	31 August 2021 RMB'000	31 December 2020 RMB'000
Expected to be recognised as revenue within one year:		
Tuition fees	304,650	484,901
Boarding fees	25,497	39,465
	330,147	524,366

The amounts of transaction prices associated with unsatisfied or partially unsatisfied performance obligations do not include variable consideration which is constrained.

There were no contract assets at the end of the Reporting Period recognised in the consolidated statement of financial position.

4. FINANCE COSTS

	Eight months ended 31 August 2021 RMB'000	Year ended 31 December 2020 RMB'000
Interest on lease liabilities	307	532
Interest on bank and other borrowings	33,112	13,823
Total interest expense on financial liabilities not at fair value through profit or loss	33,419	14,355
Interest capitalised	(4,197)	(5,480)
	29,222	8,875

5. INCOME TAX

	Eight months ended 31 August 2021 RMB'000	Year ended 31 December 2020 RMB'000
Current – Mainland China	–	1,818
Deferred	<u>40,264</u>	<u>(4,762)</u>
Total tax charge/(credit) for the period/year	<u><u>40,264</u></u>	<u><u>(2,944)</u></u>

6. DIVIDENDS

	Eight months ended 31 August 2021 RMB'000	Year ended 31 December 2020 RMB'000
Proposed final dividend – HK\$0.06 per ordinary share (year ended 31 December 2020: HK\$0.12)	<u><u>99,427</u></u>	<u><u>199,715</u></u>

The proposed final dividend of HK\$0.06 per share for the eight months ended 31 August 2021 is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

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

The calculation of the basic earnings per share amounts is based on the profit for the period/year attributable to ordinary equity holders of the parent, and the adjusted weighted average number of ordinary shares of 2,000,917,597 (year ended 31 December 2020: 2,000,798,667) in issue during the period/year, which reflects the ordinary shares held for the restricted share award scheme (the “**Restricted Shares**”) of the Company (the “**Restricted Share Award Scheme**”) during the period/year.

The calculation of the diluted earnings per share amounts is based on the profit for the period/year attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the period/year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed conversion of all dilutive potential ordinary shares into ordinary shares.

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

	Eight months ended 31 August 2021 RMB'000	Year ended 31 December 2020 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent company, used in the basic and diluted earnings per share calculations	<u>272,152</u>	<u>564,790</u>
Number of shares		
	Eight months ended 31 August 2021	Year ended 31 December 2020
Shares		
Number of ordinary shares in issue on 1 January	2,015,248,667	2,000,798,667
Weighted average number of shares issued	–	5,053,552
Weighted average number of ordinary shares held for the Restricted Share Award Scheme	<u>(14,331,070)</u>	<u>(5,053,552)</u>
Weighted average number of ordinary shares in issue during the period/year used in the basic earnings per share calculation	<u>2,000,917,597</u>	<u>2,000,798,667</u>
Effect of dilution – weighted average number of ordinary shares: Restricted Shares under the Restricted Share Award Scheme	<u>9,407,673</u>	<u>1,513,286</u>
Weighted average number of ordinary shares in issue during the period/year used in the diluted earnings per share calculation	<u>2,010,325,270</u>	<u>2,002,311,953</u>

8. PROFIT BEFORE TAX

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

	<i>Notes</i>	Eight months ended 31 August 2021 RMB'000	Year ended 31 December 2020 RMB'000
Employee benefit expense (excluding directors' and chief executive's remuneration):			
Wages and salaries		123,791	133,391
Pension scheme contributions		15,600	12,238
Equity-settled restricted share award expense		19,382	11,007
		158,773	156,636
Depreciation of property, plant and equipment		70,167	73,269
Depreciation of right-of-use assets		6,596	6,405
Amortisation of other intangible assets		3,860	–
Impairment of trade receivables*	9	1,237	2,523
Remeasurement gain of previously held equity interests in an associate	3	(12,433)	–
Remeasurement loss of the previously held equity interests in a joint venture		142	–
Gain on disposal of items of property, plant and equipment	3	–	(54)
Auditor's remuneration		3,880	3,360
Exchange loss, net**		1,218	24,216
Fair value gains, net			
Financial assets at fair value through profit or loss	3	(3,881)	(10,091)
Dividend income from an equity investment at fair value through other comprehensive income	3	(830)	(1,180)
Bank interest income	3	(9,169)	(11,682)

* The provision for expected credit losses on trade receivables is included in administrative expenses in the consolidated statement of profit or loss.

** The exchange loss is included in other expenses in the consolidated statement of profit or loss.

9. TRADE RECEIVABLES

	31 August 2021 RMB'000	31 December 2020 RMB'000
Tuition fees and boarding fees receivables	51,385	41,346
Impairment	<u>(7,965)</u>	<u>(7,218)</u>
	<u>43,420</u>	<u>34,128</u>

The Group's students are required to pay tuition fees and boarding fees in advance for the upcoming school year, which normally commences in September. The outstanding receivables represent amounts due from students who have applied for deferred payments of tuition fees and boarding fees. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of individual students, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

An ageing analysis of the trade receivables as at the end of the Reporting Period, based on the transaction date and net of loss allowance, is as follows:

	31 August 2021 RMB'000	31 December 2020 RMB'000
Within 1 year	29,983	24,051
1 to 2 years	4,895	5,453
2 to 3 years	6,599	2,496
Over 3 years	<u>1,943</u>	<u>2,128</u>
	<u>43,420</u>	<u>34,128</u>

The movements in the loss allowance for impairment of trade receivables are as follows:

	31 August 2021 RMB'000	31 December 2020 RMB'000
At beginning of period/year	7,218	5,142
Impairment losses	1,237	2,523
Amount written off as uncollectible	<u>(490)</u>	<u>(447)</u>
At end of period/year	<u>7,965</u>	<u>7,218</u>

10. OTHER PAYABLES AND ACCRUALS

	31 August 2021 RMB'000	31 December 2020 RMB'000
Payables for salaries	17,753	24,272
Payables for social insurance and housing fund	31,318	23,534
Payables for scholarships and needy student fund	38,428	7,381
Payables for cooperative education fees	7	88
Payables for purchase of property, plant and equipment	280,662	44,662
Miscellaneous expenses received from students*	38,666	34,577
Other tax payable	12,951	9,565
Accrued interest	7,748	1,000
Payables for acquisition of subsidiaries	807,640	–
Other borrowings	223,004	–
Others	39,871	25,327
	<u>1,498,048</u>	<u>170,406</u>

* The amount represents the miscellaneous expenses received from students which will be paid out on behalf of students.

Other payables and accruals are non-interest-bearing and expected to be settled within one year.

MANAGEMENT DISCUSSION AND ANALYSIS

Market Overview

The Group is the largest vocational education group in the Pearl River Delta and Yangtze River Delta, the two most important economic regions in China. During Reporting Period, the State Council introduced a number of favorable policies to promote vocational education. On 12 October 2021, the Central Committee of the Communist Party of China and the State Council of the People’s Republic of China issued the “Opinions on Promoting High-Quality Development of Modern Vocational Education” (《關於推動現代職業教育高質量發展的意見》) (the “**Policy**”) and gave a notice requiring the implementation thereof by all government units across China. There are numbers of favorable measures under the Policy to promote the development of vocational education, include but not limit to, encourage listed companies and industry-leading enterprises to operate vocational education, encourage vocational universities to enroll more graduates from secondary and higher vocational schools, encourage vocational schools and enterprises to jointly operate and develop industrial colleges, encourage vocational schools to cooperate with social capitals to build vocational education infrastructure and provide incentives treatment including financing, governmental funding, land and credit to the operators of vocational education. Pursuant to the Policy, vocational education has a promising future and great market potential. The Policy also sets a goal that vocational education in China should be ranked among the best globally by 2035. During the period of “13th Five-Year Plan” (2016-2020), the gross enrollment rate of higher education in China increased from 40.0% to 54.4%, achieving a widespread stage and popularization of higher education. According to the “14th Five-Year Plan” (2021-2025), the gross enrollment rate of higher education is targeted to improve to 60.0% in 2025.

The education businesses of the Group cover all modern vocational education system, including the secondary level vocational program, higher level vocational program and undergraduate level vocational program (including application-oriented undergraduate program and college level program). The education businesses provided by the Group in all schools in China will be benefited from the Policy as well as the continuous increase of gross enrollment rate. The Company believes that the businesses of the Group are conducive to the regulatory guidance of the Policy and the realization of the country’s strategic education goals of accelerating the establishment of a modern vocational education system to cultivate more technical and skilled talents. The Group will continue to devote itself to the development of vocational education, enhance its teaching quality, create and offer high-quality vocational education opportunities for more students and cultivate technical and skilled talents to meet the local demands, making proactive contribution to economic and social developments of China and thus fulfilling the Group’s mission and social responsibilities.

Business Overview

Since the establishment of our first school, Zhaoqing Science and Technology Secondary Vocational School (“**Zhaoqing School**”) in 2000, the Group has always adhered to the leadership of the Party and the correct direction of operating schools, and strived to strengthen moral education and cultivate talents. Our mission is to build a skills-based society, cultivate more high-quality technological talents, and provide powerful talents with skills in contributing to the comprehensive construction of a modern socialist country. While expanding the scale of schools, we have always adhered to high-quality development as the direction of operating schools, focusing on the training of skilled talents.

Our schools are mainly located in the advanced manufacturing centers of the Pearl River Delta and the Yangtze River Delta. We have been committed to delivering skilled talents to outstanding enterprises in the regions. We are the first private school to invest in the construction of experimental training rooms, and we have always invested heavily in experimental training. In the past three years, the Group invested RMB280 million in aggregate in establishing high-standard experimental training bases and purchasing advanced training equipment, with more than 500 laboratories constructed for various disciplines. We have established experimental training bases with more than 500 enterprises in the Pearl River Delta and the Yangtze River Delta Region. This year, Guangdong Polytechnic College has seven industry-university cooperation projects being selected into the approval list of the first batch of industry-university cooperation collaborative education projects issued by the Department of Higher Education of the Ministry of Education. Guangdong Polytechnic College is also one of the first batch of private schools in Guangdong Province awarded the title of National Mass Innovation Space. We have always adhered to constructing experimental training rooms and training bases required for meeting the high-quality development of modern vocational education with heavy investments and high standards, closely aligning with industrial upgrading and technological change trends, and cultivating professional technical talents in line with the development of local economy and industrial upgrading.

We are highly concerned about student development, and pay attention to the construction of a double-qualified teacher team. In the past three years, we provided more than 60,000 employment and job options for 30,000 fresh graduates in total. Even in the case of recurrent epidemics, we still actively organized various offline and online job fairs and mutual selection sessions, and put emphasis on the employment quality of students. Our employment rate has been among the highest in the province for many consecutive years. In addition to employment, we also provide free postgraduate entrance examination books for postgraduate students, and provide sufficient guidance to help students fulfill their dreams of receiving higher education. The postgraduate entrance examination rate of Harbin Institute of Petroleum and Maanshan College exceeded 15%, ranking among the top three of the private schools in the province. In response to the State's call for enrollment expansion of higher vocational education, we actively organized training courses on adaptability for veterans, with a total of more than 1,000 people were trained, and provided one-stop training and employment services for veterans. In terms of teachers team building, we have established a teaching quality evaluation system for double-qualified teachers, and increased teachers' remunerations. We have offered a total of more than 100 teachers with free overseas doctoral study opportunities, and provided a total of approximately 300 employee low-cost rental units to outstanding teachers to help them settle down and purchase properties.

We care for the society and organize multi-level activities to enhance students' sense of patriotism and social responsibility. Since the establishment of our schools, we have attached a great importance to the construction of grassroot organizations of the Party. On the centenary of the establishment of the Party, we organized a number of Party history learning and discussion sessions to enhance students' patriotic consciousness. We actively carried out Party building activities such as visiting old Party members and the people in need, and "take the red road again". In terms of caring for the community, we visited and expressed our solicitude to the elderly in nursing homes many times, carried out voluntary blood donation in the community, and popularized common sense of epidemic prevention and control. We are committed to cultivating highly skilled talents with a sense of social responsibility who love the country and the Party.

The Group is a leading provider of private vocational education services in China focusing on profession-oriented education. During the Reporting Period, the Group has actively expanded its school networks, improved education quality and achieved steadily-improved operating performance and solid growth. The Group further expanded its school network to Anhui Province with newly acquired and entrusted schools, namely Huaibei Polytechnic College and Maanshan College. Currently, the Group operates five schools in three provinces in China. As of 31 August 2021, the Group had an aggregate of 104,696 students enrolled at the schools we operated, namely, Guangdong Polytechnic College, Zhaoqing School, Harbin Institute of Petroleum# (哈爾濱石油學院), Huaibei Polytechnic College and Maanshan College.

Market Position

With over 21 years' experience in operating vocational education institutions in China, the Group is a leading provider of private vocational education services in China. According to the market research, Guangdong Polytechnic College ranked first among the private higher education institutions (excluding independent colleges) in South China in terms of the number of newly admitted students and student enrollment. Zhaoqing School ranked first in terms of student enrollment among the private specialized secondary vocational schools in Guangdong Province.

The Group is committed to providing students with high-quality profession-oriented and vocational education and helping them to meet the growing and changing market demands. The Group is primarily focused on engineering majors to better capture local employment demands balanced with economics, management, education and art majors to offer well-rounded education services. It endeavors to provide students with various profession-oriented training and internship opportunities in collaboration with research institutions and enterprises, which fosters practical skills and market competitiveness of the students.

Completion of Acquisition of Harbin Institute of Petroleum

On 29 March 2021, Tibet Kepei Information Technology Co., Ltd.# (西藏科培信息科技有限公司) (“**Tibet Kepei**”) and Harbin Institute of Petroleum entered into the Harbin Institute of Petroleum Structured Contracts (as defined in the announcement of the Company dated 29 March 2021), of which the terms and conditions therein are the same as the existing Structured Contracts in all material aspects, pursuant to which Harbin Institute of Petroleum became an entity controlled by the Company, and its financial results was consolidated into the accounts of the Group. For more details, please refer to the announcement of the Company dated 29 March 2021.

Acquisition of Huaibei Polytechnic College

On 29 March 2021, Zhaoqing Kepei Education Investment Development Co., Ltd.# (肇慶市科培教育投資開發有限公司) (“**Zhaoqing Kepei**”) entered into the equity transfer agreements with Zhaoqing Gaoyao District Xincheng Education Investment Development Company Limited# (肇慶高要區信誠教育投資開發有限公司) and Zhaoqing Gaoyao District Deshang Education Investment Development Company Limited# (肇慶高要區德尚教育投資開發有限公司) to purchase an aggregate of 55% equity interest in Huaibei Kepei, the sole sponsor of Huaibei Polytechnic College, in the aggregate amount of RMB197,340,000 (equivalent to approximately HK\$234,222,846). Zhaoqing Kepei holds 100% equity interest in Huaibei Kepei upon completion of the acquisition. During the Reporting Period, a high-standard campus meeting the needs of the modern vocational and application-oriented undergraduate teaching in the Yangtze River Delta has been put into use, currently capable of serving approximately 10,000 students and can

accommodate up to 20,000 students in the future. Huaibei Polytechnic College has commenced operation in the new campus in September 2021. With the acquisition of Huaibei Polytechnic College, the Group is able to further promote its market position in the Yangtze River Delta in the PRC, thereby generating optimal synergy effect among the schools under the Group.

Acquisition Progress of Maanshan College in Anhui Province

On 15 July 2021, the Group entered into a Sponsorship Transfer Agreement (as defined in the announcement of the Company dated 15 July 2021) with an independent third party to acquire 100% sponsorship interest in Maanshan College.

Maanshan College, formerly known as the Business School of Anhui University of Technology, is a high-quality undergraduate college founded in 2003 with a leading provincial employment rate of 91.0% and student registration rate of 96.1% for the 2020/2021 school year. It is located in Maanshan city, Anhui Province with a total of 9,088 undergraduate students as of 31 August 2021.

The Group entered into an entrustment agreement (the “**Entrustment Agreement**”) with Maanshan College in July 2021, pursuant to which the management rights of Maanshan College shall be entrusted to the Group with effect from the effective date of the Entrustment Agreement until the completion of the acquisition. The acquisition of Maanshan College by the Group is still pending for the approval from the Ministry of Education and registration with the provincial civil affairs authorities. Therefore, Maanshan College was not a consolidated subsidiary of the Group as of the date of this announcement.

The Group believes that the acquisition marks the Group’s further step to expand the school position in Yangtze River Delta in the PRC and increase its market share. The Group sees great growth potential in Maanshan College and have faith to implement effective measures to integrate the Maanshan College into the Group. The Group intends to continue to leverage its leading industry experience to streamline the operation of Maanshan College and enhance its operational performance. The Group intends to implement the Group’s centralized management system to improve operational efficiencies of Maanshan College, increase its school’s capacity, expand its course offerings, and cultivate more technical and skilled talents to serve the regional economic development.

The Schools Operated by the Group

Guangdong Polytechnic College: A degree-granting undergraduate-level education institution established in 2005 which offers undergraduate, junior college and adult education programs. As of 31 August 2021, it has a total of 85,528 students enrolled, consisting of 29,047 undergraduate students, 6,287 junior college students and 50,194 adult college students. It offers 33 undergraduate majors and 26 junior college majors, in a wide range of subject areas. Its core majors include computer science and technology, electrical engineering and automation, electronic information engineering and mechanical design;

Zhaoqing School: A secondary vocational school established in 2000 which provides secondary vocational education in 12 majors, including new energy automobile servicing, childhood healthcare, and electromechanical technology application. As of 31 August 2021, it has a total of 8,504 students enrolled;

Harbin Institute of Petroleum: A degree-granting undergraduate-level education institution established in 2003 and was consolidated by the Company since April 2021. It offers undergraduate and adult education programs. As of 31 August 2021, it has a total of 10,664 students, including 9,726 undergraduate students and 938 adult college students. It offers 32 undergraduate majors in a wide range of subject areas. Its core majors include mechatronic engineering, computer science and technology, petroleum engineering, internet of things, electronic information engineering; and

Huaibei Polytechnic College: A degree-granting undergraduate-level education institution established in 2003, formerly known as Huaibei Normal University Information College, and was approved by the Ministry of Education for conversion in June 2021 as a private regular undergraduate institution, namely Huaibei Polytechnic College. It offers 11 undergraduate majors in a wide range of subject areas such as electronic and information engineering and e-commerce. Huaibei Polytechnic College has commenced operation in the new campus in September 2021.

Revenue

The Group's revenue was RMB671.3 million for the eight months ended 31 August 2021. The pro forma revenue increased by 44.7% from the pro forma revenue of RMB773.9 million for the year ended 31 August 2020 to RMB1,119.6 million for the year ended 31 August 2021. The Group typically charges students fees comprising tuition fees, boarding fees and other education service fees. Tuition fees remained as the major revenue, accounted for approximately 93.1% of the total revenue of the Group for the eight months ended 31 August 2021.

The table below summarises the amount of revenue generated from tuition fees, boarding fees and other education service fees charged by Guangdong Polytechnic College, Zhaoqing School, Harbin Institute of Petroleum and Huaibei Polytechnic College (collectively, the "PRC Schools") for the periods/year indicated:

	Eight months ended 31 August 2021 RMB'000	Year ended 31 December 2020 RMB'000
Tuition fees		
Undergraduate program	472,643	576,412
Junior college program	62,019	109,102
Adult college program	49,941	62,672
Secondary vocational education	40,496	71,969
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Total tuition fees	625,099	820,155
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Boarding fees	40,538	37,019
Other education service fees	5,658	10,077
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Total	671,295	867,251
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To provide meaningful comparative information of revenue generated from tuition fees, boarding fees and other education service fees charged by the PRC Schools for the 2020/2021 and 2019/2020 school year, the Group prepared pro forma amounts of revenue covering the twelve-month period ended 31 August 2021 and 31 August 2020, and such pro forma amounts are detailed in the following table and have not been audited.

	Year ended 31 August		Change RMB'000	Percentage Change (%)
	2021 (Pro forma) RMB'000	2020 (Pro forma) RMB'000		
Tuition fees				
Undergraduate program	768,021	512,019	256,002	+50.0
Junior college program	110,891	109,723	1,168	+1.1
Adult college program	77,376	54,049	23,327	+43.2
Secondary vocational education	77,878	59,586	18,292	+30.7
	<hr/>	<hr/>	<hr/>	<hr/>
Total tuition fees	1,034,166	735,377	298,789	+40.6
	<hr/>	<hr/>	<hr/>	<hr/>
Boarding fees	72,395	29,580	42,815	+144.7
Other education service fees	13,065	8,895	4,170	+46.9
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Total	1,119,626	773,852	345,774	+44.7
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The increase of the pro forma revenue of the Group for the year ended 31 August 2021 was mainly due to (1) the completion of acquisition of Harbin Institute of Petroleum in March 2021; and (2) the continued increase of the Group's student enrollment and average tuition fee. The boarding fees increased significantly mainly because the students did not return to the campus in the second semester of 2019/2020 school year due to the impact of COVID-19 pandemic and the PRC Schools refunded the boarding fees of RMB26 million to the students for the year ended 31 August 2020 and the increase of the Group's student enrollment and average boarding fee in 2020/2021 school year.

The Group will increase the tuition fee and boarding fee standard for certain programs in the 2021/2022 school year. The following table sets out the tuition fees and boarding fees information for the schools for the school years indicated:

School	Tuition Fees ⁽¹⁾ / School Year		Boarding Fees ⁽¹⁾ / School Year	
	2021/2022 RMB	2020/2021 RMB	2021/2022 RMB	2020/2021 RMB
Consolidated schools				
Guangdong Polytechnic College				
– Undergraduate program ⁽²⁾	29,800	26,800	1,800-6,000	1,800-6,000
– Junior college program ⁽²⁾	18,800	18,800	1,800-6,000	1,800-6,000
– On-campus adult college program	8,000-16,800	7,400-16,800	1,800-2,000	1,800-2,000
– Off-campus adult college program	680-980	680-980	N/A	N/A
Zhaoqing School				
– Secondary vocational education	8,400-12,400	8,000-12,400	1,500	1,380
Harbin Institute of Petroleum				
– Undergraduate program	20,800-24,800	19,800-21,800	1,500-4,000	1,500
– Off-campus adult college program	1,400-2,000	1,400-2,000	N/A	N/A
Huaibei Polytechnic College				
– Undergraduate program	19,800	N/A	1,800	N/A
Non-consolidated school operated under the Entrustment Agreement				
Maanshan College ⁽³⁾				
– Undergraduate program	18,800	14,800-17,800	2,000	1,800

Notes:

- (1) Tuition fees and boarding fees shown above only apply to newly enrolled students in the relevant school years.
- (2) The tuition fees range excluded the “2+2” undergraduate program and junior college program offered by Guangdong Polytechnic College, which was generally charged higher than the ordinary program.
- (3) The Group entered into the Entrustment Agreement with Maanshan College in July 2021. The acquisition of Maanshan College by the Group is still pending for the approval from Ministry of Education and registration with the provincial civil affairs authorities. Therefore, Maanshan College was not a consolidated subsidiary of the Group as of 31 August 2021.

Student enrollment

The following table sets out information relating to the student enrollment for the schools of the Group as of the date indicated:

	Numbers of Students		Change	Percentage
	Enrolled as of 31 August			Change
	2021	2020		(%)
Consolidated schools				
Guangdong Polytechnic College				
– Undergraduate program	29,047	23,823	5,224	+21.9
– Junior college program	6,287	6,833	(546)	(8.0)
– On-campus adult college program	6,794	4,783	2,011	+42.0
– Off-campus adult college program	43,400	28,877	14,523	+50.3
Subtotal	85,528	64,316	21,212	+33.0
Zhaoqing School				
– Secondary vocational program	8,504	7,609	895	+11.8
Harbin Institute of Petroleum				
– Undergraduate program	9,726	9,366	360	+3.8
– Off-campus adult college program	938	N/A	938	N/A
Subtotal	10,664	9,366	1,298	+13.9
Total	104,696	81,291	23,405	+28.8

The student enrollment information was based on the records as of 31 August 2021. As of 31 August 2021, the total number of enrolled students of the Group was 104,696, representing an increase of 28.8% from the enrolled students as of 31 August 2020.

Benefited from the national favorable policies for vocational education and the strong demand from students on quality education, as well as further expansion of the school network of the Group, the student enrollment of the Group has increased significantly to 123,010 students for the 2021/2022 academic year, further improving the capability of the Group in serving the vocational education of China. For more details, please refer to the Company's announcement dated 18 October 2021.

School Utilisation

School utilisation rate is calculated by boarding student enrollment for a particular school year divided by school capacity for such school year. The school capacity is calculated by the number of beds available in student dormitories.

	School Capacity		School Utilisation Rate	
	As of 31 August		As of 31 August	
	2021	2020	2021	2020
Consolidated schools				
Guangdong Polytechnic College	34,386	34,386	94.5%	77.3%
Zhaoqing School	8,116	8,116	93.2%	83.2%
Harbin Institute of Petroleum	9,800	9,440	99.2%	99.2%
Total	<u>52,302</u>	<u>51,942</u>	<u>95.2%</u>	<u>82.2%</u>

In order to meet the strong increase of organic growth, the Group will increase the capacity of Gaoyao campus of Guangdong Polytechnic College by around 3,000 students in the 2021/2022 school year.

Risk Management

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

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

Interest Rate Risk

The Group's exposure to the risk of changes in market interest rates relates primarily to its bank and other borrowings with floating interest rates.

It is the Group's policy to keep certain bank and other borrowings at fixed rates of interest so as to minimise the interest rate risk. The Group currently does not use any derivative contracts to hedge its exposure to interest rate risk. However, the Board will consider hedging significant interest rate risk should the need arise.

Liquidity Risk

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

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

- the Board is responsible and has the general power to manage the Group's operations of the schools, and is in charge of managing the overall risks of the Group. It is responsible for considering, reviewing and approving any significant business decisions involving material risk exposures, such as the Group's decisions to expand its school network into new geographic areas, to raise the tuition fees of the PRC Schools, and to enter into cooperative business relationships with independent third parties to establish new schools;
- the Group maintains insurance coverage, which it believes is in line with customary practice in the PRC education industry, including school liability insurance; and
- the Group has made arrangements with its lenders to ensure that it will be able to obtain credit to support its business operation and expansion.

Environment, Health and Safety

The Group is dedicated to protecting the health and safety of the students. The Group has on-site medical staff or healthcare personnel at each of the PRC Schools to handle routine medical situations involving students. In certain serious and emergency medical situations, the Group promptly sends the students to local hospitals for treatment. In the meanwhile, the Group has adopted a series of strict preventive measures in response to the COVID-19 epidemic to safeguard the health of teachers and students, including strengthening disinfection and cleaning of campuses in time. With respect to school safety, the Group engaged a qualified property management company to provide property security services at the Group's school premises.

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

Future Plans

In strengthening the Group's position as a leading provider of private higher education focusing on vocational education, the Group plans to pursue the following business strategies:

(i) Collaborating with industry leading enterprises to establish industrial colleges

The Policy encourages the vocational schools and industry leading enterprises to jointly develop and manage the industrial colleges. The local government will also introduce preferential measures such as “finance + governmental funding + land + credit” to social capital, encouraging it to cooperate with vocational schools to build vocational education infrastructure. The Group will leverage its extensive school-enterprise relationships in Pearl River Delta and Yangze River Delta regions to develop more industrial colleges in the schools operated by the Group and cultivate more high-quality technical and skilled talents to meet the needs of regional economy. In addition, the Group will actively promote school-enterprise cooperation and industry-education integration to enable the close connection between major settings and industry needs.

(ii) Penetrating into the vocational education school network under asset-light model

The Policy encourages listed companies, industry leading enterprises and other social capitals to actively participate in and operate vocational education. The Group sees a huge market opportunity and great market demands for high-quality school operators in the vocational education. Our teams are actively seeking opportunities to cooperate with vocational schools which are weak operation or management capabilities and lack of employment resources. The Group plans to penetrate into these vocational schools under asset-light model and adopt measures such as cooperation and trusteeship to build a group of excellent vocational schools and high-quality majors, and focus on the delivery of talents with a solid foundation of technical skills and a qualified cultural foundation. With more than 20 years of outstanding experience in operating higher education institutions in China, the Group will help these vocational schools to improve teaching quality, talent training system, employment resources and thus contribute to the development of high-quality modern vocational education system and a skill-based society.

Financial Review

Revenue

Revenue represents the value of services rendered during the Reporting Period. The Group mainly derives revenue from tuition fees and boarding fees its schools collect from students.

Revenue for the eight months ended 31 August 2021 was RMB671.3 million. The pro forma revenue increase RMB345.8 million, or 44.7%, from RMB773.9 million for the year ended 31 August 2020 to RMB1,119.6 million for the year ended 31 August 2021. This increase was primarily the result of: (i) revenue from tuition fees increasing by RMB298.8 million, or 40.6%, from RMB735.4 million for the year ended 31 August 2020 to RMB1,034.2 million for the year ended 31 August 2021; and (ii) revenue from boarding fees increased by RMB42.8 million, or 144.7%, from RMB29.6 million for the year ended 31 August 2020 to RMB72.4 million for the year ended 31 August 2021.

The tuition fees increased mainly because: (i) the increase in the number of student enrollments and average tuition fees of Guangdong Polytechnic College and Zhaoqing School; and (ii) the consolidation of the financial results of Harbin Institute of Petroleum acquired by the Group since April 2021. The boarding fees increased significantly mainly because the students did not return to the campus in the first half of 2020 due to the impact of COVID-19 pandemic and the PRC Schools refunded the boarding fees of RMB26 million to the students for the year ended 31 August 2020 and the increase in the student enrollments and average boarding fees in 2020/2021 school year.

Cost of Sales

Cost of sales consists primarily of staff costs, depreciation and amortisation, utilities, teaching supplies, cost of cooperative education, student study and practice fees, office expenses, training expenses, student subsidies, travel and transportation expenses, cost of repairs, property management fees and others.

Cost of sales was RMB247.0 million for the eight months ended 31 August 2021. The pro forma cost of sales increased by 37.1% from RMB255.7 million for the year ended 31 August 2020 to RMB350.6 million for the year ended 31 August 2021. This increase was primarily the result of: (i) increase in staff costs primarily as a result of the increase in the number of teachers and increased salaries and benefits payable to the Group's teachers; and (ii) the consolidation of the financial results of Harbin Institute of Petroleum acquired by the Group since April 2021.

Gross Profit

The Group's gross profit was RMB424.3 million for the eight months ended 31 August 2021. The pro forma gross profit increased by 48.4% from RMB518.2 million for the year ended 31 August 2020 to RMB769.1 million for the year ended 31 August 2021, which was consistent with the growth of the Group's business.

Other Income and Gains

Other income and gains primarily consist of government grants, interest income from bank deposits, remeasurement gain of the previously held equity interest in an associate, rental income from lease in campus properties and venues to independent third parties, management service income, dividend income and gains relating to change in fair value of financial asset. The Group's other income and gains were RMB45.5 million for the eight months ended 31 August 2021. The pro forma other income and gains increased by 0.2% from RMB98.9 million for the year ended 31 August 2020 to RMB99.1 million for the year ended 31 August 2021. The increase was primarily attributable to (i) the increase of RMB12.4 million in remeasurement gain of the previously held equity interests of an associate in relation to the acquisition of further interest in Huaibei Kepei; (ii) the increases of RMB7.3 million in rental income from lease of campus properties and venues to independent third parties; (iii) the decrease of RMB13.0 million in the management service income from Harbin Institute of Petroleum because the Group did not recognize the management service income after consolidating the financial results of the school since April 2021; and (iv) the decrease of RMB14.6 million in gains relating to change in fair value of financial asset.

Selling and Distribution Expenses

Selling and distribution expenses primarily consist of advertising expenses, student admission expenses and business entertainment expenses. The Group's selling and distribution expenses were RMB23.5 million for the eight months ended 31 August 2021. The pro forma selling and distribution expenses increased by 19.1% from RMB21.3 million for the year ended 31 August 2020 to RMB25.3 million for the year ended 31 August 2021. The selling and distribution expenses of the Group account for approximately 2% of the total revenue, which is generally consistent with historical levels and this increase was primarily due to the consolidation of Harbin Institute of Petroleum since April 2021.

Administrative Expenses

Administrative expenses primarily consist of the administrative staff salaries, share-based payment expenses under restricted share award scheme, office-related expenses, depreciation and amortisation of office buildings, equipment and right of use assets, audit fee, travel expenses and others. The Group's administrative expenses were RMB100.2 million for the eight months ended 31 August 2021. The pro forma administrative expenses increased by 58.2% from RMB93.2 million for the year ended 31 August 2020 to RMB147.4 million for the year ended 31 August 2021. This increase was primarily due to the increase of share-based payment expenses of RMB46.9 million due to the adoption of the Restricted Share Award Scheme since August 2020.

Other Expenses

Other expenses primarily consist of expenses relating to exchange loss and other costs. The Group's other expenses were RMB1.4 million for the eight months ended 31 August 2021. The pro forma other expenses increased by 77.2% from RMB12.7 million for the year ended 31 August 2020 to RMB22.5 million for the year ended 31 August 2021. This increase was primarily due to the increase of exchange loss of RMB9.7 million resulting from the appreciation of RMB against USD in relation to the Group's deposits denominated in USD.

Finance Costs

Finance costs primarily consist of the interest expenses for the interest-bearing bank and other borrowings and lease liabilities. The Group's finance costs were RMB29.2 million for the eight months ended 31 August 2021. The pro forma finance costs increased by 430.7% from RMB6.2 million for the year ended 31 August 2020 to RMB33.0 million for the year ended 31 August 2021, which was mainly due to the increased average interest-bearing bank and other borrowings in response to the establishment of the new campus of Huaibei Polytechnic College and the consideration paid in relation to the acquisition of Harbin Institute of Petroleum.

Core Net Profit

Core net profit was derived from the profit for the period/year after adjusting the expenses related to the share-based payments under restricted share award scheme, remeasurement gain of the previously held equity interests in an associate, additional depreciation and amortisation due to the fair value adjustments to the acquired identifiable assets and foreign exchange gain or expenses, which are not indicatives of the Group's operational performance. This is not a Hong Kong Financial Reporting Standards ("HKFRSs") measure. The Group presents this item because the Group considers it an important supplemental measure of the Group's operational performance used by the Group's management as well as analysts or investors. The following table reconciles from profit for the period/year to core net profit for both financial period/year:

	Eight months ended 31 August 2021 RMB'000	Year ended 31 December 2020 RMB'000
Profit for the period/year	272,152	564,790
Add:		
Additional depreciation and amortisation due to the fair value adjustments to the acquired identifiable assets	5,493	–
Share-based payments under the restricted share award scheme	32,268	19,048
Foreign exchange loss	1,218	24,216
Remeasurement loss of the previously held equity interest in a joint venture	142	–
Less:		
Remeasurement gain of the previously held equity interests in an associate	12,433	–
Core net profit for the period/year	<u>298,840</u>	<u>608,054</u>

To provide meaningful comparative information of core net profit of the Group for the 2020/2021 and 2019/2020 school year, the Group prepared pro forma amounts of core net profit covering the twelve-month period ended 31 August 2021 and 31 August 2020, and such pro forma amounts are detailed in the following table and have not been audited.

	Year ended 31 August		Change RMB'000	Percentage Change (%)
	2021 (Pro forma) RMB'000	2020 (Pro forma) RMB'000		
Profit for the year	592,938	484,691	108,247	+22.3
Add:				
Additional depreciation and amortisation due to the fair value adjustments to the acquired identifiable assets	5,493	–	5,493	N/A
Share-based payments under the Restricted Share Award Scheme	49,108	2,208	46,900	>100.0
Foreign exchange loss	22,297	12,576	9,721	+77.3
Remeasurement loss of the previously held equity interest in a joint venture	142	–	142	N/A
Less:				
Remeasurement gain of the previously held equity interests in an associate	12,433	–	12,433	N/A
Core net profit for the year	<u>657,545</u>	<u>499,475</u>	<u>158,070</u>	<u>+31.6</u>

The Group's core net profit was RMB298.8 million for the eight months ended 31 August 2021. The pro forma core net profit increased by 31.6% from RMB499.5 million for the year ended 31 August 2020 to RMB657.5 million for the year ended 31 August 2021.

Capital Expenditure

Capital expenditures during the Reporting Period primarily related to the establishment of new school premises, maintaining and upgrading existing school premises and purchasing additional educational facilities and equipment for the PRC Schools. For the eight months ended 31 August 2021, the Group's capital expenditures were RMB305.6 million.

Gearing Ratio

The gearing ratio of the Group, which was calculated as total interest-bearing bank and other borrowings divided by total equity as at the end of the relevant financial period/year, increased from approximately 16.6% as at 31 December 2020 to 44.9% as at 31 August 2021, primarily due to the increase in the Group's total interest-bearing bank and other borrowings.

Foreign Exchange Risk Management

The functional currency of the Company is RMB. The majority of the Group's revenue and expenditures are denominated in RMB. As at 31 August 2021, certain bank balances were denominated in HKD and USD. During the eight months ended 31 August 2021, the Group did not experience any significant difficulties in or impacts on its operations or liquidity due to fluctuations in currency exchange rates. The Directors believe that the Group has sufficient foreign exchange to meet its own foreign exchange requirements and will adopt practical and effective measures to prevent exposure to exchange rate risk. As a result, the Group did not enter into any financial instrument for hedging purposes.

Contingent Liabilities

As at 31 August 2021, the Group did not have any significant contingent liabilities, guarantees or any litigations or claims of material importance, pending or threatened (as at 31 December 2020: nil).

Pledge of Asset

As at 31 August 2021, certain of the Group's furniture and fixtures, and electronic devices with a net carrying value of RMB128.6 million (as at 31 December 2020: RMB156.2 million) and time deposits amounting to RMB50.0 million (as at 31 December 2020: nil) were pledged to secure certain of the Group's other borrowings.

Human Resources

As at 31 August 2021, the Group had 3,413 employees (as at 31 December 2020: 2,751 employees).

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

The total remuneration cost incurred by the Group for the eight months ended 31 August 2021 was RMB180.0 million (for the year ended 31 December 2020: RMB169.8 million).

EVENTS AFTER THE REPORTING PERIOD

The Group had no significant event after the Reporting Period required to be disclosed.

FINAL DIVIDEND

The Board recommended the payment of a final dividend of HK\$0.06 (for year ended 31 December 2020: HK\$0.12) per share for the eight months ended 31 August 2021. The final dividend is subject to the approval of the shareholders of the Company (the "Shareholders") at the forthcoming annual general meeting of the Company to be held on Friday, 25 February 2022 (the "AGM") and the proposed final dividend will be payable on or around Wednesday, 6 April 2022 to the Shareholders whose names appear on the register of members of the Company on Friday, 11 March 2022.

CLOSURE OF THE REGISTER OF MEMBERS

(a) For determining the entitlement to attend and vote at the AGM

The register of members of the Company will be closed from Tuesday, 22 February 2022 to Friday, 25 February 2022, 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 Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Monday, 21 February 2022.

(b) For determining the entitlement of the proposed dividend

The register of members of the Company will also be closed from Tuesday, 8 March 2022 to Friday, 11 March 2022, both days inclusive, in order to determine the entitlement of the Shareholders to receive the final dividend, during which period no share transfers will be registered. To qualify for the final dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Monday, 7 March 2022.

CORPORATE GOVERNANCE

The Group is committed to maintaining high standards of corporate governance to safeguard the interests of the Shareholders and to enhance corporate value and accountability. The Company has adopted the Corporate Governance Code and Corporate Governance Report (the “**CG Code**”) as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”) as its own code of corporate governance. The Company has complied with all applicable code provisions of the CG Code during the eight months ended 31 August 2021, except for a deviation from code provision A.2.1 of the CG Code, which requires that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The Company will continue to review and monitor its corporate governance practices to ensure compliance with the CG Code.

Under code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Ye Nianqiao (“**Mr. Ye**”) currently serves as the chairman of the Board, executive Director, chief executive officer and general manager of the Company. Throughout the Group's business history, Mr. Ye has been the key leadership figure of the Group who has been primarily involved in the strategic development, overall operational management and major decision-making of the Group. Taking into account the continuation of the implementation of the Group's business plans, the Directors consider Mr. Ye is the best candidate for both positions and the present arrangements are beneficial and in the interests of the Company and the Shareholders as a whole.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 of the Listing Rules as its own code of conduct regarding directors’ securities transactions. Having made specific enquiries of all Directors, each of the Directors has confirmed that he/she has complied with the required standards as set out in the Model Code during the eight months ended 31 August 2021.

The Company has also adopted its own code of conduct regarding employees’ securities transactions on terms no less exacting than the standard set out in the Model Code for the compliance by its relevant employees who are likely to be in possession of unpublished inside information of the Company in respect of their dealings in the Company’s securities.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the eight months ended 31 August 2021, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s listed securities.

AUDIT COMMITTEE

The audit committee of the Company has reviewed the accounting principles and practices adopted by the Group and discussed matters in relation to auditing, internal control and financial reporting. The audit committee of the Company, together with the Board has reviewed the Group’s consolidated financial statements for the eight months ended 31 August 2021.

The financial information of the Group disclosed in this announcement is based on the Group’s consolidated financial statements for the eight months ended 31 August 2021, which has been agreed with the auditor of the Company.

CHANGES TO DIRECTORS’ INFORMATION

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes in information of Directors are set out below during the eight months ended 31 August 2021.

- (i) Dr. Li Xiaolu has resigned as an independent non-executive Director, a member of the remuneration committee of the Company (the “**Remuneration Committee**”) and a member of the nomination committee of the Company (the “**Nomination Committee**”) with effect from 2 August 2021.
- (ii) Mr. Lu Chao has been appointed as an independent non-executive Director, a member of the Remuneration Committee and a member of the Nomination Committee with effect from 2 August 2021.

Save as disclosed above, the Directors confirm that no information is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

SCOPE OF WORK OF ERNST & YOUNG

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of comprehensive income, and the related notes thereto for the eight months ended 31 August 2021 as set out in this preliminary announcement have been agreed by the Company's auditor, Ernst & Young, to the amounts set out in the Group's consolidated financial statements for the period. The work performed by Ernst & Young 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 HKICPA and consequently no assurance has been expressed by Ernst & Young on this preliminary announcement.

PUBLICATION OF THE ANNUAL RESULTS AND 2021 ANNUAL REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This annual result announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.chinakepeiedu.com), and the 2021 annual report of the Group for the eight months ended 31 August 2021 containing all the information required by the Listing Rules will be dispatched to the Shareholders and published on the respective websites of the Stock Exchange and the Company in due course.

By order of the Board
China Kepei Education Group Limited
YE Nianqiao
Chairman

Hong Kong, 29 November 2021

As at the date of this announcement, the Board comprises Mr. YE Nianqiao, Dr. ZHANG Xiangwei, Mr. ZHA Donghui, Ms. LI Yan and Mr. YE Xun as executive Directors, Mr. WANG Chuanwu as non-executive Director, and Dr. XU Ming, Dr. DENG Feiqi and Mr. LU Chao as independent non-executive Directors.

Denotes English translation of the name of a Chinese company and is provided for identification purpose only.