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Bojun Education Company Limited

博駿教育有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1758)

Annual Results Announcement For The Year Ended 31 August 2020

HIGHLIGHTS

	For the year ended 31 August			
	2020	2019	Change	Change
	RMB'000	<i>RMB'000</i>	<i>RMB'000</i>	Percentage
Revenue	375,740	338,019	+37,721	+11.2%
Gross profit	104,411	89,755	+14,656	+16.3%
Profit for the year	15,242	28,941	-13,699	-47.3%
Adjusted net profit*	15,760	28,998	-13,238	-45.7%

* The adjusted net profit is presented because our management believes such information will be helpful for investors in assessing the level of net profit of the Company by eliminating the effects of certain one-off or non-recurring items. For the details of reconciliation to the most directly comparable financial measure calculated and presented in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”), which is profit for the year. Please refer to the section headed “Financial review – Adjusted net profit” in this announcement.

	As at the beginning of the school year			Change Percentage
	2019/2020	2018/2019	Change	
Total students enrolment	12,082	10,173	+1,909	+18.8%

	As at 31 August			
	2020	2019	Change	Change
	RMB'000	<i>RMB'000</i>	<i>RMB'000</i>	Percentage
Contract liabilities	369,348	350,837	+18,511	+5.3%

ANNUAL RESULTS FOR THE YEAR ENDED 31 AUGUST 2020

The board (the “**Board**”) of directors (the “**Director(s)**”) of Bojun Education Company Limited (the “**Company**”, together with its subsidiaries and consolidated affiliated entities (the “**Consolidated Affiliated Entities**”), the “**Group**”) is pleased to announce the consolidated annual results of the Group for the year ended 31 August 2020.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 AUGUST 2020

		Year ended 31 August	
		2020	2019
	Notes	RMB'000	RMB'000
Revenue from provision of education services	4	375,740	338,019
Costs of services		(271,329)	(248,264)
Gross profit		104,411	89,755
Other (expenses) income	5	(3,547)	7,329
Other gains (losses)		4,805	8,473
Share result of an associate		(16)	–
Administrative expenses		(56,172)	(53,634)
Finance costs	6	(20,556)	(6,549)
Profit before tax		28,925	45,374
Income tax expenses	7	(13,683)	(16,433)
Profit for the year	8	15,242	28,941
<i>Other comprehensive income that will not be reclassified subsequently to profit or loss</i>			
— Remeasurement of defined benefit obligations		518	57
Total comprehensive income for the year		15,760	28,998
Profit for the year attributable to			
— owners of the Company		8,582	26,540
— non-controlling interests		6,660	2,401
		15,242	28,941
Profit and total comprehensive income for the year attributable to			
— owners of the Company		9,100	26,597
— non-controlling interests		6,660	2,401
		15,760	28,998
EARNINGS PER SHARE	15		
— Basic (RMB)		0.01	0.03
— Diluted (RMB)		N/A	N/A

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 AUGUST 2020

		As at 31 August	
		2020	2019
	<i>Notes</i>	RMB'000	RMB'000
Non-current assets			
Property, plant and equipment		1,311,630	1,106,119
Right-of-use assets		322,863	–
Prepaid lease payments		–	178,042
Interest in an associate		17,484	–
Deferred tax assets		16,919	16,354
Deposits	9	24,070	24,958
Prepayments for purchase of property, plant and equipment		50,000	45,426
		<hr/>	<hr/>
Total non-current assets		1,742,966	1,370,899
Current assets			
Prepaid lease payments		–	3,922
Other receivables, deposits and prepayments	9	34,038	96,555
Amounts due from related companies		2,625	343
Bank balances and cash		426,772	336,647
		<hr/>	<hr/>
Total current assets		463,435	437,467
		<hr/>	<hr/>
Total assets		2,206,401	1,808,366
Current liabilities			
Other payables and accruals	10	321,484	377,190
Contract liabilities		369,348	350,837
Lease liabilities		8,146	–
Borrowings	11	115,000	140,000
Income tax payable		40,507	31,049
		<hr/>	<hr/>
Total current liabilities		854,485	899,076
		<hr/>	<hr/>
Net current liabilities		(391,050)	(461,609)
		<hr/>	<hr/>
Total assets less current liabilities		1,351,916	909,290
		<hr/>	<hr/>

		As at 31 August	
		2020	2019
	<i>Notes</i>	RMB'000	RMB'000
Non-current liabilities			
Lease liabilities		123,546	–
Borrowings	<i>11</i>	301,500	–
Defined benefit obligations		3,864	4,302
Deferred income	<i>12</i>	67,676	65,418
		<hr/>	<hr/>
Total non-current liabilities		496,586	69,720
		<hr/>	<hr/>
Net assets		855,330	839,570
		<hr/>	<hr/>
Capital and reserves			
Share capital		7,138	7,138
Reserves		839,901	830,801
		<hr/>	<hr/>
Equity attributable to owners of the Company		847,039	837,939
Non-controlling interests		8,291	1,631
		<hr/>	<hr/>
		855,330	839,570
		<hr/>	<hr/>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

The Company was incorporated and registered as an exempted company with limited liability in the Cayman Islands under the Companies Law Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands on 14 June 2016. On 31 July 2018, the Company's shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

The Company is an investment holding company. The subsidiaries of the Group, are mainly engaged in the provision of full spectrum private fundamental education, including preschool, primary, middle and high schools in the People's Republic of China (the "**PRC**").

The functional currency of the Company is RMB, which is also the presentation currency of the consolidated financial statements.

2. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 August 2020, the Group's current liabilities exceeds its current assets by approximately RMB391,050,000. Subsequent to the end of the reporting period, the Group entered into agreements to construct a new campus of approximately RMB36,857,000 and inject capital of RMB245,000,000 to a target company of which RMB122,500,000 is due within twelve months from 31 August 2020. The capital injection is subject to shareholders' approval. Details are set out in the note 16 below headed "EVENTS AFTER REPORTING PERIOD". In view of these, additional cash outflows will be required to settle further capital commitment in the coming twelve months from 31 August 2020.

The above conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern and therefore, the Directors have reviewed the Group's cash flow projections which cover a period of not less than twelve months from 31 August 2020. They are of the opinion that the Group will have sufficient working capital to meet its financial obligations, including those committed capital expenditures relating to investment in a target company and construction, that will be due in the coming twelve months from 31 August 2020 upon implementation of the following measures which will generate adequate financing and operating cash inflows for the Group:

- (i) To obtain new borrowing of approximately RMB299.0 million from a bank in the PRC which is under negotiation at the date of these consolidated financial statements;
- (ii) To negotiate with the constructor to extend the payment terms;
- (iii) The Group will continue actively seek other alternative financing, including borrowings, and reduce all non-essential costs.

By taking the above measures, the Directors believe that the Group has sufficient working capital to meet the financial obligations when they fall due and the Directors are satisfied that it is appropriate to prepare these consolidated financial statements on a going concern basis.

3. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

The Group has applied the following new and amendments to HKFRSs and new interpretation issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) for the first time in the current year:

HKFRS 16	Leases
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 Cycle

Except as described below, the application of the new and amendments to HKFRSs and new interpretation in the current year has had no material impact on the Group’s financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

3.1 HKFRS 16 Lease

The Group has applied HKFRS 16 for the first time in the current year. HKFRS 16 superseded HKAS 17 *Leases* and the related interpretations.

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease* and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 September 2019.

As at 1 September 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities by applying HKFRS 16.C8(b)(ii) transition. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

- i. relied on the assessment of whether leases are onerous by applying HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* as an alternative of impairment review;
- ii. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;
- iii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application; and
- iv. used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group’s leases with extension and termination options.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average incremental borrowing rate applied by the relevant group entities is 5.93%.

	At 1 September 2019 RMB'000
Operating lease commitments disclosed as at 31 August 2019	215,811
Adjustments for:	
Total future finance costs	(76,602)
Recognition exemption — low value lease (excluding short-term lease of low value leases)	(349)
Prepayment of lease payment	(462)
	<hr/>
Lease liabilities as at 1 September 2019	138,398
	<hr/> <hr/>
Analysed as:	
Current	8,981
Non-current	129,417
	<hr/> <hr/>

The carrying amount of right-of-use assets as at 1 September 2019 comprises the following:

	Right-of- use assets RMB'000
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16	138,860
Reclassified from prepaid lease payments (<i>Note i</i>)	181,964
	<hr/> <hr/>

As a lessor

In accordance with the transitional provisions in HKFRS 16, the Group is not required to make any adjustment on transition for leases in which the Group is a lessor but account for those leases in accordance with HKFRS 16 from the date of initial application and comparative information has not been restated.

Upon application of HKFRS 16, new lease contracts entered into but commence after the date of initial application relating to the same underlying assets under existing lease contracts are accounted as if the existing leases are modified as at 1 September 2019. The application has had no impact on the Group's consolidated statement of financial position at 1 September 2019. However, effective from 1 September 2019, lease payments relating to the revised lease term after modification are recognised as income on straight-line basis over the extended lease term.

Sale and leaseback transactions

The Group acts as seller — lessee

In accordance with the transition provision of HKFRS 16, sale and leaseback transactions entered into before the date of initial application were not reassessed. Upon application of HKFRS 16, the Group applies the requirement of HKFRS 15 to assess whether sale and leaseback transaction constitutes a sale. During the year, the Group entered into a sale and leaseback transaction in relation to certain furniture, fixtures and equipment and the transaction does not satisfy the requirement as a sale. Accordingly, the Group accounts for the transfer proceeds of RMB60,000,000 as borrowings within the scope of HKFRS 9.

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 September 2019. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31 August 2019 <i>RMB'000</i>	Adjustments <i>RMB'000</i>	Carrying amounts under HKFRS 16 at 1 September 2019 <i>RMB'000</i>
Non-current assets			
Right-of-use assets	–	320,824	320,824
Prepaid lease payments (<i>Note i</i>)	178,042	(178,042)	–
Current assets			
Prepaid lease payments	3,922	(3,922)	–
Prepayment	462	(462)	–
Current liabilities			
Lease liabilities	–	8,981	8,981
Non-current liabilities			
Lease liabilities	–	129,417	129,417

Note i: Upfront payments for leasehold land in Mainland China were classified as prepaid lease payments as at 31 August 2019. Upon application of HKFRS 16, the current and non-current portion of prepaid lease payments approximately amounting to RMB3,922,000 and RMB178,042,000 respectively were reclassified to right-to-use assets.

4. REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in the provision of education services in the PRC.

The Group's revenue represents service income comprising tuition fees and boarding fees.

The Group's chief operating decision maker (“CODM”) has been identified as the chief executive officer who reviews revenue analysis of the Group as a whole.

Information reported to the CODM, for the purposes of resources allocation and assessment of segment performance focuses on types of services provided. CODM considers the business from service perspectives whereby assesses the performance of preschool education provided by Youshi Kindergarten (as defined below), Lidu Kindergarten (as defined below), Riverside Kindergarten (as defined below), Longquan Kindergarten (as defined below), Qingyang Kindergarten (as defined below) and Peninsula Kindergarten (as defined below) (collectively referred to as “**Preschool Education**”), and degree education provided by Jinjiang School (as defined below), Longquan School (as defined below), Tianfu School (as defined below), Nanjiang Bojun School (as defined below), Wangcang Bojun School (as defined below), Pengzhou Bojun School and Lezhi Bojun School (as defined below) (collectively referred to as “**Degree Education**”), based on revenue generated in the course of the ordinary activities of a recurring nature. The services provided and type of customers are similar to those schools providing Preschool Education and Degree Education respectively and they are subject to similar regulatory environment. Accordingly, their segment information is aggregated as two reportable segments, i.e. Preschool Education and Degree Education. The accounting policies of the reportable segment are the same as the Group's accounting policies.

The segment information provided to the CODM in respect of revenue from respective segment is as follows:

	Preschool Education <i>RMB'000</i>	Degree Education <i>RMB'000</i>	Total <i>RMB'000</i>
Year ended 31 August 2020			
Tuition fees	33,877	331,130	365,007
Boarding fees	–	10,733	10,733
	<u>33,877</u>	<u>341,863</u>	<u>375,740</u>
Total	<u>33,877</u>	<u>341,863</u>	<u>375,740</u>
Year ended 31 August 2019			
Tuition fees	53,514	275,190	328,704
Boarding fees	–	9,315	9,315
	<u>53,514</u>	<u>284,505</u>	<u>338,019</u>
Total	<u>53,514</u>	<u>284,505</u>	<u>338,019</u>

Geographical information

During the years ended 31 August 2019 and 2020, the Group operated within one geographical segment because all of its revenue was generated in the PRC and all of its non-current assets were located in the PRC. Accordingly, no geographical segment information is presented.

Major customers

No single customer contributes 10% or more of total revenue of the Group during both years.

5. OTHER (EXPENSES) INCOME

	<i>Notes</i>	Year ended 31 August	
		2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Ancillary services income	<i>(i)</i>	89,894	43,374
Less: relevant expenses	<i>(i)</i>	(89,894)	(43,374)
Long-aged creditors waived		–	3,357
Settlement of long-aged creditors waived in previous years		(6,247)	–
Interest income from banks		333	2,932
Release of asset-related government grants		1,342	1,134
Other government grants		1,022	228
Start-up expenses relating to new schools	<i>(ii)</i>	–	(343)
Others, net		3	21
		<u>(3,547)</u>	<u>7,329</u>

Notes:

- i. The amount represents the income and the expenses incurred for ancillary services provided to the students at the on-campus canteens.
- ii. The amount represents start-up expenses for newly established schools for which schooling services have not been commenced at the end of the reporting period.

6. FINANCE COSTS

	Year ended 31 August	
	2020	2019
	RMB'000	RMB'000
Interest on:		
Bank borrowings	12,022	6,549
Other borrowing	808	–
Lease liabilities	7,726	–
	<u>20,556</u>	<u>6,549</u>

7. INCOME TAX EXPENSES

The Company and Bojun Education Investment Holdings Company Limited are incorporated in the Cayman Islands and British Virgin Islands (“BVI”) respectively, both jurisdictions are tax exempted under the tax laws of the Cayman Islands and the BVI and these entities have no business carried there.

No provision for Hong Kong Profits Tax has been made as the Group’s operation in Hong Kong had no assessable profit during both years. Chengdu Tianfu Bojun Education Management Company Limited* (成都天府博駿教育管理有限公司) and USA Bojun Education, Inc. (“US Bojun”) had no assessable profit subject to the PRC enterprises income tax (“EIT”) of 25% and corporate tax in the United States (“USA”), respectively, since their establishments.

The Rules on Private Schools in the PRC applicable to the Group were amended and became effective from 1 September 2017 (“Amendment to Rules on Private Schools”), under which school sponsors of private schools may choose to establish for-profit or not-for-profit private schools (with the exception that schools providing compulsory education can only be established as not-for-profit entities) and will no longer be required to indicate whether they pursue for reasonable returns or not.

Further implementation of the Amendment to Rules on Private Schools in Sichuan Province (四川省人民政府關於鼓勵社會力量興辦教育促進民辦教育健康發展的實施意見) (“2018 September Sichuan Implementing Guidance”) was promulgated in September 2018. Pursuant to the 2018 September Sichuan Implementing Guidance, among others, the not-for-profit private schools are eligible to exempt from PRC EIT on the qualified income upon completion of registration as not-for-profit organisation.

The schools operated by the Group have been registered as non-enterprise institution (民辦非企業單位) and were regarded as not-for-profit organisations according to the local department of civil affairs during the course of the interview for the requirements for qualification for and the registration of the schools as not-for-profit private schools conducted. Accordingly, no PRC EIT was recognised for the tuition and boarding fees income from the Degree Education whereas the non-taxable tuition related income, including tuition and boarding fee for previous years.

For the year ended 31 August 2019, further to the clarification made by local tax authority in relation to the 2018 September Sichuan Implementing Guidance, private schools which have not completed the registration as not-for-profit organisation are not exempted from the PRC EIT and are subject to the PRC EIT of 25%.

The Preschool Education is subject to the PRC EIT of 25%. According to announcement of the State Administration of Taxation on issues concerning Enterprise Income Tax about enhancing the Western Region Development Strategy, all preschools registered with the local tax authority are eligible to the reduced 15% PRC EIT rate effective from 1 January 2015.

Pursuant to the PRC Income Tax Law and the respective regulations, the other companies of the Group which operate in Mainland China are subject to PRC EIT at a rate of 25% on its taxable income.

	Year ended 31 August	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Tax expense comprises:		
PRC EIT		
— Current year	12,485	19,997
— Under-provision in respect of prior years	1,763	2,252
Deferred tax	(565)	(5,816)
	<u>13,683</u>	<u>16,433</u>

The taxation for the reporting periods can be reconciled to the profit before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	Year ended 31 August	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Profit before tax	<u>28,925</u>	<u>45,374</u>
Tax at applicable tax rate of 25%	7,232	11,344
Effect of tax losses not recognised	8,742	9,271
Under-provision in respect of prior years	1,763	2,252
Tax effect of expenses not deductible for tax purpose	2,152	800
Tax effect of income not taxable for tax purpose	(2,304)	(3,240)
Effect of tax concessions and partial tax exemption	(149)	(1,083)
Utilisation of tax losses previously not recognised	(3,925)	(2,898)
Effect of different tax rates of other jurisdiction	172	(13)
Taxation for the year	<u>13,683</u>	<u>16,433</u>

8. PROFIT FOR THE YEAR

Profit for the year has been arrived at after charging:

	Year ended 31 August	
	2020	2019
	RMB'000	RMB'000
Directors' and chief executive's remuneration	1,621	1,456
Other staff costs		
— Salaries and other benefits	180,357	166,171
— Staff welfare	13,942	10,734
— Retirement benefit schemes		
— defined contributions benefits	12,555	12,336
— defined benefits	80	877
	<u>208,555</u>	<u>191,574</u>
Total staff costs		
Royalty fee (included in "costs of services")	15,803	14,511
Depreciation of property, plant and equipment	44,880	29,737
Depreciation of right-of-use assets	17,750	—
Release of prepaid lease payments	—	3,878
Auditor's remuneration	1,264	1,868
	<u>128,697</u>	<u>150,004</u>

9. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	Notes	As at 31 August	
		2020	2019
		RMB'000	RMB'000
Deposits		24,070	25,084
Receivable from a constructor	(i)	—	61,598
Prepayments		15,293	15,710
Loan to a non-controlling shareholder of a subsidiary	(ii)	10,700	8,000
Receivable from a third-party platform	(iii)	—	6,409
Advances to staffs		5,843	4,524
Other receivables		2,183	13
Others		19	175
		<u>58,108</u>	<u>121,513</u>
Total			
Less:			
Deposits present under non-current asset			
— deposits for establishment of new school campus	(iv)	(7,145)	(10,145)
— deposits for acquisition of a parcel of land	(v)	(12,500)	(12,500)
— other deposits		(4,425)	(2,313)
		<u>(24,070)</u>	<u>(24,958)</u>
Presented under current assets		<u>34,038</u>	<u>96,555</u>

Notes:

- i. The balance represents the excessive payment to a third-party constructor who provided services to Nanjiang Bojun School (as defined below), being the difference between the advance payment to the constructor according to the contractual terms and total costs borne by the Group for services being received immediately prior to the cessation occurred during the year ended 31 August 2019. The balance is non-interest bearing and unsecured. The outstanding balances was fully settled from constructor during the year ended 31 August 2020.
- ii. The balance is non-interest bearing, unsecured and without a fixed repayment term.
- iii. The balance represents the temporary unsettled bank payments for tuition and boarding fees collected through a third-party platform amounting to approximately RMB6,409,000, which has been settled in September 2019.
- iv. The balance represents the non-interest bearing deposits placed to local government authorities for the purpose of establishment of new school campus amounting to approximately RMB7,145,000 (2019: RMB10,145,000).
- v. The balance represents the refundable deposits placed to a local government authority for acquisition of a parcel of land for the purposes of establishment and development of new school campus amounting to approximately RMB12,500,000 (2019: RMB12,500,000).

10. OTHER PAYABLES AND ACCRUALS

		As at 31 August	
		2020	2019
	<i>Note</i>	RMB'000	RMB'000
Payables for property, plant and equipment		166,863	229,389
Miscellaneous expenses received from students	<i>(i)</i>	71,942	63,396
Royalty fees payable		66,788	50,985
Payroll payable		7,270	19,702
Accrued expenses		7,262	8,198
Other tax payable		69	1,226
Interest payable		808	–
Others		482	4,294
		321,484	377,190

Note:

- i. The amount represents miscellaneous expenses received from students which will be paid out on behalf of students or refund for any excess.

11. BORROWINGS

	Notes	As at 31 August	
		2020 RMB'000	2019 RMB'000
Unsecured bank borrowings with corporate guarantee	(i)	147,500	110,000
Secured bank borrowings with corporate guarantee	(ii)	209,000	–
Unsecured and unguaranteed bank borrowings		–	30,000
Secured other borrowing with corporate guarantee	(iii)	60,000	–
		<u>416,500</u>	<u>140,000</u>

The carrying amounts of the above borrowings are repayable:

Within one year	115,000	140,000
Within a period of more than one year but not exceeding two years	44,000	–
Within a period more than two years but not exceeding five years	208,500	–
Within a period of more than five years	49,000	–
	<u>416,500</u>	<u>–</u>
Less: Amounts due with one year shown under current liabilities	<u>(115,000)</u>	<u>(140,000)</u>
Amounts shown under non-current liabilities	<u>301,500</u>	<u>–</u>

The ranges of effective interest rates on the Group's borrowings are as follows:

	2020	2019
Variable-rate borrowings	China lending benchmark interest rate + 0.735% to 70%	China lending benchmark interest rate + 11% to 40%
Fixed rate borrowings	5.5%	–

Notes:

- i. For the year ended 31 August 2020, the borrowings are guaranteed by the Company, Chengdu Tianfu Bojun Education Management Company Limited* (成都天府博駿教育管理有限公司) (“**Chengdu Bojun**”), Chengdu Mingxian Education Investment Company Limited* (成都銘賢教育投資有限公司) (“**Chengdu Mingxian**”), certain shareholders of the Company and spouses of certain shareholders respectively. For the year ended 31 August 2019, the borrowings are guaranteed by Chengdu Bojun and Chengdu Mingxian respectively.
- ii. The borrowings are guaranteed by the Company, Chengdu Bojun, Chengdu Mingxian, certain shareholders of the Company and spouse of one of the shareholders respectively. The borrowings are also pledged by properties owned by a third party and equity interest of subsidiaries of the Company and tuition and boarding fee rights of a school of the Group.
- iii. The borrowing is under sale and leaseback arrangement and is guaranteed by Chengdu Bojun, Chengdu Mingxian, certain shareholders of the Company and spouses of certain shareholders respectively. The borrowing is also pledged by furniture, fixtures and equipment of the Group with net book value of approximately RMB65,032,000.

12. DEFERRED INCOME

	Year ended 31 August	
	2020	2019
	RMB'000	RMB'000
Amounts recognised in profit or loss during the year:		
Subsidies related to assets (<i>Note</i>)	<u>(1,342)</u>	<u>(1,134)</u>

The movement of deferred income is as follows:

	As at 31 August	
	2020	2019
	RMB'000	RMB'000
At beginning of the year	65,418	42,152
Receipt of subsidies related to assets (<i>Note</i>)	3,600	24,400
Amount credited to profit or loss during the year	<u>(1,342)</u>	<u>(1,134)</u>
At end of the year	<u>67,676</u>	<u>65,418</u>

Note: The Group received government subsidies for the compensation of capital expenditures incurred for the leasehold lands. The amounts are deferred and amortised over the estimated useful lives of the respective assets.

13. RELATED PARTY TRANSACTIONS

Other than those disclosed elsewhere in the consolidated financial statements, major transaction entered into by the Group with related parties is as follows:

Rental expenses incurred

	Year ended 31 August	
	2020	2019
	RMB'000	RMB'000
Chengdu Hengyu Industrial Company Limited* (成都恒宇實業有限公司) (“Chengdu Hengyu”)	<u>173</u>	<u>196</u>

Note: Chengdu Hengyu was controlled by Mr. Xiong Tao, former executive director and shareholder of the Company who passed away on 18 August 2020.

The future minimum rental payable to Chengdu Hengyu under non-cancellable lease amounted to approximately RMB173,000 (2019: RMB173,000), payable within one year.

Compensation of key management personnel

The remuneration of directors and other members of key management of the Group during the year was as follows:

	Year ended 31 August	
	2020	2019
	RMB'000	RMB'000
Short-term benefits	6,155	3,916
Post-employment benefits	<u>155</u>	<u>239</u>
	<u>6,310</u>	<u>4,155</u>

14. DIVIDENDS

No dividend has paid or declared by the Company for the years ended 31 August 2019 and 2020, nor has any dividend been proposed subsequent to 31 August 2020.

15. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to the owners of the Company is based on the following data:

	Year ended 31 August	
	2020	2019
Earnings		
Profit for the year attributable to the owners of the Company (RMB'000)	<u>8,582</u>	<u>26,540</u>
Number of shares		
Weighted average number of ordinary shares issued ('000)	<u><u>821,856</u></u>	<u><u>822,575</u></u>

The weighted average number of ordinary shares for the year ended 31 August 2019 for the purpose of calculating basic earnings per share has been adjusted for the fact that repurchase of ordinary shares during the year.

No diluted earnings per share for the year ended 31 August 2019 and 2020 was presented as there were no potential dilutive shares in issue during the reporting period.

16. EVENTS AFTER REPORTING PERIOD

- (a) On 11 September and 16 October 2020, Chengdu Bojun entered into a capital injection agreement and a supplemental agreement, respectively, pursuant to which Chengdu Bojun agreed to subscribe for new capital of Shenzhen Hongyuan Education Investment Company Limited* (深圳弘遠教育投資有限公司) in the aggregate amount of RMB245,000,000 in cash. Upon completion, Chengdu Bojun will hold 49.0% of the enlarged (as enlarged by such capital injection) registered capital of Shenzhen Hongyuan Education Investment Company Limited. The Group paid RMB73,500,000 as prepayment further consideration of the capital injection on 11 September 2020 and RMB49,000,000 is required to be paid upon completion of the industrial and commercial registration in the PRC. Details of the capital injection are set out in the announcements of the Company dated 11 September and 16 October 2020.
- (b) On 8 September 2020, one of the subsidiary of the Company entered into an agreement with constructor to construct a new campus in the PRC (“**Construction**”). The total consideration of the Construction is RMB36,857,000 and it is expected to complete on or before 30 April 2021.
- (c) The outbreak of novel coronavirus disease (COVID-19) epidemic in early 2020 has resulted in a challenging operational environment and has negative impact on the Group’s business operations. The Group has imposed a series of preventive and control measures. The Group will pay close attention to the development of the COVID-19 situation and evaluate its impact on the financial position and operating results of the Group.

SCOPE OF WORK OF PKF HONG KONG LIMITED

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 August 2020 as set out in this announcement have been agreed by the Group's auditor, PKF Hong Kong Limited ("PKF"), to the amounts set out in the Group's consolidated financial statements for the year. The work performed by PKF 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 PKF on this announcement.

AUDIT OPINION

PKF has issued an opinion with a material uncertainty related to going concern paragraph on the consolidated financial statements of the Group for the period under audit. An extract of the auditor's report is set out in the section headed "EXTRACT OF THE AUDITOR'S REPORT" below.

EXTRACT OF THE AUDITOR'S REPORT

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 August 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Material Uncertainty Related to Going Concern

We draw attention to note 1 to the consolidated financial statements, which indicates that as at 31 August 2020, the Group's current liabilities exceeds its current assets by approximately RMB391,050,000. Subsequent to the end of the reporting period, the Group entered into agreements to construct a new campus of approximately RMB36,857,000 and inject capital of RMB245,000,000 to a target company of which RMB122,500,000 is due within twelve months from 31 August 2020. The capital injection is subject to shareholders' approval. In view of these, additional cash outflows will be required to settle further capital commitment in the coming twelve months from 31 August 2020. The Company is undertaking a number of financing plans and other measures as described in note 1 to the consolidated financial statements in order to ensure it is able to meet its commitments in the next twelve months. The above conditions indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

The PRC fundamental education includes preschool, compulsory school (including primary and middle school), high school education. According to the public information disclosure, the demand and supply of fundamental education was perennially tight in the recent decade. Quality education resources are scarce. In the reform of new Gaokao, demand of parents towards quality featured education increased. Looking forward, followed by the increasing comprehensive national power of the PRC and enhancing standard of living, private education will be quality and feature-oriented and become an important force for “establishing education that satisfy people” (辦人民滿意的教育). The population in Sichuan Province is large and has been one of the largest fundamental private education markets in the PRC in terms of total number of students. As being a well-known private education group in Chengdu, the Group will strive to provide quality private fundamental education service to Sichuan Province.

BUSINESS REVIEW

Our Schools

We are a leading private education service group in Chengdu, Sichuan Province, the PRC, operating 13 schools in Sichuan Province. In the 2019/2020 school year, we operated (i) one middle and high school, two middle schools, one primary and middle school and six kindergartens in Chengdu, Sichuan Province, (ii) one primary and middle school in Nanjiang County (南江縣) of Bazhong City (巴中市), Sichuan Province, (iii) one primary and middle school in Wangcang County (旺蒼縣) of Guangyuan City (廣元市), Sichuan Province and (iv) one primary, middle and high school in Lezhi County (樂至縣) of Ziyang City (資陽市), Sichuan Province.

Our Students

As at 1 September 2020, the Group had an enrolment of 12,126 students, including 1,160 preschool students and 10,966 intake of students from grades 1 to 12.

The following lists the types of education provided by each of our schools:

	Kindergartens	Primary section	Middle section	High section
Chengdu Jinjiang District No. 1 Experimental Middle School Attached to Sichuan Normal University* (成都市錦江區四川師大附屬第一實驗中學) ("Jinjiang School")			✓	
Chengdu Longquanyi District No. 1 Experimental Middle School Attached to Sichuan Normal University* (成都市龍泉驛區四川師大附屬第一實驗中學) ("Longquan School")			✓	✓
Chengdu New Tianfu District No. 1 Experimental Middle School Attached to Sichuan Normal University* (成都市天府新區四川師大附屬第一實驗中學) ("Tianfu School")			✓	
Wangcang Bojun School* (旺蒼博駿公學) ("Wangcang Bojun School")		✓	✓	
Nanjiang Bojun School* (南江博駿學校) ("Nanjiang Bojun School")		✓	✓	
Pengzhou Bojun School* (彭州市博駿學校) ("Pengzhou Bojun School")		✓	✓	
Lezhi Bojun School* (樂至博駿公學學校) ("Lezhi Bojun School")		✓	✓	✓
Chengdu Youshi Experimental Kindergarten* (成都幼師實驗幼兒園) ("Youshi Kindergarten")	✓			
Chengdu Youshi Lidu Experimental Kindergarten* (成都幼師麗都實驗幼兒園) ("Lidu Kindergarten")	✓			
Chengdu Youshi Longquan Dongshan Experimental Kindergarten* (成都幼師龍泉東山實驗幼兒園) ("Longquan Kindergarten")	✓			
Chengdu High and New District Youshi Peninsula City Center Kindergarten* (成都高新區幼獅半島城邦幼兒園) ("Peninsula Kindergarten")	✓			
Chengdu Youshi Riverside Impression Experimental Kindergarten* (成都幼師河濱印象實驗幼兒園) ("Riverside Kindergarten")	✓			
Chengdu Qingyang Youshi Jingjie Experimental Kindergarten* (成都青羊幼師境界實驗幼兒園) ("Qingyang Kindergarten")	✓			

Our Objectives in Education

We adhere to the concepts of “Combination of Chinese and Western, Arts and Science” (融貫中西，文理並蓄) and “Learn Intently in Pursuit of Knowledge and Caring for the World” (靜學問道，天下關懷). We strengthen the study of basic subjects according to the education rules and the law of growth of people. Meanwhile, we provide high-quality and all-round education services to our students through customised course design. We follow the future development trend of education and create education that adapts to the development of students. We believe our quality education services facilitates the development of our students’ skills in communication, creativity and collaboration, and thereby helping them achieve academic excellence and other achievements.

Education Services and Academic Performance

The core educational curriculum of our primary schools, middle schools and high schools is designed based on the standards set by the PRC national and provincial educational department. The curriculum is primarily formulated towards Zhongkao for middle school students and Gaokao for high school students. For the results of the Zhongkao in 2020, approximately 89.5% (2019: 92.8%) of our middle school graduates who participated in such examinations scored well enough for intake by first-tier high schools. For the results of the Gaokao in 2020, approximately 98.1% of our high school graduates were admitted to universities (2019: 99.3%), with 90.8% of them reached the admission score of key universities in Sichuan Province (2019: 94.8%).

In addition to standard education curriculum, we also provide a variety of extra-curricular activities for our primary school, middle school and high school students, ranging from music, arts, foreign languages to sports and robotics, to benefit their personal development. We also encourage our students to participate in inter-school competitions to cultivate their talents and enrich their extra-curricular life.

School Facilities

In line with our schools’ focus on offering comprehensive educational programmes for our students, our campuses have been equipped with a variety of facilities, such as classroom, lecture hall, multi-media room, piano room, music room, dancing room, computer room, gymnasium, general science laboratory, library, outdoor fields, sports courts (such as basketball, badminton and volleyball courts), Chinese culture studies room, technology room, calligraphy room, art room, tea art room, psychological consultation room, canteen, dormitories, administrative office and staff apartments etc..

Students and Enrolment

For enrolment at our kindergartens, we generally conduct interviews with children and parents to enroll children who meet our admission requirements. For enrolment at our primary and middle school sections, we complete the enrolment in accordance with procedures stipulated by competent education authorities. As for enrolment at our high school section, we participate in the unified admission procedure administered by the local education bureau and generally admit middle school graduates who have applied to our schools through the unified admission system and have reached or exceeded the standardised test scores we require.

As of 1 September 2019, we had an aggregate of 12,082 students, including 1,283 kindergarten students, 1,950 primary school students, 8,164 middle school students and 685 high school students. The following table sets forth information relating to the student enrolment of our schools as of the dates indicated:

Number of students by school	Student enrolment As at 1 September			
	2019	2018	Change	Change Percentage
Jinjiang School				
Middle school	3,198	3,055	+143	+4.7%
Longquan School				
High school	611	570	+41	+7.2%
Middle school	2,204	1,917	+287	+15.0%
Tianfu School				
Middle school	1,655	1,635	+20	+1.2%
Wangcang Bojun School				
Primary school	404	288	+116	+40.3%
Middle school	242	124	+118	+95.2%
Nanjiang Bojun School				
Primary school	445	235	+210	+89.4%
Middle school	183	83	+100	+120.5%
Pengzhou Bojun School				
Primary school	928	667	+261	+39.1%
Middle school	477	312	+165	+52.9%
Lezhi Bojun School				
Primary school	173	–	+173	–
Middle school	205	–	+205	–
High school	74	–	+74	–
Sub-total (Primary schools, middle schools and high schools)	10,799	8,886	+1,913	+21.5%
Youshi Kindergarten	202	219	-17	-7.8%
Lidu Kindergarten	262	285	-23	-8.1%
Longquan Kindergarten	208	165	+43	+26.1%
Peninsula Kindergarten	249	269	-20	-7.4%
Riverside Kindergarten	117	102	+15	+14.7%
Qingyang Kindergarten	245	247	-2	-0.8%
Sub-total (Kindergartens)	1,283	1,287	-4	-0.3%
Total	12,082	10,173	+1,909	+18.8%

Number of students by school sections	Student enrolment As at 1 September			Change Percentage
	2019	2018	Change	
Kindergartens	1,283	1,287	-4	-0.3%
Primary schools	1,950	1,190	+760	+63.9%
Middle schools	8,164	7,126	+1,038	+14.6%
High schools	685	570	+115	+20.2%
Total	12,082	10,173	+1,909	+18.8%

The increase in the aggregate number of students enrolled in all of our schools by approximately 18.8% from 1 September 2018 to 1 September 2019 was mainly due to additional enrolment from the Lezhi Bojun School newly opened in September 2019 and the increase in the number of students of Pengzhou Bojun School, Nanjiang Bojun School, Wangcang Bojun School and Longquan School.

The decrease in the number of kindergarten students from 1 September 2018 to 1 September 2019 was mainly due to the increase in the number of public kindergartens established by the PRC government, resulting in the loss of students of private kindergartens.

Teachers and Teacher Recruitment

We believe teachers are the key to maintaining our high-quality educational programmes and services as well as maintaining the reputation of our schools. We consider that teachers should act as role models for our students and, therefore, they should be competent in teaching and dedicated to their profession as well as the well-being of students. It is crucial to both the development of our students and the success of our schools that we recruit teachers who are passionate in their education career with an outstanding teaching capability.

As of 1 September 2019, we had 996 teachers. Approximately 97.5% of our primary school, middle school and high school teachers hold a bachelor's degree or above, while approximately 19.6% of them hold a master's degree or above. The following table sets forth the number of teachers at all of our schools as at the dates indicated:

School sections	Number of teachers ⁽¹⁾ As at 1 September	
	2019	2018
Kindergartens	119	118
Primary schools	153	87
Middle schools	659	586
High schools	65	50
Total	996	841

Note:

(1) Excluding teachers engaged in administrative duties.

We manage our teacher-to-student ratio based on the number of our student enrolled, our education plans and activities and the needs of our students. We review the teacher-to-student ratio of each of our schools from time to time to ensure that we can maintain high-quality educational programmes and services.

The following table sets forth the teacher-to-student ratio of each school section as at the dates indicated:

School sections	Teacher-to-student ratio ⁽¹⁾	
	As at 1 September	
	2019	2018
Kindergartens	1:11	1:11
Primary schools	1:13	1:14
Middle schools	1:12	1:12
High schools	1:11	1:11

Note:

- (1) The teacher-to-student ratio is arrived at by dividing the student enrolment of the school by the number of teachers employed by the school as at the dates indicated above.

Teacher Retention Rate

In order to retain high-caliber teachers, we offer competitive remuneration package and our teachers are entitled to performance bonuses, which are based on their quality of teaching as assessed by our Group. Our middle and high school teachers may stay at our staff quarters. Further, as one of the major benefits for being our middle and high school teachers, their children could enroll in our schools free of charge. We believe we have maintained a good working relationship with our teachers and enjoyed a high retention rate.

For the years ended 31 August 2019 and 31 August 2020, (i) the teacher retention rates at our high schools were approximately 90.2% and 86.2%, respectively, (ii) the teacher retention rates at our middle schools were approximately 94.8% and 84.6%, respectively, (iii) the teacher retention rates at our primary schools were approximately 92.7% and 83.5%, and (iv) the teacher retention rates at our kindergartens were approximately 79.9% and 81.7%, respectively. The retention rate is calculated based on the total number of teachers at our schools at the beginning of a school year minus the total number of teachers who voluntarily resign from our schools during the corresponding school year, divided by the total number of teachers at our schools at the beginning of a school year.

As our schools consider optimising the teacher ratio structure and retaining an excellent team of teachers to maintain the improvement of the grades; meanwhile, to maintain a certain level of teacher turnover to engage teachers with better teaching capability and innovation. The resignation rates of school's teachers decreased during the year ended 31 August 2020, but the teacher-to-student ratio was maintained at an appropriate level through the recruitment of new teachers, the retention rate of school teachers for the year ended 31 August 2020 was duly affected.

Tuition and Boarding Fees

For our primary schools, middle schools and high schools, our tuition fees for the 2019/2020 school year ranged from RMB22,000 to RMB42,000 per student per year while boarding fees of RMB1,200 to RMB1,400 per student per school year was charged for boarding students. The fees charged did not change when compared to the 2018/2019 school year. The tuition fees of our kindergartens for the 2019/2020 school year ranged from RMB26,160 to RMB56,160 per student per school year. The fees charged did not change when compared to the 2018/2019 school year. The following table sets forth the tuition fees and boarding fees of our schools for the school years indicated:

School	Tuition fees and boarding fees	
	2019/2020 school year	2018/2019 school year
Jinjiang School ⁽¹⁾		
Middle school	RMB32,000–RMB34,800	RMB32,000–RMB34,800
Longquan School		
High school	RMB34,800	RMB34,800
Middle school	RMB34,800	RMB34,800
Tianfu School		
Middle school	RMB34,800	RMB34,800
Wangcang Bojun School		
Middle school	RMB27,200	RMB27,200
Primary school	RMB23,200	RMB23,200
Nanjiang Bojun School		
Middle school	RMB27,200	RMB27,200
Primary school	RMB23,200	RMB23,200
Pengzhou Bojun School		
Middle school	RMB43,400	RMB43,400
Primary school	RMB37,400	RMB37,400
Lezhi Bojun School		
High school	RMB34,800	—
Middle school	RMB34,800	—
Primary school	RMB23,200	—
Youshi Kindergarten	RMB45,360–RMB46,560	RMB45,360–RMB46,560
Lidu Kindergarten	RMB44,160–RMB45,360	RMB44,160–RMB45,360
Longquan Kindergarten	RMB26,160–RMB27,360	RMB26,160–RMB27,360
Peninsula Kindergarten	RMB54,960–RMB56,160	RMB54,960–RMB56,160
Riverside Kindergarten	RMB45,360–RMB46,560	RMB45,360–RMB46,560
Qingyang Kindergarten	RMB47,760–RMB48,960	RMB47,760–RMB48,960

Note:

- (1) Other than Jinjiang School which provides boarding and day services, all other schools are boarding schools.

In general, our middle and high schools will have an increase in tuition fees every three years to reflect our operating costs. Our middle and high schools have already increased their tuition fees in September 2018, and the Company will decide whether to adjust tuition fee in the 2021/2022 school year after considering factors such as operating costs and market environment. Therefore, there was no change in the tuition fees of middle and high schools in the current school year. Our primary schools were opened in September 2018, and their tuition fees will be adjusted in the future in accordance with relevant regulations when operating costs rise in the future. There has been no significant increase in the operating costs of our kindergartens and we do not have a plan to adjust the tuition fees at the moment so that we can maintain our competitiveness in the preschool market.

School Capacity and Utilisation

Enrolment and Capacity

With increasing demand for quality private education from parents in the PRC, and the continuous investment in infrastructure by our schools, each school experienced significant growth in capacity and enrolment in recent years.

The utilisation rate of our schools is affected by a number of factors, such as the number of applications received by our schools, the availability of our facilities, the promotion strategies for our student enrolment and competition from public and private schools in Chengdu. The following table sets forth information relating to student enrolment, capacity and school utilisation rates of our schools by type as of the dates indicated:

Type of school	As at 1 September					
	Enrolment ⁽¹⁾		Student capacity ⁽²⁾		School utilisation rate ⁽³⁾	
	2019	2018	2019	2018	2019	2018
High school	685	570	850	630	80.6%	90.5%
Middle school	8,164	7,126	8,450	7,155	96.6%	99.6%
Primary school	1,950	1,190	2,950	1,520	66.1%	78.3%
Kindergarten	1,283	1,287	1,865	1,865	68.8%	69.0%
Total	12,082	10,173	14,115	11,170	85.6%	91.1%

Notes:

- (1) The student enrolment information was based on the internal records of our schools.
- (2) For our primary schools, middle schools and high schools, the capacity is calculated based on the number of classrooms (excluding special-purpose rooms) in each school and the number of students that each classroom can accommodate or the capacity of the student dormitories. For the kindergartens, the capacity is calculated based on the number of classrooms (excluding special-purpose rooms) of each kindergarten and the class size determined by our Group with reference to the maximum number of students to be accommodated by each classroom for first-tier kindergartens as stipulated by the education authorities in Chengdu.
- (3) The school utilisation rate is calculated by dividing the number of students enrolled at a school by the capacity for students of the school.

OUTLOOK

Development Trends in the Private Fundamental Education Industry in Sichuan and Chengdu

With the increase in household income of the PRC residents and the improvement of the educational level of the parents of the younger generation, parents have a greater demand for quality education resources, and the proportion of education expenditure in the overall household expenditure has steadily increased. As the One-Child Policy has been relaxed and the Two-Child Policy was fully implemented in 2016 by the PRC government, there will be an ongoing increase in demand for fundamental education in the future. These factors will help our schools recruit more students and raise service price in due course. In recent years, private schools in Sichuan and Chengdu have continued to improve their teaching quality and quality education, which will attract more students to enroll in private schools. With the good reputation of our schools, the Group is optimistic about the opportunities brought by the strong demand for quality private education in Southwest China.

OUR BUSINESS DEVELOPMENT STRATEGIES AND PLANS

Our aim is to maintain and consolidate our leading position in the private education market in Chengdu. We will expand our school network and increase our student capacity through the following development strategies.

1. Establish new schools or new school premises to expand our school network

1) *Establishment of light-asset schools: We establish new schools through cooperation with third-party business partners.*

- In June 2020, we entered into an educational project investment agreement with the People's Government of Jianyang* (簡陽市人民政府) through Consolidated Affiliated Entity Jianyang Jinbojun Education Management Company Limited* (簡陽金博駿教育管理有限公司) (“**Jianyang Jinbojun**”), to invest in the establishment of a high-end private school in Jianyang City which integrates preschool education and fundamental education, the First Middle School of Sichuan Normal University in Jianyang* (簡陽師大一中) (the “**Jianyang School**”). It is expected to commence in 2022, with a capacity of 3,500 students.

Jiayang Jinbojun is owned as to 51% by Chengdu Mingxian and 49% by Kirin Capital Holdings Company Limited* (騏靈資本控股有限公司) (“**Kirin Capital**”). Chengdu Mingxian and Kirin Capital agreed that Kirin Capital shall be responsible for the infrastructure of the Jiayang School, and Chengdu Mingxian shall be responsible for providing the usage of the school brand, teachers, teaching management and daily operations.

- In January 2018, US Bojun entered into a memorandum of understanding with Excelsior School System Inc. (the “**US Partner**”), to expand our school network abroad. The US Partner is engaged in the provision of private high school education services in California for grades 9 to 12 students and is an accredited school of the Western Association of Schools and Colleges. Pursuant to the memorandum of understanding, our Group and the US Partner will set up a joint venture to establish the US School, being a for-profit private international school in the Los Angeles area offering education for grades 7 to 12. The joint venture will be owned by our Group as to 70% and the US Partner as to 30%. We will provide funding for the operations and purchase of facilities and will be involved in the planning of teaching programmes to be offered by the US School. The US Partner will provide management services to the US School, assist our Group in identifying school premises and recruit teachers for the US School. Due to impact of the COVID-19, our commencement plan of schools in the USA may be suspended, and we will make further announcement as and when appropriate.
- 2) *Expand the capacity of existing school premises: We construct new school premises near or inside our existing campus.*
- Chengdu Mingxian entered into an agreement of intent on 14 November 2019 and an acquisition agreement on 13 April 2020 with Sichuan Jiuzhou Taoyuan Eco-tourism Development Limited* (四川九洲桃源里生態旅遊開發有限公司) (the “**Taoyuan Company**”) and Zhang Dequan* (張德全), Xiang Shoucheng* (向守程), Chen Song* (陳松), Hu Jianguo* (胡建國), Li Chao* (李超) and Yang Jinzhong* (楊進忠) in relation to the acquisition of the entire equity interest of the Taoyuan Company. For details please refer to the announcements of the Company dated 18 November 2019 and 28 April 2020. Pursuant to which, we have acquired 100% equity interest in the Taoyuan Company upon completion of the equity transfer at a total consideration of RMB21.8 million in August 2020. After completion of the acquisition, we have obtained the 4th Division, Shuangquan Village, Wan’an Town, Chengdu City (成都市萬安鎮雙泉村四組) of an area of 4,645.9 square metres for the expansion of the campus of Tianfu School and operation of primary school and high school. It is expected that the new schools will commence in September 2021 and can increase the Tianfu School’s capacity by 2,000 students.
 - After obtaining the approval from the relevant authorities, we will construct new buildings to operate a primary school on the campus of Jinjiang School. It is expected that the school will commence schooling in September 2021 and can increase the Jinjiang School’s capacity by 1,200 students.

The following table provides a summary of the capacities of the new schools expected to commence schooling in September 2021 and September 2022.

School premises	Expected date of commencement⁽¹⁾	Estimated capacity
Tianfu School (Primary school and high school)	September 2021	2,000
Jinjiang School (Primary school)	September 2021	1,200
Jianyang School	September 2022	3,500
Total		<u>6,700</u>

Note:

- (1) The commencement of schooling is subject to, among others, successful acquisition of land (where applicable), approval by and registration with relevant authorities and the progress of construction work. Therefore, the aforesaid new schools may or may not commence in accordance with our plans.

2. Increase the student enrolment of our existing schools

We intend to increase the student enrolment of our existing schools, in particular the schools newly established in recent years. Since certain of our construction investments and operation costs are fixed, we believe that our financial results would be significantly improved if we are able to enroll more students at such schools.

The following table provides a summary of our schools in operation as at 1 September 2020 and their estimated capacity:

School	Number of students enrolled as at September 2020	Estimated capacity
Jinjiang School	3,041	3,050
Longquan School	2,841	2,850
Tianfu School	1,703	1,750
Wangcang Bojun School ⁽¹⁾	735	4,000
Nanjiang Bojun School ⁽¹⁾	777	3,200
Pengzhou Bojun School ⁽¹⁾	1,129	4,000
Lezhi Bojun School ⁽²⁾	740	3,200
Kindergartens ⁽³⁾	1,160	1,865
Total	<u>12,126</u>	<u>23,915</u>

Notes:

- (1) New schools opened in September 2018.
- (2) New school opened in September 2019.
- (3) Including six kindergartens, namely, Youshi Kindergarten, Lidu Kindergarten, Riverside Kindergarten, Longquan Kindergarten, Qingyang Kindergarten and Peninsula Kindergarten.

3. Consistently provide high-quality education and maintain a strong, experienced and qualified teaching team

We are of the view that the high-level of teaching quality is an important factor in attracting students. We aim to recruit more experienced, outstanding and innovative teachers to improve the teaching level. We attach importance to the improvement of teachers' teaching skills, and organise regular training and competitions for improving their teaching skills; meanwhile, we also adopt the collective lesson preparation model to ensure the excellent and consistent teaching quality of the teaching team.

4. Enhance the brand influence of our schools to recruit more students

We are of the view that increasing the brand influence of the First Middle School of Sichuan Normal University (師大一中) and Bojun School (博駿學校) in Sichuan Province will help us attract more students. The brand of First Middle School of Sichuan Normal University continued to maintain a good reputation in Chengdu. Bojun School, as a new brand founded by the Group, will share resources with schools under the First Middle School of Sichuan Normal University brand, so they can complement the advantages with one another, and build a good collaborative school model. It will help raise the brand awareness of Bojun School and attract more students.

Environment, Health and Safety

The Group's business has not violated applicable environmental laws and regulations of the PRC in any material aspect.

The Group is dedicated to protecting the health and safety of our students. The Group has on-site medical staff or health care personnel at each of our schools to deal with minor medical situations involving our students. For any serious emergency medical situations, we will promptly send our students to local hospitals for medical treatment. Regarding security at the schools, we employed qualified property management companies to provide property security services at our school premises.

As far as the Board of Directors and the Company's management are aware of, the Group is in compliance with the relevant laws and regulations that have a significant impact on the Group's businesses and operations in all material aspects. There was no material violation of or non-compliance with applicable laws and regulations by the Group during the year ended 31 August 2020.

Impact of the COVID-19 pandemic

After the outbreak of the COVID-19 pandemic in early 2020, the PRC government has implemented various epidemic prevention and control measures and achieved remarkable results. Due to the impact of the pandemic, school students of the Group returned to school in early April 2020, and students of kindergarten returned to school in early June 2020. After resumption of school, each kindergarten has implemented strict epidemic prevention and control measures in accordance with the instructions of the relevant government authorities. As at the date of this announcement, none of the school students and teachers of the Group has been infected with the COVID-19 virus.

During the suspension of schools in early 2020 due to the outbreak of the pandemic, the schools of the Group provided online teaching services to students, and later postponed the summer vacation to compensate for the loss of classroom teaching time during the suspension and complete the teaching tasks scheduled for the relevant school year. The kindergartens of the Group have formulated the “Online Teaching Plan for Suspension of Classes”, which provides online teaching to parents and children through the Youshi Kindergarten’s official Wechat page and kindergarten class WeChat groups to enrich the learning life of the students.

In accordance with the regulations of the relevant government authorities, the kindergartens of the Group charged the tuition fees of the second semester of the 2019/2020 school year, based on the actual teaching time (June to August) and refunded tuition fees in proportion to teaching time lost due to the impact of the pandemic. Therefore, the income of the kindergartens decreased by approximately RMB19.6 million, and their gross profit decreased by approximately RMB17.8 million for the year ended 31 August 2020 when compared to that of the corresponding period in 2019.

Latest Regulatory Developments

- (i) The Implementation Rules for the Law for Promoting Private Education of the PRC (Draft for Review)* (《中華人民共和國民辦教育促進法實施條例(修訂草案)(送審稿)》)

On 10 August 2018, the Ministry of Justice of the PRC published the Implementation Rules for the Law for Promoting Private Education of the PRC (Draft for Review) (the “**Draft**”) for consultation. Article 12 of the Draft provides that “prohibits those centrally operates their schools to control not-for-profit private schools by means of merger and acquisition, franchise chain, agreement control and other means, and control by entering an agreement”. “Control by agreement” referred to in such article brings uncertainties to the control of not-for-profit schools by contractual arrangements adopted by us.

- (ii) Implementation Opinions of Sichuan Provincial Government on Encouraging the Operation of Education by Social Forces and Promoting the Healthy Development of Private Education* (《四川省政府關於鼓勵社會力量興辦教育促進民辦教育健康發展的實施意見》)

According to the Implementation Opinions on Encouraging the Operation of Education by Social Forces and Promoting the Healthy Development of Private Education (Chuan Fu Fa 2018 No. 37)* (《關於鼓勵社會力量興辦教育促進民辦教育健康發展的實施意見》(川府發2018 37號)) issued by Sichuan People’s Government on 17 September

2018, “The school sponsors of existing private schools shall submit an election of the nature of schools operated in writing to the competent authorities by 1 September 2020, and schools that fail to submit such information by the stipulated timeline shall not be eligible for election as for-profit private schools. Schools that have been elected to be not-for-profit private schools shall complete relevant procedures by 1 September 2021.” As at the date of this announcement, all the schools operated by us have been registered as not-for-profit private schools, and the schools have amended their articles of association, improved their corporate governance structure and internal management system in accordance with relevant regulations.

(iii) “Certain Opinions on Deepening the Reform and Regulating the Development of Pre-school Education” (《關於學前教育深化改革規範發展的若干意見》)

On 15 November 2018, the Central Committee of the Communist Party of China and the State Council of the PRC jointly issued “Certain Opinions on Deepening the Reform and Regulating the Development of Pre-school Education” (《關於學前教育深化改革規範發展的若干意見》) (the “**Reform Opinions**”). Pursuant to the Reform Opinions, among other things, private companies should not control not-for-profit kindergartens through contractual arrangements. As at the date of this announcement, the Group operates six not-for-profit kindergartens through contractual arrangements, which account for approximately 9.0% of the Group’s revenue for the year ended 31 August 2020 and approximately 9.6% of the Group’s total number of students enrolled as at 31 August 2020. The impact of the Reform Opinions and regulatory policies on the Group’s operations and financial position is limited. The Company will closely monitor and seek legal advice on the Reform Opinions in due course, and will take all reasonable measures to comply with the Reform Opinions as it may be advised.

(iv) “Foreign Investment Law of the PRC”

On 15 March 2019, the National People’s Congress passed and announced the “Foreign Investment Law of the PRC” (the “**Foreign Investment Law**”), which became effective on 1 January 2020. The Foreign Investment Law defined the investment activities carried out in the PRC directly or indirectly by foreign investors and listed four scenarios which should be identified as foreign investments. There are no specific inclusion of clauses related to “de facto control” or “contractual arrangement” in Foreign Investment Law. Nevertheless, we would not rule out the possibility of any further laws and regulations on this matter. Therefore, there are still uncertainties on whether the structure under the structured contracts will be included under the regulatory area of foreign investment, and if it is included under regulation and how it should be regulated. As of the date of this announcement, the operation of the Company was not affected by the Foreign Investment Law. The Company will closely monitor the Foreign Investment Law and the development of relevant laws and regulations.

The Company will continue to monitor developments of above and other related laws and regulations, and will make further announcements in respect thereof in accordance with the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”) as and when appropriate.

Compliance with the Qualification Requirement

According to the Regulations on Operating Sino-foreign Schools (《中外合作辦學條例》), foreign investor in a Sino-Foreign Joint Venture Private School must be a foreign educational institution which has acquired relevant qualifications and experience in a foreign country (the “**Qualification Requirement**”). As part of our effort to fulfill the Qualification Requirement, we have adopted specific plans and taken concrete steps reasonably considered by us to be significant to indicate our compliance with the Qualification Requirement. On 19 August 2016, we established US Bojun as an operating entity in the USA. On 29 January 2018, we through US Bojun, entered into a memorandum of understanding with the US Partner, an institution which had extensive experience in provision of private education services in the United States, to expand our school network abroad. Pursuant to the memorandum of understanding, our Group and the US Partner will set up a joint venture for the establishment of the US School in the Los Angeles area. The joint venture will be owned by our Group as to 70% and the US Partner as to 30%. We will provide funding to finance operations and the purchase of facilities, and will be involved in the design of the education programs to be offered by the US School. The US Partner will provide management services to the US School, assist our Group in identifying school premises and recruit teachers for the US School. We intend to allocate approximately US\$3.2 million for the purpose of establishing the US School. We intend to meet part of such capital expenditure by utilising approximately RMB12.9 million (equivalent to approximately US\$1.9 million) from the Hong Kong public offering and the International Offering (the “**Global Offering**”) and the remainder through equity and/or debt financing and/or with our internal funds, as and when we see fit. Due to impact of the COVID-19, our commencement plan of school in the USA may be suspended. Further announcement will be made by the Company as and when appropriate.

The Group’s PRC legal advisor indicated to the Group that the relevant regulatory developments and guidance related to the qualification requirements have not changed.

FINANCIAL REVIEW

Revenue

We derive revenue from tuition fees and boarding fees our schools collected from our students. The following table sets forth the breakdown of major components of the revenue for the years indicated:

	For the year ended 31 August			
	2020		2019	
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
Tuition fees				
— Kindergartens	33,877	9.0	53,514	15.8
— Middle schools and high schools	331,130	88.1	275,190	81.4
Sub-total	365,007	97.1	328,704	97.2
Boarding fees	10,733	2.9	9,315	2.8
Total	375,740	100.0	338,019	100.0

Our revenue increased by approximately RMB37.7 million or 11.2% from approximately RMB338.0 million for the year ended 31 August 2019 to approximately RMB375.7 million for the year ended 31 August 2020. The increase was mainly attributable to the increased total student enrolment, which resulted in an increase in tuition and boarding fees.

Student enrolment in our schools increased by approximately 18.8% from 10,173 as of 1 September 2018 to 12,082 as of 1 September 2019, mainly due to an increase in the number of students enrolled in our middle schools and high schools including Longquan School, Nanjiang Bojun School, Wangcang Bojun School, Pengzhou Bojun School and newly commenced Lezhi Bojun School.

Costs of services

Our costs of services primarily consist of staff costs, depreciation, cost of cooperative education, rental expenses and other costs. For the years ended 31 August 2019 and 2020, our costs of services represented approximately 73.4% and 72.2% of our total revenue, respectively. The table below sets forth the breakdown of the major components of our costs of services for the years indicated:

	For the year ended 31 August	
	2020	2019
	RMB'000	RMB'000
Staff costs	171,183	157,855
Depreciation	60,965	28,002
Royalty fees	15,803	14,511
Rental and management fees	–	19,578
Office expenses	11,097	13,958
Repair and maintenance	5,439	2,405
Utilities expenses	3,233	3,560
Training expenses	1,376	2,286
Others	2,233	6,109
Total	271,329	248,264

Our costs of services increased by approximately RMB23.1 million or 9.3% from approximately RMB248.3 million for the year ended 31 August 2019 to approximately RMB271.3 million for the year ended 31 August 2020. The increase was primarily attributable to the increase in number of students in the newly commenced Lezhi Bojun School which resulted in an increase in the number of teachers we employed and the depreciation for school buildings, the repair and management fees of the school premises and related operating costs, among which,

- (i) staff costs increased by approximately RMB13.3 million or 8.4% from approximately RMB157.9 million for the year ended 31 August 2019 to approximately RMB171.2 million for the year ended 31 August 2020, primarily because the number of teachers increased from 841 as of 1 September 2018 to 996 as of 1 September 2019. In particular, (i) the new Lezhi Bojun School commenced operation in September 2019, which resulted in an increase in the number of teachers engaged; and (ii) the number of classes opened in Wangcang Bojun School, Nanjiang Bojun School and Pengzhou Bojun School increased, which resulted in an increase in the number of teachers engaged.

- (ii) depreciation expenses increased by approximately RMB32.9 million or 117.7% from approximately RMB28.0 million for the year ended 31 August 2019 to approximately RMB61.0 million for the year ended 31 August 2020, primarily due to (i) the application of property, plant and equipment from the commencement of Lezhi Bojun School, which resulted in an increase in depreciation; (ii) the completion and launch of buildings of Nanjiang Bojun School and Wangcang Bojun School in the year ended 31 August 2020 which were not yet completed in the year ended 31 August 2019; and (iii) the depreciation of right-of-use assets, which resulted in an increase in depreciation.
- (iii) royalty fees increased by approximately RMB1.3 million or 8.9% from approximately RMB14.5 million for the year ended 31 August 2019 to approximately RMB15.8 million for the year ended 31 August 2020, due to the increase in tuition fees income from our middle schools and high schools as a result of increased number of students enrolled and the increase in applicable royalty rate.
- (iv) repair and maintenance fees increased by approximately RMB3.0 million or 126.2% from approximately RMB2.4 million for the year ended 31 August 2019 to approximately RMB5.4 million for the year ended 31 August 2020, due to renovation of Jinjiang School campus in the current year as a result of its obsolescence.

In addition, our costs of services such as society activities, book purchase expenses increased in line with the expansion in scale of the schools we operated.

Gross profit and gross profit margin

The following table sets forth the breakdown of the gross profits and gross profit margins for the years indicated:

	For the year ended 31 August					
	2020			2019		
Segment	Gross	Gross	Segment	Gross	Gross	
revenue	profit	profit	revenue	profit	profit	
RMB'000	(loss)	margin	RMB'000	RMB'000	margin	
	RMB'000	%			%	
Primary schools, middle schools and high schools	341,863	106,505	31.2	284,505	74,045	26.0
Kindergartens	33,877	(2,094)	(6.2)	53,514	15,710	29.4
Total	375,740	104,411	27.8	338,019	89,755	26.6

Gross profit margin of our primary schools, middle schools and high schools increased from approximately 26.6% for the year ended 31 August 2019 to approximately 27.8% for the year ended 31 August 2020. The increase in gross profit margin was mainly because of increase in the number of students enrolled in middle schools and high schools. Gross profit margin of our kindergartens decreased from approximately 29.4% for the year ended 31 August 2019 to approximately -6.2% for the year ended 31 August 2020. The decrease was mainly attributable

to the kindergartens of the Group charging the tuition fees for the second semester of the 2019/2020 school year based on the actual teaching time (June to August) and refunding the corresponding tuition fees in proportion to the decrease in teaching time due to the impact of the COVID-19 pandemic, which resulted in a decrease in the revenue for the year ended 31 August 2020 of approximately RMB19.6 million.

Other (expenses) income

Our other (expenses) income primarily consists of (i) interest income from banks, amounting to approximately RMB0.3 million for the year ended 31 August 2020, and approximately RMB2.9 million for the year ended 31 August 2019; (ii) release of asset-related government grants, amounting to approximately RMB1.3 million for the year ended 31 August 2020, and approximately RMB1.1 million for the year ended 31 August 2019; and (iii) other government grants, amounting to approximately RMB1.0 million for the year ended 31 August 2020, and approximately RMB0.2 million for the year ended 31 August 2019.

Our other income decreased by approximately RMB10.8 million or 148.4% from approximately RMB7.3 million for the year ended 31 August 2019 to other expenses of approximately RMB3.5 million for the year ended 31 August 2020. Such decrease was mainly attributable to (i) settlement of long-aged creditors waived in previous years of approximately RMB6.2 million; and (ii) decrease of interest income from banks of approximately RMB2.6 million.

Income/(expenses) incurred from non-operational activities

	For the year ended 31 August	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Net exchange (loss) gain	(3,564)	8,322
Gain arising on disposal of property, plant and equipment, net	15	36
Gain on disposal of financial assets at FVTPL	5,536	–
Fair value changes for financial assets at FVTPL	3,672	–
Others	(854)	115
	<hr/>	<hr/>
Total	<u>4,805</u>	<u>8,473</u>

Income incurred from non-operational activities decreased by approximately RMB3.7 million or 43.3% from approximately RMB8.5 million for the year ended 31 August 2019 to approximately RMB4.8 million for the year ended 31 August 2020, primarily due to decrease in net exchange gain of 11.9 million, accounting for 140.0% of the total income incurred from non-operational activities.

Administrative expenses

Administrative expenses primarily consist of administrative staff costs, office expenses, entertainment expenses, motor vehicle expenses, handling charges and certain other administrative expenses. Other administrative expenses generally include staff travel expenses, management meetings expenses and welfare expenses.

Our administrative expenses increased by approximately RMB2.5 million or 4.7% from approximately RMB53.6 million for the year ended 31 August 2019 to approximately RMB56.2 million for the year ended 31 August 2020, mainly attributable to the increase in certain administrative expenses due to the enhanced measures for disease prevention and control under the impact of the pandemic for the year ended 31 August 2020.

Finance costs

Our finance costs primarily consist of bank borrowings, other borrowing and lease liabilities.

Our finance costs increased by approximately RMB14.0 million or 213.9% from approximately RMB6.6 million for the year ended 31 August 2019 to approximately RMB20.6 million for the year ended 31 August 2020, primarily attributable to the increase in bank borrowings, other borrowing and recognition of lease liabilities upon initial application of HKFRS 16 for the year ended 31 August 2020.

Taxation

Our income tax expenses for the years ended 31 August 2019 and 2020 amounted to approximately RMB16.4 million and RMB13.7 million, respectively. The main reason of decrease in income tax expenses for the year ended 31 August 2020 was due to the decrease in the assessable profits and some profit-making entities utilising the tax losses of prior years in accordance with the taxation system of China in 2020.

Profit for the year

Our profit for the year decreased by approximately RMB13.7 million or 47.3% from approximately RMB28.9 million for the year ended 31 August 2019 to approximately RMB15.2 million for the year ended 31 August 2020, which primarily attributable to: (i) the kindergartens of the Group charging the tuition fees for the second semester of the 2019/2020 school year based on the actual teaching time (June to August) due to the impact of the COVID-19 pandemic, which resulted in a decrease in the revenue of the Group's kindergartens for the current year of approximately RMB19.6 million; (ii) the application of property, plant and equipment due to the commencement of Lezhi Bojun School, which resulted in an increase in depreciation for the year ended 31 August 2020 of approximately RMB33 million; (iii) the increase in finance costs of approximately RMB14.0 million due to the increase in bank borrowings, other borrowing and recognition of lease liabilities upon initial application of HKFRS 16; (iv) the loss on foreign exchange of approximately RMB3.6 million as compared to the gain of foreign exchange of approximately RMB8.3 million for the year ended 31 August 2019, representing a decrease in earnings of approximately RMB11.9 million; and (v) the increase in revenue of approximately RMB37.7 million due to the commencement of operation of Lezhi Bojun School, which resulted in the net decrease in the profit for the year ended 31 August 2020 of approximately RMB13.7 million as compared to the year ended 31 August 2019 after offset.

Contract liabilities

We record tuition fees and boarding fees collected initially as a liability under contract liabilities and recognise such amounts as revenue proportionately over the relevant period of the applicable program. Our contract liabilities increased by approximately RMB18.5 million or 5.3% from approximately RMB350.8 million as of 31 August 2019 to approximately RMB369.3 million as of 31 August 2020. The increase was primarily due to the increase in our student enrolment as a result of our school network expansion.

Adjusted net profit

The adjusted net profit eliminates the effect of certain non-cash or one-off items, including imputed interest income from advances to related companies, imputed interest income from advances to directors and the listing expenses and redefined benefit obligations. The term adjusted net profit is not defined under HKFRS. As a non-HKFRS measure, adjusted net profit is presented because our management believes such information will be helpful for investors in assessing the effect of imputed interest income and listing expenses on our net profit.

The following table reconciles our adjusted net profit for the years presented to the most directly comparable financial measure calculated and presented in accordance with HKFRS:

	For the year ended 31 August	
	2020	2019
	RMB'000	RMB'000
Profit for the year	15,242	28,941
Add:		
Remeasurement of defined benefit obligations	518	57
Adjusted net profit	15,760	28,998

For the year ended 31 August 2020, our adjusted net profit amounted to approximately RMB15.8 million, representing a decrease of approximately RMB13.2 million or 45.7% from approximately RMB29.0 million as recorded for the year ended 31 August 2019, mainly attributable to the decrease in profit for the year of approximately RMB13.7 million and increase in remeasurement of defined benefit obligations of approximately RMB0.5 million.

LIQUIDITY AND CAPITAL RESOURCES

During the year ended 31 August 2020, we have principally financed our operations through a combination of internally generated cash flows from our operations, proceeds from the pre-IPO investment, proceeds from the Global Offering and short-term bank borrowings. The short-term bank borrowings amounted to approximately RMB115.0 million as of 31 August 2020, all denominated in Renminbi. As of 31 August 2020, our short-term bank borrowings have a variable interest at approximately 0.7% to 70% plus the lending benchmark interest rate of the People's Bank of China and fixed interest at 5.5%. Our cash and cash equivalents amounted to approximately RMB336.6 million and RMB426.8 million as at 31 August 2019 and 2020, respectively. We generally deposit our excess cash in interest bearing bank accounts.

Our cash have been principally used for funding working capital, purchase of property, campus buildings and equipment and other recurring expenses to support the expansion of our operations. Going forward, we believe our liquidity requirements will be satisfied by combination of internally generated cash, external borrowings and other funds raised from the capital markets from time to time.

We regularly monitor our liquidity requirements to ensure that we maintain sufficient cash resources for working capital and capital expenditure needs. For the year ended 31 August 2020, we did not experience any difficulties in settling our obligations in the normal course of business, which would have had a material impact to our business, financial condition or results of operations.

The following table sets forth a summary of our cash flows for two financial years:

	For the year ended 31 August	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Net cash from operating activities	125,515	103,870
Net cash used in investing activities	(278,804)	(435,974)
Net cash from financing activities	246,978	51,650
	<hr/>	<hr/>
Net increase (decrease) in cash and cash equivalents	93,689	(280,454)
Cash and cash equivalents at the beginning of the year	336,647	607,062
Effect of exchange rate changes	(3,564)	10,039
	<hr/>	<hr/>
Cash and cash equivalents at the end of the year, represented by bank balances and cash	426,772	336,647
	<hr/> <hr/>	<hr/> <hr/>

CAPITAL EXPENDITURES

Our capital expenditures were primarily related to (i) development and construction of new schools; (ii) purchase of leasehold land and buildings for our schools; (iii) maintenance, renovation, expansion and upgrade of our existing schools; and (iv) purchase of education facilities and equipment. The following table sets forth our additions of property, plant and equipment and leasehold land, for the years indicated:

	For the year ended 31 August	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Payment for property, plant and equipment	(245,345)	(369,782)
Payment for leasehold land	(275)	(76,804)
Prepayment made for property, plant and equipment	(4,574)	(13,680)
	<hr/> <hr/>	<hr/> <hr/>

We plan to satisfy such capital expenditures with a combination of our existing cash, cash generated from our operations, proceeds from the pre-IPO investment, proceeds from the Global Offering and/or bank borrowing and other funds raised from the capital markets from time to time.

CAPITAL COMMITMENTS

As at 31 August	
2020	2019
RMB'000	RMB'000

Capital expenditure in respect of:

- the acquisition of property, plant and equipment and land use rights contracted for but not provided in the reporting period

—	82,682
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GEARING RATIO

Gearing ratio is calculated by dividing total debts (which equal to interest-bearing bank borrowings and other borrowing) by total equity as of the respective year end date.

Our gearing ratio increased from approximately 16.7% as at 31 August 2019 to approximately 48.7% as at 31 August 2020, as the Group increased its bank borrowings to meet the requirement of capital expenditures during the year ended 31 August 2020.

INTEREST RATE RISK

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group is exposed to cash flow interest rate risk on the variable rate of interest earned on the bank balances and incurred by bank borrowings. The Group currently does not use any financial instrument to hedge interest rate risk exposure. However, the management of the Group monitors interest rate risk and will consider hedging significant interest rate exposure should the need arise.

If interest rate of variable-rate bank borrowings had been 10 basis points higher/lower and all other variables were held constant, the Group's post-tax profit for the year ended 31 August 2020 would have decreased/increased by approximately RMB320,000 (2019: RMB267,000). The analysis is prepared assuming the financial instruments outstanding as at 31 August 2020 were outstanding for the whole year.

If interest rate of variable-rate borrowings had been 10 basis points higher/lower and all other variables were held constant, the Group's post-tax profit for the year ended 31 August 2020 would have decreased/increased by approximately RMB275,000 (2019: RMB120,000).

FOREIGN EXCHANGE EXPOSURE

The majority of the Group's revenue and expenditures are denominated in RMB, the functional currency of the Company, except that certain expenditures are denominated in HK dollars.

As at 31 August 2019 and 2020, the book value of the monetary asset of the Group denominated in foreign currency was as follows:

	As at 31 August	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Bank balances and cash — US\$	—	51
Bank balances and cash — HK\$	167,932	182,695
	167,932	182,746

The following shows the Group's sensitivity to 5% appreciation of US\$ and HK\$ against RMB which represents the management's assessment of the reasonable possible change in US\$—RMB and HK\$—RMB exchange rate. The sensitivity analysis of the Group includes the outstanding US\$ and HK\$ denominated balances as adjusted for 5% appreciation of US\$ and HK\$ as at 31 August 2019 and 2020. The analysis is prepared assuming the financial instruments outstanding as at 31 August 2019 and 2020 were outstanding for the whole year of 2019 and 2020, respectively.

	For the year ended 31 August	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Increase in post-tax profit	6,297	9,115

There would be an equal and opposite impact on the above post-tax results, should the US\$ and HK\$ be weakened against RMB in the above sensitivity analysis.

In the Directors' opinion, the sensitivity analysis above is unrepresentative for the currency risk as the exposure as at 31 August 2019 and 2020 does not reflect the exposure during the year. The Group has not used any financial instrument to hedge the foreign exchange risk that it is exposed to currently. However, the management of the Group monitors our foreign exchange exposure and will consider hedging significant foreign exchange risk should the need arise.

CHARGES ON THE GROUP'S ASSETS

Except for the furniture, fixtures and equipment pledged for the other borrowing under sale and leaseback arrangement, there were no other material charges on the Group's assets as at 31 August 2020.

CONTINGENT LIABILITIES

As at 31 August 2019 and 2020, the Group did not have any material contingent liabilities.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

For the year ended 31 August 2020, the Group did not have any material acquisitions and disposals of subsidiaries, associates or joint ventures.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

On 11 September 2020 and 16 October 2020, Chengdu Bojun (a wholly-owned subsidiary of the Company), Shenzhen Hongyuan Education Investment Company Limited* (深圳弘遠教育投資有限公司) (“**Shenzhen Hongyuan Company**”) and the initial shareholder of Shenzhen Hongyuan Company entered into a capital injection agreement and a supplemental agreement, respectively, pursuant to which Chengdu Bojun agreed to subscribe for new capital of Shenzhen Hongyuan Company in the aggregate amount of RMB245.0 million (equivalent to approximately HK\$278.0 million) in cash. Upon completion, Chengdu Bojun will hold 49.0% of the enlarged (as enlarged by such capital injection) registered capital of Shenzhen Hongyuan Company. The financial results of Shenzhen Hongyuan Company will not be consolidated into the accounts of the Group. For details, please refer to the announcements of the Company published on 11 September 2020 and 16 October 2020.

USE OF PROCEEDS FROM THE LISTING

Net proceeds from the Listing (including the partial exercise of over-allotment option) of approximately HK\$494.0 million (equivalent to approximately RMB428.9 million), after deducting the underwriting fees, commissions and expenses payable by us in connection with the Listing, will be applied in the manner as set out in the section headed “Future plans and use of proceeds” of the Company’s prospectus dated 19 July 2018. As at 31 August 2020, the Company applied the net proceeds in the following manner:

Use of proceeds	% of the net proceeds	Proceeds allocated (RMB million)	Amount utilised (RMB million)	Unutilised balance (RMB million)
I. Establishing Nanjiang Bojun School	28%	120.1	120.1	–
II. Establishing Wangcang Bojun School	28%	120.1	120.1	–
III. Establishing the high school section of Tianfu School ⁽¹⁾	22%	94.4	94.4	–
IV. Establishing Pengzhou Bojun School	9%	38.6	38.6	–
V. Establishing Lezhi Bojun School	5%	21.4	21.4	–
VI. Establishing US School	3%	12.9	–	12.9
VII. As working capital and for general corporate purpose	5%	21.4	21.4	–
Total	100%	428.9	416.0	12.9

Note:

- (1) The construction of the school premise of the high school section of Tianfu School was completed in 2019 with the proceeds and such buildings will be used as dormitories of the high school section of Tianfu School. The high school section of Tianfu School will be opened in 2021.

The unutilised net proceeds are generally placed in licensed financial institutions as short-term interest-bearing deposits.

SIGNIFICANT INVESTMENT HELD

As at 31 August 2020, the Group held approximately 33.3% equity interests in Chengdu Tongxing Wanbang Enterprise Management Centre LLP* (成都同興萬邦企業管理中心(有限合夥)) with investment amounting to RMB17.5 million. Such entity is primarily engaged in the business of providing cultural activities services including display services in conferences and exhibitions, organising large-scale events and corporate image planning services. As at 31 August 2020, the proposed investment project of the entity is still in the initial phase, and the entity has no income. As daily operational expenditure is incurred, the entity recorded a loss of approximately RMB 16,000 in the year ended 31 August 2020.

SIGNIFICANT LEGAL PROCEEDINGS

For the year ended 31 August 2020, the Group had not been involved in any significant legal proceedings or arbitration. To the best of the knowledge and belief of the Directors, there are no significant legal proceedings or claims pending or threatened against the Group.

EVENTS AFTER THE REPORTING PERIOD

With effect from 26 November 2020, Mr. Ran Tao resigned as an executive Director and the chief executive officer of the Company while Mr. Wang Jinglei, an executive Director and chairman of the Board, was appointed as the chief executive officer of the Company. For details, please refer to the announcement of the Company dated 26 November 2020.

EMPLOYEE BENEFITS

As at 31 August 2020, the Group had 1,732 employees (as at 31 August 2019: 1,709). The Group participates in various employee benefit plans, including provident fund, pension, medical insurance and unemployment insurance. The Company has also adopted a share option scheme for its employees and other eligible persons. Salaries and other benefits of the Groups' employees are generally reviewed on a regular basis in accordance with individual qualifications and performance, result performance of the Group and other relevant market conditions. The Group also provides internal and external training programs to its employees. For the year ended 31 August 2020, the annual staff costs (including directors' fees) amounted to approximately RMB208.6 million (2019: RMB191.6 million).

SHARE OPTION SCHEME

On 12 July 2018, a share option scheme (the “**Share Option Scheme**”) was conditionally approved and adopted pursuant to a written resolution passed by the shareholders. The Share Option Scheme will remain in force for a period of 10 years from the date of its adoption. For the year ended 31 August 2020, no share options were granted under the Share Option Scheme by the Company. In addition, as at 31 August 2020, no share options under the Share Option Scheme were outstanding.

FINAL DIVIDENDS

The Board does not recommend the payment of final dividend for the year ended 31 August 2020.

ANNUAL GENERAL MEETING

The Company will hold an annual general meeting (the “AGM”) on Wednesday, 20 January 2021. Notice of the AGM will be published and dispatched to the shareholders of the Company in accordance with the articles of association of the Company and the Listing Rules as soon as practicable.

CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to attend and vote on the AGM to be held on Wednesday, 20 January 2021, the register of members of the Company will be closed from Friday, 15 January 2021 to Wednesday, 20 January 2021, both dates inclusive, during which period no transfer of shares will be registered. In order to qualify for attending and voting on the AGM, all transfers accompanied by the relevant share certificates must be lodged with the Company’s Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong not later than 4:30 p.m. on Thursday, 14 January 2021, for registration.

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

During the year ended 31 August 2020, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company’s listed securities.

COMPETITION AND CONFLICT OF INTERESTS

As at the date of this announcement, none of the Directors has, either directly or indirectly, any interest in any business which causes or may cause any significant competition with the business of the Group or has any other conflict of interests with the Group.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) set out in Appendix 10 to the Listing Rules as the code of conduct for dealings in the Company’s securities by the Directors. Having made specific enquiries to the Directors, all Directors confirmed that they had complied with the required standards set out in the Model Code for the period from 1 September 2019 to 31 August 2020.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Board has committed to achieving high corporate governance standards in order to safeguard the interests of shareholders and to enhance corporate value and accountability. Since the Listing Date, the Company has applied the Corporate Governance Code and Corporate Governance Report (the “**CG Code**”) contained in Appendix 14 to the Listing Rules and has complied with all the applicable code provisions except for the code provision A.2.1 since 26 November 2020 as more particularly described below. The Board will continue to review and monitor the corporate governance practices of the Company for the purpose of maintaining high corporate governance standards.

Pursuant to code provision A.2.1 of the CG Code, the responsibilities between the chairman and the chief executive officer should be segregated and should not be performed by the same individual. However, Mr. Ran Tao resigned as an executive Director and the chief executive officer of the Company, and Mr. Wang Jinglei, an executive Director and chairman of the Board, was appointed as the chief executive officer of the Company, with effect from 26 November 2020. The Group therefore does not have a separate chairman and chief executive officer as at the date of this announcement and Mr. Wang Jinglei currently performs these two roles. The Board believes that vesting the roles of both chairman and chief executive officer in the same person has the benefit of ensuring consistent leadership within the Group and enables more effective and efficient overall strategic planning for the Group. The Board considers that the balance of power and authority for the present arrangement will not be impaired and this structure will enable the Company to make and implement decisions promptly and effectively. The Board will continue to review and consider segregating the roles of chairman of the Board and chief executive officer of the Company at a time when it is appropriate and suitable by taking into account the circumstances of the Group as a whole.

AUDIT COMMITTEE

The Company has established an audit committee (the “**Audit Committee**”) with written terms of reference in accordance with the Listing Rules and the CG Code. The primary duties of the Audit Committee are to assist the Board by providing an independent view of the effectiveness of the financial reporting process, internal control procedures and risk management system of the Group, overseeing the audit process and performing other duties and responsibilities as assigned by the Board. The Audit Committee comprises three members, namely, Mr. Cheng Tai Kwan Sunny, Mr. Mao Daowei and Ms. Luo Yunping, all being independent non-executive Directors. Mr. Cheng Tai Kwan Sunny is the chairman of the Audit Committee.

The Audit Committee has reviewed the consolidated financial statements of the Group for the year ended 31 August 2020 and has met with the independent auditor, PKF. The Audit Committee has also discussed matters with respect to the accounting policies and practices adopted by the Company and internal control with senior management members of the Company.

SUFFICIENCY OF PUBLIC FLOAT

Based on information publicly available to the Company and to the best knowledge of the Directors, the Directors confirmed that the Company has maintained the public float as required by the Listing Rules for the year ended 31 August 2020.

PUBLICATION OF THE ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This annual results announcement is published on the website of the Stock Exchange at www.hkexnews.hk and the website of the Company at <http://bojuneducation.com>. The annual report of the Group for the year ended 31 August 2020 will be published on the aforesaid websites of the Stock Exchange and the Company and will be dispatched to shareholders in due course.

APPRECIATION

The Company would like to express its sincere appreciation for the unremitting effort and dedication made by the Board, the management and all of its staff members, as well as the continuous support to the Group from the shareholders of the Company, the government, business partners, professional advisers and loyal customers.

By Order of the Board
Bojun Education Company Limited
Wang Jinglei
Chairman and Executive Director

Hong Kong, 26 November 2020

As at the date of this announcement, the executive Director is Mr. Wang Jinglei; the non-executive Director are Mr. Wu Jiwei; and the independent non-executive Directors are Mr. Cheng Tai Kwan Sunny, Mr. Mao Daowei, Mr. Yang Yuan and Ms. Luo Yunping.

* *For identification purpose only*