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21世紀教育
21ST CENTURY EDUCATION

China 21st Century Education Group Limited

中國21世紀教育集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1598)

**ANNOUNCEMENT OF INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2022**

FINANCIAL HIGHLIGHTS

	For the six months ended		Changes (RMB'000)	Percentage of changes
	2022 (RMB'000) (Unaudited)	2021 (RMB'000) (Unaudited)		
Revenue	144,822	157,999	(13,177)	(8.3%)
Gross profit	71,847	80,958	(9,111)	(11.3%)
EBITDA	66,650	72,690	(6,040)	(8.3%)
Profit for the period	27,103	44,156	(17,053)	(38.6%)
Earnings per Share (RMB cents)	2.37	3.90	(1.53)	(39.2%)
	2021/2022	2020/2021	Changes	Percentage of changes
	school year	school year		
Total number of full-time students (Note)	18,704	17,051	1,653	9.7%

Note: Please refer to the paragraph headed "Student enrollment" in this results announcement for details.

The Board is pleased to announce the unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 June 2022, together with the comparative figures for the corresponding period of 2021 as follows:

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2022

	<i>Notes</i>	Six months ended 30 June	
		2022	2021
		RMB'000	RMB'000
		(Unaudited)	(Unaudited)
REVENUE	4	144,822	157,999
Cost of sales		<u>(72,975)</u>	<u>(77,041)</u>
Gross profit		71,847	80,958
Other income and gains	4	19,425	17,624
Selling expenses		(4,370)	(9,173)
Administrative expenses		(30,082)	(34,715)
Impairment losses on financial and contract assets		(663)	(1,121)
Other expenses		(12,522)	(77)
Finance costs	5	<u>(16,513)</u>	<u>(9,498)</u>
PROFIT BEFORE TAX	6	27,122	43,998
Income tax expense	7	<u>(19)</u>	<u>158</u>
PROFIT FOR THE PERIOD		<u>27,103</u>	<u>44,156</u>
Attributable to:			
Owners of the Company		26,891	44,424
Non-controlling interests		<u>212</u>	<u>(268)</u>
		<u>27,103</u>	<u>44,156</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	9		
Basic and diluted			
— For profit for the period		<u>RMB2.37 cents</u>	<u>RMB3.90 cents</u>

	Six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
PROFIT FOR THE PERIOD	27,103	44,156
OTHER COMPREHENSIVE INCOME		
Exchange differences on translation of foreign operations	<u>9,821</u>	<u>(2,857)</u>
OTHER COMPREHENSIVE INCOME FOR THE PERIOD	<u>9,821</u>	<u>(2,857)</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<u>36,924</u>	<u>41,299</u>
Attributable to:		
Owners of the Company	36,712	41,567
Non-controlling interests	<u>212</u>	<u>(268)</u>
	<u>36,924</u>	<u>41,299</u>

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2022

		30 June	31 December
		2022	2021
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
		(Unaudited)	(Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	10	510,498	251,954
Right-of-use assets		201,727	125,168
Goodwill		54,370	54,370
Other intangible assets		18,074	18,462
Prepayment to a related party		47,400	155,000
Financial asset at fair value through profit or loss		969	927
Other non-current assets		30,865	68,776
		<hr/>	<hr/>
Total non-current assets		863,903	674,657
CURRENT ASSETS			
Trade receivables	11	16,021	10,997
Contract costs		3,103	4,125
Prepayments, deposits and other receivables		73,631	54,371
Amounts due from related parties		25,079	11,034
Financial assets at fair value through profit or loss		12,729	22,552
Term deposits		40,000	40,000
Pledged deposits		66,000	187,000
Cash and bank balances		427,366	334,332
Other current assets		35,909	35,015
		<hr/>	<hr/>
Total current assets		699,838	699,426
CURRENT LIABILITIES			
Other payables and accruals		94,448	96,605
Interest-bearing bank and other borrowings	12	278,220	335,802
Contract liabilities		23,537	101,301
Lease liabilities		12,359	16,292
Amounts due to related parties		253	253
Tax payable		2,101	2,138
Other current payables		3,841	863
		<hr/>	<hr/>
Total current liabilities		414,759	553,254
NET CURRENT ASSETS		<hr/> 285,079	<hr/> 146,172
TOTAL ASSETS LESS CURRENT LIABILITIES		<hr/> 1,148,982	<hr/> 820,829

		30 June 2022	31 December 2021
	<i>Notes</i>	RMB'000	RMB'000
		(Unaudited)	(Audited)
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	<i>12</i>	363,888	110,666
Lease liabilities		17,747	20,657
Deferred tax liabilities		650	741
Other non-current liabilities		—	2,978
Deferred income		44,775	—
		427,060	135,042
Total non-current liabilities		427,060	135,042
Net assets		721,922	685,787
EQUITY			
Equity attributable to owners of the Company			
Share capital	<i>13</i>	9,750	9,801
Treasury shares		(176)	(176)
Reserves		704,191	668,217
		713,765	677,842
Non-controlling interests		8,157	7,945
Total equity		721,922	685,787

NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

China 21st Century Education Group Limited (the “Company”) is a limited liability company incorporated in the Cayman Islands on 20 September 2016. The address of the registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The Company is an investment holding company. During the six months ended 30 June 2022, the Company and its subsidiaries (collectively referred to as the “Group”) were principally engaged in the provision of education services and related management services in the People’s Republic of China (the “PRC”).

2.1 BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited interim condensed consolidated financial statements for the six months ended 30 June 2022 (the “Period”) have been prepared in accordance with International Accounting Standard (“IAS”) 34 *Interim Financial Reporting* issued by the International Accounting Standards Board (the “IASB”).

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual consolidated financial statements for the year ended 31 December 2021.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2021, except for the adoption of the following revised International Financial Reporting Standards (“IFRSs”) for the first time for the current period’s financial information.

Amendments to IFRS 3	<i>Reference to the Conceptual Framework</i>
Amendments to IAS 16	<i>Property, Plant and Equipment: Proceeds before Intended Use</i>
Amendments to IAS 37	<i>Onerous Contracts — Cost of Fulfilling a Contract</i>
<i>Annual Improvements to IFRSs 2018–2020</i>	Amendments to IFRS 1, IFRS9, Illustrative Examples accompanying IFRS 16, and IAS 41

The nature and impact of the revised IFRSs are described below:

- (a) Amendments to IFRS 3 replace a reference to the previous *Framework for the Preparation and Presentation of Financial Statements* with a reference to the *Conceptual Framework for Financial Reporting* issued in June 2018 without significantly changing its requirements. The amendments also add to IFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 if they were incurred separately rather than assumed in a business combination, an entity applying IFRS 3 should refer to IAS 37 or IFRIC 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group has applied the amendments prospectively to business combinations that occurred on or after 1 January 2022. As there were no contingent assets, liabilities and contingent liabilities within the scope of the amendments arising in the business combination that occurred during the Period, the amendments did not have any impact on the financial position and performance of the Group.

- (b) Amendments to IAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items, in profit or loss. The Group has applied the amendments retrospectively to items of property, plant and equipment made available for use on or after 1 January 2021. Since there was no sale of items produced while making property, plant and equipment available for use on or after 1 January 2021, the amendments did not have any impact on the financial position or performance of the Group.
- (c) Amendments to IAS 37 clarify that for the purpose of assessing whether a contract is onerous under IAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The Group has applied the amendments prospectively to contracts for which it has not yet fulfilled all its obligations at 1 January 2022 and no onerous contracts were identified. Therefore, the amendments did not have any impact on the financial position or performance of the Group.
- (d) Annual Improvements to IFRSs 2018–2020 sets out amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41. Details of the amendments that are applicable to the Group are as follows:
- IFRS 9 Financial Instruments: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. The Group has applied the amendment prospectively to financial liabilities that are modified or exchanged on or after 1 January 2022. As there was no modification of the Group's financial liabilities during the Period, the amendment did not have any impact on the financial position or performance of the Group.
 - IFRS 16 Leases: removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying IFRS 16. This removes potential confusion regarding the treatment of lease incentives when applying IFRS 16.

3. OPERATING SEGMENT INFORMATION

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

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit which is measured consistently with the Group's profit before tax except that finance costs (other than interest on lease liabilities), interest income and other unallocated expenses are excluded from such measurement.

Segment assets exclude cash and bank balances, term deposits, pledged deposits, an amount due from a related party, financial assets at fair value through profit or loss and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude interest-bearing bank and other borrowings, an amount due to a related party, tax payable and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

Six months ended 30 June 2022

	Vocational education RMB'000 (Unaudited)	Quality- oriented education RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
Revenue	109,957	34,865	144,822
Other segment revenue	<u>7,501</u>	<u>3,128</u>	<u>10,629</u>
Total	<u><u>117,458</u></u>	<u><u>37,993</u></u>	<u><u>155,451</u></u>
Segment results	56,219	2,288	58,507
<i>Reconciliation:</i>			
Finance costs (other than interest on lease liabilities)			(15,880)
Interest income			8,248
Unallocated expenses			<u>(23,753)</u>
Profit before tax			<u><u>27,122</u></u>
Segment assets	547,942	79,469	627,411
<i>Reconciliation:</i>			
Cash and bank balances			427,366
Term deposits			40,000
Pledged deposits			66,000
Financial assets at fair value through profit or loss			13,698
Unallocated head office and corporate assets			<u>389,266</u>
Total assets			<u><u>1,563,741</u></u>
Segment liabilities	(75,152)	(43,265)	(118,417)
<i>Reconciliation:</i>			
Interest-bearing bank borrowings			(642,108)
Tax payable			(2,101)
Unallocated head office and corporate liabilities			<u>(79,193)</u>
Total liabilities			<u><u>(841,819)</u></u>

Six months ended 30 June 2021

	Vocational education <i>RMB'000</i> (Unaudited)	Quality-oriented education <i>RMB'000</i> (Unaudited)	Total <i>RMB'000</i> (Unaudited)
Revenue	90,787	67,212	157,999
Other segment revenue	<u>8,408</u>	<u>4,843</u>	<u>13,251</u>
Total	<u>99,195</u>	<u>72,055</u>	<u>171,250</u>
Segment results	55,940	6,135	62,075
<i>Reconciliation:</i>			
Finance costs (other than interest on lease liabilities)			(8,735)
Interest income			4,196
Unallocated expenses			<u>(13,538)</u>
Profit before tax			<u>43,998</u>

Year ended 31 December 2021

	Vocational education <i>RMB'000</i> (Audited)	Quality-oriented education <i>RMB'000</i> (Audited)	Total <i>RMB'000</i> (Audited)
Segment assets	576,270	95,440	671,710
<i>Reconciliation:</i>			
Term deposits			40,000
Pledged deposits			187,000
Cash and bank balances			334,332
Financial assets at fair value through profit or loss			23,479
Unallocated head office and corporate assets			<u>117,562</u>
Total assets			<u><u>1,374,083</u></u>
Segment liabilities	(174,170)	(46,106)	(220,276)
<i>Reconciliation:</i>			
Interest-bearing bank and other borrowings			(446,468)
Tax payable			(2,138)
Unallocated head office and corporate liabilities			<u>(19,414)</u>
Total liabilities			<u><u>(688,296)</u></u>

Geographical information

During both periods, the Group operated business within one geographical area because all of its revenue was generated in the PRC and all of its long-term assets were located in the PRC. Accordingly, no geographical information is presented.

Information about major customers

During both periods, no revenue from transactions with a single external customer amounted to 10% or more of the Group's total revenue.

4. REVENUE, OTHER INCOME AND GAINS

	Notes	Six months ended 30 June	
		2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
<u>Revenue from contracts with customers</u>			
Vocational education			
Tuition fees		76,722	62,901
Boarding fees		10,091	8,636
School operation service income	(i)	15,527	12,900
Others	(ii)	7,617	6,350
		<u>109,957</u>	<u>90,787</u>
Quality-oriented education			
Tutoring fees		14,477	51,321
Tuition fees		19,624	13,790
Consultation fees		764	2,101
		<u>34,865</u>	<u>67,212</u>
		<u><u>144,822</u></u>	<u><u>157,999</u></u>
<u>Other income and gains</u>			
Interest income		8,248	4,196
Donation of property, plant and equipment received		2,024	4,560
Investment income		2,374	1,632
Site use fees	(iii)	2,178	1,017
Sale of education materials and living goods		3,198	1,009
Government grants		548	178
Covid-19-related VAT exemptions		104	458
Covid-19-related rent concessions		—	599
Fair value gain on financial assets at fair value through profit or loss		—	3,535
Others		751	440
		<u>19,425</u>	<u>17,624</u>

Notes:

- (i) The school operation service income comprises the service income derived from the provision of school operation service and the provision of accommodation service to the students.
- (ii) Others primarily represent service fees received from certain independent universities in respect of the provision of student recruitment services, income received from the provision of vocational training and examination preparation courses and income derived from granting the right of canteen management.

(iii) The amounts represent usage fees received from certain colleges and enterprises in connection with their uses of the school premises and facilities of the Group to organise teaching and training activities.

5. FINANCE COSTS

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Interest on bank and other borrowings	18,115	8,333
Interest on lease liabilities	633	763
Financing consultancy service charges	65	402
Less: interest capitalised	<u>(2,300)</u>	<u>—</u>
	<u>16,513</u>	<u>9,498</u>

6. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Cost of sales	72,975	77,041
Depreciation of property, plant and equipment	11,784	10,226
Depreciation of right-of-use assets	9,754	8,069
Amortisation of intangible assets	1,542	1,301
Minimum lease payments under operating leases:		
— Buildings	434	415
— Others	<u>30</u>	<u>139</u>
	<u>464</u>	<u>554</u>
Employee benefit expense (excluding directors' remuneration):		
Wages and salaries	34,821	54,881
Equity-settled share option expense	1,023	2,804
Pension scheme contributions (defined contribution scheme)	<u>4,512</u>	<u>6,448</u>
	<u>40,356</u>	<u>64,133</u>
Impairment of trade receivables	663	1,121
Fair value gains from financial investment at fair value through profit or loss	2,237	(3,535)
Loss on disposal of items of property, plant and equipment	<u>3</u>	<u>8</u>

7. INCOME TAX

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

The Company's directly held subsidiary was incorporated in the British Virgin Islands as an exempted company with limited liability under the British Virgin Islands Companies Act 2004 and accordingly is not subject to income tax.

Hong Kong Profits Tax

No provision for Hong Kong profits tax has been made as the Group had no assessable profits derived from or earned in Hong Kong during the year.

PRC Corporate Income Tax ("CIT")

A certain subsidiary was accredited as a High-tech Enterprise and was entitled to a preferential tax rate of 15% (2021: 15%).

Certain subsidiaries were certified as small and micro-sized enterprises in 2022. Their accumulated taxable income after further reductions would enjoy the preferential tax rate of 20% (2021: 20%).

Pursuant to the CIT Law and the respective regulations, the other non-school PRC subsidiaries were subject to income tax at a statutory rate of 25% for the year (2021: 25%).

The major components of the corporate income tax expense for the Group are as follows:

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current — Mainland China		
Charge for the Period	147	169
Overprovision in prior years	(37)	(230)
Deferred	(91)	(97)
	<u>19</u>	<u>(158)</u>

8. DIVIDENDS

The Board does not recommend the payment of dividend for the six months ended 30 June 2022 (six months ended 30 June 2021: nil).

9. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings per share is based on the profit for the Period attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares in issue, during the six months ended 30 June 2022 and 2021.

The Group had no potentially dilutive ordinary shares in issue during the six months ended 30 June 2022 and 2021.

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

	Six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Earnings		
Profit attributable to ordinary equity holders of the Company, used in the basic and diluted earnings per share calculation	<u>26,891</u>	<u>44,424</u>
	Number of shares ('000)	
	Six months ended 30 June	
	2022	2021
Shares		
Weighted average number of ordinary shares in issue	1,164,755	1,167,216
Weighted average number of shares held for the restricted share unit scheme	<u>(27,959)</u>	<u>(27,999)</u>
Adjusted weighted average number of ordinary shares in issue used in the basic and diluted earnings per share calculation	<u>1,136,796</u>	<u>1,139,217</u>

10. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2022, the Group acquired property, plant and equipment at a cost of RMB223,048,000 (six months ended 30 June 2021: RMB91,200,000).

Assets with a net book value of RMB14,000 were disposed of by the Group during the six months ended 30 June 2022 (six months ended 30 June 2021: RMB14,000), resulting in a net loss on disposal of RMB3,000 (six months ended 30 June 2021: a net loss of RMB8,000).

11. TRADE RECEIVABLES

	30 June	31 December
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
Tuition receivables	17,535	12,406
Impairment	<u>(1,514)</u>	<u>(1,409)</u>
	<u>16,021</u>	<u>10,997</u>

An ageing analysis of the trade receivables as at the end of the Period, based on the transaction date and net of loss allowance, is as follows:

	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
Within one year	10,788	7,622
One to two years	2,920	2,511
Two to three years	<u>2,313</u>	<u>864</u>
	<u><u>16,021</u></u>	<u><u>10,997</u></u>

Trade receivables mainly represented amounts due from certain of the Group's college and kindergarten students.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates for the measurement of the expected credit losses of the contract assets are based on those of the trade receivables as the trade receivables are from the same customer bases. The provision rates of the trade receivables are based on days past due of trade receivables for groupings of various customer segments with similar loss patterns. The calculation reflects the historical loss rate, adjusted for forward-looking, reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

12. INTEREST-BEARING BANK AND OTHER BORROWINGS

	<i>Notes</i>	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
Current			
Short term bank loan — unsecured	<i>(i)</i>	171,552	177,717
Current portion of long term bank loan — secured	<i>(ii)</i>	13,847	82,832
Current portion of long term bank loan — unsecured	<i>(iii)</i>	10,000	—
Current portion of other borrowing — secured	<i>(iv)</i>	67,064	59,488
Current portion of other borrowings — unsecured	<i>(v)</i>	15,757	15,765
		278,220	335,802
Non-current			
Long term bank loan — secured	<i>(ii)</i>	80,082	27,184
Long term bank loan — unsecured	<i>(iii)</i>	190,000	—
Other borrowings — secured	<i>(iv)</i>	76,392	65,880
Other borrowings — unsecured	<i>(v)</i>	17,414	17,602
		363,888	110,666
		642,108	446,468
		30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
Analysed into:			
Bank loans repayable:			
Within one year or on demand		195,399	260,549
In the second year		83,060	13,444
In the third to fifth years, inclusive		187,022	13,740
		465,481	287,733
Other borrowing repayable:			
Within one year or on demand		82,821	75,253
In the second year		89,431	83,482
In the third to fifth years, inclusive		4,375	—
		176,627	158,735
		642,108	446,468

Notes:

Other borrowings of the Group represented borrowings obtained from independent financial institutions.

Details of the guarantees and/or securities provided by the Group and its related parties or third parties in connection with certain bank and other borrowings obtained by the Group are as follows:

- (i) As at 30 June 2022, a bank borrowing of RMB50,000,000 was pledged by the right of charge of Shijiazhuang Institute of Technology and was guaranteed by Mr. Li Yunong and Ms. Cao Yang.

As at 30 June 2022, bank borrowings of RMB100,000,000 (31 December 2021: RMB150,000,000) were guaranteed by Mr. Li Yunong and Ms. Cao Yang.

As at 30 June 2022 and 31 December 2021, a bank borrowing of RMB13,000,000 was guaranteed by an independent financing guarantee company.

As at 30 June 2022, a bank borrowing of HK\$10,000,000 (equivalent to RMB8,552,000) (31 December 2021: HK\$18,000,000 (equivalent to RMB14,717,000)) was unsecured.

- (ii) As at 30 June 2022, a bank borrowing of US\$88,000 (equivalent to RMB589,000) (31 December 2021: US\$97,000 (equivalent to RMB616,000)) was secured by a director's life insurance policy.

As at 30 June 2022, a bank borrowing of RMB33,340,000 (31 December 2021: RMB40,000,000), was guaranteed by Mr. Li Yunong, Ms. Cao Yang and Zerui Education, with the pledge of a certain building and the land use right of Shijiazhuang Institute of Technology.

As at 30 June 2022, a bank borrowing of RMB60,000,000 (31 December 2021: RMB69,400,000) was secured by the Group's deposits amounting to RMB66,000,000 (31 December 2021: RMB187,000,000).

- (iii) As at 30 June 2022, a bank borrowing of RMB200,000,000, was guaranteed by Mr. Li Yunong and Ms. Cao Yang.

- (iv) As at 30 June 2022, other borrowing of RMB59,160,000 (31 December 2021: RMB31,633,000) was secured by the Group's deposits amounting to RMB1,500,000 (31 December 2021: RMB900,000) and guaranteed by Mr. Li Yunong, Sheng Dao Xiang Cheng and Zerui Education.

As at 30 June 2022, other borrowing of RMB39,431,000 (31 December 2021: RMB43,604,000) was secured by the Group's deposits amounting to RMB788,000 (31 December 2021: RMB788,000) and guaranteed by Mr. Li Yunong and Zerui Education.

As at 30 June 2022, other borrowing of RMB34,184,000 (31 December 2021: RMB35,786,000) was secured by the Group's deposits amounting to RMB1,000,000 (31 December 2021: RMB1,000,000), and charging right of Shijiazhuang Institute of Technology, and was guaranteed by Mr. Li Yunong, Sheng Dao Xiang Cheng and Zerui Education.

As at 30 June 2022, other borrowing of RMB10,681,000 (31 December 2021: RMB14,345,000) was secured by the Group's deposits amounting to RMB1,500,000 (31 December 2021: RMB1,500,000), and was guaranteed by Mr. Li Yunong, Sheng Dao Xiang Cheng and Zerui Education.

- (v) As at 30 June 2022, other borrowing of RMB33,171,000 (31 December 2021: RMB33,367,000) was guaranteed by Mr. Li Yunong, Sheng Dao Xiang Cheng and Zerui Education.

13. SHARE CAPITAL

Shares

	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
Authorised:		
3,000,000,000 (31 December 2021: 3,000,000,000) ordinary shares of HK\$0.01 each	<u><u>25,293</u></u>	<u><u>25,293</u></u>
Issued and fully paid:		
1,161,204,000 (31 December 2021: 1,167,216,000)	<u><u>9,750</u></u>	<u><u>9,801</u></u>

MANAGEMENT DISCUSSION AND ANALYSIS

1. BUSINESS REVIEW

1.1 Overview

Focusing on the operation and content incubation of the education industry, and adhering to the development vision of “promoting the progress of civilization with contents and technologies”, the Company has addressed itself to improving the efficiency and customer experience of education operation by virtue of technologies empowerment. Since the establishment of its first school in 2003, the Company has made notable achievements over the past 20 years to become a comprehensive education group focusing on vocational education and actively put the development direction of industry-education integration into practice, with diversified revenue streams and a broad customer base.

Considering improving students’ abilities as our core priority, we are committed to unremittingly providing clients with customized services and solutions based on individual demands. Leveraging our self-innovated education system and standardized management, we are dedicated to offering more friendly and convenient education services to students.

1.2 Movements of business operations during the Reporting Period

1.2.1 *Focus on the construction work of the new campus of Shijiazhuang Institute of Technology*

In the first half of 2022, the Company focused on the new campus project of Shijiazhuang Institute of Technology, which was included in the List of Key Construction Projects in Hebei Province in 2022 (《河北省2022年省重點建設項目名單》). During the period from March to August 2022, the Group successfully bid the land use rights in Gaoyi County through public tender process, and acquired a total of 279,577.48 sq.m. (approximately 419.37 acres) of educational land and 46,269.12 sq.m. (approximately 69.40 acres) of commercial land, and has commenced construction of comprehensive teaching buildings, canteens, dormitory, campus environment and related ancillary facilities. The new campus will increase the enrollment quota of Shijiazhuang Institute of Technology, which is expected to complete its first enrollment in September 2023 and enroll approximately 8,000 students, with total enrollment of over 12,000 students in Shijiazhuang Institute of Technology, thus boosting further revenue growth of the Group.

The new campus of Shijiazhuang Institute of Technology is strategically located in Gaoyi County, Shijiazhuang City, Hebei Province, which can take advantage of resources such as industries and employment in the Beijing-Tianjin region with promising development prospects. Meanwhile, the new campus is close to Gaoyi County High-speed Railway Station with convenient transportation. With widely recognized teaching quality of Shijiazhuang Institute of Technology in the market, the new campus has great enrollment prospects.

The new campus will be developed into a new vocational and technical college with landmark attributes and industry-education integration features in the future, which is expected to have a total student capacity of approximately 30,000. It will be developed in accordance with the goal of cultivating technical application talents, with coordinated development of multiple disciplines, highlighting applied technologies, and forming a multi-disciplinary cross-penetration professional group. We strive to cultivate competitive application-oriented talents for the sustainable development of the region by providing quality education resources. This project will help Shijiazhuang Institute of Technology obtain more enrollment quota in short term. Thereby, the Group may further expand its scale of vocational education and improve the level and quality of education, so as to lay the foundation for Shijiazhuang Institute of Technology to upgrade to an undergraduate vocational university. It has played a positive role in promoting the Group's layout of the pan-vocational education industry ecology.

1.2.2 Strengthen cooperation between government, school, industry and enterprise to form a development pattern of industry-education integration

While completing their basic teaching and research tasks, the schools under the Company further expanded their cooperation with the local governments, industry associations and key enterprises to form a development pattern of industry-education integration.

In terms of school-enterprise cooperation, under the model of jointly establishing an industrial college, the college and the enterprise jointly carry out trainings for students, with the college be responsible for public courses and the enterprise be responsible for professional courses, and both parties jointly undertake the investment of teachers and curriculum construction, which can solve the problem of college students' employment and the shortage of industry talents from the source. We can develop a talent service business covering from "Education" to "Employment" of college students based on such resource advantages of industrial colleges, cooperation enterprises, cooperation colleges and skills-training students. As of 30 June 2022, Shijiazhuang Institute of Technology has established eight industrial colleges, involving disciplines such as automobile manufacturing and testing technology, computer network technology, modern mobile communication technology, industrial robot technology, railway locomotive operation and maintenance, civil aviation transportation services and flight attendant.

In the first half of 2022, Shijiazhuang Institute of Technology and Shijiazhuang Luquan District Human Resources and Social Security Bureau (石家莊市鹿泉區人力資源和社會保障局) deepened the business of industry-education integration, and jointly established the "Information Technology Application Innovation Industrial College (信創產業學院)", being the first industrial college established with government in Hebei Province, to connect with the construction of a hundred billion-level electronic information industry cluster and talent training in Luquan District, Shijiazhuang City. It established "Geely Automobile Industrial College (吉利汽車產業學院)" with Geely Automobile Group Company Limited (吉利汽車集團有限公司), which adopted modern apprenticeship

courses, and mutually built talent training bases and production-oriented experimental training bases to achieve precise employment of students in the automobile industrial chain, serve the automobile industry and support “Made in China 2025 (中國製造2025)”. It jointly established the Institute of Industry-Education Integration (產教融合研究院) with Shijiazhuang Kelin Electric Co., Ltd. (石家莊科林電氣股份有限公司) to cooperate in the fields of intelligent manufacturing, industrial robots and high-end equipment manufacturing. It entered into a formal agreement with Hebei Jiantou Power Technology Service Co., Ltd. (河北建投電力科技服務有限公司) to reach a strategic partnership in respect of the construction and operation of incremental power distribution business, smart micro-grid construction and power trading. Both parties will carry out comprehensive cooperation in the field of “Integrated Energy Services for New Campuses of Colleges and Universities (高校新建校園綜合能源服務)”.

As of 30 June 2022, 19 professional programs in Shijiazhuang Institute of Technology have worked with 14 enterprises to jointly offer featured majors, representing 25.7% of total professional training programs offered. 20 tailor-made classes were established with 1,838 students. There are 15 apprenticeship pilot programs, 13 key professional group training bases, 55 on-campus experimental training centers and 208 off-campus training bases. It has also established long-term cooperation relationship with more than 700 domestic and foreign renowned enterprises in total, including 32 top 500 global enterprises such as Haier Group Corporation, Panasonic Corporation and Huawei Technologies Co., Ltd., and invited enterprises to invest tens of millions RMB in total in the construction of practical training rooms on an accumulative basis, which considerably enriched our teaching practice. Benefitting from the in-depth industry-education integration and school-enterprise cooperation, graduates not only have solid professional knowledge, but also excellent practical operation skills and good professionalism. It provides targeted practical courses to the students and trainees through the industrial college and skills training, cultivate standardized industrial talents, increase the employment rate of students, and help further enhance the institute’s brand influence and enrollment scale.

In terms of government-school cooperation, we work closely with the Government of Hebei Province. In the proposed cooperation with the Gaoyi County Government, Shijiazhuang City, we will obtain 200 acres of industrial park commercial land in Gaoyi County for the construction of industrial parks or industrial technology parks. The internship and training for the students from Shijiazhuang Institute of Technology will be conducted in the industrial parks. In the future, we will further cooperate with the Gaoyi County Government for mutual benefits. On the one hand, Gaoyi County has abundant land resources, and on the other, it can share the urban functional facilities of Shijiazhuang City, bringing continuous convenience for talent attraction and high-quality public services required for industrial transformation and upgrading. Leveraging the Beijing-Tianjin-Hebei synergetic development strategy, it will promote the transformation and upgrading of existing industries and attract a number of new industrial clusters. With

the support of government subsidies, we will open a new campus in Gaoyi County providing school infrastructure and vacancies for student in-take based on the local government's industrial planning, labor needs, output value goals, and outstanding enterprises that need to be introduced. We will have in-depth cooperations with enterprises in the technology parks by co-developing new industrial majors or equity investments. We will make use of the education industry of Shijiazhuang Institute of Technology to promote the development of surrounding industrial parks with diversified cooperation, so as to truly realize the industry-education integration as the main direction of vocational education development.

1.2.3 *Continue to improve the quality of training*

The schools under the Company continued to improve the quality of training, strived for offering comprehensive major courses, encouraged their teachers to acquire higher academic qualifications, and strengthened their teaching and research capabilities. Our schools actively undertook the task for improving the training quality of provincial vocational education in which they are located, and Shijiazhuang Institute of Technology was approved as a “Double-High” construction college* (「雙高」建設院校) of the plan for improving the training quality of Hebei Province vocational education (2020–2023) (河北省職業教育提質培優行動計劃 (2020–2023)) during the first half of 2021.

At the same time, the schools under the Company adhered to the principle of giving equal emphasis to academic education and vocational training in vocational colleges, actively participated in the initiatives in improving vocational skills raised by the local governments. Shijiazhuang Institute of Technology won the bid for the project of designated training institution, which was jointly launched by various local human resources and social security bureaus of Hebei Province, to serve as a local vocational training institution designated by the government. As part of the community vocational training system, the institute conducted governmental vocational education and social training for 2,339 people. In addition, Shijiazhuang Institute of Technology has also provided new modern apprenticeship trainings to 366 persons from several enterprises, while insisting on improving the conventional school-enterprise cooperation mode and participating in the new apprenticeship training pilot program. As of 30 June 2022, Shijiazhuang Institute of Technology has granted more than 10,000 skill certificates for students, undertaken 13 provincial-level industry, education and research projects, 10 technical and technological transformation cooperation projects, and obtained more than 80 patents.

Leveraging their own strengths, the schools under the Company actively expanded their vocational training-related businesses by strengthening their cooperation with the government, school, industry and enterprise, injecting new momentum to the Company.

1.3 Our Schools

1.3.1 Overview

As of 30 June 2022, the Company owned 13 schools, including 1 private college under vocational education segment (Shijiazhuang Institute of Technology) and was entrusted with the operation of the west campus of Sifang College. 1 Peijian Tutorial School, 3 Shinedao Tutorial Schools and 8 Saintach Kindergartens under quality-oriented education segment.

Schools of the Company	30 June 2022	30 June 2021
Vocational education – College	1	1
Quality-oriented education – Tutorial school	4	13
Quality-oriented education – Kindergarten	8	8
Total	<u>13</u>	<u>22</u>

1.3.2 Student enrollment

As of 30 June 2022, we had 30,464 students enrolled in our schools, including 18,704 full-time students and 11,760 part-time students. The specific data are as follows:

Breakdown of student enrollment	2021–2022	2020–2021	Changes	Percentage of changes
Full-time students				
Vocational education – Shijiazhuang Institute of Technology				
Including: Junior college	13,753	12,637	1,116	8.8%
Secondary college	<u>3,117</u>	<u>2,659</u>	<u>458</u>	<u>17.2%</u>
Subtotal (full-time college students)	<u>16,870</u>	<u>15,296</u>	<u>1,574</u>	<u>10.3%</u>
Quality-oriented education – Saintach Kindergartens	<u>1,834</u>	<u>1,755</u>	<u>79</u>	<u>4.5%</u>
Subtotal (full-time students)	<u>18,704</u>	<u>17,051</u>	<u>1,653</u>	<u>9.7%</u>

Breakdown of student enrollment	2021–2022	2020–2021	Changes	Percentage of changes
Part-time students				
Vocational education – Continuing education programs of Shijiazhuang Institute of Technology ^①	<u>11,760</u>	<u>14,265</u>	<u>(2,505)</u>	<u>(17.6%)</u>
Subtotal (part-time students)	<u>11,760</u>	<u>14,265</u>	<u>(2,505)</u>	<u>(17.6%)</u>
Total	<u>30,464</u>	<u>31,316</u>	<u>(852)</u>	<u>(2.7%)</u>

Note:

- ① The decrease in the number of students in the continuing education programs under vocational education segment for the six months ended 30 June 2022 compared to that for the corresponding period in 2021 was mainly due to the decrease in the enrollment quota of the continuing education online programs in cooperation colleges as affected by the policy on continuing higher education reform, but the number of continuing education students in The Open University of China increased during the same period.

For the six months ended 30 June 2022, our vocational education segment provided entrusted management and operation services to the west campus of Sifang College, covering 3,649 students.

Peijian Tutorial School has shifted its principal business to new gaokao* (新高考) (the “**New Gaokao**”) tutoring, with a focus on school cooperation and admission training. The New Gaokao business has been launched in Hangzhou firstly and then other cities all over the country. For the six months ended 30 June 2022, it has served 38 high schools and has established cooperation relationships with more than 100 schools in nearly 20 provinces nationwide, providing tutoring and training services to nearly 1,400 students all over the country. Based on the regional in-depth cultivation plan, the cooperation business will be expanded to Henan, Hubei, Hunan and other national regions.

1.3.3 Charge and average tuition revenue

As disclosed in the Prospectus, we charge our students fees comprising tuition (including tutoring fees) and, at our Shijiazhuang Institute of Technology under vocational education, boarding fees. Excluding the relevant charges from Peijian Tutorial School and Shinedao Tutorial Schools, our fee range approximates to that for the year ended 31 December 2021, whereas the tutoring fees for the junior college courses at Shijiazhuang Institute of Technology under vocational education segment have changed, as stated in the following table:

Type of course	2021–2022 school year	2020–2021 school year
Vocational education		
Junior college courses	RMB8,800 to RMB13,000 per school year	RMB7,000 to RMB13,000 per school year
Secondary college courses	RMB7,200	RMB7,200

Average revenue ^①	For the six months ended			Percentage of changes
	30 June 2022	2021	Changes	
Vocational education	4,520	4,316	204	4.7%
Including: Junior college	4,766	4,585	181	3.9%
Secondary college	3,451	3,102	349	11.3%
Kindergartens^②	10,070	8,576	1,494	17.4%

Notes:

- ① The average revenue earned from each full-time student is calculated based on the revenue generated from tuition fees for half a fiscal year and the average number of students enrolled as of the beginning and middle of the same year.
- ② The increase in the average revenue from kindergartens was mainly due to lower average revenue as a result of the fact that all kindergartens were closed during the corresponding period in 2021 as affected by COVID-19 epidemic.

1.3.4 Employment rate

Shijiazhuang Institute of Technology works to build a modern vocational education system, which adopts the “TOP” talent training model (TOP means “Technique-Occupation-Personality”), to continuously cultivate and deliver application-oriented talents for the society. Benefiting from the outstanding professional knowledge, practical operational skills and professionalism of our graduates, Shijiazhuang Institute of Technology has maintained a relatively high level of employment. For the six months

ended 30 June 2022, Shijiazhuang Institute of Technology, its teachers and students have won 91 provincial and municipal awards, including various awards such as the 7th “Bauhaus Award International Design Competition”, the 12th Lanqiao Cup National Software and Information Technology Experts Competition (Hebei Division) — Java Development, and the Hebei Vocational College Skills Competition-Big Data Technology and Application.

As of 30 June 2022, the employment rate of our graduates was approximately 96.6%:

Employment rate ^①	30 June 2022	30 June 2021	Changes	Percentage of changes
Vocational education	96.6%	95.4%	1.2%	1.3%

Note:

- ① The employment rate refers to the number of employed students among the total number of junior college graduates for the year.

1.3.5 Our teachers

Teachers	30 June 2022	30 June 2021	Changes	Percentage of changes
Full-time teachers				
Vocational education ^①	379	455	(76)	(16.7%)
Quality-oriented education ^②	219	357	(138)	(38.7%)
Subtotal (full-time teachers)	598	812	(214)	(26.4%)
Part-time teachers				
Vocational education ^③	263	74	189	255.4%
Quality-oriented education ^②	496	648	(152)	(23.5%)
Subtotal (part-time teachers)	759	722	37	5.1%
Total	1,357	1,534	(177)	(11.5%)

Notes:

- ① As Shijiazhuang Institute of Technology replaced some teachers to improve the quality of teaching and teachers. Hence the number of full-time teachers was temporarily decreased.

- ② Under the requirements of “double reduction” opinion and in response to the national education policy, the Group adjusted its business structure and closed down some K12 businesses, resulting in a decrease in the number of both full-time teachers and part-time teachers in the quality-oriented education business segment.
- ③ Increase the number of outstanding part-time teachers, who may become full-time teachers after passing the qualification assessment.

The quality of education we provide is strongly tied to the quality of our teachers. We prioritize the recruitment of outstanding teachers and strive to maintain the stability of our teachers. As of 30 June 2022, the percentage of our teachers with a bachelor’s degree or above was 83.5%.

1.4 Our Technological Empowerment

We empowered campus management through technology, and provided students with a digital platform that covers all scenarios of student life from admission to graduation, so as to improve the overall management level of the campus and the overall operational efficiency of the Group.

Developing an independent “Smart Campus (智慧校園)” system. Through providing hardware facilities such as network infrastructure, standard examination venues, broadcast and security, as well as improving and upgrading software platforms such as student management system and teaching management system, we built a digital platform that covers all scenarios of student life from admission to graduation.

Providing an integrated platform, “Tianze Talent (天擇人才)”, for employment, entrepreneurship and management services. Catering for students from higher educational institutions and enterprises, it targets positions in industries where there is a shortage of high-skilled talents (such as production, manufacturing and the internet), and facilitates the transformation and upgrade of the talent training model. With an aim of improving the quality of nurturing talent, it is an integrated platform providing coordinated planning and establishing comprehensive management and services of employment and entrepreneurship education, with over 1,000 registered enterprises as well as over 20,000 employment opportunities for graduates.

In addition, software platforms, such as “Sousou Smart School (嗖嗖智校)”, “Data Center (數據中台)” and “Digital Billboard (數字看板)”, have been established to assist our operations in student management, teaching and learning and business processes.

1.5 Our Licenses and Honors

As of 30 June 2022, the Company has completed the 2021 annual examination and verification of the licenses, permits, approvals and certificates necessary to conduct our operations in all material aspects from the relevant government authorities in the PRC as scheduled, which have remained in full effect.

On 13 January 2022, the Company was invited to participate in the “Capital Market Forum and the 6th Golden Hong Kong Stock Awards Ceremony (資本市場論壇暨第六屆金港股頒獎盛典)” jointly organized by Zhitongcaijing.com and www.10JQKA.com.cn., and won the “Most Valuable Education Company (最具價值教育公司)” award with its healthy corporate governance structure and satisfactory main businesses in recent years, which can provide sustainable and stable value returns for investors.

On 24 March 2022, the Industry-Education Integration to Cultivate Craftsman & Teaching Reform to Promote Development — Talent Cultivation Model Based on “Four-Dimension, Three-Joint, Two-Integration and One-Whole” (《產教融合育工匠教學改革促發展—基於“四維三同二融一體”的人才培養模式》) declared by Shijiazhuang Institute of Technology was successfully included in the “List of Typical Cases of Industry-Education Integration and School-Enterprise Cooperation of Ministry of Education in 2021 (教育部2021年產教融合校企合作典型案例名單)”. In order to further improve the standards of talent training and build a long-term industry-education integration mechanism, the institute integrates the four dimensions of government, industry, enterprise and school to establish the first industrial college with government in Hebei Province. It adheres to students as the center and serving students as the purpose, aiming to promote the close integration of industries, positions, majors, courses and teaching materials, smooth the communication channels between enterprises and schools, solve the problems of teachers’ teaching skills training, realize the integration of resources, and ultimately achieve substantial improvement in teaching quality and enhance the ability to serve the society.

On 24 April 2022, Shijiazhuang Institute of Technology hosted the New Generation of Information Technology Industry Youth Innovation and Entrepreneurship Development Forum of Hebei Province in 2022. With the theme of “Digital Intelligence Era & Multi-Dimensional Dual Carbon (數智時代•多維雙碳)”, the forum gathered well-known experts and scholars from colleges and universities, young entrepreneurs and venture capitalists in China to discuss the new development direction of the new generation of information technology industry in the future, which helped students to reach the frontier of the industry and understand the policies of innovation and entrepreneurship. The institute will further help the in-depth development of innovation and entrepreneurship, and promote the close integration of innovation and entrepreneurship talent training with industrial requirements.

On 27 April 2022, the application in respect of the “National Model Worker & Technical Skills Master Wuming’s Studio (全國勞模吳明技術技能大師工作室)” made by Shijiazhuang Institute of Technology was approved and included in the list of Higher Vocational Education Innovation and Development Action Plan (2022–2025) Project in Hebei Province (《河北省高等職業教育創新發展行動計劃(2022–2025年)項目》) as a “XM-12 Provincial Technical Skills Master Studio (XM-12省級技術技能大師工作室)” in full recognition of the school-running capacity and reform and development of Shijiazhuang Institute of Technology.

2. MARKET REVIEW

On 20 April 2022, the 34th meeting of the Standing Committee of the 13th National People's Congress passed the revised Vocational Education Law of the People's Republic of China (《中華人民共和國職業教育法》), which further benefits the development of vocational education from four aspects. Firstly, it clarifies for the first time that vocational education is of equal importance as general education; secondly, it focuses on improving the recognition of vocational education, including enhancing the social status and treatment of talents in technology and skills, and organizing vocational skills competitions and other activities; thirdly, it deepens industry-education integration and school-enterprise cooperation, including that the State promotes enterprises' vital role in running vocational education, advances the in-depth participation of enterprises in vocational education, encourages enterprises to run high-quality vocational education, enterprises can set up full-time or part-time positions to implement vocational education, and the implementation of enterprises' vocational education shall be included in the corporate social responsibility report, and the State encourages industry organizations and enterprises to participate in the development of professional teaching materials for vocational education; and fourthly, it improves the vocational education guarantee system and measures, including that the State takes measures according to the industrial layout and the requirements of industry development, vigorously develops emerging majors required by industries such as advanced manufacturing, supports the construction of high-level vocational schools and majors, optimizes the structure of educational expenditures, adapts the vocational education expenditures to the requirements of vocational education development, and encourages fund-raising through various channels for the development of vocational education in accordance with the law.

3. FUTURE PROSPECTS

As a comprehensive private education service provider, we have kept leveraging on “content + technology” to promote the development of the education industry. While focusing on the overall goals of national education modernization and “dual circulation” of economic development, we will make great effort to develop vocational education, and propel the rapid development of related professions through adding popular and frontline majors and attracting high-quality teachers with introducing academic leader. Meanwhile, we expand the scale of education by building a new campus of Shijiazhuang Institute of Technology, and strive to improve the level and quality of education, so as to cultivate more talents that possess technical skills with higher quality for future development.

The Group sets its focus on new vocational education, deepens the development of industry-education integration through internal construction layout of school-enterprise cooperation, external mergers and acquisitions and government-enterprise cooperation, and carries out vocational training with extension to life-long education. At the same time, it relies on the experience and achievements of collectivized school operation to extend its service scope and develop the business of the integration of vocational education and regular education. In the future, it will expand from vocational education services to industry-education integration services

through business models such as industrial college, internship training and industry to school (產業入校), so to become a professional talent service provider covering from “Education” to “Employment” ultimately.

4. FINANCIAL REVIEW

4.1 Revenue

We derive revenue primarily from tuition (including tutoring fees) of schools from our students, boarding fees and service income for provision of college operation services to the west campus of Sifang College.

Revenue decreased by approximately 8.3% from approximately RMB158.0 million for the six months ended 30 June 2021 to approximately RMB144.8 million for the six months ended 30 June 2022. The decrease in revenue was mainly due to the business restructuring and the closure of some K12 businesses.

4.2 Cost of Sales

Cost of sales primarily consisted of staff costs, rental fees, depreciation and amortization and utilities.

Cost of sales decreased by approximately 5.3% from approximately RMB77.0 million for the six months ended 30 June 2021 to approximately RMB73.0 million for the six months ended 30 June 2022, mainly due to the business restructuring and the closure of some K12 businesses.

4.3 Gross Profit and Gross Profit Margin

The amount of gross profit decreased by approximately 11.3% from RMB81.0 million for the six months ended 30 June 2021 to RMB71.8 million for the six months ended 30 June 2022; and the gross profit margin decreased from approximately 51.2% for the six months ended 30 June 2021 to approximately 49.6% for the six months ended 30 June 2022, which was mainly due to closure of some K12 businesses.

4.4 Other Income and Gains

Other income and gains consisted of (1) gains on investments; and (2) assets and equipment contributed by enterprises jointly offering featured majors at nil consideration.

Other income and gains increased by approximately 10.2% from approximately RMB17.6 million for the six months ended 30 June 2021 to approximately RMB19.4 million for the six months ended 30 June 2022, mainly due to the increase in interest received from bank deposits and loans to third parties.

4.5 Selling and Distribution Expenses

Selling and distribution expenses primarily consisted of salaries and other benefits for recruitment and advertising staff, advertising expenses and students enrollment expenses.

Selling and distribution expenses decreased by approximately 52.4% from approximately RMB9.2 million for the six months ended 30 June 2021 to approximately RMB4.4 million for the six months ended 30 June 2022. The decrease was mainly due to the closure of some K12 businesses.

4.6 Administrative Expenses

Administrative expenses consisted of salaries and other benefits for general administrative staff as well as office-related expenses.

Administrative expenses decreased by approximately 13.3% from approximately RMB34.7 million for the six months ended 30 June 2021 to approximately RMB30.1 million for the six months ended 30 June 2022, mainly due to the decrease in the recognition of share option expenses.

4.7 Other Expenses

Other expenses mainly consisted of (1) exchange loss; and (2) fair value loss.

Other expenses increased from approximately RMB0.1 million for the six months ended 30 June 2021 to approximately RMB12.5 million for the six months ended 30 June 2022, mainly due to the increase in loss of fair value changes of a listed equity investment and the increase in exchange loss.

4.8 Finance Costs

Finance costs mainly represented interest on loans borrowed from financial institutions and guarantee fees paid to third parties for the loans borrowed.

Finance costs increased by approximately 73.9% from approximately RMB9.5 million for the six months ended 30 June 2021 to approximately RMB16.5 million for the six months ended 30 June 2022, mainly due to the increase of finance costs arising from the increase of borrowings from financial institutions to support the Group's business expansion plan.

4.9 Taxation

- (1) The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Act of the Cayman Islands and accordingly is not subject to income tax;

- (2) The Company's directly held subsidiary was incorporated in the British Virgin Islands as an exempted company with limited liability under the British Virgin Islands Companies Act 2004 and accordingly is not subject to income tax;
- (3) Pursuant to the Law of the People's Republic of China on Enterprise Income Tax and the respective regulations, except for the preferential tax rate of 15% or 20% available to certain subsidiaries and schools as disclosed in note 7 to the unaudited interim condensed consolidated financial statements, all of the Company's non-school subsidiaries established in the PRC are subject to the PRC Corporate Income Tax at the rate of 25%; and
- (4) Income tax expenses remained stable due to the relatively stable operation of non-school subsidiaries established in the PRC.

4.10 Profit for the Period

Due to the above factors, the Company's profit for the period decreased by approximately 38.6% from approximately RMB44.2 million for the six months ended 30 June 2021 to approximately RMB27.1 million for the six months ended 30 June 2022.

4.11 Net Liquidity and Capital and Funds and Borrowing Sources

As of 30 June 2022, net current assets of the Group were approximately RMB285.1 million, which mainly consisted of prepayments, other receivables and other current assets, term deposits, pledged deposits and cash and bank balances.

As of 30 June 2022, current assets increased from approximately RMB699.4 million as of 31 December 2021 to approximately RMB699.8 million. The Group's cash and cash equivalents are mainly denominated in Renminbi. As of 30 June 2022, the Group's cash and cash equivalents were approximately RMB427.4 million as compared to approximately RMB334.3 million as of 31 December 2021. Approximately 96.9% of the Group's cash and cash equivalents as of 30 June 2022 were denominated in Renminbi, approximately 1.6% were denominated in Hong Kong dollars and approximately 1.5% were denominated in US dollars.

As of 30 June 2022, current liabilities decreased from approximately RMB553.3 million as of 31 December 2021 to approximately RMB414.8 million. The decrease in current liabilities was mainly due to (1) the decrease in contract liabilities on the recognition of revenue from tuition and boarding fees; and (2) the decrease in short-term interest-bearing bank and other borrowings.

As of 30 June 2022, the current ratio (current assets divided by current liabilities) increased to 168.7% from 126.4% as of 31 December 2021. The increase in current ratio was mainly due to the decrease in current liabilities as a result of the decrease in short-term interest-bearing bank and other borrowings.

As of 30 June 2022, the Group had total borrowings of RMB642.1 million (as of 31 December 2021: RMB446.5 million), including bank and other borrowings. All bank and other borrowings bear interest at fixed rates.

In order to manage the liquidity risk, the Company monitored and maintained a sufficient level of cash and cash equivalents, which was deemed adequate by the management, as the working capital of the Company, and to eliminate the impact of cash flow fluctuations. The Company expects that it can meet the cash flow requirement in the future with internal cash flow generated by operations and bank borrowings. The Company did not adopt other financial instruments for the six months ended 30 June 2022.

The Company has not adopted financial instruments for hedging purposes.

4.12 Gearing Ratio

As of 30 June 2022, the gearing ratio (calculated by total liabilities divided by total assets) was approximately 53.8%, representing an increase of approximately 3.7 percentage points from approximately 50.1% as of 31 December 2021, due to the significant increase in the total amount of interest-bearing bank loans and other borrowings.

4.13 Major Investment

Save as disclosed in this announcement, the Company has no other plans for major investment and capital assets.

4.14 Significant Investments Held, Major Acquisitions and Disposals

For the six months ended 30 June 2022, the Company did not hold any significant investments, nor conduct any major acquisition or disposal of any subsidiary or associated company.

4.15 Contingent Liabilities

As of 30 June 2022, the Company did not have any material contingent liabilities, guarantees or any material litigation or claims, pending or threatened against any member of the Company (as of 31 December 2021: nil).

4.16 Foreign Exchange Risk

Most gains and expenses of the Company were denominated in Renminbi. As of 30 June 2022, certain bank balances were denominated in Hong Kong dollars or US dollars. The Company currently does not have any foreign exchange hedging policy. The management will continue to monitor the foreign currency exchange risk of the Company and consider taking prudent measures in due course.

4.17 Pledge of Asset

For the six months ended 30 June 2022, the Group pledged bank deposits of RMB66.0 million for obtaining two bank facilities.

4.18 Human Resources

As of 30 June 2022, the Group had approximately 1,273 employees (as of 30 June 2021: 1,369 employees). The remuneration policy and treatment of the Group's employees are regularly reviewed in accordance with industry practice and the performance of the Group. The Group provided external and internal training programs to its employees. As required by relevant PRC laws and regulations, the Group participated in various employee social security plans that are administered by local governments, including but not limited to, housing, pension, medical insurance and unemployment insurance.

OTHER INFORMATION

1. CORPORATE GOVERNANCE PRACTICES

The Group is committed to maintaining high standards of corporate governance to safeguard the interests of the Shareholders and to enhance corporate value and accountability. The Company has adopted the CG Code contained in Appendix 14 to the Listing Rules as its own code of corporate governance.

For the six months ended 30 June 2022, the Company has complied with all the code provisions under the CG Code and adopted most of the recommended best practices set out therein. The Company will continue to review and monitor its corporate governance practices to ensure the compliance with the CG Code.

2. MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 of the Listing Rules as its own code of conduct regarding Directors' securities transactions. Specific enquiries have been made to all the Directors and each of the Directors has confirmed that he/she has complied with the code provisions of the Model Code for the six months ended 30 June 2022.

3. INTERIM DIVIDEND

The Board did not recommend the payment of any interim dividend for the six months ended 30 June 2022.

4. AUDIT COMMITTEE

As of 30 June 2022, the Audit Committee comprised three independent non-executive Directors, namely Mr. Yao Zhijun (chairman), Mr. Guo Litian and Mr. Wan Joseph Jason.

The Audit Committee has adopted the terms of reference which are in line with the CG Code. The primary duties of the Audit Committee include reviewing and monitoring the financial control, risk management and internal control systems and procedures of the Group, reviewing the financial information of the Group, and reviewing the relationship with the external auditor of the Company. The unaudited condensed interim results of the Group for the six months ended 30 June 2022 have been reviewed by the Audit Committee.

5. PURCHASE, SALE OR REDEMPTION OF THE LISTED SECURITIES OF THE COMPANY

During the six months ended 30 June 2022, the Company repurchased an aggregate of 6,012,000 Shares on the Stock Exchange at a total repurchase price (before expenses) of HK\$2,769,120. The reason for such share repurchases was that the Board believed the trading level of the Shares had significantly underestimated the performance and related value of the Company, and the Board is committed to managing the capital of the Company actively, therefore, such share repurchases would create capital management benefits for the Shareholders. All the repurchased shares above were cancelled by the Company on 30 March and 22 June 2022. Details of such share repurchases are set out below:

Month of repurchase	Number of shares repurchased	Maximum price per Share paid (HK\$)	Minimum price per Share paid (HK\$)	Total repurchase price (HK\$)
January 2022	2,334,000	0.51	0.48	1,173,195
June 2022	<u>3,678,000</u>	0.45	0.40	<u>1,595,925</u>
Total	<u><u>6,012,000</u></u>			<u><u>2,769,120</u></u>

6. USE OF NET PROCEEDS FROM THE INITIAL PUBLIC OFFERING

On 29 May 2018, the Company issued 360,000,000 Shares at a price of HK\$1.13 per Share pursuant to the initial public offering of Shares, with the total proceeds of approximately HK\$393 million and the Shares listed on the Main Board of the Stock Exchange. On 17 June 2018, the Company issued 36,000,000 Shares at a price of HK\$1.13 per Share pursuant to a partial exercise of over-allotment options relating to the listing of Shares, with the total proceeds of approximately HK\$40.7 million. The net proceeds from the listing of Shares (net of underwriting fees and relevant expenses) amounted to approximately HK\$433 million. The amounts will be applied in the manners as set out in (i) the section headed “Future Plans and Use of Proceeds” in the Prospectus; (ii) the announcement of the Company dated 12 June 2019 in relation to the change in use of proceeds; and (iii) the announcement of the Company dated 9 March 2022 in relation to the change in use of proceeds (the “**Announcement**”).

Set out below is the use of net proceeds from the initial public offering for the six months ended 30 June 2022:

	Original use of net proceeds ⁽¹⁾ <i>(HK\$ million)</i>	Revised use of net proceeds as of the date of the Announcement ⁽²⁾ <i>(HK\$ million)</i>	Actual use of net proceeds up to 30 June 2022 <i>(HK\$ million)</i>	Remaining balance up to 30 June 2022 <i>(HK\$ million)</i>	Expected timeline of full utilization of the remaining balance ⁽³⁾
Invest in, acquire and rebrand the domestic and overseas vocational education and quality-oriented education training schools and junior and undergraduate colleges	173.2	133.7	133.7	—	Fully utilized
Expand the Saintach Tutorial Center network in the Integrated Area through acquisition of third-party tutorial schools primarily engaged in providing small group tutoring services	86.6	62.2	62.2	—	Fully utilized
Investment in new campus of Shijiazhuang Institute of Technology, including the construction of teaching buildings, dormitories, campus environment and related supporting facilities	Not applicable	163.2	91.5	71.7	31 December 2023

	Original use of net proceeds ⁽¹⁾ <i>(HK\$ million)</i>	Revised use of net proceeds as of the date of the Announcement ⁽²⁾ <i>(HK\$ million)</i>	Actual use of net proceeds up to 30 June 2022 <i>(HK\$ million)</i>	Remaining balance up to 30 June 2022 <i>(HK\$ million)</i>	Expected timeline of full utilization of the remaining balance ⁽³⁾
Maintain, renovate and upgrade the facilities, equipment and infrastructure of the schools and tutorial centers of the Group and improve student accommodation, campus environment and teaching conditions at Shijiazhuang Institute of Technology	86.6	36.7	36.7	—	Fully utilized
Establish the Group's presence overseas and obtain experience in operating schools abroad	43.3	—	—	—	Not applicable
Fund working capital and general corporate purposes	<u>43.3</u>	<u>37.2</u>	<u>37.2</u>	—	Fully utilized
Total	<u><u>433.0</u></u>	<u><u>433.0</u></u>	<u><u>361.3</u></u>	<u><u>71.7</u></u>	

Notes:

- (1) The original use of net proceeds shows the allocation of the net proceeds after the re-allocation as disclosed in the announcement of the Company dated 12 June 2019 in relation to the change in use of proceeds.
- (2) The revised use of net proceeds shows the allocation of the net proceeds after the re-allocation as disclosed in the Announcement in relation to the change in use of net proceeds.
- (3) The expected timeline for utilizing the remaining net proceeds is based on the best estimation made by the Group. It will be subject to change based on the current and future development of the market condition.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This announcement is published on the website of the Stock Exchange at www.hkexnews.hk and on the website of the Company at www.21centuryedu.com, respectively. The interim report of the Group for the six months ended 30 June 2022 containing all the information required by the Listing Rules will be dispatched to the Shareholders and published on the above websites in due course.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following expressions shall have the following meanings when used herein:

“Audit Committee”	the audit committee of the Board
“Board”	the board of directors of the Company
“CG Code”	the Corporate Governance Code as set out in Appendix 14 to the Listing Rules
“Company”	China 21st Century Education Group Limited, an exempted company incorporated in the Cayman Islands with limited liability on 20 September 2016, with its Shares listed on the Main Board of the Stock Exchange
“Director(s)”	the director(s) of the Company
“government” or “State”	the central government of the PRC, including all governmental subdivisions (such as provincial, municipal and other regional or local government entities)
“Group” or “we”	the Company, its subsidiaries and PRC Operating Entities from time to time
“Hebei Saintach”	Hebei Saintach Education and Technology Co., Ltd.* (河北新天際教育科技有限公司), a limited liability company established under the laws of the PRC on 17 September 2002, one of the Company’s PRC Operating Entities
“HK\$”	the lawful currency of Hong Kong
“Integrated Area”	also known as the Beijing-Tianjin-Hebei integrated area. Its concept was raised according to a national strategic initiative to promote the region’s economic development
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended from time to time
“Peijian Tutorial School”	Hangzhou Huashi Peijian Tutorial School Limited* (杭州華石培尖培訓學校有限公司), which is the PRC Operating Entity
“PRC” or “China”	the People’s Republic of China

“PRC Operating Entity(ies)”	Shijiazhuang Saintach, Hebei Saintach, Shijiazhuang Institute of Technology, Saintach Tutorial Schools, Peijian Tutorial School, Shinedao Tutorial Schools and Saintach Kindergartens
“Prospectus”	the prospectus issued by the Company for the initial public offering and listing dated 15 May 2018
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC for the time being
“Saintach Kindergartens”	Shijiazhuang Qiaoxi District Blue Crystal Saintach Kindergarten* (石家莊市橋西區新天際藍水晶幼兒園), Shijiazhuang Luquan District Fukang Saintach Kindergarten* (石家莊市鹿泉區新天際福康幼兒園), Shijiazhuang Chang’an District Jianhua Saintach Kindergarten* (石家莊市長安區新天際建華幼兒園), Shijiazhuang Qiaoxi District Lidu Saintach Kindergarten* (石家莊市橋西區新天際麗都幼兒園), Shijiazhuang High-tech Industrial Development Zone Tianshan Saintach Kindergarten* (石家莊高新技術產業開發區新天際天山幼兒園), Shijiazhuang Chang’an District Qinghui Saintach Kindergarten* (石家莊市長安區新天際清暉幼兒園), Zhengding County Saintach Kindergarten* (正定縣新天際幼兒園) and Zhengding County Fumenli Saintach Kindergarten* (正定縣新天際福門里幼兒園), which are the PRC Operating Entities
“Saintach Tutorial Center(s)”	tutorial center(s) being set up in multiple operating locations which are organized by different Saintach Tutorial Schools
“Saintach Tutorial Schools”	Shijiazhuang City Qiaoxi District Bilingual Culture Tutorial School* (石家莊市橋西區雙語文化培訓學校), Shijiazhuang City Chang’an District Saintach Tutorial School* (石家莊市長安區新天際培訓學校), Shijiazhuang Yuhua District Donggang Road Saintach Tutorial School* (石家莊市裕華區東崗路新天際培訓學校), Shijiazhuang City Qiaoxi District Zhicheng Tutorial School* (石家莊市橋西區智城培訓學校), Shijiazhuang City High-tech Zone Saintach Tutorial School* (石家莊市高新區新天際培訓學校) and Shijiazhuang City Xinhua District Huixuan Education Tutorial School* (石家莊市新華區慧軒教育培訓學校), which are the PRC Operating Entities
“school sponsor(s)”	the individual(s) or entity(ies) that funds or holds interests in an educational institution
“school year”	the school year for all of our schools, which generally commences on 1 September of each calendar year and ends on 30 June of the next calendar year

“Share(s)”	ordinary share(s) of nominal value of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Sheng Dao Xiang Cheng”	Sheng Dao Xiang Cheng Education and Technology Co., Ltd.* (河北晟道象成教育科技有限公司), a wholly-foreign owned enterprise established under the laws of PRC on 14 December 2016 and a wholly-owned subsidiary of the Company
“Shijiazhuang Institute of Technology”	Shijiazhuang Institute of Technology* (石家莊理工職業學院), a junior college established under the laws of the PRC on 1 July 2003 of which school sponsors’ interest was wholly-owned by Zerui Education as of the date of this announcement, and one of our PRC Operating Entities
“Shijiazhuang Saintach”	Shijiazhuang Saintach Education and Technology Co., Ltd.* (石家莊新天際教育科技有限公司), a limited liability company established under the laws of the PRC on 13 July 2011, which was wholly-owned by Zerui Education as of the date of this announcement, and one of our PRC Operating Entities
“Shinedao Tutorial Schools”	Shaoxing Shangyu Shinedao Education Tutorial School* (紹興市上虞區學鼎教育培訓學校), Zhoushan Dinghai Shinedao Education Tutorial School* (舟山市定海區學鼎教育培訓學校) and Yuyao Shinedao Education Tutorial School* (余姚市學鼎教育培訓學校), which are the PRC Operating Entities
“Sifang College”	Sifang College of Shijiazhuang Tiedao University* (石家莊鐵道大學四方學院)
“sq.m.”	square meter
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Zerui Education”	Hebei Zerui Education Technology Co., Ltd.* (河北澤瑞教育科技有限公司), a limited liability company established under the laws of the PRC on 12 July 2017, which was owned as to 80.625% by Mr. Li Yunong and 19.375% by Ms. Luo Xinlan as of the date of this announcement, and one of our PRC Operating Entities
“%”	per cent

Certain amounts and percentage figures included herein have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

If there is any inconsistency between the Chinese names of entities or enterprises established in the PRC and their English translations, the Chinese names shall prevail.

By order of the Board
China 21st Century Education Group Limited
Li Yunong
Chairman

Hong Kong, 31 August 2022

As at the date of this announcement, the executive Directors are Mr. Li Yunong, Ms. Liu Hongwei, Mr. Ren Caiyin, Ms. Yang Li and Mr. Li Yasheng; and the independent non-executive Directors are Mr. Guo Litian, Mr. Yao Zhijun and Mr. Wan Joseph Jason.

** for identification purpose only*