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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, 2020

HIGHLIGHTS

	As at August 31, 2020	As at August 31, 2019	Change	Percentage change
Number of schools	3	3	—	—
Student enrollment	43,314	42,803	511	1.2%
	Year ended August 31, 2020 (RMB'000)	Year ended August 31, 2019 (RMB'000)	Change (RMB'000)	Percentage change
Revenue	761,481	674,800	86,681	12.8%
Gross profit	452,579	367,786	84,793	23.1%
Profit for the year	306,669	223,063	83,606	37.5%
Adjusted net profit	337,708	253,379	84,329	33.3%
Earnings per share (RMB)	0.270	0.248	0.022	8.9%
			(Percentage point)	
Gross profit ratio	59.4%	54.5%	4.9	
Operating profit ratio	46.5%	40.5%	6.0	
Net profit ratio	40.3%	33.1%	7.2	
Adjusted net profit ratio ⁽¹⁾	44.3%	37.5%	6.8	

Note:

- Adjusted net profit is a non-HKFRSs measure, which is derived from the profit for the year after adjusting the listing expenses, interest expenses on discount of amounts due to a related party, net foreign exchange gain or loss and fair value gains on investment properties.

A final dividend in respect of the year ended August 31, 2020 of RMB0.0626 per ordinary share, amounting to a total dividend of RMB75,120,000, is to be proposed at the AGM. These financial statements do not reflect such dividend payable. The Group had paid in cash an interim dividend of RMB0.051 per ordinary share for the six months ended February 29, 2020. These financial statements have reflected such interim dividend paid.

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 by the PRC Operating Entities. For the year ended August 31, 2020, the Group's revenue was approximately RMB761.5 million, representing an increase of approximately 12.8% from approximately RMB674.8 million for the year ended August 31, 2019, which was attributable to the increase in student enrollment and average tuition fees during the year.

Cost of Sales

Cost of sales consists primarily of teaching staff costs, depreciation and amortization, joint tuition support fees, school consumable, property management fee, equipment maintenance fee, utilities expenses, and others. For the year ended August 31, 2020, the Group's cost of sales amounted to approximately RMB308.9 million, representing an increase of approximately 0.6% from approximately RMB307.0 million for the year ended August 31, 2019.

Gross Profit and Gross Profit Ratio

For the year ended August 31, 2020, the Group recorded a gross profit of approximately RMB452.6 million, representing an increase of approximately 23.1% from approximately RMB367.8 million for the year ended August 31, 2019. For the year ended August 31, 2020, the Group achieved a gross profit ratio of 59.4%, up by approximately 4.9% as compared to the year ended August 31, 2019. The growth was mainly attributable to the increase in average tuition fees and number of students, as well as various cost control initiatives implemented during the year.

Selling Expenses

Selling expenses, primarily consisting of marketing staff costs, promotion expenses and other expenses, increased by approximately 16.5% from approximately RMB13.3 million for the year ended August 31, 2019 to approximately RMB15.5 million for the year ended August 31, 2020, which was due to an increase in promotion expenses to boost student enrollment for the 2019/2020 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, listing expenses, auditor's remunerations and other miscellaneous expenses. Administrative expenses increased by approximately 5.6%, from approximately RMB93.8 million for the year ended August 31, 2019 to approximately RMB99.1 million for the year ended August 31, 2020.

Other Income

Other income consists primarily of government subsidies, rental income, and interest income on other financial assets at amortized cost. For the year ended August 31, 2020, the Group recorded other income of approximately RMB19.6 million, representing an increase of approximately 83.3% from approximately RMB10.7 million for the year ended August 31, 2019. The increase in other income was mainly attributable to the increase in government subsidies for the year ended August 31, 2020.

Other Gains and Losses

Other gains and losses consist primarily of net foreign exchange losses, losses on disposals of property, plant and equipment, gain from changes in fair value of investment properties and others. For the year ended August 31, 2020, the Group's other losses amounted to approximately RMB3.3 million, representing a decrease of approximately 305.7% as compared to other gains of approximately RMB1.6 million for the year ended August 31, 2019. The decrease was mainly attributable to the net foreign exchange losses of approximately RMB5.5 million which was a result of translating Hong Kong dollars to the appreciated RMB during the year.

Finance Expenses — Net

The Group's finance expenses — net include interest expenses on bank borrowings (after deducting the amounts capitalized in the cost of property, plant and equipment) and interest income generated from bank deposits. For the year ended August 31, 2020, the Group recorded finance expenses of approximately RMB51.7 million, representing an increase of approximately 10.4% as compared to approximately RMB46.8 million for the year ended August 31, 2019, which was mainly attributable to new bank borrowings raised over the past year. The increase in finance income from approximately RMB0.7 million for the year ended August 31, 2019 to approximately RMB8.3 million for the year ended August 31, 2020 was mainly attributable to the increase in bank interest income generated from the net proceeds of the Listing.

Profit Before Taxation

For the year ended August 31, 2020, the Group recorded a profit before taxation of approximately RMB310.9 million, representing an increase of approximately 37.0% from approximately RMB227.0 million for the year ended August 31, 2019. The increase in profit before taxation was mainly attributable to (i) the increase in student enrollment; (ii) the increase in average tuition fee with respect to certain major offerings for newly enrolled students for the 2018/2019 academic year; and (iii) various cost control initiatives implemented during the year.

Taxation

For the year ended August 31, 2020, the Group recorded a taxation of approximately RMB4.3 million, representing an increase of approximately 8.0% from approximately RMB4.0 million for the year ended August 31, 2019. As at August 31, 2020, the Group did not have any taxation-related disputes with any authorities, or any other unresolved taxation issues. The increase was mainly attributable to (i) the increase in current tax on profit for the year as a result of the increase in taxable income; and (ii) the decrease in deferred income tax as a result of the decrease in the revaluation gains of investment properties.

Adjusted Net Profit

For the year ended August 31, 2020, adjusted net profit is calculated by adjusting profit for the year of approximately RMB306.7 million (year ended August 31, 2019: approximately RMB223.1 million) for the effect of discounted interest on the amount due to the related parties of approximately RMB15.9 million (year ended August 31, 2019: approximately RMB22.9 million), listing expenses of approximately RMB12.5 million (year ended August 31, 2019: approximately RMB10.7 million), revaluation gains on the investment property of approximately RMB2.8 million (year ended August 31, 2019: approximately RMB3.2 million) and net foreign exchange gain or loss of approximately RMB5.5 million (year ended August 31, 2019: nil). The Group's adjusted net profit increased by approximately 33.3% from approximately RMB253.4 million for the year ended August 31, 2019 to approximately RMB337.7 million for the year ended August 31, 2020.

Property, Plant and Equipment

As at August 31, 2020, the Group's property, plant and equipment amounted to approximately RMB2,805.1 million, representing an increase of approximately 8.0% from approximately RMB2,598.5 million as at August 31, 2019. Such an increase was a result of the construction of new teaching buildings at the Zengcheng campus of Huali College during the year.

Capital Expenditure

For the year ended August 31, 2020, the Group recorded capital expenditure of approximately RMB340.5 million, representing a decrease of approximately 57.6% from approximately RMB803.2 million for the year ended August 31, 2019, which was mainly attributable to the costs incurred for the construction of new school premises, maintaining and enhancing the existing school premises and the acquisition of land for education purpose.

Bank Balances and Cash

As at August 31, 2020, the Group's bank balances and cash were approximately RMB865.1 million, representing an increase of approximately 90.7% from approximately RMB453.6 million for the year ended August 31, 2019. The increase was mainly attributable to the net proceeds of the Listing raised during the year, which amounted to approximately RMB850.9 million.

Liquidity, Financial Resources and Gearing Ratio

As at August 31, 2020, the Group had liquid funds (representing bank balances, cash and financial assets at amortized cost) of approximately RMB871.4 million (August 31, 2019: RMB453.6 million) and bank borrowings of approximately RMB1,767.9 million (August 31, 2019: RMB1,079.3 million).

The Group's gearing ratio as at August 31, 2020, represented by bank borrowings and amounts due to related parties as shown in the consolidated balance sheet as a percentage of total equity, was 67% (August 31, 2019: 109%).

Foreign Exchange Risk Management

In respect of the Group's operations in the PRC, the major revenue and expenses are denominated in RMB. The Group has certain monetary assets and liabilities that are denominated in Hong Kong dollars and United States dollars, which will expose the Group to foreign exchange risk. The Group does not currently have a foreign currency hedging policy. However, the Group's management will closely monitor the Group's 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, 2020.

Charge on the Group's Assets

As at August 31, 2020, the Group pledged its rights to receive tuition fees and boarding fees as security for certain 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, 2020.

Contingent Liabilities

On May 24, 2020, a group entity was accused by an independent third party, who claimed itself to be a tenant of the properties on the land in Jiangmen City acquired by the Group in January 2019, for a compensation of RMB11,205,000 for the damage of its properties caused by the Group during the process of clearing the land. According to the order from the court, the Group's bank deposits of RMB11,205,000 have been frozen as a guarantee of execution of potential claim in respect of the case. Up to the date of this announcement, this case was awaiting for trial. The Directors are of the view that the probability of paying such compensation is low based on the information available up to the date of this announcement and by reference to the legal advice provided by the Company's PRC legal adviser. Thus, no provision has been made in the Group's consolidated financial statements as at August 31, 2020.

Except for the aforementioned lawsuit, as at August 31, 2020, the Group was not involved in any other material lawsuit, arbitration or administrative proceedings which the Group expects would materially and adversely affect its financial position or results of operations.

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, 2020, we had an aggregate of 43,314 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.

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 Thirteenth Five-Year Plan of Development of Education in Guangdong Province (《廣東省教育發展「十三五」規劃》) (the “**Thirteenth Five-Year Plan**”), only approximately 33.02% of the college-aged population in Guangdong Province was enrolled in higher education institutions in 2015. The Thirteenth Five-Year Plan aims to further popularize higher education and increase the gross enrollment rate of higher education to 50% by 2020. In response to the Thirteenth 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, 2020, we raised 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 that 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, 2020, we had an aggregate of 43,314 students⁽¹⁾ enrolled in our three schools, comprising 17,765 students at Huali College, 17,581 students at Huali Vocational College and 7,968 students at Huali Technician College.

School	As at August 31, 2020	As at August 31, 2019	Change	Percentage change
Huali College	17,765	15,126	2,639	17.4%
Huali Vocational College	17,581	18,627	(1,046)	(5.6%)
— Zengcheng campus	16,531⁽²⁾	17,987 ⁽³⁾	(1,456)	(8.1%)
— Yunfu campus	1,050	640	410	64.1%
Huali Technician College	7,968	9,050	(1,082)	(12.0%)
— Zengcheng campus	6,837	8,304	(1,467)	(17.7%)
— Yunfu campus	1,131	746	385	51.6%
Total	<u>43,314</u>	<u>42,803</u>	511	1.2%

Notes:

- (1) Including 3,225 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 3,225 students of Huali Technician College who also participate in the Continuing Education Program.
- (3) Including 5,554 students of Huali Technician College who also participate in the Continuing Education Program.

Tuition Fees and Boarding Fees

For the year ended August 31, 2020, the Group’s schools recorded revenue growth, which was in line with the expansion of its business and student enrollment. Revenue increased from RMB674.8 million for the year ended August 31, 2019 to RMB761.5 million for the year ended August 31, 2020. 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, 2020, accounting for approximately 96.2% of the total revenue of the Group for the year ended August 31, 2020.

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, 2020 (RMB'000)	Year ended August 31, 2019 (RMB'000)	Change (RMB'000)	Percentage change
Tuition fees				
Huali College	416,456	323,333	93,123	28.8%
Huali Vocational College	223,196	203,166	20,030	9.9%
Huali Technician College	93,069	103,222	(10,153)	(9.8%)
	<u>732,721</u>	<u>629,721</u>	103,000	16.4%
Boarding fees				
Huali College	13,798	21,234	(7,436)	(35.0%)
Huali Vocational College	9,972	15,597	(5,625)	(36.1%)
Huali Technician College	4,990	8,248	(3,258)	(39.5%)
	<u>28,760</u>	<u>45,079</u>	(16,319)	(36.2%)
Total Revenue	<u>761,481</u>	<u>674,800</u>	86,681	12.8%

The increase in the total revenue of the Group for the year ended August 31, 2020 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		Average tuition fees	
	Academic year ⁽¹⁾		per student ⁽²⁾	
	2019/2020	2018/2019	Year ended August 31, 2020 (RMB)	2019 (RMB)
Huali College	17,765	15,126	23,442	21,376
Huali Vocational College	17,581	18,627	12,695	10,907
— Zengcheng campus	16,531	17,987	—	—
— Yunfu campus	1,050	640	—	—
Huali Technician College	7,968	9,050	11,680	11,406
— Zengcheng campus	6,837	8,304	—	—
— Yunfu campus	1,131	746	—	—
Total	43,314	42,803	16,916	14,712

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 years divided by the student enrollment for the corresponding academic years.

The following table sets out the tuition fee rates of our schools for the 2018/2019 and 2019/2020 academic years:

School	Tuition fee rates ⁽¹⁾ in academic year	
	2019/2020	2018/2019
	(RMB)	(RMB)
Huali College		
Four- to five-year undergraduate program ⁽²⁾	25,500–29,500	23,000–29,000
International program	33,500	32,000
Bilingual program	27,500	26,000–27,000
Huali Vocational College		
Three-year junior college program	14,800–17,800	12,800–16,800
— Zengcheng campus	14,800–17,800	14,800–16,800
— Yunfu campus	14,800–17,800	12,800–14,800
International program	23,000–28,000	28,000
Bilingual program	15,800–16,800	15,800–16,800
Huali Technician College		
Three-year vocational program ⁽³⁾	6,000–12,800	6,000–12,800
— Zengcheng campus	8,800–12,800	8,800–12,800
— Yunfu campus	6,000–7,500	6,000–7,500

Notes:

- (1) Tuition fee rates shown for all of our schools are applicable to students admitted in the relevant academic years 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. In addition, we offer students a dual-diploma program at Huali Technician College, 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, 2020, our boarding fee rates ranged from RMB600 to RMB2,800 per academic year depending on the location, room size and number of students housed in each room.

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 2018/2019 and 2019/2020 academic years:

	Academic year	
	2019/2020	2018/2019
Zengcheng campus		
School capacity	29,203	28,082
School utilization rate	93.0%	91.7%
Yunfu campus		
School capacity	8,000	8,000
School utilization rate	24.5%	15.0%

Awards and Recognitions Received During the Year

The Company and its three schools received numerous awards and recognitions during the year 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
October, 2019	Outstanding Contribution Award for Guangdong Contemporary Private schools (廣東當代民辦學校突出貢獻獎)	Guangdong Education Academy (廣東教育學會), Guangdong Education Supervisory Academy (廣東教育督導學會), Guangdong Education Foundation (廣東省基金會), Guangdong Primary and Secondary Schools Moral Education Association (廣東省中小學德育研究會) and Guangdong Contemporary Private Education Management Institute (廣東當代民辦教育管理研究院)	Huali College

	Award/ Recognition	Awarding Organization(s)	Awarded Entity
October, 2019	Outstanding Contribution Award for Guangdong Contemporary Private schools (廣東當代民辦學校突出貢獻獎)	Guangdong Education Academy (廣東教育學會), Guangdong Education Supervisory Academy (廣東教育督導學會), Guangdong Education Foundation (廣東省基金會), Guangdong Primary and Secondary Schools Moral Education Association (廣東省中小學德育研究會) and Guangdong Contemporary Private Education Management Institute (廣東當代民辦教育管理研究院)	Huali Vocational College
November, 2019	Outstanding Contribution Institution for the 40th Anniversary of Guangzhou Private Education (廣州民辦教育四十年突出貢獻機構)	Guangzhou Private Education Association (廣州民辦教育協會)	Huali Vocational College
December, 2019	China Industry-University-Research Cooperation Promotion Award (中國產學研合作促進獎)	China Industry-University-Research Cooperation Promotion Association (中國產學研合作促進會)	Huali Vocational College
December, 2019	Top Schools with the Highest Job Satisfaction (最具就業滿意度名校)	Secondary School Students' Newspaper (中學生報)	Huali Vocational College
January, 2020	Advanced Unit of Vocational Capacity Construction in Guangdong Province in 2019 (2019 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

(i) Expand the Group's school network through strategic mergers and acquisitions

The Group will seek mergers and acquisitions of: (1) private regular undergraduate institutions; (2) independent colleges; and (3) high-quality regular junior colleges which focus on applied science, target to cultivate applied science talents and have the potential of upgrading to undergraduate institutions. In the coming years, we will focus on identifying the opportunities for mergers and acquisitions to expand our business portfolio in China and abroad.

The Group has established a professional merger and acquisition team consisting of experienced financial and legal personnel and professionals who are familiar with the education business. For geographical coverage, the Group will continue to focus on expanding its school network in Guangdong Province and consolidating its leading position in the Pearl River Delta, while seeking high-quality targets in provinces with a relatively developed economy and a larger population. In view of the national strategy of “Made in China 2025” issued by the State Council in 2015 to promote the development of manufacturing industries in the next 10 years, as well as the national development strategy of “Guangdong-Hong Kong-Macau Greater Bay Area” (《粵港澳大灣區》) issued in 2019 aiming to deepen the cooperation among Guangdong Province, Hong Kong and the Macau Special Administrative Region and promote the coordinated economic growth in these areas, Guangdong Province is experiencing enormous growth opportunities. The Group will seize its significant geographical advantage of Guangdong Province as a manufacturing center and meet the strong local demand for professional talents. We will also explore opportunities for expansion in South China and Southwest China where there are relative scarcity of higher education resources than other regions in China with strong market potential. The Group's management team will leverage its extensive experience to further increase the competitiveness in student admission and graduate employment for the newly acquired schools, thus allowing the Group to achieve business growth. The Group aims to enhance education quality by applying its applied science-focused and practice-oriented teaching methodologies as well as offering market-focused major offerings and practical job-oriented curricula in the newly acquired schools. With respect to graduate employment, the Group plans to share its employment information and resources as well as extensive school-enterprise relationships with the newly acquired schools. The Group will also implement centralized management over its entire school network, optimize pricing strategy and lower the operating costs of the newly acquired schools.

(ii) Expand existing campuses and construct new campuses

The Group will increase student enrollment through expanding the business operations in its existing schools and further expanding its school networks in both China and abroad. The Group will continue to make demand-driven investments in its existing schools, improve and acquire school facilities, improve the education quality of schools, and expand the enrollment scale of colleges.

The expansion of the Zengcheng campus of Huali College, which is expected to be put into use in the first half of 2021, will increase its capacity by over 2,200 students.

With regard to the construction work of the new campus of Huali Technician College in Jiangmen City, the first phase is expected to be completed in the first half of 2021 and the new campus is expected to accommodate 8,100 students.

In order to capture the business opportunities arising from the increase in student enrollment as a result of the Thirteenth Five-Year Plan to increase gross enrollment in education, the Group has entered into an agreement with the Jiangmen Xinhui District Government, which will provide 1,258 mu of land to the Group to build a new campus for Huali College, which is expected to accommodate 25,000 students. The construction of the campus is divided into three stages. The first stage is divided into two phases; the first phase is expected to be completed in the first half of 2021 and is expected to accommodate about 4,100 students, while the second phase is expected to be completed in 2022 and is expected to accommodate about 6,200 students.

The Group plans to use the proceeds from the Listing, supplemented by its operating capital, for its expansion and construction projects.

(iii) Further optimize the pricing of tuition fees and boarding fees and diversify revenue sources

(1) Optimize the pricing of tuition fees and boarding fees

The Group will modestly raise its tuition fees and boarding fees for the 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 and established reputation will enable it to further increase its tuition fees while maintaining competitiveness in student admission.

(2) Diversify revenue sources

The Group's revenue is currently mainly derived from tuition fees and boarding fees from its education business. In order to diversify its revenue sources, the Group will cooperate with professional institutions to expand its vocational qualification and skill training business, thereby gradually improving the contribution of such business to the Group's revenue. By adapting to the educational needs in the market, the Group will provide diversified education services and products to benefit more students and strive to build a well-known brand recognition and reputation. The Group's various plans are currently in steady progress and the Group will disclose the relevant details in due course.

SIGNIFICANT EVENT AFTER REPORTING PERIOD

On September 18, 2020, the Group obtained the legal title of the right-of-use assets purchased from Jiangmen Public Resources Centre, Xinhui Branch for the construction of a new school campus in Jiangmen City, Guangdong Province, the PRC.

USE OF NET PROCEEDS FROM THE LISTING

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 proceeds (RMB' Million)	Utilized amount as at August 31, 2020 (RMB' Million)	Unutilized amount as at August 31, 2020 (RMB' Million)	Expected 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	(242.3)	208.7	2020–2021
Establishment of a new junior college in Jiangmen City, Guangdong Province	37.0%	314.8	(2.2)	312.6	2021–2022
Working capital and general corporate purposes	10.0%	85.1	(55.5)	29.6	2020–2021
Total	100.0%	850.9	(300.0)	550.9	

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 teaching 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, 2020, the Group had 1,640 employees (as at August 31, 2019: 1,922). 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 the 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 our employees.

FINAL DIVIDEND

The Board has proposed a final dividend of RMB0.0626 per ordinary share for the year ended August 31, 2020 (the “**Final Dividend**”), amounting to RMB75,120,000 based on 1,200,000,000 Shares in issue as at August 31, 2020.

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 from the Listing Date to August 31, 2020.

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 at 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 period from the Listing Date to August 31, 2020, 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 its own code of conduct on dealing Directors' securities transactions. After specific enquiries of all Directors, each Director has confirmed that he/she had complied with the standards as set out in the Model Code from the Listing Date to August 31, 2020.

Since the Listing Date, the Company has also adopted its own code of conduct on employee's securities transactions on terms of which are no less than the standards stipulated in the Model Code.

AUDIT COMMITTEE AND REVIEW OF ANNUAL RESULTS

The Audit Committee consists of three independent non-executive Directors, namely Ms. Chiu Lai Kuen Susanna, M.H., J.P. (Chairman), 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, 2020, 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 auditors.

SCOPE OF WORK ON THE ANNUAL RESULTS ANNOUNCEMENT OF AUDITOR

The figures in respect of this preliminary announcement of the Group's results for the year ended August 31, 2020 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.hualiuniversity.com). The annual report of the Company for the year ended August 31, 2020 will be despatched to the Shareholders and made available on the same websites in due course.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Year ended August 31,	
		2020	2019
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	3	761,481	674,800
Cost of sales	6	<u>(308,902)</u>	<u>(307,014)</u>
Gross profit		452,579	367,786
Selling expenses	6	(15,527)	(13,291)
Administrative expenses	6	(99,105)	(93,827)
Other income	4	19,620	10,701
Other (losses)/gains — net	5	<u>(3,273)</u>	<u>1,591</u>
Operating profit		354,294	272,960
Finance income		8,332	868
Finance expenses		<u>(51,692)</u>	<u>(46,815)</u>
Finance expenses — net	7	<u>(43,360)</u>	<u>(45,947)</u>
Profit before income tax		310,934	227,013
Income tax expenses	8	<u>(4,265)</u>	<u>(3,950)</u>
Profit for the year		<u>306,669</u>	<u>223,063</u>
Other comprehensive income for the year		—	—
Total comprehensive income		<u>306,669</u>	<u>223,063</u>
Profit and total comprehensive income attributable to:			
— Owner of the Company		<u>306,669</u>	<u>223,063</u>
Earnings per share for profit attributable to owner of the Company (expressed in RMB per share)			
Basic and diluted	9	<u>0.270</u>	<u>0.248</u>

CONSOLIDATED BALANCE SHEET

		As at August 31,	
		2020	2019
	Note	RMB'000	RMB'000
ASSETS			
Non-current assets			
Right-of-use assets		1,060,506	—
Land use rights		—	1,096,010
Property, plant and equipment		2,805,085	2,598,503
Investment properties		135,000	132,200
Intangible assets		12,404	6,475
Other financial assets at amortised cost		6,353	—
Prepayments		133,116	14,087
		<u>4,152,464</u>	<u>3,847,275</u>
Current assets			
Prepayments		190	6,728
Trade and other receivables	11	12,519	12,472
Amounts due from related parties		16,766	6,779
Restricted cash		11,205	—
Cash and cash equivalents		865,062	453,576
		<u>905,742</u>	<u>479,555</u>
Total assets		<u><u>5,058,206</u></u>	<u><u>4,326,830</u></u>
EQUITY			
Share capital and share premium		789,576	327
Statutory surplus reserves		123,186	123,186
Other reserves		336,118	336,118
Retained earnings		1,427,938	1,121,269
Total equity		<u>2,676,818</u>	<u>1,580,900</u>

		As at August 31,	
		2020	2019
	<i>Note</i>	RMB'000	RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings		1,622,731	1,078,908
Accruals and other payables	12	7,141	152,166
Amounts due to related parties	12	—	44,477
Deferred income tax liabilities		36,461	34,689
		<u>1,666,333</u>	<u>1,310,240</u>
Current liabilities			
Accruals and other payables		270,616	164,069
Amounts due to related parties		21,251	600,788
Contract liabilities		271,771	666,033
Current income tax liabilities		6,200	4,404
Borrowings		145,217	396
		<u>715,055</u>	<u>1,435,690</u>
Total liabilities		<u>2,381,388</u>	<u>2,745,930</u>
Total equity and liabilities		<u>5,058,206</u>	<u>4,326,830</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 (the “**Owner**”), who is also an executive director and the chairman of the Board of the Company.

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.

These consolidated financial statements are presented in Renminbi (“**RMB**”), unless otherwise stated. These financial statements have been approved for issue by the Board on November 6, 2020.

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.

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 financial statements are for the group consisting of the Company and its subsidiaries.

2.1 Basis of preparation

(i) 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.

(ii) Historical cost convention

The consolidated financial statements have been prepared on a historical cost basis.

(iii) 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, 2019:

- HKFRS 16 Leases
- Interpretation 23 Uncertainty over income tax treatment
- Amendments to HKFRS 9 Prepayment Features with Negative Compensation
- Amendments to HKAS 28 Long-term Interests in Associates and Joint Ventures
- Annual improvements HKFRS Standards 2015–2017 Cycle
- Amendments to HKAS 19 Plan Amendment, Curtailment or Settlement

The Group had to change its accounting policies as a result of adopting HKFRS 16. The Group elected to adopt the new rules retrospectively but recognized the cumulative effect of initially applying the new standard on September 1, 2019 as disclosed in Note 2(iii)(c). Most of the other 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 August 31, 2020 reporting periods 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
HKAS 1 and HKAS 8 (Amendment)	Definition of material	January 1, 2020
HKFRS 3 (Amendment)	Definition of a Business	January 1, 2020
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting	January 1, 2020
HKFRS 16 (Amendment)	Leases — Covid-19 related rent concessions	June 1, 2020
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 to HKFRS 1	First-time Adoption of IFRS	January 1, 2022
Annual improvements to HKFRS 9	Financial instruments	January 1, 2022
HKFRS 17	Insurance contracts	January 1, 2023
HKAS 1 (Amendment)	Presentation of financial statements' on classification of liabilities	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

(c) Changes in accounting policies

This note explains the impact of the adoption of HKFRS 16 Leases on the Group's financial information.

The Group has adopted HKFRS 16 Leases retrospectively from September 1, 2019, but has not restated comparative information, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognized in the opening balance sheet on September 1, 2019.

Under HKFRS 16, lessees are required to recognize a lease liability reflecting future lease payments and a right-of-use asset for all lease contracts in the balance sheet. Lessees will also have to present interest expense on the lease liability and depreciation on the right-of-use asset in the income statement. In comparison with operating leases under HKAS 17, this will change not only the allocation of expenses but also the total amount of expenses recognized for each period of the lease term. The combination of a straight-line depreciation of the right-of-use asset and the effective interest rate method applied to the lease liability will result in a higher total charge to profit or loss in the initial years of the lease, and decreasing expenses during the latter part of the lease term. The new standard has included an optional exemption for certain short-term leases and leases of low-value assets. This exemption can only be applied by lessees. The Group has adopted the optional exemption because all the Group's leases are relating to short-term leases and low value leases, which were recognised on a straight-line basis as expenses in profit or loss.

(1) Measurement of right-of-use assets

Under the simplified transition approach, the associated right-of-use assets were measured at the amount equal to the lease liabilities on adoption, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the balance sheet as at September 1, 2019. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets as at the date of initial application.

(2) Adjustments recognized in the balance sheet on September 1, 2019

The change in accounting policy affected the following items in the balance sheet on September 1, 2019:

	Closing balance as at August 31, 2019 <i>RMB'000</i>	Effect of adoption of HKFRS 16 <i>RMB'000</i>	Opening balance as at September 1, 2019 <i>RMB'000</i>
Consolidated balance sheet (extract)			
Right-of-use assets	—	1,096,010	1,096,010
Land use rights	1,096,010	(1,096,010)	—
	<u>1,096,010</u>	<u>—</u>	<u>1,096,010</u>

As at August 31, 2020, the Group has no non-cancellable operating lease commitments.

(3) Lessor accounting

The Group did not need to make any adjustments to the accounting for assets held as lessor under operating leases as a result of the adoption of HKFRS 16.

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 statement of comprehensive income. The accounting policies of the reportable segment are the same as the Group's accounting policies described in Note 2. No analysis of the Group's assets and liabilities is regularly provided to the management of the Group for review.

Revenues during the years ended August 31, 2020 and 2019 are as follows:

	Year ended August 31,	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Recognized over time		
— Tuition fees	732,721	629,721
— Boarding fees	28,760	45,079
	<u>761,481</u>	<u>674,800</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, 2020 and 2019.

4 Other income

	Year ended August 31,	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Government subsidies	11,789	3,151
Rental income	7,522	7,550
Interest income on other financial assets at amortized cost (<i>Note a</i>)	309	—
	<u>19,620</u>	<u>10,701</u>

- (a) The Group purchased US\$ denominated senior notes at a consideration of approximately US\$913,000 (equivalent to RMB6,511,000) on June 4, 2020. The senior notes were issued by China South City Holdings Limited on the open market with par value of US\$100 each and will expire upon September 13, 2021. Interest income generated from these senior notes is calculated using the effective interest rate method with interest rate of 7.32% per annum.

5 Other (losses)/gains — net

	Year ended August 31,	
	2020	2019
	RMB'000	RMB'000
Net exchange losses	(5,490)	—
Fair value gains on investment properties	2,800	3,200
Losses on disposals of property, plant and equipment	(2,208)	(1,746)
Investment loss on put option	—	(1,500)
Others	1,625	1,637
	<u>(3,273)</u>	<u>1,591</u>

6 Expenses by nature

	Year ended August 31,	
	2020	2019
	RMB'000	RMB'000
Employee benefit expenses	151,595	153,432
Depreciation of property, plant and equipment	76,815	65,348
Joint tuition support fee (<i>Note a</i>)	70,772	55,010
Depreciation of right-of-use assets	32,914	—
Amortization of land use rights	—	31,826
Listing expenses	12,453	10,661
Promotion expenses	11,744	9,522
Utilities expenses	11,319	16,248
Travel and entertainment expenses	10,548	9,456
Office expenses	8,408	8,903
School consumables	8,407	14,218
Property management fee	6,041	16,268
Auditors' remunerations		
— Audit services	3,186	64
Equipment maintenance fee	2,778	3,961
Training expenses	1,026	3,159
Amortization of intangible assets	1,793	1,428
Other taxes	1,220	975
Other expenses	12,515	13,653
	<u>423,534</u>	<u>414,132</u>
Total cost of sales, selling expenses and administrative expenses	423,534	414,132

- (a) A group entity entered into an agreement of Cooperation with Guangdong University of Technology, a third party, 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 of Huali College. The Group expects that the agreement will remain enforceable unless new agreement in relation to the cooperation is entered into between the Group and Guangdong University of Technology.

7 Finance expenses — net

	Year ended August 31,	
	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Finance income:		
— Bank interest income	8,332	868
Finance expenses:		
— Interest expenses on discount of amount due to a related party	(15,896)	(22,855)
— Interest expenses on bank borrowings	(67,210)	(56,870)
Less: borrowing costs capitalized in property, plant and equipment	31,414	32,910
	<u>(51,692)</u>	<u>(46,815)</u>
Net finance expenses	<u>(43,360)</u>	<u>(45,947)</u>

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, 2020 and 2019.

(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, 2020 and 2019 and up to date of this announcement, 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 corporate income tax 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 Huali College, Huali Vocational College and Huali Technician College during the years ended August 31, 2020 and 2019.

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, 2020 and 2019.

Analysis of the Group’s income tax expense:

	Year ended August 31,	
	2020	2019
	RMB’000	RMB’000
Current tax on profits for the year	2,493	1,770
Deferred income tax	1,772	2,180
	<u>4,265</u>	<u>3,950</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, 2020 and 2019.

	Year ended August 31,	
	2020	2019
Profit attributable to owner of the Company (RMB’000)	306,669	223,063
Weighted average number of ordinary shares in issue (thousand shares)	<u>1,134,000</u>	<u>900,000</u>
Basic earnings per share (expressed in RMB)	<u>0.270</u>	<u>0.248</u>

The weighted average number of ordinary shares in issue for the purpose of calculating basic and diluted earnings per share has been adjusted for the effect of capitalization issue of 400,000,000 shares pursuant to the resolution dated November 5, 2019, which subsequently became effective on November 25, 2019.

(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, 2020 and 2019.

10 Dividends

	Year ended August 31,	
	2020	2019
	RMB'000	RMB'000
Interim dividend for the six months ended February 29, 2020 of RMB0.051 per ordinary share (2019: nil)	<u>61,620</u>	<u>—</u>
Total dividends provided for or paid	<u><u>61,620</u></u>	<u><u>—</u></u>

During the year ended August 31, 2020, dividends were paid in cash (2019: nil).

A dividend in respect of the year ended August 31, 2020 of RMB0.0626 per ordinary share, amounting to a total dividend of RMB75,120,000, is to be proposed at the forthcoming annual general meeting. These financial statements do not reflect this dividend payable.

(a) Dividends not recognized at the end of the reporting years

	Year ended August 31,	
	2020	2019
	RMB'000	RMB'000
Proposed final dividend of RMB0.0626 (2019: nil) per ordinary share	<u><u>75,120</u></u>	<u><u>—</u></u>

11 Trade and other receivables

	As at August 31,	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables		
— Tuition fees receivables from students	1,702	1,303
— Boarding fees receivables from students	79	18
	<u>1,781</u>	<u>1,321</u>
Other receivables		
— Deposits	7,139	7,139
— Tuition fees receivables from financial institution	763	1,406
— Interest receivables	216	—
— Staff advances	168	154
— Others	2,452	2,452
	<u>10,738</u>	<u>11,151</u>
	<u>12,519</u>	<u>12,472</u>

As at August 31, 2020 and 2019, the aging analysis of the trade receivables based on the recognition date is as follows:

	As at August 31,	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Less than 1 year	1,677	1,202
1 to 2 years	104	119
	<u>1,781</u>	<u>1,321</u>

Other than other receivables of RMB216,000 as at August 31, 2020 which were denominated in US\$, all other trade and other receivables of the Group were denominated in RMB as at August 31, 2020 and 2019.

As at August 31, 2020 and 2019, 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.

As at August 31, 2020 and 2019, the fair values of trade and other receivables are approximate their carrying amounts.

12 Accruals and other payables and amounts due to related parties

	As at August 31,	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Payable for purchase of property, plant and equipment	139,320	192,180
Payable for joint tuition support fees (<i>Note (a)</i>)	70,772	55,010
Miscellaneous fee received from students (<i>Note (b)</i>)	21,146	26,148
Government subsidies payable to students	18,796	15,555
Employee benefits payable	9,517	9,943
Interest payable	3,828	1,773
Auditors' remuneration payable	2,800	—
Network and telecommunication fee payable	2,585	3,098
Other taxes payable	1,290	1,379
Payable for property management service	299	5,930
Listing expenses payable	—	1,739
Others	7,404	3,480
	<u>277,757</u>	<u>316,235</u>
Less: non-current portion		
Payable for purchase of property, plant and equipment (<i>Note (d)</i>)	<u>(7,141)</u>	<u>(152,166)</u>
Current portion	<u>270,616</u>	<u>164,069</u>
Amounts due to related parties		
— Current	21,251	600,788
— Non-current	—	44,477
	<u>21,251</u>	<u>645,265</u>

- (a) As at August 31, 2020 and 2019, the aging analysis of the payables for joint tuition support fees was as follows:

	As at August 31,	
	2020	2019
	RMB'000	RMB'000
Less than 1 year	<u>70,772</u>	<u>55,010</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, 2020 and 2019, the fair values of accruals and other payables excluding non-current payables approximated their carrying amounts due to their short-term maturities. The fair values of amounts due to related parties as at August 31, 2020 and 2019, were estimated by discounting the future cash flows using the effective interest rate available to the Group.
- (d) As at August 31, 2020 and 2019, the non-current payables were initially recognized at fair value at discount rate of 4.75% per annum and subsequently measured at amortized cost using the effective interest rate method.

DEFINITIONS

“academic year”	the academic year for all our schools, which generally starts on September 1 of each calendar year and ends on August 31 of the next calendar year
“AGM”	the forthcoming annual general meeting of the Company
“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
“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”
“Director(s)”	the director(s) of the Company
“Group”, “we”, “us”, or “our”	the Company, its subsidiaries and its consolidated affiliated entities
“HKFRSs”	Hong Kong Financial Reporting Standards
“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”	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, 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 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 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
“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
“MOE”	the Ministry of Education of the PRC (中華人民共和國教育部)
“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
“RMB” or “Renminbi”	Renminbi, the lawful currency of China
“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
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“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
“%”	per cent

The English names of the PRC entities (including schools), PRC laws or regulations, and the PRC government authorities referred to in this announcement 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 6, 2020

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