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**Virscend Education Company Limited**  
**成實外教育有限公司**  
*(Incorporated in the Cayman Islands with limited liability)*  
**(Stock Code: 1565)**

**ANNUAL RESULTS ANNOUNCEMENT**  
**FOR THE YEAR ENDED 31 DECEMBER 2020**

**ANNUAL RESULTS HIGHLIGHTS**

The Board has resolved to recommend the payment of a final dividend of HK\$0.025 per share for the year ended 31 December 2020 (2019: HK\$0.04 per share).

	Year ended 31 December		Change RMB'000	Percentage Change
	2020 RMB'000	2019 RMB'000		
<b>Revenue</b>	<b>1,844,845</b>	1,493,032	<b>351,813</b>	<b>23.56%</b>
<b>Gross profit</b>	<b>663,184</b>	596,722	<b>66,462</b>	<b>11.14%</b>
<b>Adjusted net profit attributable to owners of the Company*</b>	<b>370,820</b>	409,286	<b>(38,466)</b>	<b>(9.40%)</b>
<b>Adjusted EBITDA**</b>	<b>748,783</b>	652,336	<b>96,447</b>	<b>14.78%</b>

\* Adjusted net profit attributable to owners of the Company was derived from the attributable to owners of the parent after adjusting items which are not indicative of the Group's operating performance. Please refer to the section of "Financial Review" in this announcement for details of the reconciliation of the attributable to owners of the parent to the adjusted net profit attributable to owners of the Company.

\*\* Adjusted EBITDA is defined as adjusted net profit attributable to owners of the Company earnings before interest, tax, depreciation and amortization ("EBITDA")

	As at 31 December 2020	As at 31 December 2019	Change	Percentage Change
<b>K-12 students enrolled</b>	<b>40,688</b>	34,271	<b>+6,417</b>	<b>+18.72%</b>
<b>University students enrolled</b>	<b>17,557</b>	16,888	<b>+669</b>	<b>+3.96%</b>
<b>Network school</b>	<b>6,501</b>	3,685	<b>+2,816</b>	<b>+76.42%</b>
<b>Total number of students enrolled</b>	<b>64,607</b>	54,844	<b>+9,763</b>	<b>+17.80%</b>
	As at 31 December 2020	As at 31 December 2019	Change	Percentage Change
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
<b>Contract Liabilities</b>	<b>1,062,362</b>	861,780	<b>200,581</b>	<b>23.28%</b>

	For the year ended 31 December	
	2020	2019
	<b>RMB'000</b>	<b>RMB'000</b>
Attributable to owners of the parent	<b>225,471</b>	397,140
Adjustments for:		
Additional expenses arising from the adoption of IFRS (Note 1)	<b>17,136</b>	11,799
Amortisation of intangible assets arising from the acquisition of school	<b>7,278</b>	—
Foreign exchange gain/loss	<b>(4,065)</b>	347
One-off settlement payment arising from converting the University from independent college to a private higher education institution	<b>125,000</b>	—
<b>Adjusted net profit attributable to owners of the parent</b>	<b>370,820</b>	409,286

Note 1: The adjustment represented the difference of (a) the actual rental expenses payable before the application of IFRS16, and (b) the total of depreciation of right-of-use assets and the interest portion of lease liabilities charged to profit or loss less the finance income on refundable rental deposits paid credited to profit or loss arising from the adoption of IFRS16.

### **Impact of COVID-19 epidemic**

Although action plans have been implemented to minimize the impact of the COVID-19 epidemic, our operations have been affected considerably. The Group refunded boarding fees of RMB5.2 million during the epidemic as required by educational authorities in China. At the same time, the Group's two kindergarten businesses barely operated in the second half of the 2019/2020 school year, which led to reduce in revenue by approximately RMB5.3 million. Moreover, due to the closure of the school canteens during the epidemic, the reduced incoming canteen fees cannot cover the loss generated from fixed costs such as labor costs, facility costs and depreciation and amortization which amounted to RMB12.0 million. Regardless of the impact of the epidemic, the Group's business has achieved a steady growth in the Reporting Period as compared to the year ended 31 December 2019.

The board (the “Board”) of directors (the “Directors”) of Virscend Education Company Limited (the “Company”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2020 (the “Reporting Period”) together with the comparative figures for the year ended 31 December 2019 as follows:

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS  
FOR THE YEAR ENDED 31 DECEMBER 2020**

	Notes	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Revenue	3	<b>1,844,845</b>	1,493,032
Cost of sales		<b>(1,181,661)</b>	(896,310)
Gross profit		<b>663,184</b>	596,722
Other income and gains	3	<b>82,819</b>	51,401
Research and development costs	8	<b>(20,222)</b>	(19,520)
Selling and distribution expenses		<b>(21,850)</b>	(6,431)
Administrative expenses		<b>(291,533)</b>	(117,718)
Other expenses		<b>(13,321)</b>	(8,736)
Impairment losses on financial assets		<b>(765)</b>	(2,426)
Finance costs	4	<b>(166,114)</b>	(78,961)
Share of profits and losses of associates		<b>(2,597)</b>	(2,400)
<b>PROFIT BEFORE TAX</b>	8	<b>229,601</b>	411,931
Income tax expense	5	<b>(9,798)</b>	(3,876)
<b>PROFIT FOR THE YEAR</b>		<b>219,803</b>	408,055
Attributable to:			
Owners of the parent	7	<b>225,471</b>	397,140
Non-controlling interests		<b>(5,668)</b>	10,915
		<b>219,803</b>	408,055
Earnings per share attributable to ordinary equity holders of the parent – basic and diluted for the year	7	<b>RMB0.07</b>	RMB0.13

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2020**

	<b>2020</b>	2019
	<i>RMB'000</i>	<i>RMB'000</i>
<b>PROFIT FOR THE YEAR</b>	<b><u>219,803</u></b>	<b><u>408,055</u></b>
<b>OTHER COMPREHENSIVE INCOME</b>		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	<u>39</u>	<u>(51)</u>
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods	<u>39</u>	<u>(51)</u>
<b>OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX</b>	<b><u>39</u></b>	<b><u>(51)</u></b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<b><u>219,842</u></b>	<b><u>408,004</u></b>
Attributable to:		
Owners of the parent	<b>225,491</b>	397,137
Non-controlling interests	<b><u>(5,649)</u></b>	<u>10,867</u>
	<b><u>219,842</u></b>	<b><u>408,004</u></b>

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 DECEMBER 2020**

	Notes	<b>2020</b> <i><b>RMB'000</b></i>	2019 <i>RMB'000</i>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		<b>4,509,076</b>	4,121,145
Right-of-use assets	11	<b>1,208,263</b>	1,118,059
Intangible assets		<b>154,475</b>	2,908
Investments in associates		<b>44,539</b>	50,465
Other non-current assets		<b>692,113</b>	102,559
Goodwill		<b>104,298</b>	—
Total non-current assets		<b><u>6,712,764</u></b>	<u>5,395,136</u>
<b>CURRENT ASSETS</b>			
Inventories		<b>297</b>	193
Prepayments, other receivables and other assets		<b>82,613</b>	517,870
Amounts due from related parties		<b>17,241</b>	10,946
Time deposits		—	11,420
Cash and cash equivalents		<b>773,832</b>	394,386
Total current assets		<b><u>873,983</u></b>	<u>934,815</u>
<b>CURRENT LIABILITIES</b>			
Trade payables	12	<b>80,055</b>	38,861
Other payables and accruals		<b>224,015</b>	355,592
Interest-bearing bank and other borrowings	10	<b>1,690,467</b>	923,000
Lease liabilities	11	<b>19,268</b>	14,991
Tax payable		<b>32,147</b>	26,902
Contract liabilities		<b>1,058,302</b>	861,780
Deferred income		<b>3,285</b>	2,168
Amounts due to related parties		<b>21,659</b>	10,919
Total current liabilities		<b><u>3,129,198</u></b>	<u>2,234,213</u>
<b>NET CURRENT LIABILITIES</b>		<b><u>(2,255,215)</u></b>	<u>(1,299,398)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b><u>4,457,549</u></b>	<u>4,095,738</u>

	Notes	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b><u>4,457,549</u></b>	<u>4,095,738</u>
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank and other borrowings	10	<b>1,460,341</b>	1,021,903
Lease liabilities	11	<b>215,893</b>	202,009
Deferred income		<b>5,201</b>	9,593
Contract liability-non current		<b>4,060</b>	—
Amounts due to a related party		<b>—</b>	108,166
Total non-current liabilities		<b><u>1,685,495</u></b>	<u>1,341,671</u>
Net assets		<b><u><u>2,772,054</u></u></b>	<u><u>2,754,067</u></u>
<b>EQUITY</b>			
Equity attributable to owners of the parent			
Share capital		<b>26,051</b>	26,051
Reserves		<b><u>2,699,600</u></b>	<u>2,703,615</u>
		<b>2,725,651</b>	2,729,666
Non-controlling interests		<b><u>46,403</u></b>	<u>24,401</u>
Total equity		<b><u><u>2,772,054</u></u></b>	<u><u>2,754,067</u></u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

### 1. GENERAL INFORMATION, BASIS OF PREPARATION AND PRESENTATION

The Company was incorporated in the Cayman Islands on 13 March 2015 as an exempted company with limited liability under the Companies Law (2013 Revision) of the Cayman Islands. The address of the registered office of the Company is Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands. Its shares have been listed (the “Listing”) on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) since 15 January 2016 (the “Listing Date”).

The principal activity of the Company is investment holding. The Company and its subsidiaries (collectively referred to as the “Group”) are principally engaged in providing private education services in the People’s Republic of China (the “PRC”).

The financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (“IFRSs”). The financial statements have been prepared under the historical cost convention. The financial statements are presented in Renminbi (“RMB”).

### 2. ADOPTION OF NEW AND REVISED IFRSS

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2019, as described in those annual financial statements.

(i) The Group has adopted the following revised IFRSs for the first time for the current year’s financial statements:

Amendments to IFRS 3	<i>Definition of a Business</i>
Amendments to IFRS 9, IAS 39 and IFRS 7	<i>Interest Rate Benchmark Reform</i>
Amendment to IFRS 16	<i>Covid-19-Related Rent Concessions (early adopted)</i>
Amendments to IAS 1 and IAS 8	<i>Definition of Material</i>

The adoption of these revised IFRSs has had no significant financial effect on the financial position or performance of the Group.

- (ii) New standards and amendments to existing standards have been issued but are not effective and have not been early adopted by the Group:

Amendments to IFRS 3	<i>Reference to the Conceptual Framework</i> <sup>2</sup>
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	<i>Interest Rate Benchmark Reform - Phase 2</i> <sup>1</sup>
Amendments to IFRS 10 and IAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> <sup>4</sup>
IFRS 17	<i>Insurance Contracts</i> <sup>3</sup>
Amendments to IFRS 17	<i>Insurance Contracts</i> <sup>3,6</sup>
Amendments to IAS 1	<i>Classification of Liabilities as Current or Non-current</i> <sup>3,5</sup>
Amendments to IAS 16	<i>Property, Plant and Equipment: Proceeds before Intended Use</i> <sup>2</sup>
Amendments to IAS 37	<i>Onerous Contracts - Cost of Fulfilling a Contract</i> <sup>2</sup>
<i>Annual Improvements to IFRSs 2018-2020</i>	Amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41 <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2021

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2022

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2023

<sup>4</sup> No mandatory effective date yet determined but available for adoption

<sup>5</sup> As a consequence of the amendments to IAS 1, Hong Kong Interpretation 5 *Presentation of Financial Statements - Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* was revised in October 2020 to align the corresponding wording with no change in conclusion

<sup>6</sup> As a consequence of the amendments to IFRS 17 issued in October 2020, IFRS 4 was amended to extend the temporary exemption that permits insurers to apply IAS 39 rather than IFRS 9 for annual periods beginning before 1 January 2023

The above new standards and amendments to existing standards are effective for annual periods beginning on or after 1 January 2021 and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group.



### 3. REVENUE, OTHER INCOME AND GAINS

Revenue represents the value of services rendered, after deducting scholarships and refunds during the Reporting Period.

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

	Notes	Year ended 31 December	
		2020	2019
		<i>RMB'000</i>	<i>RMB'000</i>
Revenue from contracts with customers			
Tuition fees		<b>1,508,483</b>	1,291,289
School canteen operations fees (Note (i))		<b>265,401</b>	144,313
Boarding fees		<b>53,334</b>	51,573
Management and consultation service fees (Note (ii))		<b>4,903</b>	5,857
Early child and after-class training tuition fees		<b>7,783</b>	—
Overseas studies consulting fees*		<b>4,941</b>	—
		<b><u>1,844,845</u></b>	<b><u>1,493,032</u></b>
Other income and gains			
Bank interest income	8	<b>2,612</b>	2,654
Other interest income (Note (iii))	8	<b>32,736</b>	27,213
Net foreign exchange gains	8	<b>4,065</b>	—
Government grants			
— related to assets		<b>3,715</b>	5,289
— related to income		<b>2,702</b>	5,348
Rental Income		<b>837</b>	2,311
Fair value gain of an investment in an associate (Note (iv))	8	<b>31,800</b>	—
Gain on disposal of subsidiaries (Note (v))	8	<b>1,444</b>	—
Others		<b>2,908</b>	8,586
		<b><u>82,819</u></b>	<b><u>51,401</u></b>

\* Overseas studies consulting fees represent value-added services provided to the high school students who participated in the international program of the Group. Such services include, among others, global educational resource consultation service, international curriculum consultation service, study-abroad guidance and consultation service, profile enhancement service, as well as promotion plan service.

Notes:

- (i) The operation of school canteens has been consolidated since 2019.
- (ii) The amount represented the income derived from (i) whole year school management service provided to two government public schools; (ii) offering regular several kinds of school management services to one public school; (iii) day-to-day operation management services provided to Gaoxin Campus from January to August 2020 as Gaoxin Campus became a wholly owned subsidiary of the Company since 1 September 2020.
- (iii) Other interest income recorded in 2020 is generated from third-party borrowings.
- (iv) The amount mainly represented gain generated from revaluing the 20% sponsor's interests of Gaoxin Campus immediately before the acquisition by the Company.
- (v) On 7 August 2020 the Group entered into a cooperation termination agreement with counterparties in respect of Zigong schools pursuant to which all parties agreed to terminate the cooperation and the Group transferred its sponsor interest in Zigong Schools to a third party. Up to the date of this announcement, the approval from the relevant authorities for the transfer of schools sponsor interest to a third party is still pending the discussion outcome with relevant local government authorities with regard to the Group's future involvement as to Zigong Schools' business activities such as students recruitment and school operation model etc.

#### 4. FINANCE COSTS

	Year ended 31 December	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Interest on bank and other borrowings	<b>178,476</b>	91,822
Interest on lease liabilities (a)	<b>12,623</b>	12,085
Less: interest capitalised	<b>(24,985)</b>	(24,946)
	<b><u>166,114</u></b>	<b><u>78,961</u></b>

- (a) The amount recognised in the consolidated statements of comprehensive income in relation to leases disclosed in note 11.

## 5. INCOME TAX

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands and accordingly is not subject to income tax.

Pursuant to the rules and regulations of the British Virgin Islands, the Group is not subject to any tax in the British Virgin Islands.

Hong Kong profits tax has not been provided as the Group did not derive any assessable profits in Hong Kong during the year.

According to the Implementation Rules for the Law for Promoting Private Education and the Proposed Amendments on the Implementation Rules for the Law for Promoting Private Education, private schools for which the school sponsors do not require reasonable returns are eligible to enjoy the same preferential tax treatments as public schools. The preferential tax treatment policies applicable to private schools requiring reasonable returns are to be separately formulated by the relevant authorities under the State Council. Based on the historical tax returns filed to the relevant tax authorities and the confirmations obtained previously from the local tax bureaus and local offices of the State Administration of Taxation, except for the kindergarten and high schools registered as for-profit private schools, certain schools within the Group were exempted from corporate income tax in 2020 and 2019.

In 2020, Tibet Huatai Education Management Consulting Co., Ltd. (“Tibet Huatai”) was subject to the PRC income tax at an original tax rate of 9%.

Taxes on profits assessable elsewhere have been calculated at the tax rate prevailing in the countries in which the Group operates. The income tax expenses of the Group for the year are analysed as follows:

	<b>Year ended 31 December</b>	
	<b>2020</b>	2019
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Current — PRC		
Charge for the year	<b>9,762</b>	6,232
Overprovision in prior years	<b>36</b>	(2,356)
	<u>          </u>	<u>          </u>
Total tax charge for the year	<b><u>9,798</u></b>	<b><u>3,876</u></b>

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

## **6. DIVIDENDS**

A final dividend of HK\$0.025 per share in respect of the year ended 31 December 2020 (2019: HK\$0.04 per share) has been proposed by the Board and is subject to approval by the shareholders at the forthcoming annual general meeting of the Company.

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

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average numbers of ordinary shares of 3,088,761,000 (2019: 3,088,761,000) in issue during the Reporting Period.

There were no potentially dilutive ordinary shares in issue during the years ended 31 December 2020 and 2019, and therefore the diluted earnings per share amounts were equivalent to the basic earnings per share amounts.

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

	Year ended 31 December	
	2020	2019
Earnings		
Profit attributable to ordinary equity holders of the parent (RMB'000)	<u>225,471</u>	<u>397,140</u>
Shares		
Weighted average number of ordinary shares in issue	<u>3,088,761,000</u>	<u>3,088,761,000</u>
Basic and diluted earnings per share (expressed in RMB per share)	<u>0.07</u>	<u>0.13</u>

## 8. PROFIT BEFORE TAX

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

	Notes	Year ended 31 December	
		2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Cost of services provided*		<b>495,581</b>	356,028
Research and development costs**		<b>20,222</b>	19,520
Employee benefit expense (excluding directors' and chief executive's remuneration):			
Wages, salaries and other allowances		<b>500,448</b>	391,939
Pension scheme contributions (defined contribution scheme)		<b>48,950</b>	54,077
One-off settlement payment arising for converting the University from independent college to a private higher education institution***		<b>125,000</b>	—
Depreciation of property, plant and equipment		<b>170,435</b>	133,771
Amortization of intangible assets		<b>8,108</b>	665
Depreciation of right-of-use assets		<b>30,786</b>	25,777
Impairment of investment in an associate****		<b>11,958</b>	5,953
Impairment of financial assets included in prepayments, other receivables and other assets		<b>765</b>	2,426
Lease payments not included in the measurement of lease liabilities		<b>27,006</b>	21,735
Auditors' remuneration			
— audit service		<b>3,002</b>	2,594
— non-audit service		<b>138</b>	130
Bank interest income	3	<b>(2,612)</b>	(2,654)
Other interest income	3	<b>(32,736)</b>	(27,213)
Foreign exchange difference, net	3	<b>(4,065)</b>	347
Fair value gain of an investment in an associate	3	<b>(31,800)</b>	—
Gain on disposal of subsidiary	3	<b>(1,444)</b>	—
Loss on disposal of items of property, plant and equipment		<b>(41)</b>	360

- \* *Cost of services provided represents “Cost of sales” in the consolidated statement of profit or loss excluding research and development costs, employee benefit expense, depreciation of property, plant and equipment, amortisation of intangible assets, and depreciation of right-of-use assets.*
- \*\* *Research and development costs for the year are disclosed as a stand-alone item in the consolidated statement of profit or loss instead of included in “Cost of sales”.*
- \*\*\* *On 27 July 2020, Sichuan International Studies University (四川外國語大學 (“SISU”)) and Sichuan Derui entered into a conversion agreement, and a supplemental agreement with the Group (together, the “Conversion Agreements”), to end their cooperation and facilitate the transition of Chengdu Institute Sichuan International Studies University (the “University”) from an independent college to a private higher education institution. Pursuant to the terms of the Conversion Agreements, the Group had paid a one-off settlement payment of RMB125 million to SISU for ending the cooperation.*
- \*\*\*\* *Impairment of investment in an associate for the year is included in “Other expenses” in the consolidated statement of profit or loss.*

## 9. CONTRACT LIABILITIES

Details of contract liabilities are as follows:

	<b>31 December 2020 RMB'000</b>	31 December 2019 RMB'000
Tuition fees	<b>902,171</b>	754,647
Boarding fees	<b>38,468</b>	32,234
School canteen operations fees	<b>104,472</b>	74,899
Overseas studies consulting fees	<b>17,251</b>	—
	<b><u>1,062,362</u></b>	<b><u>861,780</u></b>

Contract liabilities include short-term advances received from students in relation to the services not yet provided. The Group receives tuition and boarding fees from students in advance prior to the beginning of each academic year. The Group receives school canteen operation fees from students in advance prior to the beginning of each academic year or each semester. Tuition, boarding fees and school canteen operations are recognized proportionately over the relevant period of the applicable program.

The students are entitled to refund of the payment in relation to the proportionate service not yet provided.

The increase in contract liabilities in 2020 was mainly due to 1) the increase in tuition and boarding fees received from students in relation to the increasing number of newly registered students during the year, and 2) the increase in overseas studies consulting fees from international program.

## 10. INTEREST – BEARING BANK AND OTHER BORROWING

	Notes	31 December 2020 <i>RMB'000</i>	31 December 2019 <i>RMB'000</i>
Non-current			
Secured			
Bank loans	a	<b>651,090</b>	798,000
Other loan (i)	a	<b>809,251</b>	223,903
		<u><b>1,460,341</b></u>	<u>1,021,903</u>
Current			
Secured			
Bank loans	a	<b>1,419,620</b>	790,000
Other loan (i)	a	<b>270,847</b>	40,000
Unsecured			
Bank loans	a	<u>—</u>	<u>93,000</u>
		<u><b>1,690,467</b></u>	<u>923,000</u>

- (i) Other loan represented the loan borrowed from third party leasing companies under sales and leaseback arrangements for certain property, plant and equipment by the Group.



**a. More information in bank and other loans is analysed as follow:**

**For the year ended 31 December 2020**

	<b>Effective interest rate (%)</b>	<b>Maturity</b>	<b>RMB'000</b>
<b>Current</b>			
Bank loans – unsecured	—		—
Bank loans – secured	5.22-5.93	2021	729,000
Current portion of long term bank loans – secured	5.64-7.13	2021	690,620
Other loan – secured	4.53-7.90	2021	<u>270,847</u>
<b>Non-current</b>			
Bank loans – secured	4.45-7	2033	651,090
Other loan – secured	4.53-7.90	2025	<u>809,251</u>
			<b><u><u>3,150,808</u></u></b>

**For the year ended 31 December 2019**

	<b>Effective interest rate (%)</b>	<b>Maturity</b>	<b>RMB'000</b>
<b>Current</b>			
Bank loans – unsecured	5.22	2020	93,000
Bank loans – secured	5.22-7.13	2020	790,000
Other loan – secured	8.10	2020	<u>40,000</u>
<b>Non-current</b>			
Bank loans – secured	5.64-7.13	2033	798,000
Other loan – secured	8.10	2024	<u>223,903</u>
			<b><u><u>1,944,903</u></u></b>

## 11. LEASE

### (a) Amount recognised in the consolidated statement of financial position

	<b>31 December 2020 RMB'000</b>	31 December 2019 <i>RMB'000</i>
Right-of-use assets		
Prepaid land lease payments (i)	<b>887,984</b>	916,054
Buildings and other premises	<b>320,279</b>	202,005
	<b><u>1,208,263</u></b>	<u>1,118,059</u>
	<b>31 December 2020 RMB'000</b>	31 December 2019 <i>RMB'000</i>
Lease liabilities		
Current	<b>19,268</b>	14,991
Non-current	<b>215,893</b>	202,009
	<b><u>235,161</u></b>	<u>217,000</u>

- (i) The Group has land use rights arrangement with mainland China government. The prepaid land lease payments were reclassified as right-of-use assets on adoption of IFRS16.

**(b) Amount recognised in the consolidated statement of comprehensive income**

	<b>2020</b>
	<b><i>RMB'000</i></b>
Depreciation charge of right-of-use assets	
– Buildings and other premises	16,339
– Prepaid land lease payments	<u>28,071</u>
– Interest on lease liabilities	<u><u>12,623</u></u>

For the year ended 31 December 2020, the cash outflows from financing activities for leases were RMB10,510,000.

**12. TRADE PAYABLES**

An aging analysis of the trade payables as at the end of the Reporting Period, based on the invoice date, is as follows:

	<b>2020</b>	2019
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Within 1 year	<u><u>80,055</u></u>	<u><u>38,861</u></u>

Trade payables of RMB80,055,000 (2019: RMB38,861,000) were due to canteen suppliers which are repayable within 90 days.

The trade payables are non-interest-bearing and are normally settled on 90-day terms.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Market Review

The PRC formal education industry primarily consists of fundamental education and higher education. The PRC fundamental education market can be further divided into four phases: pre-school, primary school, middle school and high school. Among the four phases of fundamental education, primary school and middle school constitute the nine-year compulsory education, while pre-school and high school constitute the non-compulsory education.

The Group aims to provide high quality fundamental education programs to students and is well recognized by parents and students in academic excellence. Majority of our students are from middle class families who pursuit high quality educational resources. Meanwhile, the society's increasing awareness of the importance of education resulted in the growing demand for high-quality private fundamental education service. With the accelerated income and wealth, the middle class families can afford higher expenditure on high-quality educational activities. Looking forward, the market trend in both revenue and student enrollment for private fundamental education in China will continue to grow. In order to capture the future growth and increase our market share, the Group will focus on continuously enhancing our competitiveness, providing more flexible and diversified curriculum to our students and improving our quality of private education.

The Group will continue to focus on higher education and grasp the opportunity brought by the Belt and Road Initiative and the opening-up strategy of the PRC to cultivate foreign languages talents who are application-oriented with distinctive international features to serve Sichuan province and the Southwest China. As our country has promoted the conversion of independent colleges, based on the principle of "conversion as many as possible and as soon as possible", the Group believes that the policy will influence and bring benefit to the further expansion of our universities.

## **Business Overview**

In 2020, the Group established six new schools in Chengdu City and Yibin City, Sichuan Province, the PRC. As at 31 December 2020, the Group operated 43 schools in seven cities in Sichuan Province, China, Hong Kong SAR and Irvine, the United States. Those 43 schools are categorized based on the table disclosed on page 35 of this announcement. Through these schools, we offer formal education with comprehensive education programs from kindergarten through university.

Besides, the Group offered school management services to three government owned public K-12 schools and one private K-12 school in Chengdu City and Chongqing City, the PRC, respectively.

## ***Student Placement***

For Gaokao administered in 2020 (the “2020 Gaokao”), approximately 96.6% of the Group’s graduating high school students (from high schools opened before 2017) who participated in the 2020 Gaokao achieved scores that allowed them to apply for and be accepted by first-tier universities in China. 55 of our graduating high school students were admitted into Peking University and Tsinghua University (2019: 38) and 87 of our graduating high school students were recommended for admission into first-tier universities without taking the Gaokao (2019: 81).

In particular, since the inception of our new schools opened in 2017, the students therein who participated in 2020 Gaokao for the first time achieved exceptional results. For a school opened in 2017 in south Sichuan, only 11% of the middle schools graduates admitted to that high school achieved high scores in the high school entrance examination, yet when these students participated in 2020 Gaokao, they attained a university admission rate of 63%. For another school opened in 2017 in Chengdu, 52% of the graduates achieved scores that allowed them to apply to and be accepted by first-tier universities in China while only 36% of them achieved high scores in the high school entrance examination. The overall Gaokao results of the given school ranked No.1 as to Liberal Arts major in the district of Chengdu city and one graduate in Liberal Arts major ranked No.1 in the district of Chengdu city.

For students who are interested in attending colleges and universities overseas, the Group established international programs at various schools under which PRC/overseas standard high-school curriculum, overseas standardized college entrance examinations, language testing examinations or United States University Advanced Placement (“AP”) course are offered to them. Such programs allow students to take overseas high-school curriculum taught by foreign teachers as well as PRC high-school curriculum taught by PRC teachers. In 2020, two high school graduates were admitted into Ivy League Schools in the United States. In 2019 and 2020, 95 and 87 of students were admitted into the top 100 universities in the 2020 QS World University Rankings respectively.

Besides, in 2020, 57 students won first prize in national academic contests including mathematics, physics, chemistry, biology and information science. 12 of our students were elected into the Sichuan provincial contests teams. Furthermore, 6 of our students won the gold medal in five academic contests and 3 students were elected into the national physics, chemistry, and information science contest team.

## ***Higher Education***

The University currently offers 29 bachelor programs and 21 college programs, including 3 bachelor programs namely Malay Language Studies, Leisure Sports, Art of Broadcast Hosting and 4 college programs namely Business Japanese, Han Language Studies, Flight Attendant Specialty and Civil Aviation Safety, all of which are newly approved by the Ministry of Education of the PRC and the Education Department of Sichuan Province. In 2020, according to Wu Shulian's "China Independent College Rankings", the University ranked 19th among all 255 independent colleges and second among independent colleges specializing in literature. The employment quality of our undergraduates and the rate of our undergraduates' pursuing further study both ranked third among all 255 independent colleges. In 2020, Airuishen alumni network "China Independent College Rankings", the University ranked first among independent college specializing language.

We have opened Yibin campus of Chengdu Institute Sichuan International Studies University (CISISU Yibin Campus) in September 2020 under the asset-light model. The campus occupies around 500 mu with total floor area of over 300,000 square meters to accommodate approximately 12,000 students (Note). All land, buildings, and major facilities were invested by a third party.

The conversion of our University into a private higher education institution, progressed actively during the Reporting Period. The conversion has been approved by the Sichuan Provincial People's Government and has been submitted to the Ministry of Education for approval. The University will no longer pay any cooperative education fees to Sichuan International Studies University from 2021 academic year onwards, therefore reduce costs and expenses, and further enhance the profitability of the Group.

As at 31 December 2020, the Group's total student enrolment was 58,245, with 40,688 students enrolled in the K-12 schools, 17,557 students enrolled in the Chengdu Institute Sichuan International Studies University and 6,501 students enrolled in our network schools.

Note: The phase I construction work of Yibing Campus accommodating approximately 8,000 students has been completed and put in use since September 2020. And phase II construction work is expected to be completed within 2022.

## **Revenue**

During the Reporting Period, the Group has witnessed growth of the schools operated by the Group in terms of revenue. Revenue increased from RMB1,493.0 million for the year ended 31 December 2019 to RMB1,844.8 million for the year ended 31 December 2020. The Group generated its revenue from (i) student fees and (ii) management and consultation services provided to an associate school and three government owned public schools. Student fees are typically comprised of tuition fees, boarding fees, overseas studies consulting fees, and tuition fees remained the major revenue, accounted for approximately 81.8% of the total revenue of the Company for the Reporting Period.

The following table sets forth the breakdown of the revenue of the Group:

	<b>Year ended 31 December 2020 RMB'000</b>	<b>Year ended 31 December 2019 RMB'000</b>	<b>Change RMB'000</b>	<b>Percentage Change</b>
Tuition fees	<b>1,508,483</b>	1,291,289	<b>+217,194</b>	<b>+16.8%</b>
Boarding fees	<b>53,334</b>	51,573	<b>+1,761</b>	<b>+3.4%</b>
School canteen operations	<b>265,401</b>	144,313	<b>+121,088</b>	<b>+83.9%</b>
Management and consultation services	<b>4,903</b>	5,857	<b>(954)</b>	<b>(16.3%)</b>
Early child and after-class training tuition fees	<b>7,783</b>	—	<b>+7,783</b>	<b>+100.0%</b>
Overseas studies consulting fees	<b>4,941</b>	—	<b>+4,941</b>	<b>+100.0%</b>
<b>Total</b>	<b><u>1,844,845</u></b>	<b><u>1,493,032</u></b>	<b><u>+351,813</u></b>	<b>+23.6%</b>



The following table sets forth the revenue generated by each of the categories of the schools:

	<b>Year ended</b> <b>31 December</b> <b>2020</b> <b><i>RMB'000</i></b>	Year ended 31 December 2019 <i>RMB'000</i>	<b>Change</b> <b><i>RMB'000</i></b>	<b>Percentage</b> <b>Change</b>
High school – domestic program	<b>394,968</b>	310,290	<b>+84,678</b>	<b>+27.3%</b>
High school – international program	<b>43,014</b>	40,723	<b>+2,291</b>	<b>+5.6%</b>
Middle school	<b>481,516</b>	432,209	<b>+49,307</b>	<b>+11.4%</b>
Primary school	<b>341,526</b>	269,441	<b>+72,085</b>	<b>+26.8%</b>
Kindergarten	<b>10,228</b>	15,473	<b>(5,245)</b>	<b>(33.9%)</b>
University	<b>237,231</b>	223,153	<b>+14,078</b>	<b>+6.3%</b>
Total tuition fees	<b><u>1,508,483</u></b>	<u>1,291,289</u>	<b><u>+217,194</u></b>	<b>+16.8%</b>

The increase of the total revenue of the Group was mainly due to the increase of the Group's student enrollment and school canteen operations revenue.

The following table sets forth the gross and average tuition fees of each of the categories of the schools operated by the Group:

<b>Categories of the schools</b>	<b>School Year</b>			
	<b>2020/2021</b>	<b>2020/2021</b>	2019/2020	2019/2020
	<b>Gross</b>	<b>Average</b>	Gross	Average
	<b>Tuition Fees</b>	<b>Tuition Fees</b>	Tuition Fees	Tuition Fees
	<b><i>RMB'000</i></b>	<b><i>RMB</i></b>	<b><i>RMB'000</i></b>	<b><i>RMB</i></b>
High school – domestic program	<b>442,987</b>	<b>35,584</b>	373,960	35,909
High school – international program	<b>42,803</b>	<b>85,095</b>	41,868	97,206
Middle school	<b>525,981</b>	<b>34,071</b>	452,879	34,400
Primary School	<b>410,740</b>	<b>35,580</b>	297,175	35,748
Kindergarten	<b>17,498</b>	<b>33,977</b>	10,264	33,282
University	<b>248,662</b>	<b>14,165</b>	228,898	13,501

*Note:* Average tuition fees are calculated as the gross tuition fees (excluding boarding fees) a particular school received for a given school year divided by the total number of students enrolled at such school for the same school year. For the purpose of this calculation, unlike revenue, which is determined after deducting scholarships and refunds, gross tuition fees do not take into account the scholarships granted or refunds made by the schools to their students for the relevant school year.

## ***Student Enrollment***

The table below sets forth information relating to the student enrollment for each of the categories:

	<b>As at 31 December 2020</b>	<b>As at 31 December 2019</b>	<b>Change</b>	<b>Percentage Change</b>
High school students				
– domestic program	<b>12,472</b>	11,834	<b>+638</b>	<b>+5.4%</b>
High school students				
– international program	<b>503</b>	482	<b>+21</b>	<b>+4.4%</b>
Middle school students	<b>15,416</b>	13,126	<b>+2,290</b>	<b>+17.4%</b>
Primary school students	<b>11,591</b>	8,312	<b>+3,279</b>	<b>+39.4%</b>
Kindergarten students	<b>706</b>	517	<b>+189</b>	<b>+36.6%</b>
K-12 students	<b>40,688</b>	34,271	<b>+6,417</b>	<b>+18.7%</b>
University students	<b>17,557</b>	16,888	<b>+669</b>	<b>+4.0%</b>
Total number of students	<b>58,245</b>	<b>51,159</b>	<b>+7,086</b>	<b>+13.9%</b>

As at 31 December 2020, the aggregate number of students enrolled at the schools of the Group increased to 58,245 from 51,159 as at 31 December 2019. The increase in the aggregate number of students enrolled was attributable to increase in number of students of certain schools opened since September 2017 which have gained better recognition in the neighborhood through three years of operation.

**Teachers**

	<b>As at 31 December 2020</b>	As at 31 December 2019
Total number of teachers	<u><b>4,067</b></u>	<u>3,350</u>

The Group believes the quality of education provided is strongly tied to the quality of its teachers. The Group considers that teachers who are capable of and are dedicated to teaching will be instrumental in shaping the learning habits of students, which will be crucial to the Group’s success and educational philosophy. The Group seeks to hire teachers who (i) demonstrate outstanding teaching track records; (ii) hold necessary academic credentials (i.e. diplomas); (iii) are passionate about education and improving students’ academic performance and overall well being; (iv) demonstrate competence in their subject areas; (v) possess strong communication and interpersonal skills; and (vi) are able to effectively use a variety of teaching tools and methods tailored to their students.

As at 31 December 2020, the Group had 4,067 teachers, of which approximately 95.1% hold a bachelor’s degree or above, and approximately 28.6% hold a master’s degree or above. Most of our teachers are full-time teachers. The Group also values the recognition bestowed upon teachers who have achieved teaching excellence. As at 31 December 2020, approximately 15.5% of our teachers held the advanced teaching qualification, and approximately 62 of our teachers were recognized as exceptional teachers. The Group offers mandatory and continuing training courses and seminars to our teachers and offers mandatory professional teaching technique training courses for newly hired teachers.

## **Future Development**

The Group is optimistic about the strong demand for high-quality private education in Southwest China backed by the strong brand reputation and recognition of our schools. In order to solidify and strengthen its market-leading position in the region, the Group intends to achieve future growth by means of multiple expansion strategies which include asset-light expansions and increase in the capacity of existing schools and tuition fees. Specifically, the Group plans to undertake the following strategies:

- i) Establishment of new K-12 schools (primarily under asset-light model) by collaborating with third-party business partners;
- ii) Increasing of utilization rate of our existing school network and tuition fee;
- iii) Establishment of international education programs within our schools and provide overseas studies consulting services;
- iv) Provision of non-formal education services:
  - a) Provide educational management and consultation services to K-12 schools and pre-schools; and
  - b) Collaborate with certain commercial property owners to establish one-stop comprehensive education program.

(i) *Establishing of new K-12 schools (primarily under asset-light model) by collaborating with third-party business partners*

The Group commenced operation of one new campus in Chengdu, two new campuses in Yibin, and one new campus in Deyang, Sichuan Province in September 2020, namely the Xinjin Campus, Yibin Campus, CISISU Yibin Campus and Deyang Campus. The following sets forth a summary of the estimated student capacity of the new school campuses that will be opened in September 2021 and beyond:

<b>School campus</b>	<b>Commencement of school campus</b>	<b>Cooperation term</b>	<b>Estimated student capacity</b>
<i>Fundamental education</i>			
Jinniu Campus	September 2021	long term	2,600
Luzhou Campus	September 2021	long term	6,480
TianFu Lushan Campus	September 2021	long term	3,960
TianFu Huahai Campus	September 2021	long term	2,970
Renshou Campus	September 2021	long term	4,680
Meishan Chongli Campus	Beyond 2021	long term	4,050
Guiyang Campus	Beyond 2021	long term	3,870
Total			<u><u>28,610</u></u>

Currently, the Group is in process of negotiating with third parties to establish new asset-light school campus in two cities in Sichuan province and one new school campus in Guizhou province.

*(ii) Increase in utilization rate of our existing school network and tuition fee*

***School Utilization***

Utilization rate is calculated as the number of students enrolled divided by the estimated capacity for a given school. For our boarding schools, the estimated capacity for students is calculated based on the number of beds available in student dormitories. For our kindergarten, the estimated capacity for students is calculated based on the number of beds used for naps in the schools. For non-boarding schools, the estimated capacity is calculated based on the number of classrooms multiplied by maximum number of students per classroom as allowed under relevant rules and regulation.

	<b>As at 31 December 2020</b>	As at 31 December 2019
Total number of students enrolled	<b>58,245</b>	49,459
Total student capacity	<b>94,580</b>	70,620
Overall utilization rate	<b>61.6%</b>	70.0%

The overall utilization rate decreased from 70.0% as at 31 December 2019 to 61.6% as at 31 December 2020. The decrease in overall utilization rate is mainly attributable to increase in total student capacity derived from our new campuses opened in September 2020.

On 15 May 2020, The Education Department of Sichuan Province and two other departments issued the “Notice on Improving the Price Management of Private Higher Education Institution and Strengthening Operational and Post-operational Oversight in our Province” (《關於完善我省民辦高校價格管理方式加強事中事後監督的通知》) (the “Notice”), which sets out opinions and requirements in five major aspects, namely 1) pricing of tuition fee and related fees based on market prices; 2) independent pricing by private higher education institution; 3) administration of tuition and related fees; 4) independent pricing requirements; 5) strengthening operational and post-operational oversight. The Notice has come into force and private higher education institution is permitted to adjust the tuition fee and related fees since September 2020. Based on the new policies, the tuition fees for new undergraduate and colleges of University increased from RMB15,000 and RMB12,000 in 2019/2020 school year to RMB17,000 and RMB14,000 in 2020/2021 school year respectively.

Most of our prestigious high schools established before 2017 have submitted the application for registered as for-profit organizations and therefore have the discretionary right in determining the tuition fee once the registration has been approved by the government.



*(iii) International school and foundation programs*

In July 2019, the Group and Canon Park Consultancy Limited (“CPC”) which is ultimately owned by North London Collegiate School entered into an “Educational Consultancy Services Agreement”. Pursuant to the agreement, CPC began to provide IB and other international education program and related education consultancy service to the Group.

In addition to our traditional K12 programs, the Group also established the international department. Since 2019, the international department started to manage programs with elite international partners, offering A-level courses, Advanced Placement and Monash University Foundational Programs. In both of 2020 Yixiao Ranking List “Best International Second Schools” and 2020 KingLead Ranking List “China International School Competitiveness Ranking (Undergraduate UK)”, International Department of Chengdu Foreign Languages School is ranked first in Sichuan Province.

In 2020, we expanded our educational product layout. In addition to the traditional Anglo-American international program, we were also expanding our international education program in Europe and Asia. At the same time, we also built matrix academic expansion projects and social practice projects based on the school curriculum.

The international department also expanded its business by offering overseas study consultancy services to our own students since later 2019 and recorded revenue of RMB4.9 million in 2020. The Group also expected to launch more comprehensive overseas study related value added service in 2021.

*(iv) a. Education management and consultation service*

Since 2019, the Group entered into school management cooperation agreements with three government owned K-12 public schools and one K-12 private school to provide education management and consultation services including, among others, education quality control, curriculum development, daily operation, teachers recruitment and training, branding, teaching methodology support and campus design.

In 2020, the Group started to provide education management and consultancy services to two kindergartens. The Group also provided aforementioned services to three new kindergartens since September 2021 and at least one kindergarten since September 2022.

*(iv) b. One stop comprehensive education program*

The Group has been cooperating with certain commercial property owners to establish one-stop comprehensive education program in commercial complex with a floor area of approximately 5,000 to 10,000 square meters where various types of tailor-made education services will be offered to both the parents and their kids simultaneously. At the same time it provides curriculum and management output services for institutions and individuals who intend to investing in the education program. The high-quality education courses independently developed and iterated by the Group offered include, among others, Chinese traditional culture, STEAM (Science, Technology, Engineer, Arts and Mathematics), after-school English tutoring and sports, etc. The daily management of enrollment, recruitment, teaching and research of all educational projects implements the operation mode of unified scheduling of the complex but relatively independently operation of sub-projects.

The Group had added six new schools in its PRC school network in 2020/2021 school year, namely Xinjin Chengdu Foreign Languages School, Primary School Attached to Chengdu Foreign Languages School (Yibin Campus), Yibin Cuiping District Chengdu Foreign Languages School, Chengdu Foreign Languages High School of Yibin, Chengdu Institute Sichuan International Studies University (Yibin Campus), and Deyang Chengdu Foreign Language School. For illustration purpose, the school which provides multi-phases education programs is counted according to the number of the category of such education phases. For example, Chengdu Foreign Languages School which provides middle and high school education phases is counted as one middle school and one high school, respectively. The following table shows a summary of the number of our schools by category as of the dates indicated:

<b>Category of schools</b>	<b>Schools established as at 31 December 2020</b>	<b>Schools established as at 31 December 2019</b>
High school	<b>10</b>	9
Middle school	<b>12</b>	8
Primary school	<b>12</b>	6
Kindergarten*	<b>4</b>	2
University**	<b>3</b>	2
Schools providing non-formal education services	<b>2</b>	0
	<b>43</b>	<b>27</b>

\* Four kindergartens include two self-owned kindergartens and two kindergartens to which we offer comprehensive education management and consultation service.

\*\* Three category of schools include the University, CISISU Yibin Campus and Virscend University.

### ***Impact of COVID-19 epidemic***

In early 2020, the outbreak of novel coronavirus (COVID-19) has certain impact on the education business of the Group, mainly due to domestic travel restrictions and various precaution measurements undertaken by respective local authorities which inter alia, include closure of schools and delay in classroom commencement during the outbreaks period. The Group has put in place certain alternative action plans for the students during the schools closure period, which include implementation of on-line modules and website distance learning activities.

In view of the implementation of the above mentioned action plans, the management has assessed and concluded that there was no significant impact on the financial position of the Group for the Reporting Period. But COVID-19 epidemic has brought negative impact on performance of the Group in 2020, which mainly due to fixed costs such as labor costs, facility costs and depreciation and amortization expense occurred without revenue to cover during suspension operation period. The amount is disclosed in section “Adjusted net profit attributable to owners of the parent”.

We will continue to assess the impact of the COVID-19 epidemic on the Group’s business operations and financial performance and keep continuous attention on the risks and uncertainties relative to COVID-19 epidemic.

### ***Risk Management***

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

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

### *Interest Rate Risk*

The Group's fair value interest rate risk relates primarily to its fixed-rate bank borrowings. The Group is also exposed to cash flow interest rate risk through the impact of rate changes on interest bearing financial assets and liabilities, mainly bank balances and bank borrowings which carry interest at prevailing market interest rates. It is the Group's policy to keep certain borrowings at floating rates of interest so as to minimize the fair value interest rate risk. The Group currently does not use any derivative contracts to hedge its exposure to interest rate risk. However, the Directors will consider hedging significant interest rate risk should the need arise.

### *Liquidity Risk*

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

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

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

- The Group has made arrangements with the Group's lenders to ensure that the Group will be able to obtain credit to support its business operation and expansion.

### ***Environment, Health and Safety***

The businesses of the Group are not in violation of the applicable PRC environmental laws and regulations in any material aspects.

The Group is dedicated to protecting the health and safety of the students. The Group has on-site medical staff or health care personnel at each of the schools the Group operates to handle routine medical situations involving students. In certain serious and medical emergency situations, the Group promptly sends the students to local hospitals for treatment. With respect to school safety, the Group engaged a qualified property management company to provide property security services at the Group's school premises.

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

### **Financial Review**

#### ***Revenue***

Revenue, which is also the Group's turnover, represents the value of services rendered, after deducting scholarships granted and refunds made to its students during the Reporting Period. Revenue of the Group is primarily derived from tuition fees, boarding fees, school canteen services fees and overseas studies consulting fees the Group's schools collected from students, as well as management service fees and consultation service fees received by the Group respectively from an associated school and three government owned schools during the Reporting Period.

Revenue increased by RMB351.8 million, or 23.6%, from RMB1,493.0 million for the year ended 31 December 2019 to RMB1,844.8 million for the Reporting Period. This increase was primarily attributed to: (1) the result of revenue from tuition fees increased by RMB217.2 million, or 16.8%, from RMB1,291.3 million for the year ended 31 December 2019 to RMB1,508.5 million for the Reporting Period. The tuition fees the Group received increased mainly attributable to: (i) the increase in the number of students enrolled in 2020/2021 school year; (ii) consolidation of tuition fees with amount of RMB38.3 million from Gaoxin Campus since September 2020. For more information on student enrolment and school utilization, please refer to the section headed “Business Overview” above. The revenue from school canteen operations increased by approximately RMB121.1 million for the Reporting Period, primarily as a result of consolidation of such revenue since 2019. The revenue for overseas studies consulting fees increased by RMB4.9 million for the Reporting Period, primarily as a result of value-added services provided to the high school students who participated in the international program started since 2019.

### ***Cost of Sales***

Cost of sales primarily consists of staff costs, depreciation and amortization, cost of co-operative education, utilities, cost of repairs, office expense, student subsidies and other costs.

Cost of sales increased by RMB285.4 million, or 31.8%, from RMB896.3 million for the year ended 31 December 2019 to RMB1,181.7 million for the Reporting Period. This increase was primarily the result of (i) an increase in staff costs, material consumption, depreciation and amortization; (ii) cost of sales with amount of RMB32.8 million from Gaoxin Campus has been consolidated since September 2020.

Staff costs increased by RMB66.5 million, or 14.8%, from RMB449.4 million for the year ended 31 December 2019 to RMB515.9 million for the Reporting Period, was attributable to (i) the number of Group’s teachers increased by 717, from 3,350 in the 2019/2020 school year to 4,067 in the 2020/2021 school year; (ii) staff costs of RMB8.5 million from Gaoxin Campus has been consolidated since September 2020.

Material consumption costs increased by approximately RMB113.3 million as a result of all schools except the University started to operate canteens by themselves as mentioned in the section “Business Overview” above;

Depreciation and amortization increased by RMB48.0 million, or 30.6%, from RMB157.1 million for the year ended 31 December 2019 to RMB205.1 million for the Reporting Period, mainly as a result of: (i) amortization of RMB7.3 million charged to intangible assets which recognized in the consolidation of Gaoxin Campus; (ii) depreciation and amortization amounted to RMB14.0 million in 2020 charged to properties purchased close to the year end of 2019 while no depreciation and amortization charged in 2019; (iii) amortization of leasehold improvements to certain campuses; (iv) capital expenditure in 2020 on upgrading the existing school premises, purchasing educational facilities and equipment for the Group's schools.

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

Gross profit totally increased by RMB66.5 million, or 11.1%, from RMB596.7 million for the year ended 31 December 2019 to RMB663.2 million for the Reporting Period, which was in line with the growth of the Group's business.

<b>Gross profit of the Group</b>	<b>Year ended 31 December</b>	
	<b>2020</b>	<b>2019</b>
	<b><i>RMB'000</i></b>	<b><i>RMB'000</i></b>
Revenue	<b>1,844,845</b>	1,493,032
Costs of sales	<b>1,181,661</b>	896,310
Gross profit	<b>663,184</b>	596,722
Gross profit margin	<b>35.9%</b>	40.0%

Gross profit margin of the Group decreased to 35.9% for the Reporting Period from 40.0% for the year ended 31 December 2019 mainly due to gross loss amounted to RMB12.0 million from providing school canteen service effected by COVID-19.



### ***Research and Development Costs***

Research and development costs increased by RMB0.7 million, or 3.6%, from RMB19.5 million for the year ended 31 December 2019 to RMB20.2 million for the Reporting Period, mainly as academic center carried out much more series of work such as development of school-based curriculum, dual-language immersion curriculum, proprietary pre-school courses, proprietary international integrated courses and etc. as a result of increased new schools.

### ***Selling and Distribution Expenses***

Selling and distribution expenses primarily consist of advertising expenses, student admission expenses and business entertainment expenses. Selling and distribution expenses increased by RMB15.5 million, or 242.2%, from RMB6.4 million for the year ended 31 December 2019 to RMB21.9 million for the Reporting Period. The increase of selling and distribution expenses was primarily due to more advertising expenses incurred for student recruitment promotion for all new schools opened in recent years.

### ***Administrative Expenses***

Administrative expenses primarily consist of the salaries and other benefits paid for general and administrative staff, one-off settlement payment arising from commencement of conversion of the university, legislation, audit and evaluation consultation service fees, office-related expenses, depreciation of office buildings and equipment, travel expenses and other expenses. Administrative expenses increased by RMB173.7 million, or 147.5%, from RMB117.8 million for the year ended 31 December 2019 to RMB291.5 million for the Reporting Period, primarily attributed to (i) the payment of RMB125.0 million settlement fee to Sichuan International Studies University in relation to for converting the University from an independent college to a private higher education institution; and (ii) additional administrative staff recruited by schools given the opening of new schools in 2020.

### ***Other Income and Gains***

Other income and gains primarily consist of foreign exchange gain, bank interest income, other interest income and rental income from leasing certain of the Group's properties to independent third parties. Other income and gains increased by RMB31.4 million, by 61.1%, from 51.4 million for the year ended 31 December 2019 to RMB82.8 million for the Reporting Period. The increase was primarily attributable to the gain of RMB32.2 million from revaluing 20% sponsor's interests of Gaoxin Campus immediately before acquisition of the remaining 80% school sponsor interest which took place on 15 August 2020.

### ***Other Expenses***

Other expenses consist primarily of impairment loss of investment in an associate, foreign exchange loss, and disposal of various fixed assets. Other expense increased by RMB4.6 million from RMB8.7 million for the year ended 31 December 2019 to RMB13.3 million for the Reporting Period. Such increase was primarily due to the increase in recognized impairment loss of the carrying amount of investment in an associate.

### ***Finance costs***

Finance costs primarily consist of the interest expenses for bank and other borrowings. Finance costs increased by RMB87.2 million, or 110.5%, from RMB78.9 million for the year ended 31 December 2019 to RMB166.1 million for the Reporting Period, mainly attributable to the growth of bank and other borrowings due to capital expenditure as detailed in the section "Capital Expenditure" on page 44 of this announcement.

### ***Adjusted net profit attributable to owners of the parent***

Adjusted net profit attributable to owners of the parent was derived from attributable to owners of the parent after adjusting those items, which is not indicative of the Group's operating performance. This is not an IFRSs measure. The Group has presented this item because the Group considers it an important supplemental measure of the Group's operational performance used by the Group's management as well as analysts or investors. The following table reconciles from attributable to owners of the parent to adjusted net profit attributable to owners of the parent for both financial years:

	<b>For the year ended</b>	
	<b>31 December</b>	
	<b>2020</b>	<b>2019</b>
	<b><i>RMB'000</i></b>	<b><i>RMB'000</i></b>
Net profit attributable to owners of the parent	<b>225,471</b>	397,140
Adjustments for:		
Additional expenses arising from the adoption of IFRS 16 (Note 1)	<b>17,136</b>	11,799
Amortisation of intangible assets arising from the acquisition of school	<b>7,278</b>	—
Foreign exchange gain/loss	<b>(4,065)</b>	347
One-off settlement payment arising from converting the University from independent college to a private higher education institution	<b>125,000</b>	—
<b>Adjusted net profit attributable to owners of the parent</b>	<b>370,820</b>	409,286

Note 1: The adjustment represented the difference of (a) the actual rental expenses payable before the application of IFRS16, and (b) the total of depreciation of right-of-use assets and the interest portion of lease liabilities charged to profit or loss less the finance income on refundable rental deposits paid credited to profit or loss arising from the adoption of IFRS16.

### ***Capital Expenditure***

Capital expenditure decreased by RMB230.4 million, from RMB1,256.9 million for the year ended 31 December 2019 to RMB1,026.5 million for the Reporting Period, the capital expenditure for the Reporting Period consisted, among others, of (i) RMB632.5 million expenditure on campuses design, upgrading the existing schools premises, and purchasing educational facilities and equipment for the Group's schools; (ii) RMB154.0 million on construction expenditure on TianFu Lushan Campus which will commence since September 2021; (iii) RMB240.0 million on purchasing 80% sponsors' interests of Gaoxin Campus. For more details of transaction, please refer to the Group's interim report issued on 28 August 2020.

### ***Capital Commitments***

The Group had the following capital commitments as at the end of each of the following reporting periods:

	<b>Year ended 31 December</b>	
	<b>2020</b>	<b>2019</b>
	<b><i>RMB'000</i></b>	<b><i>RMB'000</i></b>
Contracted, but not provided for:		
Land and buildings, equipment	<b>170,956</b>	71,512
Capital contributions payable to an associate	<b>—</b>	6,900
	<b><u>170,956</u></b>	<b><u>78,412</u></b>

### ***Gearing Ratio***

The gearing ratio of the Group, which was calculated as total bank and other borrowings divided by total equity as at the end of the relevant financial year, increased from approximately 70.6% as at 31 December 2019 to approximately 113.4% as at 31 December 2020, primarily due to the increase in the Group's bank and other borrowings in relation to increase in capital expenditure in 2020.

### ***Contingent Liabilities***

As at 31 December 2020, the Group had no material contingent liabilities.

### ***Pledge of Assets***

As at 31 December 2020, RMB56,150,000 (2019: Nil) were paid to third party leasing companies as pledged deposits for certain borrowings, which will be repaid after settling those borrowings in 5 years.

### ***Human Resources***

As at 31 December 2020, the Group had 6,164 employees (31 December 2019: 4,853 employees).

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

The total remuneration cost incurred by the Group for the year ended 31 December 2020 was approximately RMB623.3 million (2019: RMB546.3 million).

## **EVENTS AFTER THE REPORTING PERIOD**

On 29 January 2021, Chengdu Foreign Languages School and Primary School Attached to the Chengdu Foreign Languages School, each a consolidated affiliated entity of the Group, entered into the 2021 Lease and Property Management Service Agreement with Sichuan Derui, a connected person of the Company, in relation to the use of a total of 29 properties and property management service from 29 January 2021 to 31 December 2023.

For more details of the transaction, please refer to the Company's announcements dated 29 January 2021 and 5 February 2021.

## **FINAL DIVIDEND**

The Board recommended the payment of a final dividend of HK\$0.025 per share for the year ended 31 December 2020. The final dividend is subject to the approval of the shareholders of the Company (the "Shareholders") at the forthcoming annual general meeting of the Company to be held on 18 June 2021 (the "AGM") and the final dividend will be payable on or around 30 September 2021 to the Shareholders whose names appear on the register of members of the Company on 30 June 2021.

## **CLOSURE OF THE REGISTER OF MEMBERS**

The register of members of the Company will be closed from 15 June 2021 to 18 June 2021, both days inclusive, in order to determine the identity of the Shareholders who are entitled to attend the AGM to be held on 18 June 2021, during which period no share transfers will be registered. To be eligible to attend the AGM, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 11 June 2021.

The register of members of the Company will also be closed from 25 June 2021 to 30 June 2021, both days inclusive, in order to determine the entitlement of the Shareholders to receive the final dividend, during which period no share transfers will be registered. To qualify for the final dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 24 June 2021.

## **CORPORATE GOVERNANCE**

The Group is committed to maintaining high standards of corporate governance to safeguard the interests of the Shareholders and to enhance corporate value and accountability. The Company has adopted the Corporate Governance Code (the "CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") as its own code of corporate governance. The Company has complied with all applicable code provisions of the CG Code during the Reporting Period. The Company will continue to review and monitor its corporate governance practices to ensure compliance with the CG Code.

## **MODEL CODE FOR SECURITIES TRANSACTIONS**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as its own code of conduct regarding directors' securities transactions. Having made specific enquiries of all Directors, each of the Directors has confirmed that he/she has complied with the required standards as set out in the Model Code during the Reporting Period.

## **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES**

During the Reporting Period, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

## **AUDIT COMMITTEE**

The audit committee of the Company (the "Audit Committee") has reviewed the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters. The Audit Committee, together with the Board and external auditor, has reviewed the Group's annual results announcement and the consolidated financial statements for the year ended 31 December 2020.

## **SCOPE OF WORK ON THE ANNUAL RESULTS ANNOUNCEMENT BY AUDITOR**

The financial information set out in this announcement does not constitute the Group's audited consolidated financial statements for the year ended 31 December 2020, but represents an extract from those financial statements which have been agreed with Ernst & Young, the auditor of the Company. The work performed by Ernst & Young 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 Ernst & Young on the annual results announcement.



## **REGULATORY UPDATES**

### **Accelerating the conversion of independent colleges into independently organized private undergraduate universities**

In May 2020, the Ministry of Education issued the “Implementation Plan for Accelerating the Conversion of Independent Colleges” (《關於加快推進獨立學院轉設工作的實施方案》), which provided that independent colleges are required to develop a work plan for the conversion by the end of 2020, while promoting a number of independent colleges to achieve the conversion. In the plan, it is particularly specified that for those independent colleges having an established school operation agreement, a clear delineation of rights and obligations between the school operation entities, the school operation conditions to meet the undergraduate universities establishment standards, they are permitted to convert into an independently organized private undergraduate universities.

### **Draft Amendments to the Implementation Rules for the Law for Promoting Private Education**

On 10 August 2018, the Ministry of Justice of the PRC published the draft amendments to the Implementation Rules for the Law for Promoting Private Education (《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) 》) (the “Draft Amendments”). Given that the Draft Amendments are only in draft form, which may remain subject to further revisions, the Company is of the view that it is still premature to assess the impact (if any) on the Group by virtue of the Draft Amendments, according to the provisions as contemplated or otherwise. The Group has not been affected by the Draft Amendments in any material respect as at the date of this announcement, and the Company currently does not expect that the Draft Amendments will have any material negative impact on the Group based on its preliminary assessment.

**Reply Letter to No. 3379 Proposal (No. 343 Education Proposal) of the Third Session of the Thirteenth CPPCC National Committee**

On 14 October 2020, the Ministry of Education issued the “Reply Letter to No. 3379 Proposal (No. 343 Education Proposal) of the Third Session of the Thirteenth CPPCC National Committee” (the “Reply Letter”). The Reply Letter expressly states that, to protect the rights and interests of the sponsors of non-profit private schools and in response to the petitions of such sponsors, the Ministry of Education is open to related party transactions that are in compliance with the applicable laws and regulations. As the Group has been in compliance with the applicable laws and regulations, the Reply Letter does not pose any material risks or incur any material impact on the Group’s business and operation.

**PUBLICATION OF THE ANNUAL RESULTS AND 2020 ANNUAL REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY**

This annual results announcement is published on the websites of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company ([www.virscendeducation.com](http://www.virscendeducation.com)), and the 2020 annual report of the Company containing all the information required by the Listing Rules will be dispatched to the Shareholders and published on the respective websites of the Stock Exchange and the Company in due course.

By order of the Board  
**Virscend Education Company Limited**  
**Wang Xiaoying**  
*Chairwoman and Executive Director*

Hong Kong, 30 March 2021

*As at the date of this announcement, the executive Directors are Ms. Wang Xiaoying, Mr. Ye Jiayu, Mr. Yan Yude and Mr. Deng Bangkai; and the independent non-executive Directors are Mr. Sit Chiu Wing, Mr. Chan Kim Sun and Mr. Wen Ruizheng.*