

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

## 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)

# INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED FEBRUARY 28, 2021

The Board is pleased to announce the unaudited consolidated interim results of the Group for the six months ended February 28, 2021, together with comparative figures for the corresponding period in 2020.

### HIGHLIGHTS

	As at February 28, 2021	As at February 29, 2020	Change	%
				Change
Number of Schools	3	3	—	—
Student enrollment	48,946	45,617	3,329	7.30%
	Six months ended February 28, 2021 RMB'000	Six months ended February 29, 2020 RMB'000	Change RMB'000	%
				Change
Revenue	445,372	393,705	51,667	13.1%
Gross profit	239,373	225,969	13,404	5.9%
Profit for the period	139,583	138,118	1,465	1.1%
Adjusted net profit <sup>(1)</sup>	156,240	160,887	(4,647)	(2.9%)
Earnings per share (RMB per share)	0.116	0.130	(0.014)	(10.8%)
Gross profit ratio	53.7%	57.4%		
Operating profit ratio	37.7%	41.3%		
Net profit ratio	31.3%	35.1%		
Adjusted net profit ratio <sup>(2)</sup>	35.1%	40.9%		

Notes:

- (1) Adjusted net profit is a non-HKFRSs measure, which is derived from the profit for the period after adjusting the net foreign exchange gain or loss and fair value gains on investment properties.
- (2) Please refer to the section headed “Management Discussion and Analysis — Financial Review” in this announcement for the calculation of operating profit, net profit and pro forma figures.

# MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL REVIEW

### *Revenue*

Revenue represents the value of services rendered during the six months ended February 28, 2021. The Group derives revenue from tuition fees and boarding fees of its schools collect from students. Revenue increased by RMB51.7 million, or 13.1%, from RMB393.7 million for the six months ended February 29, 2020 to RMB445.4 million for the six months ended February 28, 2021. The increase was primarily the result of: (i) revenue from tuition fees increased by RMB44.4 million, or 12.1%, from RMB366.6 million for the six months ended February 29, 2020 to RMB411.0 million for the six months ended February 28, 2021; and (ii) revenue from boarding fees increased by RMB7.3 million, or 26.9%, from RMB27.1 million for the six months ended February 29, 2020 to RMB34.4 million for the six months ended February 28, 2021. The tuition fees increased mainly because: (i) the number of students of Huali College increased from 17,780 in the 2019/2020 academic year to 18,336 in the 2020/2021 academic year; (ii) the number of students of Huali Vocational College increased from 19,779 in the 2019/2020 academic year to 20,753 in the 2020/2021 academic year; (iii) the number of students of Huali Technician College increased from 8,058 in the 2019/2020 academic year to 9,857 in the 2020/2021 academic year; and (iv) the Group raised tuition fees for programs of both Hual College and Huali Vocational College for the 2020/2021 academic year. The boarding fees increased as a result of the increase of the student enrollment.

### *Cost of Sales*

Cost of sales consists primarily of staff costs, depreciation and amortization, joint tuition support fee, school consumables, property management and maintenance, utilities expenses and others. Cost of sales increased by RMB38.3 million, or 22.8%, from RMB167.7 million for the six months ended February 29, 2020 to RMB206.0 million for the six months ended February 28, 2021. Such increase was primarily the result of an increase in staff costs, joint tuition support fee, school consumables and property management and maintenance fees. Staff costs increased by RMB6.3 million, or 11.1%, from RMB56.9 million for the six months ended February 29, 2020 to RMB63.2 million for the six months ended February 28, 2021, primarily as a result of increased salaries and benefits payable to the Group's teachers. School consumables increased by RMB13.5 million, from RMB6.3 million for the six months ended February 29, 2020 to RMB19.8 million for the six months ended February 28, 2021, mainly as a result of the increase of the new books in the school library. Property management and maintenance fees increased by RMB6.5 million, from RMB8.0 million for the six months ended February 29, 2020 to RMB14.5 million, for the six months ended February 28, 2021, mainly as the result of increased property management fee. The joint tuition support fee represents 17% of the total tuition fees Huali College received from students during each academic year. The joint tuition support fee increased by RMB4.0 million, or 11.3%, from 35.5 million for the six months ended February 29, 2020 to RMB39.5 million for the six months ended February 28, 2021, mainly as a result of the increase in revenue from the tuition fees of Huali College.

## ***Gross Profit and Gross Profit Margin***

Gross profit increased by RMB13.4 million, or 5.9% from RMB226.0 million for the six months ended February 29, 2020 to RMB239.4 million for the six months ended February 28, 2021, which was in line with the growth of the Group's business. Gross profit margin decreased from 57.4% for the six months ended February 29, 2020 to 53.7% for the six months ended February 28, 2021, which was mainly due to the increase in the Group's cost of sales surpassing the rate of increase in the Revenue.

## ***Selling Expenses***

Selling expenses, primarily consists of marketing staff costs, promotion expense and other expenses, increased by RMB8.3 million, or 70.9% from RMB11.7 million for the six months ended February 29, 2020 to RMB20.0 million for the six months ended February 28, 2021, which was due to the increase in promotion expenses resulting from the increase in the student enrollment for the 2020/2021 academic year.

## ***Administrative Expenses***

Administrative expenses primarily consists of administrative staff costs, traveling and entertainment expenses, depreciation of property, plant and equipment relating to office buildings, office expenses, utilities expenses and auditor's remuneration and other miscellaneous expenses. Administrative expenses decreased by RMB11.4 million, or 19.7% from RMB58.3 million for the six months ended February 29, 2020 to RMB46.9 million for the six months ended February 28, 2021. Such decrease was primarily due to: (i) the listing expenses decreased by RMB12.5 million, from RMB12.5 million for the six months ended February 29, 2020 to nil for the six months ended February 28, 2021; (ii) the travel and entertainment expenses decreased by RMB2.6 million, or 36.1%, from RMB7.2 million for the six months ended February 29, 2020 to RMB4.6 million for the six months ended February 28, 2021, primarily as a result of the decrease in business related travel expenses and entertainment expenses for the purpose of the business development.

## ***Other Income***

Other income primarily consists of rental income, training service income and government subsidies. Rental income mainly represents the rental in respect of the leasing of certain places to related parties as offices and to a telecommunication company as signal stations, as well as certain of the Group's investment properties, which were leased to a related party as school and third parties as stores respectively. Other income increased by RMB6.1 million, from RMB4.5 million for the six months ended February 29, 2020 to RMB10.6 million for the six months ended February 28, 2021 which was mainly due to the increase in rental income and training service income for the six months ended February 28, 2021.

### ***Other Gains/(Losses)***

Other gains primarily consist of gains arising from the change in fair value of investment properties as well as exchange loss. Other gains/(losses) decreased by RMB17.2 million, from gains of amounting to RMB1.9 million for the six months ended February 29, 2020 to losses of amounting to RMB15.3 million for the six months ended February 28, 2021, which was due to the increase of exchange loss.

### ***Finance Expenses — Net***

Finance income primarily consists of bank interest income. Finance expenses primarily consists of interest expenses on borrowings. Due to the increased average borrowings during the six months ended February 28, 2021, and was offset by the decrease of the interest expenses on discount of amounts due to a related party, the Group's total interest expenses decreased by RMB4.6 million compared to that of the six months ended February 29, 2020. While certain borrowings were borrowed for the development of school premises, the corresponding interest was capitalized and resulted in a decrease in finance costs.

### ***Adjusted Net Profit***

Adjusted net profit was derived from the profit for the period after adjusting the change in fair value of investment property and exchange gain or loss which are not indicative of the Group's operational performance. This is a non-HKFRSs measure. The Group presents this item because the Group considers it an important supplemental measure of the Group's operational performance used by its management, analysts and investors. The following table reconciles profit for the period to adjusted net profit for the period for the six months ended February 29, 2020 and February 28, 2021:

	<b>As at February 28 2021 RMB'000</b>	<b>As at February 29 2020 RMB'000</b>	<b>Change RMB'000</b>	<b>% Change</b>
<b>Profit for the period</b>	<b>139,583</b>	138,118	1,465	1.1%
Add: Exchange loss	<b>17,357</b>	—	17,357	N/A
Add: Listing expenses	—	12,453	(12,453)	N/A
Add: Interest expenses on discount of amounts due to a related party	—	11,816	(11,816)	N/A
Less: Fair value gains on investment properties	<b>(700)</b>	(1,500)	(700)	(46.7%)
<b>Adjusted net profit for the period</b>	<b><u>156,240</u></b>	<b><u>160,887</u></b>	<b><u>(4,647)</u></b>	<b><u>(2.9%)</u></b>

Adjusted net profit decreased by RMB4.6 million, or 2.9%, from RMB160.9 million for the six months ended February 29, 2020 to RMB156.2 million for the six months ended February 28, 2021.

## ***Capital Expenditures***

Capital expenditures during the six months ended February 28, 2021 primarily related to the establishment of new school premises, maintaining and upgrading existing school premises and purchasing additional educational facilities and equipment for its schools. For the six months ended February 28, 2021, the Group's capital expenditures were RMB647.2 million.

## ***Liquidity, Financial Resources and Gearing Ratio***

The Group's primary uses of cash are to fund its working capital requirements, purchase of property, plant and equipment, loan repayment and related interest expenses. As at the date of this announcement, the Group has funded its operations principally with the cash generated from its operations, borrowings, shareholder contributions and net proceeds from the Listing. In the future, the Group believes that its liquidity requirements will be satisfied with a combination of cash flows generated from its operating activities, bank loans, other borrowings and other funds raised from the capital markets from time to time. As at February 28, 2021, the Group had cash and cash equivalents of RMB573.7 million.

The balance of borrowings as at February 28, 2021 was RMB2,058.5 million, in which borrowings of RMB1,711.3 million are repayable within five years. With unused banking facilities totaling RMB497.6 million as at February 28, 2021, the Group had adequate liquidity to meet its daily management and capital expenditure requirements and is able to control its internal operating cash flows.

As at February 28, 2021, the gearing ratio, which is calculated on the basis of total borrowings and amounts due to related parties divided by total equity of the Group, was 76% (as at August 31, 2020: 67%).

## ***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. During the six months ended February 28, 2021, the court has dismissed the claim, and the plaintiff claimed for appeal. Up to the date of this announcement, this appeal 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 condensed consolidated interim financial information as at February 28, 2021.

Except for the aforementioned lawsuit, as at February 28, 2021, 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 February 28, 2021, we had an aggregate of 48,946 students enrolled at our three schools, namely Huali College, Huali Vocational College and Huali Technician College.

Our schools offer private higher education and private vocational education in a wide range of fields in applied sciences with an aim to prepare our students with the necessary knowledge base, skill sets and accreditations to secure jobs and pursue careers in particular professions, trades and industries. As at February 28, 2021, we offered 34 undergraduate programs, 37 junior college programs, and 36 vocational programs.

### ***Major Business Development During the Reporting Period***

**Intermediate progresses have been made for the conversion of independent colleges.** The MOE 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. During the six months ended February 28, 2021, the Group made steady progress in the Conversion of the independent college, Huali College.

For details, please refer to the sub-section headed “Latest update in relation to the Conversion of Huali College” below.

### ***Our Schools***

We operate three schools in Guangdong Province, all of which grant government-accredited degrees or certifications, including:

- Huali College: a private independent college, offering four- to five-year undergraduate programs<sup>(1)</sup> granting bachelor degrees accredited by the MOE;
- Huali Vocational College (including Zengcheng campus and Yunfu campus): a formal higher education institution, offering three-year vocational programs granting junior college diplomas accredited by the MOE; and

- Huali Technician College (including Zengcheng campus and Yunfu campus): a private technician school primarily offering three-year, full-time vocational programs<sup>(2)</sup> granting technician diplomas of Huali Technician College accredited by the Department of Human Resources and Social Security of Guangdong Province and short-term intensive vocational programs.

Notes:

- (1) Generally, Huali College offers four-year undergraduate programs, and a five-year undergraduate program in architecture.
- (2) Generally, Huali Technician College offers three-year vocational programs, as well as two-, four- and five-year programs to students of different education levels pursuing different types of technician diplomas of Huali Technician College.

### ***Student Enrollment***

As at February 28, 2021, we had an aggregate of 48,946 students<sup>(1)</sup> enrolled in our three schools, comprising 18,336 students at Huali College, 20,753 students at Huali Vocational College and 9,857 students at Huali Technician College.

<b>School</b>	<b>As at February 28, 2021</b>	<b>As at February 29, 2020</b>	<b>Change</b>	<b>% Change</b>
<b>Huali College</b>	<b>18,336</b>	17,780	556	3.13%
<b>Huali Vocational College</b>	<b>20,753</b>	19,779	974	4.92%
— Zengcheng campus	<b>16,461<sup>(2)(3)</sup></b>	18,728 <sup>(4)</sup>	(2,267)	(12.10%)
— Yunfu campus	<b>4,292</b>	1,051	3,241	308.37%
<b>Huali Technician College</b>	<b>9,857</b>	8,058	1,799	22.33%
— Zengcheng campus	<b>8,093</b>	6,921	1,172	16.93%
— Yunfu campus	<b>1,764</b>	1,137	627	55.15%
<b>Total</b>	<b><u>48,946</u></b>	<b><u>45,617</u></b>	<b>3,329</b>	<b>7.30%</b>

Notes:

- (1) Including 1,288 students of Huali Technician College who also take junior college courses at Huali Vocational College (the “**Continuing Education Program**”) and obtain a junior college diploma awarded by Huali Vocational College, subject to, among other things, passing the National Higher Education Entrance Exam for Adults. Each student participating in the Continuing Education Program is required to pay additional tuition fee of RMB3,000 to Huali Vocational College. In order to reflect such business practice, the number of students of Huali Technician College who also participate in the Continuing Education Program was included in the number of students of Huali Vocational College, and the revenue from the additional tuition fees paid for the Continuing Education Program was fully included in the revenue from tuition fees of Huali Vocational College and Huali Technician college.
- (2) Including 1,299 students who are social personnel enrolled under the national policy of enrollment expansion of Higher Vocational Education, having passed the exam designed independently by Huali Vocational College. These students shall pay tuition fee of RMB8,000 per academic year to Huali Vocational College, and take junior college courses mainly through on-line and obtain a junior college diploma awarded by Huali Vocational College upon graduation.
- (3) Including 1,288 students of Huali Technician College who also participate in the Continuing Education Program.
- (4) Including 5,583 students of Huali Technician College who also participate in the Continuing Education Program.

## ***Tuition Fees and Boarding Fees***

For the six months ended February 28, 2021, the Group's schools recorded revenue growth when compared with the corresponding period in the last year, which was in line with the expansion of its business and student enrollment. Revenue increased from RMB393.7 million for the six months ended February 29, 2020 to RMB445.4 million for the six months ended February 28, 2021. The Group typically charged students fees comprising tuition fees and boarding fees, and tuition fees remained as its major revenue, accounting for approximately 92.3% of the total revenue of the Group for the six months ended February 28, 2021.

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

	<b>Six months ended February 28, 2021 RMB'000</b>	<b>Six months ended February 29, 2020 RMB'000</b>	<b>Change RMB'000</b>	<b>% Change</b>
<b>Tuition fees</b>				
Huali College	<b>231,487</b>	208,501	22,986	11.0%
Huali Vocational College	<b>123,241</b>	111,346	11,895	10.7%
Huali Technician College	<b>56,195</b>	46,725	9,470	20.3%
	<b>410,923</b>	366,572	44,351	12.1%
<b>Boarding fees</b>				
Huali College	<b>14,495</b>	13,351	1,144	8.6%
Huali Vocational College	<b>13,417</b>	9,386	4,031	42.9%
Huali Technician College	<b>6,537</b>	4,396	2,141	48.7%
	<b>34,449</b>	27,133	7,316	27.0%
<b>Total Revenue</b>	<b>445,372</b>	393,705	51,667	13.1%

The increase in the total revenue of the Group for the six months ended February 28, 2021 was mainly due to the increase in student enrollment and average tuition fees.

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

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

*Notes:*

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

During the six months ended February 28, 2021, our boarding fee rates ranged from RMB600 to RMB6,000 per academic year depending on the location, room size and number of students housed in each room. Especially, we offered some studio apartments since the academic year 2020/2021, for which the boarding fee rates range from RMB3,000 to RMB6,000 per academic year.

### *School Utilization Rate*

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

	Academic Year	
	2020/2021	2019/2020
<b>Zengcheng Campuses</b>		
Capacity	<b>30,079</b>	29,203
Utilization Rate	<b>93.4%</b>	93.1%
<b>Yunfu Campuses</b>		
Capacity	<b>8,000</b>	8,000
Utilization Rate	<b>66.7%</b>	25.0%

### *Awards and Recognitions Received During the Reporting Period*

The Company and the three schools received numerous awards and recognitions during the six months ended February 28, 2021 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.

	<b>Award/ Recognition</b>	<b>Awarding Organization(s)</b>	<b>Awarded Entity</b>
September, 2020	Best IR Company for an IPO	Hong Kong Investor Relations Association	Company
September, 2020	Outstanding Contribution Institution for the 40th Anniversary of Guangdong Private Education (“廣東民辦 教育四十周年突出貢獻機構”)	Guangdong Private Education Association (廣東省民辦教育 協會)	Huali Vocational College
September, 2020	Outstanding Contribution Institution for the 40th Anniversary of Guangdong Private Education (“廣東民辦 教育四十周年突出貢獻機構”)	Guangdong Private Education Association (廣東省民辦教育 協會)	Huali Technician College

### ***Latest update in relation to the Conversion of Huali College***

On January 28, 2021, GDUT, Huali Investment and Huali College entered into a transitional cooperation agreement (the “**Transitional Cooperation Agreement**”) with Huali College Guangdong University of Technology. 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.

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 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.

The Company is of the view that:

- (i) after the Conversion of Huali College, the newly established private general undergraduate college will no longer required to 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.

Please refer to the announcement of the Company dated January 28, 2021 for the details of Conversion.

### ***Impact of the COVID-19 pandemic on the Group***

In the face of the Novel Coronavirus Disease 2019 (“**COVID-19**”) outbreak during six months ended February 28, 2021, the Group has put in place certain prevention and control measures for students since the kick off of school year, which include the implementation of strengthening epidemic prevention and personnel temperature monitoring. The students returned to school for class in September, 2021.

In view of the implementation of the above mentioned action plans, the management has assessed and preliminarily concluded that at this stage, there was no significant impact on the financial position of the Group subsequent to the six months ended February 28, 2021 and up to the date of this announcement.

The Directors will continue to assess the impact of the pandemic on the Group’s business operations and financial performance and closely monitor the Group’s exposure to the risks and uncertainties in connection with the pandemic.

## OUTLOOK

### (i) *Endogenous growth — Development of New Campuses*

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

**Jiangmen Binhai campus:** Profiting from the policy of increasing the gross enrollment rate of higher education, as well as to meet the growing demand of students, the Group has entered into an agreement with the Jiangmen Xinhui District Government, Xinhui Branch, which will provide up to 1,258 Mu of land to the Group to build a new campus for Huali College, which is expected to accommodate 25,000 students. During the six months ended February 28, 2021, the Group acquired a second parcel of land in Xinhua District, Jiangmen City, a total site area of 298,456 sq.m. (approximately 448 Mu). The first phase of land is expected to accommodate 4,100 students and to be put into use in September 2021. After the commencement of the operation of the first-phase campus, the second phase to be constructed in the future.

**Jiangmen Yamen campus:** The construction of the new campus of Huali Technician College in Jiangmen City, has been proceeding as new planned, the first phase is expected to commence construction in September, 2021 and to be put into use in September 2022, which is expected to accommodate 2,500 students. The new campus is expected to accommodate 10,000 students after completion.

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

### (ii) *Endogenous growth — Strategic Deployment of Vocational training*

#### *Diversification of Education Services*

- (1) The Group signed a comprehensive strategic cooperation agreement with Often Education, the leader of China's multi category vocational education and training, on September 28, 2020. The cooperation include broadening the education mode, cooperating in the development of Chartered Financial Analyst, Certified Public Accountant, the Association of Chartered Certified Accountants and other internationally recognized certificate training courses The Group and Often Education will work together to promote the integration of production and education, and support the optimization of discipline construction and vocational skills training of the Group.
- (2) On November 3, 2020, Huali College signed an industrial college cooperation agreement with Zhongkeqidi Optoelectronic Technology Co., Ltd., a high-tech enterprise, to carry out comprehensive cooperation in the construction of computer science and technology, network engineering, virtual simulation and other professional courses, personnel training and the establishment of practical training base for graduates.
- (3) Huali College signed an Industry-University-Research Collaboration agreement with Asia Architecture ad Urbanism Alliance (AAUA) on December 10, 2020. Pursuant to the agreement, the contractual parties will jointly develop further cooperation in architectural

personnel training, major co-construction, the development of courses and teaching resources and employment services, thereby achieving the college and enterprise joint cultivation mode for students.

- (4) Huali College signed a comprehensive cooperation agreement with Alibaba Cloud, the world's leading cloud computing and artificial intelligence technology company on January 25, 2021. The contractual parties will jointly carry out the construction of Alibaba Cloud training base of Huali College and promote the integration of production and education. Huali College accepted the award of "Alibaba Cloud big data laboratory".

The Group continues to cooperate with industry-leading institutions to offer vocational qualification skills training courses, which will become a new revenue driver for the Group. The Group expects that the revenue of this business segment will achieve a considerable growth from the financial year 2021. It has providing courses in Computer Aided Design Engineer certification certificate, Building Information Modeling skill level examination certificate, the Association of Chartered Certified Accountants, Computerized Numerical Control Miller Machine and electrician.

***(iii) Further Optimizing the pricing of tuition fees and boarding fees***

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

***(iv) Expanding the Group's network through mergers and acquisitions***

Besides robust endogenous growth, the Group has also been looking for mergers and acquisitions to expand the Group's school network coverage. The Group will seek mergers and acquisitions focus on: (1) independent colleges which meet the acquisition requirements; (2) private regular undergraduate institutions; and (3) high-quality regular junior colleges which have the potential of upgrading to undergraduate institutions.

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

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

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

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

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

Purpose	%	Net Proceed RMB' Million	Utilized	Unutilized	Expected
			amount As at February 28, 2021 RMB' Million	amount As at February 28, 2021 RMB' Million	timeline for utilizing the remaining net proceeds
Expansion of existing schools by constructing additional buildings for Huali College and Huali Vocational College	53.0%	451.0	(265.8)	185.2	2022–2023
Establishment of a new junior college in Jiangmen City, Guangdong Province	37.0%	314.8	(32.7)	282.1	2021–2022
Working capital and general corporate purposes	10.0%	85.1	(85.1)	—	2021–2022
<b>Total</b>	<b>100.0%</b>	<b>850.9</b>	<b>(383.6)</b>	<b>467.3</b>	

## EMPLOYEES AND REMUNERATION POLICIES

### *Recruitment*

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

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

Our schools carry out their recruitment works based on our employee manual and our teachers' recruitment policy, and continuously improve and refine their recruitment processes. We actively approach talents through participating in talent recruitment fairs and industry conferences, and encouraging 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 February 28, 2021, the Group had 2,203 employees. The remuneration packages of the employees of the Group are determined with reference to individual qualification, experience, 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 law and is also based on the 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 fixed annual salary to senior management and top talents such as directors, deans/department heads, administrative heads and professors. Schools participate in social insurance plans (pension, medical, unemployment, work injury and maternity insurance) under the guidance of the relevant national, provincial and municipalities policies, and provide a variety of benefits for their employees.

## **INTERIM DIVIDEND**

The Board resolves not to declare the payment of any interim dividend for the six months ended February 28, 2021 (six months ended February 29, 2020: RMB0.051 per Share, totaling approximately RMB61.6 million).

## **CORPORATE GOVERNANCE PRACTICES**

The Company has applied the principles of the code provisions set out in the CG Code. During the six months ended February 28, 2021, 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.

## **SUBSEQUENT EVENTS AFTER THE REPORTING PERIOD**

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

## **MODEL CODE FOR SECURITIES TRANSACTIONS**

The Company has adopted the Model Code as the Group's code of conduct to regulate the securities transactions of the Directors and the relevant employees of the Group who, because of his/her office or employment, is likely to possess inside information in relation to the Group or the Company's securities. Having made specific enquiries, all Directors confirmed that they had complied with the required standards set out in the Model Code throughout the six months ended February 28, 2021. In addition, the Company is not aware of any non-compliance of the Model Code by the relevant employees of the Group during the six months ended February 28, 2021.

## **PURCHASE, SALES OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Shares during the six months ended February 28, 2021.

## **AUDIT COMMITTEE AND REVIEW OF UNAUDITED CONSOLIDATED FINANCIAL INFORMATION**

The Audit Committee consists of three independent non-executive Directors, namely Ms. Chiu Lai Kuen Susanna, M.H., J.P., (Chairperson) Mr. Yang Ying and Mr. Ding Yi. The main duties of the Audit Committee are to assist the Board in providing an independent review of the completeness, accuracy and fairness of the financial information of the Group, as well as the efficiency and effectiveness of the Group's operations and internal controls. The Audit Committee has reviewed the unaudited consolidated financial statements of the Group for the six months ended February 28, 2021, including the accounting principles and practices adopted by the Group.

## **AUDITOR AND REVIEW OF UNAUDITED CONSOLIDATED FINANCIAL INFORMATION**

The unaudited condensed consolidated financial information of the Group for the six months ended February 28, 2021 has been reviewed by PricewaterhouseCoopers in accordance with Hong Kong Standard on Review Engagement 2410 "Review of Interim Financial Information Performed by the Independent Auditor of Entity" issued by the Hong Kong Institute of Certified Public Accountants.

## **PUBLICATION OF THE INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT**

This interim results announcement is published on the websites of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company ([www.hualiuniversity.com](http://www.hualiuniversity.com)). The interim report of the Company for the six months ended February 28, 2021 will be despatched to the Shareholders and made available on the same websites in due course.

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED FEBRUARY 28, 2021

(All amounts expressed in RMB unless otherwise stated)

		<b>Six months ended</b>	
	<i>Note</i>	<b>February 28, 2021 RMB'000 (Unaudited)</b>	<b>February 29, 2020 RMB'000 (Unaudited)</b>
Revenue	6	445,372	393,705
Cost of sales	9	<u>(205,999)</u>	<u>(167,736)</u>
<b>Gross profit</b>		<b>239,373</b>	<b>225,969</b>
Selling expenses	9	(19,976)	(11,695)
Administrative expenses	9	(46,866)	(58,340)
Other income	7	10,600	4,547
Other (losses)/gains — net	8	<u>(15,344)</u>	<u>1,940</u>
<b>Operating profit</b>		<b>167,787</b>	<b>162,421</b>
Finance income		5,621	3,983
Finance expenses		<u>(22,015)</u>	<u>(26,629)</u>
Finance expenses — net	10	<u>(16,394)</u>	<u>(22,646)</u>
<b>Profit before income tax</b>		<b>151,393</b>	<b>139,775</b>
Income tax expenses	11	<u>(11,810)</u>	<u>(1,657)</u>
<b>Profit for the period</b>		<b><u>139,583</u></b>	<b><u>138,118</u></b>
Other comprehensive income for the period		—	—
<b>Total comprehensive income</b>		<b><u>139,583</u></b>	<b><u>138,118</u></b>
<b>Profit and other comprehensive income attributable to:</b>			
— Owner of the Company		<u>139,583</u>	<u>138,118</u>
<b>Earnings per share for profit attributable to owner of the Company (expressed in RMB per share)</b>			
Basic and diluted	12	<u>0.116</u>	<u>0.130</u>

# INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

AS AT FEBRUARY 28, 2021

(All amounts expressed in RMB unless otherwise stated)

	<i>Note</i>	As at February 28, 2021 <i>RMB'000</i> (Unaudited)	As at August 31, 2020 <i>RMB'000</i> (Audited)
<b>ASSETS</b>			
<b>Non-current assets</b>			
Right-of-use assets		1,166,408	1,060,506
Property, plant and equipment		3,353,386	2,805,085
Investment properties		152,546	135,000
Intangible assets		22,595	12,404
Other financial assets at amortized cost		—	6,353
Prepayments		244,993	133,116
		<u>4,939,928</u>	<u>4,152,464</u>
<b>Current assets</b>			
Prepayments		439	190
Trade and other receivables	14	37,763	12,519
Amounts due from related parties		25,328	16,766
Other financial assets at amortized cost		6,216	—
Restricted cash		11,205	11,205
Cash and cash equivalents		573,712	865,062
		<u>654,663</u>	<u>905,742</u>
<b>Total assets</b>		<u><u>5,594,591</u></u>	<u><u>5,058,206</u></u>
<b>EQUITY</b>			
Share capital and share premium		714,456	789,576
Statutory surplus reserves		123,186	123,186
Other reserves		336,118	336,118
Retained earnings		1,567,521	1,427,938
<b>Total equity</b>		<u>2,741,281</u>	<u>2,676,818</u>

	<i>Note</i>	As at <b>February 28, 2021</b> <i>RMB'000</i> <b>(Unaudited)</b>	As at August 31, 2020 <i>RMB'000</i> <b>(Audited)</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Accruals and other payables	15	28,712	7,141
Borrowings		1,863,076	1,622,731
Deferred income tax liabilities		38,446	36,461
		<u>1,930,234</u>	<u>1,666,333</u>
<b>Current liabilities</b>			
Accruals and other payables	15	269,022	270,616
Amounts due to related parties	15	27,181	21,251
Contract liabilities		415,416	271,771
Current income tax liabilities		15,945	6,200
Deferred revenue		133	—
Borrowings		195,379	145,217
		<u>923,076</u>	<u>715,055</u>
<b>Total liabilities</b>		<u>2,853,310</u>	<u>2,381,388</u>
<b>Total equity and liabilities</b>		<u>5,594,591</u>	<u>5,058,206</u>

# NOTES

## FOR THE SIX MONTHS ENDED FEBRUARY 28, 2021

### 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 Act (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. The directors of the Company (“**Directors**”) consider the ultimate controlling party to be Mr. Zhang Zhifeng, who is also an executive director and the chairman of the Company (the “**Owner**”).

The Company’s shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”).

This interim condensed consolidated financial information (the “**Interim Financial Information**”) is presented in Renminbi (“**RMB**”), unless otherwise stated. The Interim Financial Information was approved for issue by the board of Directors on April 16, 2021 and has not been audited.

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 the condensed consolidated interim financial information are authorized for issue, COVID-19 doesn’t have any material adverse impact on the financial position and operating result of the Group.

## *Significant event*

On January 28, 2021, Guangdong University of Technology, Guangzhou Huali Investment Company Limited (“**Huali Investment**”), being the Joint Sponsors of Huali College Guangdong University of Technology, the operating entity of the Group, and Huali College Guangdong University of Technology (“**Huali College**”) entered into the Transitional Cooperation Agreement of Huali College (the “**Transitional Cooperation Agreement**”), which has set out certain arrangements in relation to the management of Huali College during the transitional period of the conversion of Huali College into an independently established private general undergraduate college in the PRC (the “**Conversion of Huali College**”). Pursuant to the Transitional Cooperation Agreement, Huali Investment and Huali College have agreed to pay a compensation fee in an aggregate amount of RMB160,000,000 to Guangdong University of Technology in three installments of which RMB53,340,000, RMB53,330,000 and RMB53,330,000 shall be paid by October 31, 2021, October 31, 2022 and October 31, 2023, respectively. The Transitional Cooperation Agreement is yet to be effective until the Conversion of Huali College is completed and approved by the Ministry of Education of the PRC.

After the Conversion of Huali College, a new private general undergraduate college will be established to take up the business previously operated by Huali College, and Huali Investment will become the sole sponsor of the new college. Thus, existing contractual arrangements entered into among the wholly-owned subsidiary of the Company, Xizang Huali Shengda Information Technology Limited (“**XZ Huali**”), the Huali College, Guangzhou Huali Science and Technology Vocational College and Guangdong Province Huali Technician College (collectively the “**PRC Operating Entities**”) and the legal owner of the PRC Operating Entities are expected to be renewed accordingly.

Up to the date of this report, the Conversion of Huali College is still in progress and expected to be completed in June 2021, thus this condensed consolidated interim financial information does not reflect the compensation payable.

## **2 Basis of preparation**

This Interim Financial Information for the six months ended February 28, 2021 has been prepared in accordance with Hong Kong Accounting Standard 34, “Interim financial reporting” issued by Hong Kong Institute of Certified Public Accountants (“**HKICPA**”). This Interim Financial Information should be read in conjunction with the annual consolidated financial statements for the year ended August 31, 2020 (“**2020 Financial Statements**”) and any public announcement made by the Company during the six months ended February 28, 2021.

As at February 28, 2021, the Group had net current liabilities of RMB268,413,000, and capital commitment in relation to construction and acquisition of property, plant and equipment within twelve months amounted to RMB184,062,000. The Group’s total borrowings as at February 28, 2021 amounted to RMB2,058,455,000 of which RMB195,379,000 are repayable within the coming twelve months and interest payable amounting to RMB92,440,000 is expected to be accrued and paid within the coming twelve months, while its cash and cash equivalents amounted to RMB573,712,000 as at the same date.

Management closely monitors the Group's financial performance and liquidity position. A number of measures have been put in place by management to improve the financial position and alleviate the liquidity pressure. As at February 28, 2021, the Group had unused banking facilities totaling RMB497,559,000. Management is of the opinion that such banking facilities are adequate for the capital expenditure and working capital purpose of the Group covering a period for more than twelve months from February 28, 2021.

Also, management has prepared cash flow projections of the Group covering a period of not less than twelve months from February 28, 2021 on the basis that (i) the Group will continue to generate operating cash inflows; and (ii) there is continuous availability of the bank facilities.

The Directors have reviewed the Group's cash flow projection and have made due enquiries and considered the basis and assumptions of management's projections as described above. The Directors are of the opinion that, taking into account the Group's future operational performance and the expected future operating cash inflows; and the continuous availability of bank facilities, the Group will have sufficient financial resources to support its operations and to meet its financial obligations as and when they fall due in the coming twelve months from February 28, 2021. Accordingly, the Interim Financial Information has been prepared on a going concern basis.

### **3 Accounting policies**

The accounting policies applied are consistent those of the previous financial year and corresponding interim reporting period, except for the adoption of new and amended standards as set out below and estimation of income tax as disclosed in Note 11.

#### ***(a) New and amended standards adopted by the Group***

The Group has applied the following standards and amendments for the first time for the reporting period commencing September 1, 2020:

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

The adoption of the amendments to standards does not have any significant impact to the results and financial position of the Group.

(b) Certain new accounting standards and interpretations have been published that are not mandatory for February 28, 2021 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
HKFRS 3 (Amendment)	Business combinations	January 1, 2022
HKAS 16 (Amendment)	Property, plant and equipment	January 1, 2022
HKAS 37 (Amendment)	Provisions, contingent liabilities and contingent assets	January 1, 2022
Annual improvements	Annual Improvements to HKFRS standards 2018–2020 cycle	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

#### 4 Estimates and assumption

The preparation of the Interim Financial Information requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this Interim Financial Information, the significant judgments were made by management in applying the Group’s accounting policies and the key sources of estimation. Estimates and assumption were the same as those that applied to the 2020 Financial Statements except for the assumption of the revision of useful lives of property, plant and equipment as disclosed in Note 4.1.

#### ***4.1 Revision of useful lives of property, plant and equipment***

In view of enhanced maintenance measures taken for the school buildings in recent years and better quality framework and materials applied for the constructions, the Group revised the estimated total useful lives of certain categories of school buildings. The estimated useful lives of these buildings have been changed from 40 years to 50 years. The change has been applied prospectively from September 1, 2020.

Assuming the assets are held until the end of their estimated useful lives, the net effect of the changes in the current period was a decrease in depreciation expense of RMB5,314,000.

### **5 Financial risk management**

#### ***5.1 Financial risk factors***

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, cash flow interest rate risk and fair value interest rate risk) and liquidity risk.

This Interim Financial Information does not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the 2020 Financial Statements.

There have been no changes in any risk management policies during the six months ended February 28, 2021.

#### ***5.2 Liquidity risk***

To manage the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The Group expects to continue to fund its future cash flow needs through internally generated cash flows from operations and borrowings from financial institutions.

The table below analyzes the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year <i>RMB'000</i>	Between 1 and 2 years <i>RMB'000</i>	Between 2 and 5 years <i>RMB'000</i>	Over 5 years <i>RMB'000</i>	Total <i>RMB'000</i>
<b>As at February 28, 2021</b>					
<b>(Unaudited)</b>					
Bank borrowings (principal plus interests)	287,819	365,606	1,363,958	385,034	2,402,417
Accruals and other payables (excluding non-financial liabilities)	254,093	29,113	—	—	283,206
Amounts due to related parties	27,181	—	—	—	27,181
<b>Total</b>	<b><u>569,093</u></b>	<b><u>394,719</u></b>	<b><u>1,363,958</u></b>	<b><u>385,034</u></b>	<b><u>2,712,804</u></b>
<b>As at August 31, 2020</b>					
<b>(Audited)</b>					
Bank borrowings (principal plus interests)	230,889	242,947	1,182,300	447,597	2,103,733
Accruals and other payables (excluding non-financial liabilities)	259,809	—	8,020	—	267,829
Amounts due to related parties	21,251	—	—	—	21,251
<b>Total</b>	<b><u>511,949</u></b>	<b><u>242,947</u></b>	<b><u>1,190,320</u></b>	<b><u>447,597</u></b>	<b><u>2,392,813</u></b>

### 5.3 Fair value estimation

Financial instruments carried at fair value or where fair value was disclosed can be categorized by levels of the inputs to valuation techniques used to measure fair value. The inputs are categorized into three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The carrying amounts of the Group’s financial assets including cash and cash equivalents, restricted cash, trade and other receivables, amounts due from related parties and other financial assets at amortized cost and financial liabilities including accruals and other payables, amounts due to related parties, and current borrowings, approximate their fair values due to their short maturities. The carrying amount for non-current borrowings approximated their fair values as they were carried at floating interest rates or the impact of discounting is not significant for those carried at fixed interest rates.

## 6 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 director 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 period of the Group as presented in the consolidated statements of comprehensive income. No analysis of the Group’s assets and liabilities is regularly provided to the management of the Group for review.

Approximately 85% of the carrying values of the Group’s assets are situated in the PRC mainland. All of the Group’s revenue are derived from activities in, and from customers located in the PRC mainland and no geographical segment analysis is prepared.

Revenues for the six months ended February 28, 2021 and February 29, 2020 are as follows:

	<b>Six months ended</b>	
	<b>February 28, 2021</b>	February 29, 2020
	<b><i>RMB’000</i></b>	<i>RMB’000</i>
	<b>(Unaudited)</b>	(Unaudited)
Recognized over time		
— Tuition fees	<b>410,923</b>	366,572
— Boarding fees	<b>34,449</b>	27,133
	<b><u>445,372</u></b>	<u>393,705</u>

Tuition fees and boarding fees are recognized proportionately over each academic year. No customers individually accounted for more than 10% of the Group’s revenue during the six months ended February 28, 2021 and February 29, 2020.

## 7 Other income

	Six months ended	
	February 28, 2021 <i>RMB'000</i> (Unaudited)	February 29, 2020 <i>RMB'000</i> (Unaudited)
Rental income	5,612	3,735
Training income	2,582	—
Service income from a related party	1,165	—
Others	1,241	812
	<u>10,600</u>	<u>4,547</u>

## 8 Other (losses)/gains — net

	Six months ended	
	February 28, 2021 <i>RMB'000</i> (Unaudited)	February 29, 2020 <i>RMB'000</i> (Unaudited)
Exchange loss	(17,357)	—
Fair value gains on investment properties	700	1,500
Losses on disposals of property, plant and equipment	—	(224)
Others	1,313	664
	<u>(15,344)</u>	<u>1,940</u>

## 9 Expenses by nature

	<b>Six months ended</b>	
	<b>February 28, 2021 RMB'000 (Unaudited)</b>	<b>February 29, 2020 RMB'000 (Unaudited)</b>
Employee benefit expenses	<b>92,280</b>	84,251
Joint tuition support fees ( <i>Note a</i> )	<b>39,468</b>	35,538
Depreciation of property, plant and equipment	<b>35,783</b>	37,832
School consumables	<b>19,835</b>	6,270
Depreciation of right-of-use assets	<b>17,944</b>	15,162
Promotion expenses	<b>17,845</b>	9,626
Property management fees	<b>14,100</b>	5,069
Utilities expenses	<b>9,465</b>	7,448
Office expenses	<b>6,498</b>	5,915
Travel and entertainment expenses	<b>4,551</b>	7,230
Rental expenses	<b>3,126</b>	864
Other taxes	<b>2,555</b>	721
Amortization of intangible assets	<b>2,044</b>	803
Insurance expenses	<b>1,348</b>	789
Training expenses	<b>607</b>	514
Auditors' remuneration	<b>449</b>	475
Equipment maintenance fees	<b>404</b>	2,901
Listing expenses	<b>—</b>	12,453
Other expenses	<b>4,539</b>	3,910
	<hr/>	<hr/>
<b>Total cost of sales, selling expenses and administrative expenses</b>	<b>272,841</b>	<b>237,771</b>
	<hr/> <hr/>	<hr/> <hr/>

- (a) A group entity entered into an agreement of Cooperation with Guangdong University of Technology, a third party, under which the Group would pay joint tuition support fees to Guangdong University of Technology in each academic year based on 17% of the tuition income of Huali College.

## 10 Finance expenses — net

	<b>Six months ended</b>	
	<b>February 28, 2021</b>	February 29, 2020
	<b>RMB'000</b>	<b>RMB'000</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
Finance expenses:		
— Interest expenses on bank borrowings	42,405	31,154
— Interest expenses on other borrowings due to a related party	2,910	—
Less: bank borrowing costs capitalized in property, plant and equipment	(23,300)	(16,341)
— Interest expenses on discount of amounts due to a related party	—	11,816
	<u>22,015</u>	<u>26,629</u>
Finance income:		
— Bank interest income	(5,621)	(3,983)
Net finance expenses	<u>16,394</u>	<u>22,646</u>

## 11 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 Act 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 period.

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

The CIT rate applicable to the Group 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 period and up to date of this report, based on the historical tax returns filed to the relevant tax authorities, the colleges within the Group have historically enjoyed preferential tax treatment since their establishment.

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

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

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. The Group is liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated in the periods subsequent to January 1, 2008.

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

No provision for USA corporate income tax was provided as the Group did not have assessable profits in USA during the period.

- (e)*** Income tax expenses recognised based on management’s estimate of the weighted average effective annual income tax rate expected for the full financial year. The estimated average annual tax rate used for the six months ended February 28, 2021 is 6.8% (six months ended February 29, 2020: 1.2%).

## Analysis of the Group's Income tax expenses:

	<b>Six months ended</b>	
	<b>February 28, 2021 RMB'000 (Unaudited)</b>	<b>February 29, 2020 RMB'000 (Unaudited)</b>
Current tax on profits for the period ( <i>Note i</i> )	9,825	743
Deferred income tax ( <i>Note ii</i> )	534	914
Deferred withholding tax ( <i>Note iii</i> )	1,451	—
	<u>11,810</u>	<u>1,657</u>

- (i) Current tax on profits for the period mainly represent tax imposed on boarding fees recognized by Huali Investment, services income earned by wholly foreign owned subsidiaries of the Group from the PRC Operating Entities, joint tuition income from two universities, and other taxable subsidies.
- (ii) Deferred income tax represents tax on the revaluation gains of investment properties and timing differences on recognition of rental income.
- (iii) As at February 28, 2021, deferred income tax liabilities of RMB1,451,000 was recognized on the temporary differences arising from the services income earned by wholly foreign owned subsidiaries of the Company from the PRC Operating Entities.

As at February 28, 2021 and August 31, 2020, deferred income tax liabilities of RMB143,989,000 and RMB131,741,000 have not been recognized for the withholding tax that would be payable on the unremitted earnings amounted to RMB1,693,986,000 and RMB1,549,900,000 of the PRC Operating Entities, respectively. Such earnings are expected to be retained by the PRC Operating Entities for reinvestment purposes and would not be remitted to the school sponsor in the foreseeable future based on management's estimation of overseas funding requirements.

## 12 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 period.

	<b>Six months ended</b>	
	<b>February 28, 2021 (Unaudited)</b>	<b>February 29, 2020 (Unaudited)</b>
Profit attributable to owner of the Company (RMB'000)	139,583	138,118
Weighted average number of ordinary shares in issue (thousands shares)	<u>1,200,000</u>	<u>1,059,000</u>
Basic earnings per share (expressed in RMB per share)	<u>0.116</u>	<u>0.130</u>

**(b) Diluted**

Diluted earnings per share presented is the same as the basic earnings per share as there were no potentially dilutive ordinary shares issued during the period.

**13 Dividends**

	<b>Six months ended</b>	
	<b>February 28, 2021 RMB'000 (Unaudited)</b>	<b>February 29, 2020 RMB'000 (Unaudited)</b>
Interim dividend of nil (six months ended February 29, 2020: RMB0.051) per ordinary share	<u>—</u>	<u>61,620</u>

No interim dividend for the six months ended February 28, 2021 has been proposed by the Board of Directors of the Company (six months ended February 29, 2020: RMB0.051 per ordinary share, totaling approximately RMB61,620,000).

**14 Trade and other receivables**

	<b>As at February 28, 2021 RMB'000 (Unaudited)</b>	<b>As at August 31, 2020 RMB'000 (Audited)</b>
Trade receivables		
— Tuition fees receivables from students	<b>13,257</b>	1,702
— Government subsidies receivables granted to students for tuition fees deduction	<b>18,993</b>	—
— Boarding fees receivables from students	<b>87</b>	79
	<u><b>32,337</b></u>	<u>1,781</u>
Other receivables		
— Deposits	<b>2,400</b>	7,139
— Reimbursed expenses receivables from catering service providers	<b>1,494</b>	1,514
— Interest receivables	<b>204</b>	216
— Staff advance	<b>60</b>	168
— Others	<b>1,268</b>	1,701
	<u><b>5,426</b></u>	<u>10,738</u>
	<u><b>37,763</b></u>	<u>12,519</u>

As at February 28, 2021 and August 31, 2020, the aging analysis of the trade receivables based on the recognition date is as followings:

	<b>As at February 28, 2021 RMB'000 (Unaudited)</b>	As at August 31, 2020 RMB'000 (Audited)
Less than 1 year	<b>30,298</b>	1,677
1 to 2 years	<b>2,039</b>	104
	<b><u>32,337</u></b>	<u>1,781</u>

Other than other receivables of RMB204,000 as at February 28, 2021 and RMB216,000 as at August 31, 2020 which were denominated in US\$, all other trade and other receivables at respective balance sheet dates are denominated in RMB.

As at February 28, 2021 and August 31, 2020, the Group's maximum exposure to credit risk was the carrying value of each class of trade and other receivables mentioned above. The Group does not hold any other collateral as security.

Management has closely monitored the credit qualities and the collectability of these receivables and considers that the expected credit risks of them are minimal in view of the history of cooperation with them and forward looking information. The loss allowance provision for these balances was not material and no provision was recorded during the six months ended February 28, 2021 and the year ended August 31, 2020.

As at February 28, 2021 and August 31, 2020, the fair values of trade and other receivables approximate their carrying amounts.

## 15 Accruals and other payables and amounts due to related parties

	As at February 28, 2021 <i>RMB'000</i> (Unaudited)	As at August 31, 2020 <i>RMB'000</i> (Audited)
Payable for construction and purchase of property, plant and equipment	156,239	139,320
Payable for joint tuition support fees ( <i>Note (a)</i> )	67,777	70,772
Government scholarship payable granted to students	28,803	18,796
Employee benefits payable	12,578	9,517
Miscellaneous fees received from students	12,051	21,146
Payable for property management service	7,894	299
Interest payable	3,109	3,828
Other taxes payable	2,351	1,290
Network and telecommunication fees payable	2,338	2,585
Others	4,594	10,204
	<u>297,734</u>	<u>277,757</u>
Less: non-current portion		
Payable for construction and purchase of property, plant and equipment	<u>(28,712)</u>	<u>(7,141)</u>
Current portion	<u>269,022</u>	<u>270,616</u>
Amounts due to related parties		
— Current	<u>27,181</u>	<u>21,251</u>

(a) As at February 28, 2021 and August 31, 2020, the ageing analysis of the payable for joint tuition support fees was as follows:

	As at February 28, 2021 <i>RMB'000</i> (Unaudited)	As at August 31, 2020 <i>RMB'000</i> (Audited)
Less than 1 year	<u>67,777</u>	<u>70,772</u>

## 16 Capital Commitments

As at February 28, 2021 and August 31, 2020, the Group had the following capital commitments on construction and purchase of property, plant and equipment:

	<b>As at February 28, 2021 <i>RMB'000</i> (Unaudited)</b>	<b>As at August 31, 2020 <i>RMB'000</i> (Audited)</b>
Contracted but not provided for	<b>659,139</b>	414,467
Authorized but not contracted for	<b>132,799</b>	241,299
	<b><u>791,938</u></b>	<b><u>655,766</u></b>

## DEFINITIONS

"academic year"	the academic year for all our school, which generally starts on September 1 of each calendar years and ends on August 31, of the next calendar year
"Audit Committee"	the audit committee of the Board
"Board"	the board of directors of the Company
"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" or "consolidated affiliated entity"	the entities we control 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
"Conversion"	the conversion of Huali College into an independently established private general undergraduate college in the PRC
"Director(s)"	the director(s) of the Company
"GDUT"	Guangdong University of Technology ( 廣東工業大學 )
"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 the BVI on May 12, 2016 and wholly owned by Trust Co and one of our Controlling Shareholders
“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 with limited liability established in the PRC 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 November 25, 2019
“Listing Rules”	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Main Board”	the Main Board of the Stock Exchange
“Model Code”	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 )
“Mr. Zhang”	Mr. Zhang Zhifeng, our chairman, executive Director and one of our Controlling Shareholders
“Mu”	the Chinese urban land area unit, whereby a mu equals to approximately 666.67 square meters
“PRC Operating Entities”	the Company’s consolidated affiliated entities, namely, Huali College, Huali Vocational College and Huali Technician College
“Prospectus”	the prospectus of the Company dated November 14, 2020

“RMB”	Renminbi, the lawful currency of China
“Shareholder(s)”	holder(s) of our Share(s)
“Shares”	ordinary shares in our 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”	HL-Diamond Limited, a holding vehicle incorporated in the BVI indirectly controlled by UBS Trustees (B.V.I.) Limited, the trustee of HL-Diamond Trust, to hold the entire issued share capital of Huali Education, and one of our Controlling Shareholders
“US\$”	United States dollars, the lawful currency of the United States
“%”	per cent

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

Hong Kong, April 16, 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.*