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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)

INSIDE INFORMATION

LATEST UPDATE IN RELATION TO THE CONVERSION OF HUALI COLLEGE GUANGDONG UNIVERSITY OF TECHNOLOGY

Reference is made to the prospectus (the “**Prospectus**”) published by Huali University Group Limited (the “**Company**”) on November 14, 2019 in relation to, among others, the conversion of Huali College Guangdong University of Technology (廣東工業大學華立學院) (“**Huali College**”) into an independently established private general undergraduate college in the People’s Republic of China (the “**PRC**”) (the “**Conversion of Huali College**”).

BACKGROUND

Huali College is a private independent college in the PRC, and is jointly sponsored by Guangzhou Huali Investment Company Limited* (廣州華立投資有限公司) (“**Huali Investment**”) and Guangdong University of Technology (廣東工業大學) (“**GDUT**”). Pursuant to the cooperation agreements (including the supplemental agreements) (the “**Cooperation Agreements**”) entered into between Huali Investment and GDUT, Huali Investment shall provide funding to Huali College, whereas GDUT shall give general guidance and supervision to support the operation of Huali College. In relation to such cooperation, Huali College is required to, among others, pay a joint tuition support fee (the “**Joint Tuition Support Fee**”), which equals to 17% of the total amount of tuition fees received by Huali College in each school year, to GDUT. Please refer to the section headed “Business — Our Schools — Huali College — Cooperation Agreements with GDUT” in the Prospectus for further details.

The Ministry of Education of the PRC has vigorously promoted the conversion of independent colleges into independently established private general undergraduate colleges in recent years, and issued the Implementation Plan for Accelerating the Promotion of the Conversion of Independent Colleges* (關於加快推進獨立學院轉設工作的實施方案) in May 2020. The Department of Education of Guangdong Province has also issued the Letter on Accelerating the Conversion of Independent Colleges* (關於加快推進獨立學院轉設的函), specifying the timeline for the conversion of independent colleges into independently established private general undergraduate colleges.

TRANSITIONAL ARRANGEMENTS IN RELATION TO THE CONVERSION OF HUALI COLLEGE

The board of directors of the Company (the “**Board**”) is pleased to announce that, on January 28, 2021, GDUT, Huali Investment and Huali College entered into the Transitional Cooperation Agreement of Huali College Guangdong University of Technology* (廣東工業大學華立學院轉設過渡期合作協議) (the “**Transitional Cooperation Agreement**”). The Transitional Cooperation Agreement has set out, among others, certain arrangements in relation to the management of Huali College during the transitional period of the Conversion of Huali College, including governance system, student management as well as the use of assets, school name and official seal.

In addition, pursuant to the Transitional Cooperation Agreement, Huali Investment and Huali College have agreed to pay a compensation fee in an aggregate amount of RMB160,000,000 (the “**Compensation**”) to GDUT in three installments, of which RMB53,340,000, RMB53,330,000 and RMB53,330,000 shall be paid by October 31, 2021, October 31, 2022 and October 31, 2023, respectively. Huali Investment and Huali College shall, during the transitional period of the Conversion of Huali College, continue to pay the Joint Tuition Support Fee to GDUT in respect of the students enrolled in the name of Huali College.

After taking into account the reasons and benefits of the Conversion of Huali College as elaborated below, the directors of the Company (the “**Directors**”) believe that the payment of the Compensation is fair, reasonable and in the interests of the Company and its shareholders.

FINANCIAL IMPACT OF THE COMPENSATION

The Compensation is a one-time expenditure and is non-recurring in nature. The Compensation will be adjusted in the Group’s adjusted net profit to reflect the recurring operating performance of the Group.

REASONS AND BENEFITS OF THE CONVERSION OF HUALI COLLEGE

The Group is a leading large-scale private higher education and vocational education group in South China. The Group’s revenue increased from RMB674.8 million for the year ended August 31, 2019 to RMB761.5 million for the year ended August 31, 2020, representing an increase of 12.8%, and its adjusted net profit increased from RMB253.4 million for the year ended August 31, 2019 to RMB337.7 million for the year ended August 31, 2020, representing an increase of 33.3%. The Group’s financial performance has laid a solid foundation for its sustainable development after the Conversion of Huali College.

The Board is of the view that:

- (i) after the Conversion of Huali College, the newly established private general undergraduate college will no longer pay any Joint Tuition Support Fee to GDUT, thereby reducing the Group's costs and expenses and enhancing the Group's profitability;
- (ii) the Conversion of Huali College is expected to further release the student incremental potential and increase the student enrollment of the newly established private general undergraduate college, thereby enhancing the Group's revenue; and
- (iii) the Conversion of Huali College will allow the Group to offer high-end and high-quality higher vocational education that has a strong market demand, thereby enhancing its own core competitiveness and its high-quality education brand.

The Board therefore considers that the Conversion of Huali College is in the interests of the Company and its shareholders as a whole.

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

Hong Kong, January 28, 2021

As at the date of this announcement, the executive Directors are Mr. Zhang Zhifeng, Mr. Ye Yaming and Mr. Ma Zhixiong; 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.

* *For identification purposes only*