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CHINA YUHUA EDUCATION CORPORATION LIMITED

中国宇华教育集团有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 6169)

SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO THE ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 AUGUST 2021

Reference is made to the announcement of China YuHua Education Corporation Limited (the “**Company**”, together with its subsidiaries and consolidated affiliated entities, the “**Group**”) dated 30 November 2021, in relation to the audited consolidated annual results of the Group for the year ended 31 August 2021 (the “**2021 Annual Results Announcement**”) and the annual report of the Group for the year ended 31 August 2021 (the “**2021 Annual Report**”). Unless otherwise defined, terms used herein shall have the same meaning ascribed thereto in the 2021 Annual Results Announcement and the 2021 Annual Report.

In addition to the information provided in the 2021 Annual Results Announcement and the 2021 Annual Report, the Board would like to provide further information in relation to all preschools in the Kindergartens segment of the Group (the “**Preschool Business**”) and the compulsory education business which is middle school and primary school business in the Grade 1–12 segment of the Group (the “**Compulsory Education Business**”) that were affected by the Implementation Regulations of the PRC on the Law for Promoting Private Education (the “**Implementation Regulations**”) (collectively referred to as the “**Affected Business**”) which were deconsolidated from the Group by the end of 31 August 2021 immediately before the Implementation Regulations became effective (the “**Deconsolidation**”).

BACKGROUND

The Implementation Regulations was promulgated by the PRC State Council on 14 May 2021 effective on 1 September 2021. The Implementation Regulations include rules that prohibit social organizations and individuals from controlling private compulsory education schools and non-profit private preschools through mergers, acquisitions and contractual arrangements and prohibit private compulsory education schools from conducting transactions with the related parties.

As disclosed in the IPO prospectus of the Company dated 16 February 2017 and the 2021 Annual Report, due to regulatory restrictions on foreign ownership of the schools in the PRC, the Group controls the entities in relation to the Affected Business through contractual agreements entered into by Xizang Yuanpei Information Technology Management Company Limited (the wholly foreign owned enterprise of the Group (“**WFOE**”)), Zhengzhou YuHua Education Investments Co. Ltd. and Zhengzhou Zhongmei Education Investments Co., Ltd. (the PRC holding companies (the “**PRC Holdco**” or the “**Sponsors**”) of the respective entities in relation to the Affected Business), Mr. Li Guangyu and Ms. Li Hua (the ultimate registered shareholders of the PRC Holdco/Sponsors in relation to the Affected Business (the “**Registered Shareholders**”, or the “**Connected Persons**”)) on 7 September 2016 (the “**Contractual Agreements**”).

Since the promulgation of the Implementation Regulations, management of the Group have actively performed procedures in order to assess the impact related to the new regulation on the consolidated financial statements of the Group for the year ended 31 August 2021, including (i) consulting with the relevant local government body to confirm the understanding and interpretations of the Implementation Regulations, (ii) obtaining legal advices from Tian Yuan Law Firm (the “**PRC Legal Adviser**”) on the related legal interpretations of the Implementation Regulations, and (iii) finding any potential buyers for the Affected Business.

The Company along with its PRC Legal Adviser and auditor made a consultation with the relevant competent government authority in Henan Province that oversees the overall operations of the Affected Business on 16 November 2021, and the consulted official confirmed that the Affected Business can no longer be controlled by the Company through Contractual Arrangements and upon the Implementation Regulations coming into effect, variable returns from the Compulsory Education Business can no longer be obtained by the Company by means of related party transactions through Contractual Arrangements. The Company’s PRC Legal Adviser is of the view that the consulted authority is the competent authority to give the above confirmation and the consulted official is competent to represent such authority to give such confirmation.

Based on the above, the Board assessed that the Preschool Business and the Compulsory Education Business were affected by the Implementation Regulations, whereby the Contractual Agreements of the Affected Business were no longer legally enforceable from 1 September 2021. For those businesses that are not affected, the related contractual agreements remain legally valid and enforceable.

Up to the date of this announcement, to the knowledge of the Board and based on the Board's consultation with the relevant competent government authority on 16 November 2021:

- the PRC State Council issuing the Implementation Regulations provides that the effective date of the Implementation Regulations is 1 September 2021. Based on the foregoing, the Board understand the Implementation Regulations has been fully effective since 1 September 2021;
- no other interpretations of the Implementation Regulations in relation with the Affected Business can be sought, and there are no other available practicable options that could be considered by the Board related to the Implementation Regulations; and
- since the Implementation Regulations becoming operative, no further implementation rules have been issued in the province where the Affected Business is located as of the date of this announcement. It is however uncertain whether there will be further policies to be enacted for implementing the Implementation Regulations in the future.

The Board assessed the related impacts of the Implementation Regulations on the consolidated financial statements of the Group for the year ended 31 August 2021 based on the relevant requirements under IFRS. Based on relevant requirements under *IFRS 10 Consolidated Financial Statements*, the Board is of the view that the ability of the Group to use its power under the Contractual Agreements to direct the relevant activities that would most significantly affect returns of the Affected Business had ceased by the end of 31 August 2021 immediately before the Implementation Regulations becoming effective. By the end of 31 August 2021, it was no longer practical for the Group to make relevant decisions in order to obtain significant variable returns from the Affected Business. Accordingly, the Board is of the view that the Group ceased its control over the Affected Business by the end of 31 August 2021 and therefore the carrying amounts relating to the net assets of the Affected Business were deconsolidated from the consolidated financial statements of the Group as of 31 August 2021.

THE AFFECTED BUSINESS

The table below sets out the names of entities, its principal business, total assets and net assets related to the Affected Business as at 31 August 2021:

No.	Name of entities in relation to the Affected Business	Principal business	Total assets (RMB'000)	Net assets (RMB'000)
1	Zhengzhou YuHua Elite Primary School ⁽¹⁾	Primary school business in the Grade 1–12 segment	542,932	290,605
2	Kaifeng YuHua Elite School ⁽¹⁾	Middle school and primary school business in the Grade 1–12 segment	301,716	148,337
3	Xingyang YuHua Shengshi Elite School ⁽¹⁾	Middle school business in the Grade 1–12 segment	190,964	13,469
4	Jiyuan YuHua Elite School ⁽¹⁾	Middle school and primary school business in the Grade 1–12 segment	56,770	6,062
5	Zhengzhou YuHua Elite Bilingual Kindergarten ⁽²⁾	Preschool Business	170,317	113,677
6	Jiaozuo Urbanisation Pilot Zone YuHua Elite Kindergarten ⁽²⁾	Preschool Business	14,349	9,145
7	Luohe YuHua Elite Bilingual Kindergarten ⁽²⁾	Preschool Business	8,731	4,087
8	Xuchang Weidu District YuHua Elite Bilingual Kindergarten ⁽²⁾	Preschool Business	16,898	12,140
9	Jiyuan YuHua Elite Bilingual Kindergarten ⁽²⁾	Preschool Business	8,767	3,347
10	Zhengzhou YuHua Elite School — Compulsory Education Business Division ⁽¹⁾	Middle school business in the Grade 1–12 segment	177,790	156,815

No.	Name of entities in relation to the Affected Business	Principal business	Total assets (RMB'000)	Net assets (RMB'000)
11	Jiaozuo YuHua Elite School — Compulsory Education Business Division ⁽¹⁾	Middle school and primary school business in the Grade 1–12 segment	197,360	82,910
12	Luohe YuHua Elite School — Compulsory Education Business Division ⁽¹⁾	Middle school and primary school business in the Grade 1–12 segment	93,943	64,083
13	Xuchang YuHua Elite School — Compulsory Education Business Division ⁽¹⁾	Middle school and primary school business in the Grade 1–12 segment	188,619	137,588
Total:			<u>1,969,156</u>	<u>1,042,265</u>

Notes:

- (1) The school is wholly-owned by Zhengzhou YuHua Education Investments Co. Ltd. (“**Zhengzhou YuHua Education Investments**”). Zhengzhou YuHua Education Investments is owned by Mr. Li Guangyu as to 36% and Ms. Li Hua as to 64%.
- (2) The school is wholly-owned by Zhengzhou Zhongmei Education Investments Co., Ltd. (“**Zhengzhou Zhongmei Education Investments**”). Zhengzhou Zhongmei Education Investments is owned by Mr. Li Guangyu as to 60% and Ms. Li Hua as to 40%.
- (3) Mr. Li Guangyu is the Controlling Shareholder, the Chairman and Executive Director of the Company; and Ms. Li Hua is the Chief Executive Officer and Executive Director of the Company.

The total assets of the Affected Business as at 31 August 2021 was approximately RMB1,969 million, which comprised mainly of trade and other receivables of approximately RMB1,098 million, cash and cash equivalents of approximately RMB547 million and property, plant and equipment of approximately RMB275 million.

The Affected Business’ trade and other receivables in the amount of approximately RMB1,098 million comprised receivables due from the remaining Group and other schools within the Affected Business of approximately RMB1,097 million.

The Affected Business’ property, plant and equipment of approximately RMB275 million mainly comprised school buildings of approximately RMB263 million. The remaining part of approximately RMB12 million mainly comprised leasehold improvements, motor vehicles, electronic equipment and furniture and fixtures. The aforementioned property, plant and equipment were all related to the operations of the Affected Business.

CHANGE OF ULTIMATE BENEFICIAL OWNERS OF THE AFFECTED BUSINESS BEFORE AND AFTER THE DECONSOLIDATION

Before the Implementation Regulations came into effect, the Company through its WFOE obtained power, variable returns and control over the Affected Business through the Contractual Agreements.

After the Implementation Regulations came into effect, all the assets and liabilities, cumulative retained earnings as of 31 August 2021 and income and profits derived from the Affected Business from 1 September 2021 would belong only to the entities in relation to the Affected Business themselves and not the Company, the shareholders of the Company nor the PRC Holdco/Sponsors, the Registered Shareholders/Connected Persons of the Affected Business because of the following:

- (i) According to article 13 of the Implementation Regulations, *no social organization or individual shall control private compulsory education schools and non-profit private preschools by means of mergers, acquisitions or contractual arrangements*. Based on the consultation with the relevant competent government authority and the legal advices obtained from the PRC Legal Adviser of the Company, the Board is of the view that the Company, the shareholders of the Company, the PRC Holdco/Sponsors, the Registered Shareholders/Connected Persons of the Affected Business could not control the Affected Business through the contractual arrangements after the Implementation Regulations came into effect.
- (ii) According to article 45 of the Implementation Regulations, *private compulsory education schools are prohibited from conducting transactions with its related parties*. As such, the Company, the shareholders of the Company, the PRC Holdco/Sponsors, the Registered Shareholders/Connected Persons of the Compulsory Education Business, being its related parties, cannot inter alia obtain variable returns from the Compulsory Education Business by means of related party transactions through the contractual arrangements after the Implementation Regulations came into effect.
- (iii) According to article 19 of the Law for Promoting Private Education promulgated by the Standing Committee of the National People's Congress of the PRC in 2016, *the sponsors of non-profit private schools are not entitled to the distribution of profits or proceeds from the non-profit private schools, and all operation surplus of non-profit private schools shall be used for the operation of the schools*. As such, the PRC Holdco/Sponsors, the Registered Shareholders/Connected Persons of the Affected Business cannot obtain the distributed operation surplus from the Affected Business.
- (iv) According to article 59 of the Law for Promoting Private Education, *upon completion of the liquidation of the non-profit schools, the remaining assets of non-profit private schools after settling any liabilities accrued shall be used in the operations of other non-profit schools*. As such, the remaining assets of the Affected Business after settling the liabilities, if any, shall be used for other non-profit schools and are not attributable to the Company, the shareholders of the Company, the PRC Holdco/Sponsors or the Registered Shareholders/Connected Persons of the Affected Business even if the Affected Business were to be liquidated.

Although the Affected Business have assets, the Company, the shareholders of the Company, the PRC Holdco/Sponsors, and the Registered Shareholders/Connected Persons of the Affected Business cannot obtain the variable returns from the Affected business through operation surplus distribution, related party transactions, contractual arrangements, or liquidations after the Implementation Regulations came into effect. The remaining way to recover the value of the Affected Business is to sell the equity interest of the Affected Business to potential buyers.

If the Company disposed of the equity interest of the Affected Business, the benefits from disposal would ultimately be attributable to the shareholders of the Company. Given Implementation Regulations affect the potential buyers in the same way how it affected the Group, the Company is not able to identify any potential buyers yet as of the date of this announcement.

OPERATIONAL STATUS OF THE AFFECTED BUSINESS AFTER THE DECONSOLIDATION

As of the date of this announcement, the Affected Business continues to provide kindergarten and compulsory education services to students who enrolled for the school year started from 1 September 2021 after the Deconsolidation.

By order of the Board
China YuHua Education Corporation Limited
Li Guangyu
Chairman and Executive Director

Hong Kong, 5 January 2022

As at the date of this announcement, the Board comprises Mr. Li Guangyu, Ms. Li Hua and Ms. Qiu Hongjun as executive Directors; and Mr. Chen Lei, Mr. Xia Zuoquan and Mr. Zhang Zhixue as independent non-executive Directors.