華夏視聽

CATHAY MEDIA AND EDUCATION GROUP INC.
華夏視聽教育集團

(incorporated in the Cayman Islands with limited liability)

(Stock code: 1981)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2021

The board (the "**Board**") of directors (the "**Directors**") of Cathay Media and Education Group Inc. (the "**Company**", together with its subsidiaries and consolidated affiliated entities, the "**Group**") is pleased to announce the annual results of the Group for the year ended 31 December 2021 (the "**Reporting Period**"). The results have been reviewed by the audit committee of the Company.

FINANCIAL HIGHLIGHTS

	Year ended 31 December		
	2021	2020	Change (%)
	(RMB'000, except percentages)		
Continuing operations			
Revenue	**578,051**	789,743	-26.8%
– Higher education (media and arts) and vocational education	**472,764**	362,633	30.4%
– TV/film production and investment	**105,287**	427,110	-75.3%
Gross profit	**276,172**	353,238	-21.8%
Operating profit	**140,287**	368,291	-61.9%
Profit from continuing operations	**125,496**	337,140	-62.8%
Loss from discontinued operations	**(53,674)**	–	N/A
Profit for the year	**71,822**	337,140	-78.7%
Non-HKFRS: Adjusted Net Profit(1)	**186,703**	365,365	-48.9%

The Board recommended a final dividend of HK$0.03 per share (2020: HK$0.08 per share) and a special dividend of HK$0.03 per share (2020: nil) for the year ended 31 December 2021. The Company paid an interim dividend of HK$0.06 per share for the six months ended 30 June 2021 (for the six months ended 30 June 2020: nil).

(1) Adjusted Net Profit, which is unaudited, represents profit for the year after adjustments for listing expenses, termination fee payment and amortisation of licensing rights payment to Communication University of China and those new items which did not exist in prior years, including impairment losses on other receivables and loss from discontinued operations.

BUSINESS REVIEW AND OUTLOOK

Overview

During the Reporting Period, our business included higher education (media and arts) and vocational education, media, arts and vocational training, and TV/film production and investment.

On 15 March 2021, the Company was officially included in the list of eligible securities for Southbound Trading under Shenzhen-Hong Kong Stock Connect. In addition, the Group has been included in the Hang Seng Composite Index and Hang Seng Composite Smallcap Index, as well as the Hang Seng Consumer Goods & Services Index, since 15 March 2021. The Company has also been included in the MSCI China Small Cap Index since 30 November 2020.

Shuimuyuan

Shuimuyuan provides art entrance exam training services, and is classified as non-curriculum-based tutoring, in the People's Republic of China ("**China**" or "**PRC**"). On 19 December 2020, the Group entered into a share purchase agreement with an independent third party (the "**Founder of Shuimuyuan**"), Beijing Shuimu Jinghua Education & Technology Co., Ltd, Monet (Hangzhou) Culture & Art Co., Ltd., Jinan Shuimuyuan Education & Technology Co., Ltd, Shenzhen Shuimuyuan Art Education Co., Ltd., Shenzhen Shuimuyuan Education & Technology Co., Ltd and Shuimuyuan (Dalian) Education & Technology Co., Ltd. (collectively, the "**Shuimuyuan**"), pursuant to which the Group agreed to acquire the entire controlling interests of Shuimuyuan for an aggregate consideration of RMB300 million. The acquisition of Shuimuyuan was completed on 6 April 2021. Reference is made to the announcements of the Company dated 20 December 2020, 28 January 2021 and 7 April 2021 for more details.

Pursuant to the terms of acquisition of Shuimuyuan, the Group paid RMB165 million of the consideration and the balance of the consideration shall be paid by three equal installments provided that certain conditions including the profit guarantee provided by the Founder of Shuimuyuan for the year ended 31 December 2021 and the two years ending 31 December 2022 and 2023 are satisfied.

Since the fourth quarter of 2021, several PRC government authorities have released certain regulatory requirements which primarily aim to tighten the regulation of off-campus training (including non-curriculum-based tutoring). These regulatory requirements include, among others, restrictions on pricing of tuition fees, prepayment of tuition fees, tutoring hours, advertisements for student recruitment, qualifications of practitioners and operating venues. Having considered the potential impact of these regulatory requirements on Shuimuyuan, in December 2021, the Group decided to dispose of the entire controlling interests of Shuimuyuan. Accordingly, the business of Shuimuyuan has been reclassified as discontinued operations for the Reporting Period and its assets and liabilities have been presented as assets classified as held for sale and liabilities directly associated with assets classified as held for sale in the Company's consolidated balance sheet as at 31 December 2021 respectively.

In March 2022, the Ministry of Education of the PRC, the National Development and Reform Commission and the State Administration for Market Regulation jointly issued the announcement on Regulating Non-curriculum-based Off-campus Training《關於規範非學科類校外培訓的公告》to regulate non-curriculum-based off-campus training institutions and certain municipal and provincial government authorities in the PRC have also announced the temporary closure of offline off-campus training institutions due to coronavirus ("**COVID-19**").

The Company is of the view that the operations, results and performance of Shuimuyuan will be adversely affected by the latest regulatory requirements mentioned above and the uncertainty of COVID-19 situation. After arms-lengths negotiations, the Group and the Founder of Shuimuyuan have agreed to unwind the acquisition of Shuimuyuan and accordingly, on 28 March 2022, the Group, the Founder of Shuimuyuan, his associates and Shuimuyuan entered into an unwind agreement (the "**Unwind Agreement**"), pursuant to which (i) the Group conditionally agreed to sell, and the Founder of Shuimuyuan conditionally agreed to acquire the entire equity interest in Shuimuyuan at the consideration equivalent to the partly paid acquisition consideration of RMB165 million, and (ii) the parties have agreed to the settlement arrangement relating to the outstanding loan of RMB12.7 million granted to Shuimuyuan by the Group. As the Founder of Shuimuyuan, being a director of Shuimuyuan, is a connected person of the Company at the subsidiary level, the Unwind Agreement constitutes a connected transaction for the Company under Chapter 14A of the Rules Governing the Listing of Securities on the Main Board (the "**Listing Rules**") of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). Reference is made to the announcement of the Company dated 28 March 2022 for more details.

Olympic College

On 21 June 2021, the Group entered into a sale and purchase agreement (the "**Agreement**") with certain independent third parties, including the transferor (the "**Transferor**") and the beneficial owners of the Transferor, pursuant to which the Group agreed to acquire the entire controlling interests of, among others, the Olympic College of Nanjing Sport Institute (the "**Olympic College**") for a total consideration of RMB450 million (which may be adjusted to RMB250 million if certain conditions precedent (including completion of transfer of an additional land lot for the operation of Olympic College) cannot be satisfied within 36 months from the date of the Agreement). Reference is made to the announcements of the Company dated 22 June 2021 and 19 August 2021 for more details. In order to facilitate the restructuring in connection with the Agreement, the Group also entered into two bridging loan agreements (the "**Loan Agreements**") for the principal amounts of RMB250 million and RMB170 million, respectively, to be extended to the Transferor. The Group is entitled to a set-off over the consideration payable to the Transferor arising under the Agreement against any amount due to the Group from the Transferor or its associates arising under the Loan Agreements. The total amount of RMB420 million for the two bridging loans was included in other receivables in the Company's consolidated balance sheet, of which RMB61.2 million credit impairment loss was provided in the Company's consolidated statement of comprehensive income for the Reporting Period.

Olympic College, a secondary college of Nanjing Sport Institute located at land lots with an aggregate area of approximately 511 mu (equivalent to approximately 340,000 square metres) in Jiangning District, Nanjing City, currently offers 8 undergraduate majors, including 3 sports majors and 5 media and arts majors (journalism, film and television performance, digital media arts, English, economics and management). It is approved by the International Olympic Committee and authorized by the Chinese Olympic Committee, and is currently the only higher education college named "Olympic" in the PRC. As at the date of the Agreement, Olympic College had approximately 3,000 higher education students.

The Company expects that, if Olympic College is merged with 南京傳媒學院 ("**CUCN**" or "**our University**", formerly known as 中國傳媒大學南廣學院) upon completion of the acquisition of Olympic College, Olympic College will become a secondary college of CUCN and the Binjiang campus of CUCN (南京傳媒學院濱江校區), and the student enrolment of Olympic College may have room for growth from 3,000 students to 11,000 students in the coming years (assuming all conditions are satisfied including completion of transfer of an additional land lot).

As certain conditions precedent required for the acquisition of Olympic College have not been completed, the beneficial owners of the Transferor, the Transferor and Olympic College (collectively the "**Relevant Parties**") and the Group have entered into a management services agreement pursuant to which, among others, the students of Olympic College recruited in the name of our University from 2021 shall be managed by the Group, the Relevant Parties agreed to appoint the Group to provide teaching, management and supporting services to the students recruited in the name of Olympic College and located in the Binjiang campus of CUCN and the Group is entitled to receive a management fee from Olympic College based on an agreed percentage of its annual tuition fees, boarding fees and other fees.

Higher education (media and arts) and vocational education

Our University converted from an independent college to a private higher education institution under the new school name 南京傳媒學院 (English name: Communication University of China, Nanjing) in March 2020. For a long time, we have always believed that every student has unlimited possibilities, and can light up their lives through media and art education. We have been adhering to this concept and providing our high-quality media and art education. For more than ten years, not only well-known literary and artistic star alumni, but also entrepreneurial star alumni have emerged from CUCN. There is also a large number of outstanding alumni working in national media, well-known internet companies and well-known cultural media institutions.

According to the Chinese Universities Alumni Association, CUCN was ranked first in media and arts independent colleges in China in 2021. As of 31 December 2021, the Group had approximately 24,694 students, including 20,085 undergraduates, 4,240 international preparatory students and 369 vocational education students, representing a total year-on-year increase of approximately 40.3%. The above number of undergraduates included the undergraduates enrolled in the Binjiang campus of CUCN (formerly Olympic College of Nanjing Sport Institute (南京體育學院奥林匹克學院)). The registration rate of our new undergraduates for the 2021/2022 year was approximately 97.8%. The total number of new students enrolled in CUCN (including the Binjiang campus) as at the beginning of the 2021/2022 school year reached 9,364, representing a year-on-year increase of approximately 42.1%.

For the 2020/2021 school year, CUCN offered 44 undergraduate majors, covering multiple media and art fields. Among them, 2 majors were appraised as the first tier at the national level, and 8 majors were appraised as the first tier at the provincial level of Jiangsu. Our high-quality courses, ingenious ideas and excellent teaching results are what make CUCN uniquely competitive and attractive.

Our international preparatory programs are supported by our cooperation with more than 70 leading media and art colleges across the world. Students enrolled in these programs can go to the overseas universities we cooperate with to continue their undergraduate courses after completing relevant courses.

Our vocational education programs serve adults who want to further develop skills for a new job, or develop a personal interest, or obtain a degree. We will provide self-taught examination preparation program (自考助學課程) to the aforementioned adults.

The phase II dormitory buildings at our University has been put into use from the 2021/2022 school year, providing additional capacity of approximately 4,400 students. Currently, the total capacity of our University is approximately 24,000 students.

Media, arts and vocational training

As mentioned in the section headed "Shuimuyuan" above, the Group has decided to dispose of the controlling interests of Shuiyuan taking into account the potential impact of tightening regulatory requirements and the uncertainty of COVID-19 situation on the operations, results and performance of Shuimuyuan.

Based on the same considerations, in March 2022, the Group ceased the operation of its media and arts training center in Beijing, namely Cathay Kids Arts Center (華夏視聽藝術成長中心), which provided drama, music, dancing and fine arts courses mainly for children aged from 3 to 12. As Cathay Kids Arts Center was only launched in September 2021 and the scale of operation was small, the Company expects the cessation of its operation did not have significant impact on the Group's results.

TV/film production and investment

The Group is one of the pioneers in the private TV program production industry in China and a major producer of premium dramas. We emphasize the quality of our work and aim to create high-quality dramas. The programs produced under our brand Cathay Media (華夏視聽) have a long-standing reputation for high quality. Almost all of our work have won impressive popularity and ratings, and are well received by audiences. These public praise and enthusiasm have been transformed into the recognition of our products by customers, major TV stations and online video platforms.

During the Reporting Period, our TV/file production and investment business generated revenue mainly from the sales of TV series Kunlun Silk Road Treasure (崑崙絲路寶藏) (50% invested by the Group), Incomparable Beauty (無與倫比的美麗) (30% invested by the Group), Don't Call Me Jiuchen II (別叫我酒神 II) (50% invested by the Group). The TV series Dreamed House (理想的房子) (55% invested by the Group) obtained the distribution permit in December 2021, which is expected to be delivered in 2022.

During the Reporting Period, our TV/file production and investment business recorded a deduction in revenue of RMB70.0 million for the TV series of Zhaoge (朝歌) which has not been broadcasted due to certain commercial reasons.

Regulatory update

Pursuant to the Decision on Amending the Law for Promoting Private Education of the PRC approved by the Standing Committee of the National People's Congress in November 2016 which took effect on 1 September 2017 (the "**2016 Decision**"), school sponsor(s) of a private school may choose for the school to be a for-profit private school or a non-profit private school, with the exception that schools providing nine-year compulsory education must be non-profit. On 22 February 2018, the government of Jiangsu Province promulgated the Implementation Opinion on Encouraging Social Groups to Engage in Education and Promoting the Healthy Development of Private Education, and on 8 May 2018, five local government authorities, including the Jiangsu Education Department, promulgated the Implementation Rules for Classification and Registration of Private Schools in Jiangsu Province (the "**Jiangsu Implementation Rules**"). The Jiangsu Implementation Rules allow private schools established before 7 November 2016 to choose and complete the registration as for-profit or non-profit schools by 2020, or possibly extended until 2022. Under the existing regulatory environment and based on the interpretation of the 2016 Decision and related implementing rules and the existing ownership structure of our University, in June 2021, our University submitted the decision to the Jiangsu Education Department to register as a for-profit private school. As at the date of this announcement, we have not been informed that our University is not allowed to register as a for-profit private school.

On 14 May 2021, the State Council published the Implementing Regulations for the Law for Promoting Private Education of the PRC (《中華人民共和國民辦教育促進法實施條例》) (the "**2021 Implementation Regulations**"), which has become effective from 1 September 2021. The 2021 Implementation Regulations introduced significant changes to certain provisions of the 2004 Implementation Regulations and contain provisions governing the operation and management of private schools.

The 2021 Implementation Regulations stipulate that: (1) private schools may enjoy the preferential tax policies stipulated by the State, among which non-profit private schools may enjoy the same preferential tax policies as public schools; (2) for schools that provide education for academic qualifications, the local governments may provide land by means of bid invitation, auction or listing, assignment of contracts, long-term lease or combination of sale and as rental, and may allow to settle payments by installments; (3) private schools not providing compulsory education must conduct transactions with their interested parties, which include the sponsor, the actual controller, the principal, the council member, the director, the supervisor, the person in charge of the financial affairs of a private school, and any organization or individual that has mutual control or influence over the above mentioned organizations or individuals which may lead to any interest transfer of private schools (the "**Interested Parties**"), in a manner that is open, justified and fair and conduct at reasonable pricing and establish standardised decision-making for such transactions, and must not harm the interests of the State, schools, teachers and students. Private schools must set up an information disclosure mechanism for dealing with their Interested Parties; (4) the registered capital of a private school must be paid in full when it formally established and shall be compatible with the type, level and scale of the school; (5) at the end of each financial year, a for-profit private school must set aside a portion of not less than 10% of its audited annual net profit, and a non-profit private school must set aside a portion of not less than 10% of its audited annual net increase in assets, as the development fund, which is to be used for the development of school.

In addition, on 15 March 2019, the Foreign Investment Law was formally passed by the 13th National People's Congress of the PRC and has taken effect on 1 January 2020. Besides, on 27 December 2021, the Ministry of Commerce and the National Development and Reform Commission jointly released the Special Administrative Measures for Access of Foreign Investment (Negative List) (2021 Edition) (《外商投資準入特別管理措施(負面清單)(2021 年版)》), which became effective on 1 January 2022, to replace the previous negative list (2020 Edition).

The Foreign Investment Law stipulates three forms of foreign investment. However, the Foreign Investment Law does not explicitly stipulate the contractual arrangements as a form of foreign investment. As advised by our PRC Legal Advisors, since contractual arrangements are not specified as foreign investment under the Foreign Investment Law, and if the future laws, administrative regulations or provisions prescribed by the State Council do not incorporate contractual arrangements as a form of foreign investment, our contractual arrangements as a whole and each of the agreements comprising the contractual arrangements will not be affected and will continue to be legal, valid and binding on the parties. Notwithstanding the above, the Foreign Investment Law stipulates that foreign investment includes "foreign investors invest in China through any other methods under laws, administrative regulations, or provisions prescribed by the State Council". Therefore, there are possibilities that future laws, administrative regulations or provisions of the State Council may stipulate contractual arrangements as a way of foreign investment, and then whether our contractual arrangements will be recognized as foreign investment, whether our contractual arrangements will be deemed to be in violation of the foreign investment access requirements and how our contractual arrangements will be handled are uncertain.

As at the date of this announcement, our Group's operations have not been affected by the above law, decision, implementing regulations and rules and administration measures. Based on the current conditions and the Company's preliminary assessment, the Board is of the view that above law, decision, implementing regulations and rules and administration measures do not have an immediate material adverse impact on our Group's business operations, business plans and financial conditions.

Our Company will continue to monitor developments of above law, decision, implementing regulations and rules, administration measures and related laws and regulations, and will make further announcements in respect thereof in accordance with the Listing Rules as and when appropriate.

Recent Developments after the Reporting Period

Save for the Unwind Agreement and the cessation of operation of Cathay Kids Arts Center disclosed in other sections in this announcement, there was no significant change to the existing business and operations of the Group after the Reporting Period and up to the date of this announcement.

Business Outlook

Our TV/film production and investment business brings us reputation and recognition in China and helps connect our University with the industry. By leveraging our resources in the TV/film production and investment industry, we introduce industry leaders to join as our faculty advisers and provide a large number of internship and employment opportunities for our students. Our University at the same time also serves as a source for the recruitment of talent and supply of creative content for the TV/film production industry.

We believe there is market potential in the field of quality education and content related to media and arts. Therefore, the Group plans to continue to maintain the Group's market position of its application-oriented higher education (which focuses on media and arts) and improve its teaching quality, while exploring more opportunities of vocational education primarily in the fields of media, arts and TV/film production.

We will further promote cooperations among industries of media, arts and TV/film production and our University, exploring more collaborations with industry leaders. In this regard, we will explore the possibility of developing audio and live streaming e-commerce businesses by leveraging the expertise in our University, our experience and resources in content creation for TV/firm production.

Higher education (media and arts) and vocational education

We are optimistic about the development of vocational education in China as the Central Committee of the Communist Party of China and the State Council of China issued the "Opinions on Promoting the High-Quality Development of Modern Vocational Education" (《關於推動現代職業教育高質量發展的意見》) in 2021 which, among others, encourage listed companies to run vocational education in China.

The Company expects that the maximum capacity of our University may increase from approximately 24,000 students to 30,000 students assuming the construction of all phases of dormitories and facilities is completed and the necessary government approvals are obtained. We are also planning to rent a new campus to further expand the capacity for our vocational education business so as to meet the expected organic growth in the number of students enrolled in vocational education courses.

The Company believes that the Group's total maximum capacity of its higher education (media and arts) and vocational education may further increase, which may exceed 40,000 students upon completion of the acquisition of Olympic College (assuming all conditions are satisfied, including completion of transfer of additional land lot), as Olympic College will become a secondary college of CUCN and the Binjiang campus of CUCN (南京傳媒學院濱江校區).

The Group is also exploring collaborations with certain independent third parties in connection with the provision of management services by CUCN to certain secondary vocational schools.

TV/film production and investment

We will continue to pursue quality works and have been actively involved in the production and investment of TV series, variety shows and movies, whether as the sole producer or a co-producer, with others. We will also look for other high-quality TV/film projects and opportunities for investment.

As of the date of this announcement, we invested in 3 TV/film series which are under productions, namely Fights Break Sphere (斗破蒼穹) (30% invested by the Group), Lady's Character (女士的品格) (40% invested by the Group) and Meteor with White Plume (白羽流星) (30% invested by the Group), of which 2 of these series are expected to be delivered in 2022. Apart from these, we expect the TV series Dreamed House (理想的房子) (55% invested by the Group) will be delivered in 2022 as the required distribution permit was granted in December 2021.

The impact of COVID-19

Save as disclosed in other sections in this announcement. based on the current situation and the current information available to the Group, it is expected that the impact of COVID-19 on the Group's continuing operations may not be significant for the year of 2022. Our University is allowed to provide online courses for our students if the local government requires students not to attend physical classes as a result of COVID-19. However, the Group will closely monitor the situation of COVID-19 and will make further disclosure when necessary.

Conclusion

Looking ahead, we will continue to improve teaching quality of our higher education (media and arts) and vocational education business, and produce and invest in high-quality content TV/film series. We will explore more opportunities for vocational education and other new businesses such as audio and live streaming e-commerce businesses by leveraging our expertise and resources in our University and TV/film production business in order to create the greatest return for the shareholders of the Company (the "**Shareholders**") in the long run.

MANAGEMENT DISCUSSION AND ANALYSIS

Continuing operations

Revenue

The following table sets forth our revenue by business segment for the years ended 31 December 2021 and 2020.

	Year ended 31 December			
	2021		2020	
	(RMB'000, except percentages)			
Segment Revenue				
Higher education (media and arts) and vocational education	**472,764**	**81.8%**	362,633	45.9%
TV/film production and investment	**105,287**	**18.2%**	427,110	54.1%
Total	**578,051**	**100.0%**	789,743	100.0%

Total revenue decreased by 26.8% to RMB578.1 million for the year ended 31 December 2021, compared to RMB789.7 million for the year ended 31 December 2020, primarily due to the decrease in revenue from our TV/film production and investment business during the Reporting Period.

Revenue from our higher education (media and arts) and vocational education business increased by 30.4% from RMB362.6 million for the year ended 31 December 2020 to RMB472.8 million for the year ended 31 December 2021, mainly attributable to the growth in total student enrolment in our University.

The Group's revenue from the TV/film production and investment business decreased from RMB427.1 million for the year ended 31 December 2020 to RMB105.3 million for the year ended 31 December 2021. The revenue for the year ended 31 December 2021 was mainly attributable to the revenue from TV series Kunlun Silk Road Treasure (崑崙絲路寶藏) (50% invested by the Group), Incomparable Beauty (無與倫比的美麗) (27% invested by the Group) and Don't Call Me Jiuchen II (別叫我酒神 II) (50% invested by the Group). By comparison, the revenue for the year ended 31 December 2020 mainly comprised the first-round distribution of Shichahai (什剎海) (100% invested by the Group) and Zhaoge (朝歌) (30% invested by the Group), and the delivery of Don't Call Me Jiushen (別叫我酒神) (50% invested by the Group) and Quiet (安靜) (100% invested by the Group). The decrease in revenue from TV/film production and investment was primarily due to the deduction in revenue of RMB70.0 million during the Reporting Period for the TV series of Zhaoge (朝歌) which was not broadcasted due to certain commercial reasons and the difference in investment portion of abovementioned TV series recognised during the Reporting Period compared to the corresponding period in 2020.

Cost of revenue

	Year ended 31 December			
	2021		2020	
	(RMB'000, except percentages)			
Segment Cost				
Higher education (media and arts) and vocational education	**169,593**	**56.2%**	146,450	33.6%
TV/film production and investment	**132,286**	**43.8%**	290,055	66.4%
Total	**301,879**	**100.0%**	436,505	100.0%

The cost of revenue of our higher education (media and arts) and vocational education business increased by 15.8% from RMB146.5 million for the year ended 31 December 2020 to RMB169.6 million for the year ended 31 December 2021, mainly because employee benefit expense increased in connection with the additional recruitment of teachers for the purpose of improving the teaching quality as well as the teacher-to-student ratio.

The cost of revenue of our TV/film production and investment business decreased from RMB290.1 million for the year ended 31 December 2020 to RMB132.3 million for the year ended 31 December 2021. The decrease was primarily due to the difference in investment portion and the TV series type in the two comparable years.

Gross profit and gross profit margin

	Year ended 31 December			
	2021		2020	
	Gross profit (loss)	**Gross margin**	Gross profit	Gross margin
	(RMB'000, except percentages)			
Higher education (media and arts) and vocational education	**303,171**	**64.1%**	216,183	59.6%
TV/film production and investment	**(26,999)**	**-25.6%**	137,055	32.1%
Total	**276,172**	**47.8%**	353,238	44.7%

As a result of the foregoing, the Group's gross profit decreased by 21.8% from RMB353.2 million for the year ended 31 December 2020 to RMB276.2 million for the year ended 31 December 2021. The Group's overall gross margin increased from 44.7% for the year ended 31 December 2020 to 47.8% for the year ended 31 December 2021, primarily due to the increase in the proportion of the revenue from our higher education (media and arts) and vocational education business of which its gross margin is much higher than that of TV/film production and investment.

The gross margin for our higher education (media and arts) and vocational education business increased from 59.6% for the year ended 31 December 2020 to 64.1% for the year ended 31 December 2021, mainly due to the economy of scale of our University.

The gross margin for the Group's TV/film production and investment business decreased from 32.1% for the year ended 31 December 2020 to -25.6% for the year ended 31 December 2021, mainly attributable to the deduction of RMB70.0 million during the Reporting Period for the TV series of Zhaoge (朝歌) not broadcasted by a customer and the difference in revenue and cost structure of the TV series in the two comparable years.

Gain on sales of television series and film rights

There was no disposal of TV series and film rights during the Reporting Period and accordingly no gain or loss was recognized (for the year ended 31 December 2020: RMB45.8 million).

Selling expenses

The Group's selling expenses decreased by 34.5% from RMB27.1 million for the year ended 31 December 2020 to RMB17.7 million for the year ended 31 December 2021, primarily due to the decrease in distribution expenses of our TV/film production and investment.

Administrative expenses

The Group's administrative expenses increased by 25.4% from RMB73.2 million for the year ended 31 December 2020 to RMB91.8 million for the year ended 31 December 2021. The increase was primarily due to the increase in administration staff salaries, office expenses and outsourced services for our higher education (media and arts) and vocational business during the Reporting Period.

Other income

Other income decreased from RMB44.4 million for the year ended 31 December 2020 to RMB14.9 million for the year ended 31 December 2021. The decrease was primarily attributable to the decrease in donation income.

Credit impairment losses

Credit impairment losses mainly represent provision for impairment losses on trade and other receivables. The amount increased from RMB4.7 million for the year ended 31 December 2020 to RMB87.2 million, primarily due to the provision for impairment loss of RMB61.2 million on the bridging loans in connection with the acquisition of Olympic College, which was recorded in the results of our higher education (media and arts) and vocational education business, and the increase in provision for impairment losses on trade receivables of our TV/film production and investment business.

Fair value changes on financial assets and liabilities at fair value through profit or loss

The amount increased from RMB26.5 million for the year ended 31 December 2020 to RMB44.5 million, primarily due to the increase in fair value of certain TV series and film rights.

Operating profit

As a result of the foregoing, the operating profits of the Group's continuing operation amounted to RMB140.3 million for the year ended 31 December 2021, compared to RMB368.3 million for the year ended 31 December 2020. The operating profit from our higher education (media and arts) and vocational education business decreased from approximately RMB238.5 million for the year ended 31 December 2020 to approximately RMB223.3 million for the year ended 31 December 2021. The operating profit from our TV/film production and investment business decreased from RMB148.8 million for the year ended 31 December 2020 to an operating loss of RMB77.6 million for the year ended 31 December 2021.

Finance (costs)/income – net

The Group recorded an insignificant amount of net finance cost for the year ended 31 December 2021 as compared to a net finance income of RMB3.2 million. The difference was mainly attributable to a net exchange gain of RMB2.8 million was recognised for the year ended 31 December 2020 whereas a net exchange loss of RMB0.8 million recognised for the year ended 31 December 2021.

Taxation

Income tax expense of the Group decreased from RMB34.3 million for the year ended 31 December 2020 to RMB14.8 million for the year ended 31 December 2021. The decrease was mainly due to the decrease in assessable profit from the TV/film production and investment business.

Profit from continuing operations

As a result of the foregoing, the Group's profit from continuing operations decreased from RMB337.1 million for the year ended 31 December 2020 to RMB125.5 million for the year ended 31 December 2021.

Loss from discontinued operations

Loss from discontinued operations of RMB53.7 million for the year ended 31 December 2021 comprised the impairment loss on goodwill of RMB64.0 million and the profit of RMB10.3 million from the discontinued operations of Shuimuyuan.

Profit for the year

As a result of the foregoing, the Group's profit for the year decreased from RMB337.1 million for the year ended 31 December 2020 to RMB71.8 million for the year ended 31 December 2021.

Non-HKFRS Measure – Adjusted Net Profit

In order to supplement the Group's consolidated financial statements, which are presented in accordance with Hong Kong Financial Reporting Standards ("**HKFRS**"), the Group also uses adjusted net profit ("**Adjusted Net Profit**") as an additional financial measure. The Group presents this financial measure because it is used by the Group's management to evaluate the Group's financial performance by eliminating the impact of certain items that the Group does not consider to be indicative of the Group's performance during the Reporting Period. The Group also believes that this non-HKFRS measure provides additional information to investors and others in their understanding and evaluating the Group's results of operations in the same manner as they help the Group's management and in comparing financial results across accounting periods and to those of the Group's peer companies. This non-HKFRS measure is non-recurring in nature and provides an unbiased presentation for investors to understand the Group's results of operations. However, this non-HKFRS measure does not have a standardised meaning prescribed by HKFRS and therefore it may not be comparable to similar measures presented by other companies listed on the Stock Exchange.

Adjusted Net Profit, which is unaudited, represents profit for the year after adjusting for listing expenses and amortisation of licensing rights payment to Communication University of China and those new items which did not exist in prior years, including impairment losses on other receivables and loss from discontinued operations. The Adjusted Net Profit of the Group for the year ended 31 December 2021 was RMB186.7 million, representing a decrease of RMB178.7 million or a 48.9% decrease from RMB365.4 million for the corresponding period in 2020.

The following table reconciles our Adjusted Net Profit to the most directly comparable financial measure calculated and presented in accordance with HKFRS (profit for the year).

	Year ended 31 December	
	2021	2020
	(RMB'000)	
Profit for the year	**71,822**	337,140
Add: Listing expenses	**–**	13,225
Add: Amortisation of licensing rights payment to CUC	**–**	15,000
Add: Impairment losses on other receivables	**61,207**	–
Add: Loss from discontinued operations	**53,674**	–
Non-HKFRS: Adjusted Net Profit	**186,703**	365,365

Adjusted Net Profit is not a measure of performance under HKFRS. The use of Adjusted Net Profit has material limitations as an analytical tool, as it does not include all items that impact our profit for the relevant period.

Liquidity, financial resources and capital structure

During the year ended 31 December 2021, the Group funded its cash requirements principally from funds raised through the Global Offering (as defined in the prospectus of the Company dated 30 June 2020 (the "**Prospectus**")) in July 2020 and cash generated from operations.

As of 31 December 2021, the Group's cash and cash equivalents amounted to RMB312.4 million (as of 31 December 2020: RMB1,308.7 million), of which the majority were denominated in Hong Kong dollars and Renminbi ("**RMB**"). The decrease in cash and cash equivalents was primarily due to increase in the payment for capital expenditure for the expansion of our University, the partial payment for the acquisition of Shuimuyuan and the two bridging loans provided in relation to the acquisition of Olympic College.

As of 31 December 2021, the Group's financial assets at fair value through profit or loss amounted to RMB578.0 million (as of 31 December 2020: RMB818.5 million). The majority of these financial assets at fair value through profit or loss were wealth management products purchased from banks for better utilisation of our surplus cash.

The Group continued to maintain a healthy and sound financial position. As of 31 December 2021, the current ratio (the ratio of total current assets to total current liabilities) was 267.8% (as of 31 December 2020: 485.2%). The total assets of the Group increased from RMB3,434.2 million as of 31 December 2020 to RMB3,703.5 million as of 31 December 2021, while the total liabilities increased from RMB559.0 million as of 31 December 2020 to RMB988.4 million as of 31 December 2021. The liability-to-asset ratio increased from 16.3% at the end of 2020 to 26.7% at the end of 2021.

As of 31 December 2021, the Group did not have interest-bearing borrowings (as of 31 December 2020: nil). As of 31 December 2021, the Group's total equity amounted to RMB2,715.1 million (as of 31 December 2020: RMB2,875.2 million). The Board will evaluate the Group's capital structure from time to time based on the Group's operations, its business growth, the relevant funding requirements and available financial resources.

Gearing ratio

The Group's gearing ratio is calculated as total interest-bearing borrowings divided by total equity. As of 31 December 2021, the Group's gearing ratio was zero (as of 31 December 2020: nil).

Capital expenditure and commitment

During the Reporting Period, the Group paid RMB355.5 million for the purchases of property, plant and equipment primarily for the expansion of the capacity of our University and made the net payment of RMB157.4 million in connection with the acquisition of Shuimuyuan.

As of 31 December 2021, capital commitment of the Group was RMB83.8 million (as of 31 December 2020: RMB334.0 million).

Foreign exchange exposure

During the year ended 31 December 2021, the Group mainly operated in China and the majority of the transactions were settled in RMB, the Company's primary consolidated affiliated entities' functional currency. As of 31 December 2021, except for the bank deposits denominated in foreign currencies, the Group did not have significant foreign currency exposure from its operations. The Group did not enter into any financial instrument for hedging purpose as it is expected that foreign exchange exposure will not be material.

Pledge of assets

As of 31 December 2021, the Group had no pledge of assets.

Contingent liabilities

Except for the contingent consideration in connection with the acquisition of the entire equity interest of Shuimuyuan which was disposed of subsequently, the Group had no material contingent liabilities as of 31 December 2021 (as of 31 December 2020: nil).

Significant Investments

Save as certain bank's wealth management products included in financial assets at fair value through profit or loss, the Group did not make or hold any significant investments (including any investment in an investee company with a value of 5% or more of the Company's total assets as at 31 December 2021) during the year ended 31 December 2021.

Material acquisitions and disposals

Save for Shuimuyuan and Olympic College as disclosed in the section headed "Business Review and Outlook" above, the Group did not have any material acquisitions or disposals of subsidiaries, consolidated affiliated entities or associated companies during the year ended 31 December 2021.

Future plans for material investments or capital asset

As of 31 December 2021, the Group did not have detailed future plans for material investments or capital assets.

Employees and remuneration

As of 31 December 2021, the Group had a total of 2,173 employees (as of 31 December 2020: 1,555). The following table sets forth the total number of employees by function as of 31 December 2021:

Function	Number of employees
Continuing operations	
Higher education (media and arts) and vocational education	
Teachers	1,415
Administration	170
TV/film production and investment	
Content creation	50
Administration	27
Discontinued operations	
Media, arts and vocational training	
Teachers	311
Administration	200
Total	2,173

The total remuneration cost incurred by the Group for the year ended 31 December 2021 was RMB137.6 million, as compared to RMB100.9 million for the year ended 31 December 2020.

The Company also has adopted a post-IPO share award scheme (the "**Post-IPO Share Award Scheme**)" and a post-IPO share option scheme.

CORPORATE GOVERNANCE

The Board is committed to achieving high standards of corporate governance, which are crucial to the Company's development and safeguard the interests of Shareholders.

Compliance with the Code on Corporate Governance Practices

For the year ended 31 December 2021, the Company has complied with all applicable code provisions as set out in the Corporate Governance Code (version up to 31 December 2021) (the "**Corporate Governance Code**") contained in Appendix 14 of the Listing Rules of the Stock Exchange, save for the deviation set out below.

Code provision C.2.1 of the Corporate Governance Code (version effective since 1 January 2022) recommends, but does not require, that the roles of chairperson and chief executive should be separate and should not be performed by the same person. Mr. Pu Shulin ("**Mr. Pu**") performs both the roles of the Chairperson of the Board ("**Chairperson**") and the chief executive officer of the Company. Mr. Pu is the founder of the Group and has extensive experience in the business operations and management of the Group. The Board believes that vesting the roles of both Chairperson and chief executive officer in Mr. Pu has the benefit of ensuring consistent leadership within the Group and enables more effective and efficient overall strategic planning. This structure will enable the Company to make and implement decisions promptly and effectively.

The Board considers that the balance of power and authority will not be impaired due to this arrangement. In addition, all major decisions are made in consultation with members of the Board, including the relevant Board committees, and three independent non-executive Directors. The Board will reassess the division of the roles of Chairperson and the chief executive officer from time-to-time, and may recommend dividing the two roles between different people in the future, taking into account the circumstances of the Group as a whole.

Compliance with the Model Code for Securities Transactions by Directors

The Company has adopted the Management Trading of Securities Policy (the "**Company's Code**"), with terms no less exacting that the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules, as its own securities dealing code to regulate all dealings by Directors and relevant employees of securities in the Company and other matters covered by the Company's Code.

Specific enquiry has been made of all the Directors and the relevant employees and they have confirmed that they have complied with the Company's Code during the year ended 31 December 2021 and up to the date of this announcement.

Audit committee

The Group has established an audit committee comprising of three members, being Mr. Lee Cheuk Yin Dannis, Mr. Zhang Jizhong and Mr. Huang Yu, with Mr. Lee Cheuk Yin Dannis (being the Company's independent non-executive Director with the appropriate professional qualifications) as chairperson of the audit committee.

The audit committee has reviewed the audited consolidated financial statements of the Group for the year ended 31 December 2021 and has met with the independent auditor, PricewaterhouseCoopers. The audit committee has also discussed matters with respect to the accounting policies and practices adopted by the Company, risk management and internal control and financial reporting matters with senior management members of the Company.

Scope of Work of PricewaterhouseCoopers

The figures in respect of the Group's consolidated balance sheet and consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2021 as set out in this annual results announcement have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement and consequently no assurance has been expressed by PricewaterhouseCoopers on this annual results announcement.

OTHER INFORMATION

Post-IPO Share Award Scheme

The Post-IPO Share Award Scheme conditionally adopted pursuant to the Shareholders' resolutions dated 22 June 2020 has been effective from 15 July 2020, the date on which the shares of the Company (the "**Shares**") were listed (the "**Listing Date**") on the Main Board of the Stock Exchange. The purpose of the Post-IPO Share Award Scheme is to align the interests of eligible persons (the "**Eligible Persons**") with those of our Group through ownership of the Shares, dividends and other distributions paid on Shares and/or the increase in value of the Shares, and to encourage and retain Eligible Persons to make contributions to the long-term growth and profits of our Group.

Pursuant to the rules of Post-IPO Share Award Scheme, the Company entered into a trust deed with the Tricor Trust (Hong Kong) Limited (the "**Trustee**") on 24 September 2021 in respect of, among others, granting, administration or vesting of any award shares (the "**Award Shares**"). On 7 October 2021, the Board approved to set aside funds through internal resources for the Trustee in respect of the purchase of the Shares on and/or off the market at appropriate time for the operation of the Post-IPO Share Award Scheme. The Shares purchased will be used to satisfy the Award Shares to provide incentive to the selected participants in the future.

As of 31 December 2021, the Trustee purchased a total of 13,741,000 Shares (as of 31 December 2020: nil) on the Stock Exchange and no Award Shares was granted during the Reporting Period.

Purchase, sale or redemption of the Company's listed securities

Save as disclosed in the section headed "Post-IPO Share Award Scheme", neither the Company nor any of its subsidiaries or consolidated affiliated entities purchased, sold or redeemed any of the Company's listed securities during the Reporting Period.

Material litigation

The Company was not involved in any material litigation or arbitration during the year ended 31 December 2021. The Directors are also not aware of any material litigation or claims that are pending or threatened against the Group during the Reporting Period and up to the date of this announcement.

Use of proceeds from Global Offering

On the Listing Date, the Shares were listed on the Main Board of the Stock Exchange (the "**Global Offering**"). The net proceeds from the Global Offering (following full exercise of the Over-allotment Option, as defined in the Company's prospectus dated 31 June 2020 (the "**Prospectus**")) were approximately HK$1,383.0 million, which are intended to be applied in the manner set out in the Prospectus. There was no change in the intended use of proceeds as previously disclosed.

Set out below is the status of use of proceeds from the global offering as of 31 December 2021.

Purpose	% of use of proceeds	Net proceeds (HK$ million)	Amount used as of 31 December 2020 (HK$ million)	Amount used for the year ended 31 December 2021 (HK$ million)	Unutilised amount as of 31 December 2021 (HK$ million)	Expected time of full utilisation
Invest in high quality content	30%	414.9	107.9	307.0	–	N/A
Improve and expand our University	30%	414.9	47.2	355.5	12.2	2022
Mergers and acquisitions	30%	414.9	0.1	414.8	–	N/A
General working capital	10%	138.3	138.3	–	–	N/A

Dividend

The Board recommended a final dividend of HK$0.03 per share (2020: HK$0.08 per share) and a special dividend of HK$0.03 per share (2020: nil) for the year ended 31 December 2021. The final dividend and the special dividend are subject to the approval of the Shareholders at the forthcoming annual general meeting of the Company to be held on 27 May 2022 (the "**AGM**") and the final dividend and the special dividend are expected to be payable on or before 30 June 2022 to the Shareholders whose names appear on the register of members of the Company on 9 June 2022.

Closure of register of members

The Company's AGM will be held on 27 May 2022. The register of members of the Company will be closed for the purpose of determining the identity of members who are entitled to attend the AGM from 24 May 2022 to 27 May 2022, both days inclusive, during which period no transfer of Shares will be registered. In order to be eligible to attend the AGM, all duly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration, no later than 4:30 p.m. on 23 May 2022.

The register of members of the Company will be closed for the purpose of determining the entitlement of Shareholders to receive the final dividend and the special dividend from 7 June 2022 to 9 June 2022, both days inclusive, during which period no transfer of Shares will be registered. In order to be qualified for the final dividend the special dividend, all duly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration, no later than 4:30 p.m. on 6 June 2022.

FINANCIAL INFORMATION

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 31 December **2021** *RMB'000*	2020 *RMB'000*
Continuing operations			
Revenue	*4(a)*	**578,051**	789,743
Cost of revenue		**(301,879)**	(436,505)
Gross profit		**276,172**	353,238
Gain on sales of television series and film rights	*4(b)*	**–**	45,804
Selling expenses		**(17,743)**	(27,095)
Administrative expenses		**(91,816)**	(73,236)
Other income		**14,876**	44,427
Credit impairment losses	*5*	**(87,215)**	(4,653)
Fair value changes on financial assets and liabilities at fair value through profit or loss		**44,530**	26,531
Other gains – net		**1,483**	3,275
Operating profit		**140,287**	368,291
Finance income		**794**	3,227
Finance costs		**(823)**	–
Finance (costs)/income – net		**(29)**	3,227
Share of losses of joint ventures accounted for using the equity method		**–**	(50)
Profit before income tax		**140,258**	371,468
Income tax expense	*6*	**(14,762)**	(34,328)
Profit from continuing operations		**125,496**	337,140
Loss from discontinued operations	*14(b)*	**(53,674)**	–
Profit for the year		**71,822**	337,140
Profit is attributable to			
Owners of the Company		**57,527**	316,444
Non-controlling interests		**14,295**	20,696
		71,822	337,140

	Note	Year ended 31 December 2021 RMB'000	2020 RMB'000
Earnings per share for profit attributable to owners of the Company (expressed in RMB per share)			
Basic earnings/(losses) per share	7		
– continuing operations		**0.07**	0.22
– discontinued operations		**(0.03)**	–
		0.04	0.22
Diluted earnings/(losses) per share	7		
– continuing operations		**0.07**	0.22
– discontinued operations		**(0.03)**	–
		0.04	0.22
Other comprehensive loss			
Items that will not be reclassified to profit or loss			
Currency translation differences		**(13,099)**	(83,136)
Items that may be reclassified to profit or loss			
Currency translation differences		**(761)**	(1,789)
Other comprehensive loss for the year, net of tax		**(13,860)**	(84,925)
Total comprehensive income for the year		**57,962**	252,215
Total comprehensive income for the year is attributable to:			
Owners of the Company		**43,667**	231,519
Non-controlling interests		**14,295**	20,696
		57,962	252,215
Total comprehensive income/(loss) for the year attributable to owners of the company arises from:			
Continuing operations		**97,869**	231,519
Discontinued operations		**(54,202)**	–
		43,667	231,519

CONSOLIDATED BALANCE SHEET

	Note	As at 31 December **2021** *RMB'000*	2020 *RMB'000*
ASSETS			
Non-current assets			
Right-of-use assets		**99,840**	106,228
Property, plant and equipment		**945,079**	603,202
Investments accounted for using the equity method		**–**	1,564
Intangible assets		**1,278**	1,099
Deferred income tax assets		**16,535**	16,183
Prepayments, deposits and other receivables		**1,880**	–
Television series and film rights		**56,861**	–
		1,121,473	728,276
Current assets			
Television series and film rights		**47,205**	33,775
Inventories		**94,670**	56,906
Trade receivables	*8*	**384,191**	367,549
Prepayments, deposits and other receivables		**614,848**	120,448
Financial assets at fair value through profit or loss		**577,994**	818,540
Cash and cash equivalents		**249,953**	1,308,667
		1,968,861	2,705,885
Assets classified as held for sale	*14(c)*	**613,168**	–
		2,582,029	2,705,885
Total assets		**3,703,502**	3,434,161
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital	*9*	**118**	118
Treasury stock		**(34,778)**	–
Other reserves		**1,775,057**	1,763,791
Retained earnings		**805,510**	966,404
		2,545,907	2,730,313
Non-controlling interests		**169,166**	144,871
Total equity		**2,715,073**	2,875,184

	Note	As at 31 December 2021 RMB'000	2020 RMB'000
LIABILITIES			
Non-current liabilities			
Deferred income		**965**	1,263
Financial liabilities at fair value through profit or loss	*11*	**23,138**	–
		24,103	1,263
Current liabilities			
Trade payables	*10*	**60,461**	201,480
Other payables and accrual charges		**139,683**	91,608
Contract liabilities		**281,716**	204,690
Financial liabilities at fair value through profit or loss	*11*	**32,862**	–
Current income tax liabilities		**12,486**	38,332
Dividend payables	*12*	**20,950**	21,604
		548,158	557,714
Liabilities directly associated with assets classified as held for sale	*14(c)*	**416,168**	–
		964,326	557,714
Total liabilities		**988,429**	558,977
Total equity and liabilities		**3,703,502**	3,434,161

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. General information

Cathay Media and Education Group Inc. (the "Company") was incorporated in the Cayman Islands on 4 January 2017 as an exempted company with limited liability under the Companies Law (Cap 22, Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of the Company's registered office is 190 Elgin Avenue, George Town, Grand Cayman KY1-9008, Cayman Islands.

The Company is an investment holding company and its subsidiaries (collectively referred to as the "Group") are principally engaged in television series and film production as well as the provision of media and arts higher education and art training service in the People's Republic of China (the "PRC").

The ultimate holding company of the Company is Media One International (PTC) Limited., a company incorporated in the British Virgin Islands, which is the trustee of a trust established in January 2021 of which the settlor is Mr. Pu Shulin ("Mr. Pu"), who is also an executive director and Chairman of the Board of Directors of the Company.

The Company has its primary listing on the Main Board of The Stock Exchange of Hong Kong Limited (the "HKSE").

After the Coronavirus Disease 2019 ("COVID-19") outbreak in early 2020, a series of precautionary and control measures have been and continued to be implemented across the PRC. The Group prioritises the health and safety of its employees, and has taken various preventative and quarantine measures across the Group soon after the COVID-19 outbreak. As of the date of these consolidated financial statements, the Group was not aware of any material adverse effects on the financial position as of 31 December 2021 and operating results of the Group for the year then ended. Recent development of the COVID-19 pandemic in China, such as increasing cases reported in Shanghai and other cities in March 2022, as well as the notices of temporary closure of offline off-campus training institutions due to COVID-19 issued by certain municipal and provincial government authorities in March 2022, continues to generate uncertainties over the Group's operations, results and performance. The Group will continue to closely monitor the development of the COVID-19 outbreak and take appropriate counter-measures if any adverse impact is arising.

The consolidated financial statements are presented in Renminbi ("RMB"), unless otherwise stated.

2. Summary of significant accounting policies

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by Hong Kong Institute of Certified Public Accountants ("HKICPA") and the disclosure requirements of the Hong Kong Companies Ordinance Cap. 622.

The financial statements have been prepared on a historical cost basis, except for certain financial assets and liabilities measured at fair value and assets classified as held for sale measured at the lower of carrying amount and the fair value less cost to sell ("FVLCD").

2.1.1 New and amended standards adopted

The Group has applied the following amendments for the first time for their annual reporting period commencing 1 January 2021:

- Interest Rate Benchmark Reform – Phase 2 – amendments to HKFRS 9, HKFRS 39, HKFRS 7, HKFRS 4 and HKFRS 16

- COVID-19-related Rent Concessions – Amendments to HKFRS 16

The amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

2.1.2 New and amended standards not yet adopted

The following new accounting standards, amendments to accounting standards and interpretations have been published that are not mandatory for 31 December 2021 reporting periods and have not been early adopted by the Group.

		Effective for annual periods beginning on or after
Amendments to HKAS 16	Property, Plant and Equipment: Proceeds before intended use	1 January 2022
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract	1 January 2022
Amendments to HKFRS 3	Reference to the Conceptual Framework	1 January 2022
Annual Improvements	Annual Improvements 2018 – 2020 cycle	1 January 2022
HKFRS 17	Insurance Contracts	Originally 1 January 2021, but extended to 1 January 2023
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current	1 January 2023
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies	1 January 2023
Amendments to HKAS 8	Definition of Accounting Estimates	1 January 2023
Amendments to HKFRS 1 and HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

These standards, amendments or interpretations are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

3. Segment information

The chief operating decision-maker ("CODM") has been identified as the chief executive officer and executive directors of the Company who review the Group's internal reporting in order to assess performance and allocate resources.

Before April 2021, the CODM had identified the television series and film production and investment as well as higher and vocational education as separate reportable segments, namely the television series and film production and investment segment and the higher and vocational education segment. Following the completion of acquisition of Shuimuyuan as disclosed in Note 13 on 6 April 2021, the CODM had identified the business as another separate reportable segments, named art training services segment. Revenue of the television series and film production and investment segment comprises of the income from licensing of the television series and film rights and sales of television series and film rights produced for sale. Revenue of the higher and vocational education segment comprise of tuition fee income, boarding fee income, entrance examination fee income, international preparation program income, continuing education service income and others. Revenue of the art training services segment comprise of tuition fee income and boarding fee income.

Refer to Note 14, in December 2021, the management of the Company determined to dispose Shuimuyuan and had initiated an active program to locate a buyer. On 28 March 2022, the Board of Directors of the Company has approved the unwind agreement to dispose Shuimuyuan which is subject to shareholder's approval. Therefore, the Shuimuyuan is reported in these financial statements as a discontinued operation, and the assets and liabilities of Shuimuyuan are presented separately in the balance sheet.

The CODM evaluates the performance of the reportable segments based on their revenue, gross profit and operating results which derived from gross profit to include selling expenses, administrative expenses, other income and other gains/(losses) - net. The CODM also assesses the assets and liabilities of the operating segments.

The segment information provided to the CODM for the reportable segments for the year ended 31 December 2021 is as follows:

	Higher and vocational education *RMB'000*	Television series and film production *RMB'000*	Art training services *RMB'000*	Unallocated *RMB'000*	Inter-segment elimination *RMB'000*	Total *RMB'000*
Year ended 31 December 2021						
Continuing operations						
Revenue	472,764	105,287	–	–	–	578,051
Cost of revenue	(169,593)	(132,286)	–	–	–	(301,879)
Gross profit/(loss)	303,171	(26,999)	–	–	–	276,172
Selling expenses	(13,628)	(4,115)	–	–	–	(17,743)
Administrative expenses	(55,878)	(23,471)	–	(12,467)	–	(91,816)
Other income	21,454	1,145	–	–	(7,723)	14,876
Credit impairment losses	(61,239)	(25,976)	–	–	–	(87,215)
Fair value changes on financial assets and liabilities at fair value through profit or loss	27,865	9,665	–	7,000	–	44,530
Other gains/(losses)-net	1,601	(7,841)	–	–	7,723	1,483
Operating profit/(loss)	223,346	(77,592)	–	(5,467)	–	140,287
Finance income/(costs)–net	3,403	898	–	(4,330)	–	(29)
Profit/(losses) before income tax	226,749	(76,694)	–	(9,797)	–	140,258
Income tax expense	(208)	(14,554)	–	–	–	(14,762)
Profit/(losses) from continuing operations	226,541	(91,248)	–	(9,797)	–	125,496
Loss from discontinued operation	–	–	(53,674)	–	–	(53,674)
– Profit from discontinued operation	–	–	10,301	–	–	10,301
– Impairment loss on goodwill	–	–	(63,975)	–	–	(63,975)
Profit for the year						71,822
Other segment information						
Additions to non-current assets	377,091	1,363	28,118	–	–	406,572
Depreciation and amortization	38,261	10,926	44,441	–	–	93,628
– Continuing operations	38,261	10,926	–	–	–	49,187
– Discontinued operations	–	–	44,441	–	–	44,441
As at 31 December 2021						
Total assets	2,847,422	1,752,096	613,168	928,595	(2,437,779)	3,703,502
Total liabilities	588,402	961,972	416,168	77,531	(1,055,644)	988,429

The segment information provided to the CODM for the reportable segments for the year ended 31 December 2020 is as follows:

	Higher and vocational education *RMB'000*	Television series and film production *RMB'000*	Unallocated *RMB'000*	Inter-segment elimination *RMB'000*	Total *RMB'000*
Year ended 31 December 2020					
Continuing operations					
Revenue	362,633	427,110	–	–	789,743
Cost of revenue	(146,450)	(290,055)	–	–	(436,505)
Gross profit	216,183	137,055	–	–	353,238
Gain on sales of television series and film rights	–	45,804	–	–	45,804
Selling expenses	(4,602)	(22,493)	–	–	(27,095)
Administrative expenses	(38,235)	(16,061)	(18,940)	–	(73,236)
Other income	39,323	5,104	–	–	44,427
Credit impairment losses	(130)	(4,523)	–	–	(4,653)
Fair value changes on financial assets and liabilities at fair value through profit or loss	25,921	610	–	–	26,531
Other gains – net	–	3,275	–	–	3,275
Operating profit/(loss)	238,460	148,771	(18,940)	–	368,291
Finance income – net					3,227
Share of losses of investment accounted for using the equity method					(50)
Profit before income tax					371,468
Income tax expense					(34,328)
Profit from continuing operations					337,140
Profit from discontinued operation					–
Profit for the year					337,140
Other segment information					
Additions to non-current assets	94,843	263	–	–	95,106
Depreciation and amortisation	48,623	136,113	–	–	184,736
As at 31 December 2020					
Total assets	1,792,245	710,684	1,179,339	(248,107)	3,434,161
Total liabilities	268,623	511,062	27,362	(248,070)	558,977

Notes:

(a) The unallocated expenses represent professional fees and directors' emoluments.

(b) The unallocated assets represent cash received from issuance of ordinary shares upon IPO and intragroup receivables due from subsidiaries. The unallocated liabilities represent payables for professional fees, directors' emoluments and intragroup payables due to subsidiaries.

(c) The inter-segment elimination is related to the inter-segment loans.

Geographical information

The following tables present information on revenue, based on the location of the customers of the Group by geographical regions.

	Year ended 31 December	
	2021	2020
	RMB'000	*RMB'000*
Revenue		
Mainland China	**576,007**	774,680
Others	**2,044**	15,063
	578,051	789,743

Non-current assets are all located in the PRC.

The major customers which contributed more than 10% of the total revenue for the years ended 31 December 2021 and 2020 are listed as below:

	Year ended 31 December	
	2021	2020
	RMB'000	*RMB'000*
Customer A	**103,774**	–
Customer B	**59,604**	–
Customer C	**–**	238,000

4. Revenue and gain on sales of television series and film rights

(a) Revenue

	Year ended 31 December	
	2021	2020
	RMB'000	*RMB'000*
Revenue recognised at a point in time		
Licensing income *(Note)*	**(65,197)**	183,858
Sale of inventories	**170,484**	243,252
Entrance examination fee income	**25,974**	30,518
	131,261	457,628
Revenue recognised over time		
Higher education related income		
– Tuition fees	**284,445**	246,771
– Boarding fees	**24,417**	14,096
International preparatory program	**42,405**	39,307
Continuing education services	**75,682**	23,787
Education management services income *(Note 5)*	**8,500**	–
Others	**11,341**	8,154
	446,790	332,115
	578,051	789,743

Note:

In 2016, the Group and its joint operator of one TV series entered into an online platform broadcasting agreement, as amended in 2020 (together "Licensing Agreement"), with an online video platform which allows the online video platform to broadcasting such TV series. The Group recognised RMB70,047,000 as revenue in 2020 when all the revenue recognition criteria including obtaining the broadcasting license and delivery of master tape and materials to the online video platform were met, as the management considered that it was highly probable that a significant reversal in the amount of cumulative revenue recognised would not occur. The online video platform has not broadcasted such TV series till August 2021 due to their own business consideration.

In August 2021, the personal misbehaviors of a major actor who was involved in this TV series were reported by news media which resulted in restriction of broadcasting of the TV series. Pursuant to the Licensing Agreement, the online video platform has right to cancel the Licensing Agreement and request the Group and the Group's joint operator to refund any payment made by the online video platform before under the Licensing Agreement, when such events occurred. In accordance with HKFRSs, variable consideration will be included in the transaction price only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved. As at 31 December 2021, management considered that the transaction price of Licensing Agreement should be nil as it is no longer highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur, as a result of the abovementioned circumstances. Therefore, management has recognised of RMB70,047,000 as deduction of revenue for the year ended 31 December 2021. (2020: Deduction of revenue of RMB11,000,000).

(b) Gain on sales of television series and film rights

	Year ended 31 December	
	2021	2020
	RMB'000	*RMB'000*
Gain on sales of television series and film rights	**–**	45,804

5. Credit impairment losses

	Year ended 31 December	
	2021	2020
	RMB'000	*RMB'000*
Credit impairment losses		
– Trade receivables	**19,311**	4,247
– Other receivables		
– Sales of television series and film rights	**6,697**	405
– Others *(Note)*	**61,207**	–
	87,215	4,653

Note:

On 21 June 2021, Nanjing Lanchou Corporate Management Co., Ltd. ("Nanjing Lanchou"), a consolidated affiliated entity of the Group, entered into the sale and purchase agreement ("Sale and Purchase Agreement"), pursuant to which Nanjing Lanchou agreed to acquire entire equity interests of Jiangsu China Red Science and Education and Investment Group Co., Ltd. ("Target Company") for an aggregate cash consideration of RMB450,000,000 which may be adjusted to RMB250,000,000 if certain conditions precedent (including completion of transfer of an additional land lot for the operation of the Olympic College of Nanjing Sport Institute ("Target College") cannot be satisfied within 36 months from the date of the Sale and Purchase Agreement. ("Acquisition")

On 21 June 2021, to facilitate the series of restructuring stated in the Sale and Purchase Agreement, Nanjing Lanchou has also entered into two loan agreements ("Loan Agreements"), pursuant to which Nanjing Lanchou shall grant to Jiangsu China Red Science and Education Investment Group and Nanjing Energy and Technology Co., Ltd. ("Transferor") two bridging loans in the principal amounts of RMB250,000,000 and RMB170,000,000, respectively. The total loans of RMB420,000,000 are non-interest bearing with maturity date of six months from the date of disbursement, out of which, RMB420,000,000 shall not be used for any purpose other than the repayment of subject debt agreed in the Loan Agreements. Mr. Ye Hua and Ms. Gao Jiehong, the founders of the Transferor, has pledged their 67% and 33% of equity interests in the Transferor as well as 9% equity interests in Jiangsu Zijin Science and Education Investment Co., Ltd., an entity in which Mr. Ye Hua held 30% equity interests, to Nanjing Lanchou as securities for the bridging loans. The Group has granted the aforementioned bridging loans in June 2021.

As at 31 December 2021, the total bridging loans of RMB420,000,000 has not been repaid by the Transferor. The Group has performed individual assessment on the recoverability of the overdue bridging loans using the discounted cash flow model. In making such impairment test, management considered such as revenue growth rate, the cost of equity of comparable companies in the industry and discount rate, and exercised judgement in developing its expectation for the future cash flows. The Group has concluded that an impairment loss is recognised for the amount of RMB61,207,000 by which the receivable's carrying amount exceeds its recoverable amount.

As of the date of these consolidated financial statements, the Acquisition was not yet completed.

On 29 September 2021, given the delay of completion of the Acquisition, Nanjing Lanchou and CUCN has entered into education management service agreement with Transferor, Target Company and Target College ("Education Management Service Agreement") as supplement to the Sale and Purchase Agreement, pursuant to which Nanjing Lanchou and CUCN are responsible for providing educational resources, student daily management and other services to Target College from the semester started in September 2021 to the completion of the Acquisition. The education management services fee is determined at 50% of the total tuition fee, boarding fee and other fee charged to students by Target College.

6. Income tax expense

	Year ended 31 December	
	2021	2020
	RMB'000	*RMB'000*
Current income tax expense	**27,959**	38,410
Deferred income tax credit	**(2,736)**	(4,082)
Income tax expense	**25,223**	34,328
Income tax expense is attributable to:		
Profit from continuing operations	**14,762**	34,328
Loss from discontinued operation	**10,461**	–
	25,223	34,328

(a) Cayman Islands profits tax

The Company was incorporated in Cayman Islands as an exempted company with limited liability under the Companies Law of Cayman Islands and, accordingly, is exempted from payment of local income tax.

(b) British Virgin Islands profits tax

The Company's direct subsidiary incorporated in British Virgin Islands under the International Business Companies Act of the British Virgin Islands is exempted from payment of local income tax.

(c) Hong Kong profits tax

Since 1 April 2018, Hong Kong profits tax rate is 8.25% for assessable profits on the first HK$2 million and 16.5% for any assessable profits in excess of HK$2 million.

(d) PRC corporate income tax

Corporate income tax ("CIT") in the PRC is calculated based on the statutory profit or loss of subsidiaries incorporated in the PRC in accordance with the PRC tax laws and regulations, after adjusting certain income and expense items, which are not assessable or deductible for income tax purposes. According to the PRC Corporate Income Tax Law promulgated by the PRC government, the tax rate for the Company's PRC subsidiaries is 25%.

According to the Implementation Rules for the Law for Promoting Private Education (the "Implementation Rules"), private schools for which the school sponsors do not require reasonable returns are eligible to enjoy the same preferential tax treatment as public schools. The preferential tax treatment polices applicable to private schools requiring reasonable returns are to be separately formulated by the relevant government authorities under the State Council of the PRC. For year ended 31 December 2021, no regulations have been promulgated by such authorities in this regard. As a result, no income tax expense was recognised by CUCN for year ended 31 December 2021.

(e) PRC Withholding Tax ("WHT")

According to the applicable PRC tax regulations, dividends distributed by a company established in the PRC to a foreign investor with respect to profits derived after 1 January 2008 are generally subject to a 10% WHT. If a foreign investor incorporated in Hong Kong meets the conditions and requirements under the double taxation treaty arrangement entered into between the PRC and Hong Kong, the relevant withholding tax rate will be reduced from 10% to 5%.

During the year, the Group had distributed certain portion of its PRC subsidiaries' retained earnings to their respective owners. The Group does not have any plan to further distribute the retained earnings of these PRC subsidiaries and intends to retain them for the operation and expansion of the Group's business in the PRC. Accordingly, no deferred income tax liability in connection with the aforesaid undistributed retained earnings has been recognised as at the end of each reporting period. As at 31 December 2021 and 2020, the undistributed retained earnings of those PRC subsidiaries amounted to approximately RMB796,262,000 and RMB952,679,000 respectively.

7. Earnings per share

(a) Basic

The basic earnings per share is calculated on the profit attributable to owner of the Company by the weighted average number of ordinary shares in issue during the years excluding ordinary shares purchased by the Company and held as treasury shares under the Company's restricted share award scheme.

The weighted average number of ordinary shares for the purpose of calculating basic earnings per share for the year ended 31 December 2021 has been adjusted for the effect of restricted shares.

	Year ended 31 December	
	2021	2020
	RMB'000	*RMB'000*
Profit/(loss) attributable to owners of the Company (RMB'000)		
From continuing operations	**111,729**	316,444
From discontinued operations	**(54,202)**	–
	57,527	316,444
Weighted average number of ordinary shares in issue ('000)	**1,657,821**	1,409,534
Basic earnings/(losses) per share (expressed in RMB)		
From continuing operations	**0.07**	0.22
From discontinued operations	**(0.03)**	–
	0.04	0.22

(b) Diluted

The computation of diluted earning per share for the year ended 31 December 2021 does not consider the effect of shares under the restricted share award scheme as there is no restricted shares granted by the Group for the year ended 31 December 2021. Accordingly, the diluted earnings/(losses) per share is same as the basic earnings/(losses) per share for the years ended 31 December 2021 and 2020.

8. Trade receivables

	As at 31 December	
	2021	2020
	RMB'000	*RMB'000*
Trade receivables		
– Television series and film productions	**406,969**	364,048
– Higher education and related resources services	**651**	7,619
	407,620	371,667
Less: loss allowance	**(23,429)**	(4,118)
	384,191	367,549

(a) The Group's trade receivables were mainly denominated in RMB and the carrying amounts approximated their fair value.

(b) The table below sets forth an ageing analysis of trade receivables based on the recognition dates:

	As at 31 December	
	2021	2020
	RMB'000	*RMB'000*
Less than 6 months	**174,845**	258,008
6 months to 1 year	**555**	82,957
1 to 2 years	**203,375**	6,608
2 to 3 years	**5,416**	19,976
	384,191	367,549

9. Share capital

	Number of ordinary shares	**Nominal value of ordinary shares**
		US$
At 1 January 2020 Authorised shares – US$0.00001 each	5,000,000,000	50,000
At 31 December 2021 and 2020 – US$0.00001 each	5,000,000,000	50,000

	Number of ordinary shares	Equivalent nominal value of ordinary shares *RMB'000*
Issued and fully paid:		
As at 1 January 2020	1,200,000,000	86
Issuance of ordinary shares upon IPO *(i)*	400,000,000	28
Issuance of ordinary shares upon exercise of over-allotment Option of IPO *(i)*	60,000,000	4
As at 31 December 2020	1,660,000,000	118
Issued and fully paid:		
As at 1 January 2021	1,660,000,000	118
Shares for the restricted share award scheme	(2,178,805)	–
As at 31 December 2021	1,657,821,195	118

(i) On 15 July 2020, upon its listing on The Stock Exchange of Hong Kong Limited (the "HKSE"), 400,000,000 ordinary shares were issued at a price of HK$3.1 per share for a total cash consideration, before related issuance expenses, of approximately HK$1,240,000,000 (equivalent to approximately RMB1,119,379,000). Accordingly, 400,000,000 ordinary shares with par value of US$0.00001 each are issued and US$4,000 (equivalent to approximately RMB28,000) are credited to share capital, and remaining amounts, are credited to share premium.

On 5 August 2020, the Company issued additional 60,000,000 ordinary shares with nominal value of US$0.00001 each for the exercises of over-allotment of the IPO at a price of HK$3.1 per share for a total cash consideration before related insurance costs of approximately HK$186,000,000 (equivalent to approximately RMB167,218,000) and 60,000,000 ordinary shares with par value of US$0.00001 each are issued and US$600 (equivalent to approximately RMB4,000) are credited to share capital, and remaining amounts, are credited to share premium.

Share issuance costs related to the IPO mainly include share underwriting commissions, lawyers' fees, reporting accountant's fee and other costs. Incremental costs that are directly attributable to the issue of the new shares amounting to approximately RMB40,381,000 was treated as a deduction against the share premium arising from the issuance.

(ii) On 29 December 2021, the board of directors of the Company resolved to exercise its powers under the general mandate to repurchase shares of the Company and subject to market conditions, the Company may repurchase the issued shares in the open market of HKSE from time to time at a maximum aggregate amount of HK$100 million.

For the year ended 31 December 2021, there were no shares repurchased and cancelled by the Company.

Subsequently to the date of these consolidated financial statements, the Company has repurchased 5,063,000 of its own shares, such shares were cancelled upon repurchase. The total amount paid to acquired the shares was HK$9,652,000 (equivalent to approximately RMB7,852,000), and has been deducted from share premium within shareholder's equity.

10. Trade payables

The ageing analysis of the trade payables based on their respective invoice dates are as follows:

	As at 31 December	
	2021	2020
	RMB'000	*RMB'000*
Less than 1 year	**14,201**	174,128
1 to 2 years	**19,140**	27,352
Over 2 years	**27,120**	–
	60,461	201,480

11. Financial liabilities at fair value through profit or loss

	As at 31 December	
	2021	2020
	RMB'000	*RMB'000*
Contingent consideration arisen from business combination		
Current portion	**32,862**	–
Non-current portion	**23,138**	–
	56,000	–

The movements of financial liabilities at fair value through profit or loss are set out below:

	For the year ended 31 December	
	2021	2020
	RMB'000	*RMB'000*
Opening balance	**–**	–
Initial recoginition upon acquisition of subsidiaries *(Note 13)*	**63,000**	–
Change in fair value	**(7,000)**	–
Closing balance	**56,000**	–

12. Dividend payables

	As at 31 December	
	2021	2020
	RMB'000	*RMB'000*
Dividend payables	**20,950**	21,604

On 5 December 2017, Huaxia Audio-Visual has declared dividend of RMB58,092,000 and part of the declared dividends of RMB52,864,000 have been paid on 24 January 2018, RMB654,000 have been paid on 4 March 2021. The remaining dividend payables to the NCI of RMB4,574,000 has not yet been settled as at 31 December 2021 (2020: RMB5,228,000).

On 9 August 2019, Huaxia Audio-Visual declared dividend of approximately RMB181,964,000. Declared dividends of RMB165,588,000 have been paid on 26 August 2019. The remaining dividend payables to the NCI of RMB16,376,000 has not yet been settled as at 31 December 2021 and 2020.

On 27 May 2021, the shareholders of the Company approved the declaration of the dividend relating to 2020 of HK$8 cents (equivalent to approximately RMB7 cents) per share, amounting to a total dividend of HK$132,800,000 (equivalent to approximately RMB110,860,000) and the dividend has been paid on 24 June 2021.

On 30 August 2021, the shareholders of the Company approved the declaration of the dividend relating to 2021 of HK$6 cents (equivalent to approximately RMB5 cents) per share, amounting to a total dividend of HK$99,600,000 (equivalent to approximately RMB82,435,000) and the dividend has been paid on 15 October 2021.

Pursuant to the Board resolution on 31 March 2022, the Board has resolved to recommend for declaration and payment of a final dividend of HK$3 cents per share and a special dividend of HK$3 cents per share for the year ended 31 December 2021, subject to the approval by the shareholders of the Company at the forthcoming annual general meeting to be held on 27 May 2022. The final dividend and the special dividend will be paid on or before 30 June 2022 to the shareholders whose names appear on the register of members of the Company on 9 June 2022.

13. Business combination

On 6 April 2021, the Group, via a wholly-owned subsidiary, Bicheng Art Consulting (Nanjing) Co., Ltd. (“Nanjing Bicheng”), has completed acquisition of entire equity interests of Beijing Shuimuyuan Huaxia Education Technology Co., Ltd., from its sole shareholder (“Founder of Shuimuyuan”), at an aggregate consideration of RMB300,000,000, which comprised 1) cash consideration of RMB165,000,000 which has been fully paid upon completion of the acquisition and 2) contingent consideration of RMB45,000,000 for each of the three years ending 31 December 2021, 2022 and 2023 subject to satisfaction of the certain conditions as agreed in investment agreements (“Acquisition Agreement”).

Pursuant to the share purchase agreement, the Founder of Shuimuyuan has warranted and guaranteed to the Nanjing Bicheng that the net profit attributable to owners of Shuimuyuan, for each of the three years ending 31 December 2021, 2022 and 2023 (each a “Performance Guaranteed Year”) as calculated in accordance with PRC accounting standards shall not be less than RMB24,000,000, RMB27,600,000 and RMB31,740,000 (the “Guaranteed Net Profit”), respectively. If the audited net profit is less than the Guaranteed Net Profit in each a Performance Guaranteed Year, the Founder shall compensate the Nanjing Bicheng in cash (the “Performance Compensation”), which amount is based on the formula agreed in the investment agreement. Nanjing Bicheng has the right to choose to offset its outstanding payment obligations of RMB45,000,000 for each of the three years ended 31 December 2021, 2022 and 2023 with its due Performance Compensation.

The Group recognised the outstanding payment obligations in the investment agreement as contingent consideration. The contingent consideration payables were initially recognised and subsequently measure at fair value and the management has involved an independent qualified valuer to determine the fair value of contingent consideration.

The acquired business contributed revenue of RMB260,342,000 and net loss of approximately RMB62,376,000 to the Group for the period from 6 April 2021 to 31 December 2021. If the acquisition had occurred on 1 January 2021, consolidated pro-forma revenue and profit for the year ended 31 December 2021 would have been RMB851,402,000 and RMB61,532,000 respectively.

These amounts have been calculated using the subsidiary’s results and adjusting them for:

- The additional depreciation and amortisation that would have been charged assuming the fair value adjustments to right-of-use assets, property, plant and equipment and intangible assets had applied from acquisition date, together with the consequential tax effects.

(a) Summary of acquisition

Details of the purchase consideration, the net assets acquired and goodwill are as follows:

	As at 6 April 2021 *RMB’000*
Purchase consideration	
Cash consideration paid	165,000
Contingent consideration	63,000
Total consideration	228,000
Less: Non-compete arrangement *(i)*	(10,000)
Total purchase consideration	218,000

The assets and liabilities recognised as a result of the acquisition are as follows:

	Fair value
	RMB'000
Right of use assets	241,463
Property, plant and equipment	34,519
Intangible assets	165,000
Prepayments, deposits and other receivables	7,666
Cash and cash equivalents	7,626
Lease liabilities	(227,172)
Other payable and accrual charges	(58,664)
Deferred income tax liabilities	(48,534)
Contract liabilities	(13,258)
	108,646
Less: Non-controlling Interests *(iii)*	(10,000)
Net identifiable assets acquired	98,646
Add: Goodwill *(ii)*	119,354
	218,000

The Group has identified the intangible assets and has engaged an independent valuer to assist in performing the valuations of the identified assets and liabilities of Shuimuyuan at the acquisition date. Based on which, the Group performed a purchase price allocation for the acquisition, which resulted in recognition of intangible assets of brand, non-compete agreement and goodwill amounted to of approximately RMB165,000,000, RMB10,000,000 and RMB119,354,000, respectively.

Notes:

(i) The non-compete arrangement is part of employee contract and separately recognised as an intangible asset, by satisfying the contractual or other legal rights criterion.

(ii) The goodwill is attributable to workforce and curriculum system of the art training established by Shuimuyuan. It will not be deductible for tax purpose.

(iii) The Group elected to recognise the non-controlling interests at fair value.

(iv) There were no acquisitions in the year ended 31 December 2020.

(b) Purchase consideration – cash outflow

	Year ended 31 December 2021 *RMB'000*
Outflow of cash to acquire subsidiary, net of cash acquired	
Cash consideration	**165,000**
Less: Cash and cash equivalent acquired	**7,626**
Net outflow of cash – investing activities	**157,374**

Subsequently on 28 March 2022, with the approval of the board of directors of the Company, the Group and the Founder of Shuimuyuan agreed to unwind Acquisition Agreement, pursuant to which (i) the Group conditionally agreed to dispose all equity interests of Shuimuyuan held at the consideration equivalent to the partly paid at an aggregate consideration of RMB165,000,000; and (ii) the parties have agreed to the settlement arrangement relating to the outstanding amount of the loan granted to Shuimuyuan to RMB12,675,000.

The disposal was expected to be completed in 2022 and the loss on such disposal was estimated at approximately RMB19.3 million.

14. Discontinued operations

(a) Description

On 29 December 2021, management of the Group decided to exist art training business carried out by Shuimuyuan which was acquired by the Group at 6 April 2021, taking into account that the tightening regulatory requirements for off-campus training (including non-curriculum-based tutoring) released since the fourth quarter of 2021, together with the notices of temporary closure of offline off-campus training institutions due to COVID-19 issued by certain municipal and provincial government authorities, may have a potential adverse impact on the operations, results and performance of Shuimuyuan. Management of the Group has initiated an active program to locate a buyer for Shuimuyuan. The associated assets and liabilities were consequently presented as held for sale in these consolidated financial statements as at 31 December 2021, and the art training business were therefore presented as discontinued business for the year then ended.

Financial information relating to the discontinued operation for the year ended 31 December 2021 is set out below.

(b) Financial performance and cash flow information

The financial performance and cash flow information presented are for the period ended 31 December 2021.

	From 6 April 2021 to 31 December 2021 ***RMB'000***
Revenue	**260,342**
Cost of revenue and expenses	**(239,543)**
Impairment loss on goodwill	**(63,975)**
Others	**(37)**
Loss before income tax	**(43,213)**
Income tax expense	**(10,461)**
Loss from discontinued operation	**(53,674)**
Net cash inflow from operating activities	**120,693**
Net cash outflow from investing activities	**(29,877)**
Net cash outflow from financing activities	**(36,024)**
Net increase in cash generated	**54,792**

(c) Assets and liabilities of disposal group classified as held for sale

The following assets and liabilities were reclassified as held for sale in relation to the discontinued operation as at 31 December 2021:

	As at 31 December 2021 RMB'000
Assets classified as held for sale	
Right-of-use assets	217,674
Property, plant and equipment	56,291
Intangible assets	216,071
Deferred income tax assets	50,593
Prepayments, deposits and other receivables	7,155
Trade receivables	2,966
Cash and cash equivalents	62,418
Total assets of disposal group held for sale	613,168
Liabilities directly associated with assets classified as held for sale	
Lease liabilities	(202,608)
Deferred income tax liabilities	(96,743)
Trade payables	(18,583)
Other payables and accrual charges	(61,759)
Contract liabilities	(25,501)
Current income tax liabilities	(10,974)
Total liabilities of disposal group held for sale	(416,168)

15. Subsequent events

Save as disclosed in notes 5, 9, 12 and 13 to the financial information in this announcement, there was no material event occurred subsequent to the Reporting Period and up to the date of this announcement.

PUBLICATION OF THE ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This annual results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.cathaymedia.com). The annual report for the year ended 31 December 2021 will be dispatched to the Shareholders and made available for review on the same websites in due course.

By order of the Board
Cathay Media and Education Group Inc.
Pu Shulin
Chairperson and executive Director

China, 31 March 2022

As at the date of this announcement, the executive Directors are Mr. Pu Shulin, Mr. Sun Haitao, Mr. Wu Ye and Mr. Yan Xiang, and the independent non-executive Directors are Mr. Zhang Jizhong, Mr. Lee Cheuk Yin Dannis and Mr. Huang Yu.