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Minsheng Education Group Company Limited

民生教育集团有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1569)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2020

FINANCIAL HIGHLIGHTS

Due to the outbreak of the COVID-19 pandemic, (i) the teaching plans of certain schools of the Group have been adjusted, therefore tuition fees income amounting to approximately RMB5.3 million have been deferred to be recognized in January 2021; and (ii) the Group's schools had to refund boarding fees amounting to approximately RMB20.3 million to the students in accordance with the boarding fees refund policy released by the relevant local educational authorities during the Reporting Period.

	Year ended 31 December			Percentage change
	2020 RMB'000	2019 RMB'000	Change RMB'000	
Revenue	1,107,206	1,005,436	101,770	+10.1%
Gross Profit	567,080	516,490	50,590	+9.8%
Adjusted EBITDA (Note 1)	606,335	550,883	55,452	+10.1%
Adjusted net profit for the period (Note 2)	432,441	386,136	46,305	+12.0%
	31 December			Percentage change
	2020 RMB'000	2019 RMB'000	Change RMB'000	
Cash and cash equivalents	2,624,670	1,405,361	1,219,309	+86.8%

Notes:

- Adjusted EBITDA is defined as to earnings before interest, income tax expenses, depreciation and amortization after adjusting for items which are not indicative of the Group's operating performances.
- Adjusted net profit is defined as profit for the Reporting Period of the Group after adjusting for items which are not indicative of the Group's operating performances. For details, please refer to the section headed "Management Discussion and Analysis – Financial Review" in this announcement.

TOTAL NUMBER OF STUDENTS

On-Campus Education Students

	Year ended 31 December		Change	Percentage change
	2020	2019		
Total number of on-campus students (Note 1)	92,772	82,786	9,986	+12.1%

Online Education Enrolled Students

	Year ended 31 December		Change	Percentage change
	2020	2019		
Guangdong Online Education Entities (Note 2) – Number of junior college or above enrolled students	132,927	98,033	34,894	+35.6%
Open Distance Education (Note 3) – Number of Junior College or above enrolled students	1,044,931	–	N/A	N/A

Notes:

1. As at 31 December 2019, the number of students in Shouguang Bohai Experimental School was 2,979. Since 18 June 2020, Shouguang Bohai Experimental School ceased to be consolidated into the financial statements of the Group, therefore the number of students of Shouguang Bohai Experimental School was excluded from the number of students for the year ended 31 December 2019 for comparison purpose.
2. The Guangdong Online Education Entities were under entrusted management by the Group as at 31 December 2019 and were not consolidated subsidiaries of the Group as at 31 December 2020.
3. Open Distance Education is a joint venture entity of the Group as at 31 December 2020. Open Distance Education was not a joint venture entity as at 31 December 2019.

FINAL DIVIDEND

A final dividend in respect of the year ended 31 December 2020 of HK\$1.07 cents per ordinary share (equivalent to RMB0.90 cents, according to the central parity rate of Renminbi to Hong Kong dollars as announced by the People's Bank of China on 23 March 2021, i.e. RMB0.8375 equivalent to HKD1.00) (2019: HK\$2.84 cents) was proposed pursuant to a resolution passed by the Board on 23 March 2021 and subject to the approval of the shareholders of the Company at the annual general meeting of the Company. The expected date of payment of final dividend will be on or no later than 31 August 2021.

The board (the “**Board**”) of directors (the “**Directors**”) of Minsheng Education Group Company Limited (the “**Company**”) is pleased to announce the consolidated annual results of the Company and its subsidiaries (collectively referred to as the “**Group**” or “**We**”) for the year ended 31 December 2020 (the “**Reporting Period**”) together with the comparative figures for the year ended 31 December 2019.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2020

	<i>Notes</i>	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
REVENUE	<i>4</i>	1,107,206	1,005,436
Cost of sales		<u>(540,126)</u>	<u>(488,946)</u>
Gross profit		567,080	516,490
Other income and gains	<i>4</i>	157,092	139,018
Selling and distribution expenses		(20,484)	(16,043)
Administrative expenses		(212,021)	(185,118)
Other expenses, net		(46,825)	(28,327)
Compensation fees in relation to the conversion of Dianchi College of Yunnan University		(232,406)	–
Finance costs	<i>5</i>	(87,002)	(79,613)
Share of profit and loss of:			
A joint venture		18,283	–
An associate		<u>(195)</u>	<u>(153)</u>
PROFIT BEFORE TAX	<i>6</i>	143,522	346,254
Income tax expense	<i>7</i>	<u>(16,710)</u>	<u>(12,273)</u>
PROFIT FOR THE YEAR		<u>126,812</u>	<u>333,981</u>

	<i>Notes</i>	2020 RMB'000	2019 <i>RMB'000</i>
OTHER COMPREHENSIVE INCOME/(LOSS)			
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of financial statements		<u>105,365</u>	<u>(20,834)</u>
Net other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods		<u><u>105,365</u></u>	<u><u>(20,834)</u></u>
Other comprehensive (loss)/income that will not be reclassified to profit or loss in subsequent periods:			
Equity investments designated at fair value through other comprehensive income:			
Changes in fair value		-	(2,396)
Exchange differences on translation of financial statements		<u>(78,065)</u>	<u>18,200</u>
Net other comprehensive (loss)/income that will not be reclassified to profit or loss in subsequent periods		<u>(78,065)</u>	<u>15,804</u>
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		<u>27,300</u>	<u>(5,030)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u><u>154,112</u></u>	<u><u>328,951</u></u>
Profit attributable to:			
Owners of the parent		131,467	341,607
Non-controlling interests		<u>(4,655)</u>	<u>(7,626)</u>
		<u><u>126,812</u></u>	<u><u>333,981</u></u>
Total comprehensive income attributable to:			
Owners of the parent		158,767	336,577
Non-controlling interests		<u>(4,655)</u>	<u>(7,626)</u>
		<u><u>154,112</u></u>	<u><u>328,951</u></u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT:			
Basic and diluted	8	<u><u>RMB0.0318</u></u>	<u><u>RMB0.0850</u></u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		2,471,014	2,316,856
Right-of-use assets		840,434	745,916
Goodwill		1,782,894	1,685,099
Other intangible assets		33,006	6,027
Investment in a joint venture		412,224	–
Investment in an associate		1,603	1,908
Financial assets at fair value through profit or loss		110,818	56,165
Other non-current assets		731,907	770,841
Total non-current assets		<u>6,383,900</u>	<u>5,582,812</u>
CURRENT ASSETS			
Inventories		2,694	1,408
Trade receivables	9	20,004	9,801
Prepayments, other receivables and other assets		79,078	74,236
Short-term investments measured at amortised cost		–	97,000
Cash and cash equivalents		2,624,670	1,308,361
Asset classified as held for sale		–	1,490,806
		<u>–</u>	<u>3,984</u>
Total current assets		<u>2,726,446</u>	<u>1,494,790</u>
CURRENT LIABILITIES			
Trade payables	10	2,552	–
Contract liabilities	11	637,730	586,851
Other payables and accruals	12	694,734	535,970
Dividend payable		62,179	–
Deferred income		21,698	22,894
Interest-bearing bank and other borrowings		446,324	321,080
Loans from the ultimate holding company		137,236	–
Tax payable		22,147	15,648
Total current liabilities		<u>2,024,600</u>	<u>1,482,443</u>
NET CURRENT ASSETS		<u>701,846</u>	<u>12,347</u>

	<i>Notes</i>	2020 RMB'000	2019 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>7,085,746</u>	<u>5,595,159</u>
NON-CURRENT LIABILITIES			
Financial liability at fair value through profit or loss		74,652	–
Deferred income		262,484	273,389
Interest-bearing bank and other borrowings		1,317,689	330,132
Other long term liability		285,324	296,581
Payables for compensation fees	<i>12</i>	107,732	–
Deferred tax liabilities		16,948	5,000
Put option liability		<u>859,038</u>	<u>819,264</u>
Total non-current liabilities		<u>2,923,867</u>	<u>1,724,366</u>
Net assets		<u><u>4,161,879</u></u>	<u><u>3,870,793</u></u>
EQUITY			
Equity attributable to owners of the parent			
Share capital		322	307
Reserves		<u>4,035,320</u>	<u>3,757,125</u>
		4,035,642	3,757,432
Non-controlling interests		<u>126,237</u>	<u>113,361</u>
Total equity		<u><u>4,161,879</u></u>	<u><u>3,870,793</u></u>

1. CORPORATE AND GROUP INFORMATION

Minsheng Education Group Company Limited (the “**Company**”) was incorporated in the Cayman Islands on 13 December 2005 as an exempted company with limited liability under the laws of the Cayman Islands. 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 year, the Company and its subsidiaries (collectively referred to as the “**Group**”) were principally engaged in providing educational services in the People’s Republic of China (the “**PRC**”).

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards (“**IFRSs**”) (which include all International Financial Reporting Standards, International Accounting Standards (“**IASs**”) and interpretations) issued by the International Accounting Standards Board (“**IASB**”) and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for an equity investment at fair value through other comprehensive income included in asset classified as held for sale, an equity investment at fair value through profit or loss, a loan to an associate included in other non-current assets and contingent consideration for business combination, which have been measured at fair value. These financial statements are presented in Renminbi (“**RMB**”), and all values are rounded to the nearest thousand except otherwise indicated.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the Conceptual Framework for Financial Reporting 2018 and the following revised IFRSs for the first time for the current year’s consolidated financial statements.

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

The nature and the impact of the Conceptual Framework for Financial Reporting 2018 and the revised IFRSs are described below:

- (a) Conceptual Framework for Financial Reporting 2018 (the “**Conceptual Framework**”) sets out a comprehensive set of concepts for financial reporting and standard setting, and provides guidance for preparers of financial statements in developing consistent accounting policies and assistance to all parties to understand and interpret the standards. The Conceptual Framework includes new chapters on measurement and reporting financial performance, new guidance on the derecognition of assets and liabilities, and updated definitions and recognition criteria for assets and liabilities. It also clarifies the roles of stewardship, prudence and measurement uncertainty in financial reporting. The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The Conceptual Framework did not have any significant impact on the financial position and performance of the Group.

- (b) Amendments to IFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group has applied the amendments prospectively to transactions or other events that occurred on or after 1 January 2020. The amendments did not have any impact on the financial position and performance of the Group.
- (c) Amendments to IFRS 9, IAS 39 and IFRS 7 address issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative risk-free rate (“**RFR**”). The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the introduction of the alternative RFR. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments did not have any impact on the financial position and performance of the Group as the Group does not have any interest rate hedging relationships.
- (d) Amendment to IFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective for annual periods beginning on or after 1 June 2020 with earlier application permitted and shall be applied retrospectively. The amendment did not have any significant impact on the financial position and performance of the Group.
- (e) Amendments to IAS 1 and IAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information, or both. The amendments did not have any significant impact on the financial position and performance of the Group.

3. OPERATING SEGMENT INFORMATION

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

IFRS 8 Operating Segments requires operating segments to be identified on the basis of internal reporting about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to segments and to assess their performance. The information reported to the directors, who are the chief operating decision makers, for the purpose of resource allocation and assessment of performance does not contain discrete operating segment financial information and the directors reviewed the financial results of the Group as a whole. Therefore, no further information about operating segments is presented.

Geographical information

During the year, the Group operated within one geographical segment because all of its revenue was generated in the PRC and over 90% of its long-term assets/capital expenditure were located/incurred in the PRC. Accordingly, no geographical segment information is presented.

Information about major customers

No revenue derived from services provided to a single customer accounted for 10% or more of the total revenue of the Group during the year.

4. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
<i>Revenue from contracts with customers</i>		
Tuition fees	1,032,417	927,489
Boarding fees	64,713	77,947
Other education business	10,076	–
	<u>1,107,206</u>	<u>1,005,436</u>
Other income and gains		
Investment income from short-term investments measured at amortised cost and short-term investments measured at fair value through profit or loss	767	5,048
Rental income:		
Fixed lease payments	8,723	12,864
Variable lease payments	1,344	1,609
	<u>10,067</u>	<u>14,473</u>
Bank interest income	18,141	12,646
Interest income from a company controlled by the former shareholders of a subsidiary	20,712	14,573
Government grants		
– Related to assets	21,062	20,449
– Related to income	70,331	65,326
Gain on disposal of a subsidiary	7,093	–
Others	8,919	6,503
	<u>157,092</u>	<u>139,018</u>

The government grants are related to the subsidies received from the local government for the purpose of compensating the operating expenses arising from the schools' teaching activities and expenditures on teaching facilities. There are no unfulfilled conditions or contingencies relating to such recognised government grants.

5. FINANCE COSTS

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Interest on bank loans and other borrowings	32,888	22,893
Interest on sale and leaseback liabilities	11,592	18,750
Interest on loans from the ultimate holding company	2,645	–
Interest on lease liabilities	103	38
Interest on put option liability	39,774	37,932
	<u>87,002</u>	<u>79,613</u>

6. PROFIT BEFORE TAX

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

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Depreciation of property, plant and equipment	127,600	117,246
Amortisation of other intangible assets	2,652	1,716
Lease payments not included in the measurement of lease liabilities	7,740	7,842
Depreciation of right-of-use assets	18,557	19,050
Auditor's remuneration	3,600	3,000
Employee benefit expense (including directors' remuneration):		
Wages and salaries	309,882	282,140
Equity-settled share option expense	9,380	12,447
Pension scheme contributions (defined contribution schemes)	58,738	59,405
	<u>378,000</u>	<u>353,992</u>
Foreign exchange differences, net	24,374	1,776
Impairment of financial assets:		
Impairment of trade receivables	917	558
Impairment of financial assets included in prepayments, other receivables and other assets	4,307	12,901
	<u>5,224</u>	<u>13,459</u>
Investment income from short-term investments measured at amortised cost and short-term investments measured at fair value through profit or loss	(767)	(5,048)
Bank interest income	(18,141)	(12,646)
Interest income from a company controlled by the former shareholders of a subsidiary	(20,712)	(14,573)
Fair value loss from an equity investment at fair value through profit or loss	–	6,470
Fair value loss from a loan to an associate included in other non-current assets measured at fair value	10,505	5,130
Loss on disposal of items of property, plant and equipment, net	1,398	388
Donation expenses	4,708	886
Compensation fees in relation to the conversion of Dianchi College of Yunnan University	232,406	–
	<u>232,406</u>	<u>–</u>

7. INCOME TAX

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Current – Mainland China		
Charge for the year	8,662	7,273
Deferred	<u>8,048</u>	<u>5,000</u>
	<u><u>16,710</u></u>	<u><u>12,273</u></u>

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

The Company, Minsheng Education Company Limited, Minsheng Education Services Company Limited, Minsheng Education Development Company Limited, Minsheng Vocational, Minsheng Secondary Education Company Limited, Minsheng Education Technology Company Limited, Minsheng Education Information Company Limited and Leed International Education Group Inc., which were incorporated in the Cayman Islands, are not subject to income tax.

Minsheng Education Development (Hong Kong) Company Limited, Hong Kong College of Technology and Business Limited and Leed International Education Group (China) Limited, which were incorporated in Hong Kong, were subject to profits tax at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the year.

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.

Pursuant to the PRC Corporate Income Tax Law and the respective regulations, except for the preferential tax rate of 15% under the Western Development Tax Incentive Scheme available to Chongqing Li'ang Education Services Company Limited and Chongqing Pass Education Services Company Limited, and the preferential rate of 20% under the Notice Regarding the Implementation on Tax Reduction/Exemption Policies for Small and Micro-sized Enterprises(SEMs) available to Chongqing Huizhi Education Services Company Limited, the companies of the Group which operate in Mainland China are subject to Corporate Income Tax (“CIT”) at a rate of 25% on their respective taxable income.

According to the Implementation Rules for the Law for Promoting Private Education (the “**Implementation Rules**”), private schools, whether requiring reasonable returns or not, may enjoy preferential tax treatments. Private schools for which the school sponsors do not require reasonable returns are eligible to enjoy the same preferential tax treatment as public schools. It is stated in the Implementation Rules that the relevant authorities under the State Council may introduce preferential tax treatments and related policies applicable to private schools requiring reasonable returns. During the year, no separate policies, regulations or rules have been introduced by the authorities in this regard. In accordance with the historical tax returns filed to the relevant tax authorities, and the compliance confirmation obtained therefrom, except for Laoling Minsheng Education High School Company Limited which was incorporated as a limited company, the Group’s schools did not pay corporate income tax for the provision of formal educational services and have enjoyed the preferential tax treatments in 2020.

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

The calculation of basic earnings per share is based on the profit for the year attributable to owners of the parent, and the weighted average number of ordinary shares of 4,132,474,098 (2019: 4,017,720,000) in issue during the year.

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2020 and 2019.

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

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Earnings		
Profit attributable to owners of the parent, used in the basic and diluted earnings per share calculation	<u>131,467</u>	<u>341,607</u>
	Number of shares	
	2020	2019
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	<u>4,132,474,098</u>	<u>4,017,720,000</u>

9. TRADE RECEIVABLES

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Trade receivables	20,493	9,897
Impairment	<u>(489)</u>	<u>(96)</u>
	<u>20,004</u>	<u>9,801</u>

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

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Within 1 year	16,249	9,428
1 to 2 years	3,553	370
2 to 3 years	202	3
	20,004	9,801

The movements in the loss allowance for impairment of trade receivables are as follows:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
At beginning of year	96	–
Impairment losses	917	558
Amount written off as uncollectible	(524)	(462)
At end of year	489	96

10. TRADE PAYABLES

An ageing analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Within 1 year	<u>2,552</u>	<u>–</u>

The trade payables are non-interest-bearing and are normally settled on 30-day terms.

11. CONTRACT LIABILITIES

Details of contract liabilities are as follows:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
<i>Short-term advances received from customers</i>		
Tuition fees	580,303	535,025
Boarding fees	53,717	51,826
Other education business	<u>3,710</u>	<u>–</u>
	<u>637,730</u>	<u>586,851</u>

Contract liabilities mainly include short-term advances received from students in relation to the proportionate service not yet provided. The Group receives tuition and boarding fees from students in advance prior to the beginning of each academic year. Tuition and boarding fees are recognised proportionately over the relevant period of the applicable program. The students are entitled to the refund of the payment in relation to the proportionate service not yet provided.

12. OTHER PAYABLES AND ACCRUALS

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Current portion:		
Accrued bonuses and other employee benefits	53,594	59,444
Payables for catering services	8,661	29,007
Payables for purchase of property, plant and equipment	282,537	199,092
Payables for management fee	33,171	24,313
Payables for compensation fees	60,000	–
Miscellaneous expenses received from students (<i>note (i)</i>)	42,871	40,300
Other tax payable	2,918	2,110
Payables for audit fee	2,345	1,820
Payables for interest	9,370	7,577
Refund liabilities	1,267	–
Consideration payable for business combination	100,800	91,730
Other payables*	97,200	80,577
	<u>694,734</u>	<u>535,970</u>
Non-current portion:		
Payables for compensation fees	<u>107,732</u>	<u>–</u>

* Payable of RMB20,000,000 (2019: RMB20,000,000) to the non-controlling shareholder of Chongqing Electronic Information College is included within other payables.

Other payables are non-interest-bearing and repayable on demand.

Note:

(i) The amounts represent the miscellaneous expenses received from students which will be paid out on behalf of students.

13. EVENTS AFTER THE REPORTING PERIOD

Business combination

On 13 January 2021, the Group acquired the other 50% equity interests in Open University Online from Guokai Xiangyun (Beijing) Asset Management Company Limited at a cash consideration of RMB410.0 million. Upon the completion of the acquisition, the Group held 100% of equity interest in Open University Online and Open University Online became an indirect wholly-owned subsidiary of the Group.

The Group is in the process of assessing the initial accounting treatment for the acquisition and will incorporate the relevant financial information in 2021 interim and annual financial statements.

14. DIVIDENDS

	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Proposed final – RMB0.90 cents (2019: RMB2.59 cents) per ordinary share	<u>38,044</u>	<u>109,239</u>

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Group is a leading higher education and vocational education group in the PRC, which empowers education with technology and parallel development of ordinary higher education and vocational education as well as coordinated development of on-campus education and online education and has achieved remarkable results.

In terms of on-campus education, the Group's on-campus network covers Chongqing, Shandong, Yunnan, Inner Mongolia, Hong Kong, Singapore and Australia. As of 31 December 2020, the Group operated and/or managed 10 schools in the PRC (including seven higher education schools, two secondary vocational schools and one high school); the total number of students in the school is 92,772 (of which undergraduate student accounted for approximately 61%) and provides plentiful and high-quality teaching resources, the Group's 10 schools offer 114 undergraduate majors, 117 junior college majors and 4 postgraduate cultivation and construction majors. The Group also invested in three overseas colleges and universities, which are recognized by the Ministry of Education of China and/or the education regulatory authorities of the country/region where it is located, offering master's, undergraduate and junior college programmes.

In terms of online education, the Group principally focuses on Beijing and, Guangdong-Hong Kong-Macao Greater Bay Area. The development and operation of online education brands such as Open University Online Long Distance Learning Education Technology Company Limited* (電大在線遠程教育技術有限公司) (“**Open University Online**”)/Open Distance Education Centre Company Limited* (北京奧鵬遠程教育中心有限公司) (“**Open Distance Education**”), IMOOC (慕課網), Doxue Network Technology (Beijing) Company Limited* (都學網絡科技(北京)有限公司) (“**Doxue Network**”)/MBA China, Silk Road (Beijing) International Educational Technology Centre Company Limited* (絲綢之路(北京)國際教育科技中心有限公司) (“**Silk Road**”) HSK Internet Examination, Guangdong Minsheng Online Education Technology Co., Ltd* (廣東民生在線教育科技有限公司) (“**Minsheng Online**”). Together, the Group established an online education service platform covering the fields of junior college, undergraduate and master degree education (including online education, open education and adult education), vocational education and training, teacher continuing education, Chinese proficiency test and others, including the largest nation's largest and the only national public service platform for distance education in the PRC, and the leading management postgraduate joint exam training and admissions platform in the PRC. As of 31 December, 2020, the Group had a total of approximately 1.17 million online education undergraduate and junior college students, more than 20 million vocational education users, and annual training of approximately 2.9 million teachers; it provides more than 500 of online education undergraduate and junior college majors and more than 90 open education undergraduate and junior college majors, as well as more than 1,300 vocational training courses; there are more than 1,800 offline learning centers in 31 provinces (autonomous regions and municipalities) across the nation, which established a learning platform that integrates online and offline.

Development of major business during the Reporting Period

- 1. Comprehensive layout of online education.** The Group (i) contracted to acquire an aggregated of 100% of the equity interest of Open University Online/Open Distance Education in March 2020 and December 2020 respectively; and (ii) contracted to acquire 60% of the equity interest of Doxue Network in October 2020. The relevant acquisitions enabled the Group's online education to achieve a strategic layout and further improved the offerings of its education services.

Doxue Network and Open University Online/Open Distance Education have completed the consolidation in December 2020 and January 2021 respectively, thereby enhancing the future financial performance and profitability of the Group.

- 2. Material progress has been made in the conversion of independent colleges.** The conversion of the two independent colleges of the Group, Dianchi College of Yunnan University and Pass College of Chongqing Technology and Business University, progressed actively during the Reporting Period. The Ministry of Education has announced the proposed approval of the conversion of Dianchi College of Yunnan University, and the conversion of Pass College of Chongqing Technology and Business University has been approved by the Chongqing Municipal People's Government and has been submitted to the Ministry of Education for approval.

Dianchi College will no longer pay any cooperative education fees to Yunnan University from 2021 academic year onwards, therefore reduce costs and expenses, and further enhance the profitability of the Group.

- 3. The undergraduate teaching qualification assessment is progressing smoothly.** In 2020, Chongqing College of Humanities, Science and Technology (i) achieved a stable the number of students and enhanced the building of teaching quality; and (ii) continuously increased investment and further optimized conditions for the operation of the college, and strengthened the building of teaching team. The construction and development of the college has made significant progress. In 2020, the college has successfully completed the inspection work from the expert group of the Ministry of Education in relation to the undergraduate teaching qualification assessment.
- 4. Student number has been growing steadily.** As of 31 December 2020, (i) the number of on-campus education students of the Group was 92,772 in aggregate, representing an increase of approximately 12.1% as compared to the corresponding period in 2019; (ii) the number of junior college or above enrolled students of Guangdong Online Education Entities under an entrusted management arrangement by the Group was approximately 133,000, representing an increase of approximately 35.6% as compared to the corresponding period in 2019; and (iii) the number of junior college or above enrolled students of Open Distance Education is approximately 1.04 million.

- 5. The new campus construction projects are progressing smoothly.** The Group's colleges have further expanded the new campus construction projects to increase the overall capacity of the Group's colleges, including (i) the construction of the Yangzonghai campus of Dianchi College of Yunnan University has officially started in October 2019, which covers a planned area of approximately 860 mu.. The Phase I project has a gross floor area of approximately 200,000 sq.m., which can accommodate 12,500 students upon completion, and is expected to be put in use in September 2022; (ii) the new dormitory building of Pass College of Chongqing Technology and Business University has been put in use in September 2020, which can accommodate approximately 1,040 students. The Phase I project of the new campus has a gross floor area of approximately 63,000 sq.m., the main construction has been completed and is expected to be put in use in September 2021, which can accommodate approximately 5,300 students upon completion. The Phase II project of the new campus has a gross floor area of approximately 80,000 sq.m., the construction of which has commenced and it is expected to be put into use at the end of 2021 or early 2022. Upon completion, the new campus, can accommodate approximately 1,600 students upon completion; (iii) the three new academic buildings and two student dormitories of Chongqing College of Humanities, Science and Technology total which have a gross floor area of approximately 83,000 sq.m., it will be put into use in 2021 and 2022, respectively and can accommodate approximately 2,200 students upon completion; (iv) the newly built teaching building and library of Chongqing Vocational College of Applied Technology with a gross floor area of approximately 24,000 sq.m., which is expected to be put into use in September 2022 and can accommodate approximately 1,200 students upon completion, and ;(v) Qufu Fareast Vocational and Technical College new Gaotie campus, the Phase I project of 60,000 sq.m., has started put in use since September 2020 and can accommodate approximately 2,000 student. Upon completion of the aforementioned construction projects, it is expected to have an extra capacity to accommodate approximately 25,800 students.
- 6. Excellent teaching achievements have been recognised by awards.** The Group's schools and Open Distance Education have achieved outstanding results in national competitions in 2020, in which (i) Dianchi College of Yunnan University won 6 second prizes and 1 third prize in the 8th National College Digital Art & Design Awards; (ii) Chongqing College of Humanities, Science and Technology won 1 first prize, 21 second prizes and 27 third prizes in the 6th National Applied Talents Integrated Skills Competition; (iii) Open Distance Education was awarded the outstanding teaching achievement prize of "personalized intelligent tutoring technology of knowledge forest and its important application (知識森林個性化智能導學技術及其重大應用)" by China Automation Association; and (iv) Open Distance Education was awarded the outstanding teaching achievement prize of "establishing three integrations, filling in three blanks and building "One Belt And One Road" New Training System for Engineering Science and Technology Talents (建立三個融合，填補三個空白，打造「一帶一路」工程科技人才培養新體系)" by Shaanxi Provincial People's Government.
- 7. Patents for invention contribute to high-quality development.** In 2020, the Group obtained 8 patents for the teaching method and system of live broadcasting system, education cloud platform and technologies in relation to in-depth learning, and owned about 200 software copyrights, so as to maintain its leading position in the industry in terms of technology development.

On-campus education of the Group

As at 31 December 2020, the Group operated and/or managed ten schools in the PRC which primarily offer higher education and vocational education.² Set forth below are certain particulars of the ten

schools of the Group:

Name of School	Number of Major	2020/2021 School Year		Boarding Fee Level ^(Note 1) RMB
		Number of Student	Tuition Fee Level ^(Note 1) RMB	
Undergraduate Schools				
Chongqing College of Humanities, Science and Technology	42 undergraduate major 1 junior college major	22,310	12,000-18,000	1,300-1,600
Dianchi College of Yunnan University	48 undergraduate major	23,936	16,000-24,500	300-1,200
Pass College of Chongqing Technology and Business University	24 undergraduate major 3 junior college major	18,031 ^(Note 2)	12,000-16,000 ^(Note 2)	1,200-1,500
Higher Vocational Schools				
Chongqing Vocational College of Applied Technology	25	4,792	4,800-9,800	1,200
Inner Mongolia Fengzhou Vocational College (Qingcheng Branch)	21	1,642	5,000-8,000	1,200
Chongqing Electronic Information College	32	6,570	5,000-12,000	1,200-1,400
Qufu Fareast Vocational and Technical College ^(Note 3)	35	11,600	5,800-9,980	800-1,500
Secondary Vocational Schools/High School				
Laoling Minsheng Secondary Vocational School	13	1,027	5,600	1,200
Laoling Secondary Vocational and Technical School ^(Note 4)	5	539	N/A	1,200
Laoling Minsheng Education High School	N/A	2,325	15,000-17,000	1,200
Total	249	92,772		

Notes:

1. The tuition fees and boarding fees of the above-mentioned ten schools apply only to newly enrolled students for relevant school years.
2. As of 31 December 2020, the number of students of adult education in Pass College of Chongqing Technology and Business University reached 6,004, whose tuition fee is RMB2,600-2,800 per year.
3. Since February 2019, Qufu Fareast Vocational and Technical College has been entrusted to Chongqing Yuecheng Zhiyuan Education Technology Co., Ltd.* (重慶悅誠智遠教育科技有限公司) for management.
4. Since September 2016, Laoling Secondary Vocational and Technical School has been entrusted to Laoling

Minsheng Secondary Vocational School for management.

Online education of the Group

The Group currently operates/manages 4 online education entities and the courses they provide and the number of students/users are as follows:

(i) Guangdong Online Education Entities

Guangdong Mingshi Online Education Technology Co., Ltd* (廣東明世在線教育科技有限公司) and Minsheng Online (together referred to as the “**Guangdong Online Education Entities**”) are the leading online education platform in the Greater Bay area, which mainly provide academic education services and vocational education and training through online platform. As of 31 December 2020, Guangdong Online Education Entities provided (i) more than 170 undergraduate and junior college or above majors with a total of approximately 133,000 students; and (ii) 12 vocational training programmes with an approximately 24,000 student counts accumulated in 2020.

(ii) Open Distance Education

Open Distance Education is the largest long distance education service operator in the PRC in terms of enrolled students and users. Open Education’s main business has four major segments: academic education services, IT vocational education (“**IMOOC**”), teacher continuing education and examination services.

As of 31 December 2020, (i) Open Distance Education has carried out online education cooperation with more than 30 well-known domestic universities including Peking University (Medical Department), Nankai University, Tianjin University, Beijing Normal University, etc., providing a few hundred undergraduate and junior college majors, with approximately 1.04 million students enrolled, with more than 1,800 learning centers in 31 provinces, autonomous regions and municipalities across China; (ii) Open Distance Education has cooperated with 9 open universities; (iii) Open Distance Education has trained teachers throughout 2020 for approximately 2.9 million person counts cumulatively, (iv) IMOOC have over 20 million users provides more than 1,300 courses and; (v) the national unified examination for online education takes of approximately 7 million persons counts for course examinations and social examinations during the year.

(iii) Doxue Network

Doxue Network is a leading enterprise in the business administration related postgraduate education sector. As of 31 December 2020, the total number of business schools in cooperation with Doxue Network is more than 200, including Peking University HSBC Business School, PBC School of Finance, Tsinghua University; Fanhai International School of Finance, Fudan University; Antai College of Economics & Management, Shanghai Jiao Tong University; the Hong Kong University of Hong Kong University of Science and Technology. MBA China is an active media platform in the postgraduate education sector related to business administration in China. As of 31 December 2020, there are approximately 428,000 newly added users and approximately 2.07 million of users on the platform. MBA China’s ranking of business schools has been widely recognized by the sector, universities and learners, making it the widest influential ranking in the industry.

(iv) Silk Road

Silk Road is a leading professional online examination service provider for Chinese Proficiency Test (“**HSK**”). It is the first online examination site for HSK in the world, and is also one of the three examination service providers around the world that are authorized to set up the HSK examination sites at their own discretion. Silk Road expanded its HSK test network around the world and undertook the construction of the online examination system. Silk Road set up over 100 examination sites and served over 180,000 students who took the online examination.

Our investments in overseas schools

In addition to our schools in the PRC, we have invested in schools in Australia, Singapore and Hong Kong:

Top Education

We have invested in Top Education Group Ltd. (“**Top Education**”), a private higher education provider in Australia whose shares are listed on the Stock Exchange (Stock Code: 1752). As at 31 December 2020, the Company owned approximately 8.57% of equity interest in Top Education.

Beacon International College

The Group has invested in Beacon International College PTE. LTD. (“**Beacon International College**”) in Singapore. As at 31 December 2020, the Company owned 22.9% of equity interest in Beacon International College.

Hong Kong Nang Yan College

The Company has invested in Hong Kong Nang Yan College of Higher Education Limited (“**Hong Kong Nang Yan College**”), a company limited by guarantee established under the laws of Hong Kong, in Hong Kong. The Company was one of the two members of Hong Kong Nang Yan College.

Total number of students

The following is a breakdown of the total number of enrolled students by different level of courses as at 31 December 2020:

Number of student as at 31 December

	2020	2019	Percentage Change (%)
On-campus Education Students			
Undergraduate program	56,299	52,580	+7.1%
Junior college program	25,939	23,972	+8.2%
Secondary vocational program/high school program	4,530	2,544 <i>(Note 1)</i>	+78.1%
Adult education program	6,004	3,690	+62.7%
Total	92,772	82,786	+12.1%
Online Education Enrolled Students			
<i>Guangdong Online Education Entities (Note 2)</i>			
Junior college or above program	132,927	98,033	+35.6%
<i>Open Distance Education (Note 3)</i>			
Junior college or above program	1,044,931	–	N/A
Total	1,177,858	–	N/A

Notes:

1. Since 18 June 2020, Shouguang Bohai Experimental School ceased to be consolidated into the financial statements of the Group. For details, please refer to “Discontinued acquisition during the Reporting Period” below. The number of students of Shouguang Bohai Experimental School therefore was excluded from the number of students for the year ended 31 December 2019 for comparison purpose.
2. Since October 2019, the Guangdong Online Education Entities have been entrusted to Chongqing Mengzhuo Education Technology Company Limited* (重慶夢卓教育科技有限公司) for management. As at 31 December 2020, the Guangdong Online Education Entities were not consolidated subsidiaries of the Group.
3. Since March 2020, Open Distance Education has been a joint venture entity of the Group. Open Distance Education was not a joint venture entity as at 31 December 2019.

Discontinued acquisition during the Reporting Period

After friendly and arms-length negotiations between all parties, during the reporting period, the Group discontinued the project regarding Hebei University of Technology City College and Shouguang Bohai Experimental School, which is in the best interests of the Company and shareholders as a whole. For further details regarding the discontinued acquisition, please refer to the announcements of the Company dated 22 January 2020, 19 June 2020 and 15 July 2020.

Impact on the Group of the COVID-19 pandemic

In the face of the Novel Coronavirus Disease 2019 (“**COVID-19**”) outbreak at the beginning of 2020, the Group’s schools have taken effective disease prevention and control measures and proactively organised online education activities, so as to achieve class suspension with continuing education and place emphasis both on disease containment and class resumption. The students gradually returned to school for class during May and June 2020.

In order to fight against the COVID-19 pandemic, the Group donated anti-epidemic supplies and equipment with a total worth of approximately RMB4 million to all universities in Chongqing City, and organised teacher and student volunteers to participate in the fight against the pandemic in Hubei and other cities across the country. As a member of Wuhan bound medical team from Chongqing City, outstanding graduate representatives from universities operated by the Group arrived at the front line of Wuhan and devoted themselves into the prevention and control of the pandemic. Their stories have received widespread coverage by many mainstream media outlets such as People’s Daily and xinhuanet.com.

As of 31 December 2020, (i) adjustments have been made according to the teaching plans of certain schools of the Group, therefore tuition fees income amounting to approximately RMB5.3 million has been deferred to be recognized in July 2020; and (ii) the Group’s schools recorded refunded boarding fees of approximately RMB20.3 million in aggregate. Save as disclosed above, there was no significant impact on the financial position of the Group since the outbreak of the COVID-19 pandemic up to the date of this announcement.

Outlook

According to the 14th Five-Year Plan for National Economic and Social Development and the Long-Range Objectives through the Year 2035 of the People's Republic of China (中華人民共和國國民經濟和社會發展第十四個五年規劃和2035年遠景目標綱要), the gross enrollment ratio of higher education nationwide will be improved to 60%, which implies the PRC's higher education is about to enter the stage of universalization from popularization. Higher education and vocational education in PRC have huge potential for development. The Group will continue to adopt the strategy of "two-wheel drive of higher education and vocational education, coordinated development of campus education and online education" to achieve the following goals:

(i) *Develop a comprehensive academic education service platform*

The Group's core strategy is to meet the needs of users' academic qualification improvement, the Group provides its students and users with a full chain of academic services from secondary vocational, higher vocational, undergraduate to postgraduate degree, and provides vocational certificate training services through on-campus education and vocational education, establish a service platform from supplying academic products to fit the demand of students and users.

(ii) *Establish an integrated cultivation mechanism of "enrollment, training, and employment"*

The Group has established a nationwide enrollment channel through online platforms, offline campuses and learning centers in 31 provinces, autonomous regions and municipalities, has established a vocational education professional co-construction system with leading companies in the industry, and will establish human resources segment in order to accommodate the standardized and personalized needs of students and users in terms of enrollment, assessment, study, examination, training and practice, and employment.

(iii) *Technology empowering education*

The Group obtained a total of 8 online education-related patents in 2020, and owns about 200 software copyrights. The Group, will continue to use technological innovation to improve the digital teaching platform with technological content and support user direct transactions (BC). Supporting offline institutional cooperative transactions (BB) and partner (CC) transactions, and other transaction models, to achieve deep integration between online and offline through big data capabilities, digital navigation for learning ability and career development has been developed.

(iv) *Internationalization of the Group's education platform*

The Group will consolidate its core foundation, facing the "One-Belt-One-Road" countries and regions, and develop internationally. Based on the Silk Road and the "MOOC China Alliance", in-depth cooperation with Chinese and foreign language exchange and cooperation centers, relying on nearly 2,000 international Chinese language learning and testing centers in 149 countries and regions around the world, combining online and offline to empower high-quality curriculum resources to the academic education.

Financial Review

Revenue

Revenue represents the value of services rendered during the Reporting Period. The Group derives revenue primarily from tuition fees and boarding fees our schools collected from students.

Due to the outbreak of the COVID-19 pandemic, (i) the teaching plans of certain schools of the Group have been adjusted, therefore tuition fees income amounting to approximately RMB5.3 million have been deferred to be recognized in January 2021; and (ii) the Group's schools had to refund boarding fees amounting to approximately RMB20.3 million to the students in accordance with the boarding fees refund policy released by the relevant local educational authorities during the Reporting Period. Despite the above negative impacts, the Group continued to record increase in revenue by approximately 10.1% from approximately RMB1,005.4 million for the year ended 31 December 2019 to approximately RMB1,107.2 million for the year ended 31 December 2020.

Cost of sales

Cost of sales consists primarily of teaching staff costs, depreciation and amortization, cost of cooperative education, utilities and other costs.

The cost of sales increased by approximately 10.5% from approximately RMB488.9 million for the year ended 31 December 2019 to approximately RMB540.1 million for the year ended 31 December 2020. This increase was primarily due to (i) the increase in the number of teaching staff and their salaries and allowances; and (ii) the increase in the depreciation of the buildings, equipment and facilities due to the expansion of teaching facilities of the Group's colleges during the Reporting Period.

Gross profit

The gross profit increased by approximately 9.8% from approximately RMB516.5 million for the year ended 31 December 2019 to approximately RMB567.1 million for the year ended 31 December 2020, and gross profit margin slightly decreased from approximately 51.4% to approximately 51.2%, which was mainly because (i) the Group's schools had to refund boarding fees amounting to approximately RMB20.3 million to the students in accordance to the boarding fees refund policy released by the relevant local educational authorities during the Reporting Period; and (ii) the increase in the numbers of teaching staff and average salaries and allowances for teaching staff.

Other income and gains

Other income and gains consist primarily of government grants, interest income and rental income and etc.

Other income and gains increased by approximately 13.0% from approximately RMB139.0 million for the year ended 31 December 2019 to approximately RMB157.1 million for the year ended 31 December 2020. This increase was primarily due to the increase in the interest income from the bank deposits and etc. during the Reporting Period.

Selling and distribution expenses

Selling and distribution expenses consist primarily of salaries and other benefits for our staff who are in charge of student recruitment and advertising, advertising expenses and student recruitment expenses.

Selling and distribution expenses increased by approximately 27.7% from approximately RMB16.0 million for the year ended 31 December 2019 to approximately RMB20.5 million for the year ended 31 December 2020, which was primarily due to the increase in advertising and marketing cost of the Group's schools in relation to student recruitment during the Reporting Period.

Administrative expenses

Administrative expenses primarily consist of the salaries and other benefits for general and administrative staff, office-related expenses, depreciation of office buildings and equipment, environment and health expenses and travel and transportation expenses.

Administrative expenses increased by approximately 14.5% from approximately RMB185.1 million for the year ended 31 December 2019 to approximately RMB212.0 million for the year ended 31 December 2020 due to the increase in salaries and allowances of the management staff and the increase in the anti-epidemic procurement expenses during the Reporting Period.

Other expenses

Other expenses consist primarily of expenses relating to foreign exchange loss, donations made to third-party educational and other institutions and loss on disposal of property, plant and equipment.

Other expenses substantially increased from approximately RMB28.3 million for the year ended 31 December 2019 to approximately RMB46.8 million for the year ended 31 December 2020. This increase was primarily due to the increase in the foreign exchange loss during the Reporting Period.

Compensation fees in relation to the conversion of Dianchi College of Yunnan University

Compensation fees in relation to the conversion of Dianchi College of Yunnan University of approximately RMB232.4 million, which was attributable to the one-off compensation fees to be paid to Yunnan University in relation to the conversion of Dianchi College of Yunnan University.

Dianchi College of Yunnan University will no longer pay any cooperative education fees to Yunnan University from 2021 academic year, therefore reduce costs and expenses, and further enhance the profitability of the Group.

Finance costs

Finance costs mainly include (i) interests on bank loans and other borrowings; (ii) the interest on the put option liability in connection with the put option (the “**Put Option**”) granted by the vendors of Leed International; and (iii) interest on the sale and leaseback liabilities.

Finance costs has increased from approximately RMB79.6 million for the year ended 31 December 2019 to approximately RMB87.0 million for the year ended 31 December 2020, which was mainly due to (i) increase in bank loans and other borrowings of the Group; and (ii) increase in the loan from International Finance Corporation.

Share of profit of a joint venture

Share of profit of a joint venture of approximately RMB18.3 million has been recorded for the year ended 31 December 2020, which was attributable to the share of profit from holding 50% of shares in Open University Online by Minsheng Education Technology Company Limited.

Profit for the year

As a result of the above factors, profit for the year of the Group decreased from approximately RMB334.0 million for the year ended 31 December 2019 to approximately RMB126.8 million for the year ended 31 December 2020.

Adjusted net profit

The Group defines its adjusted net profit as its profit for the period after adjusting for those items which are not indicative of the Group's operating performances (as presented in the table below). This is not a IFRSs measure. The Group has presented this item because the Group considers it an important supplemental measure of the Group's operational performance used by the Group's management as well as analysts or investors. The following table shows profit and adjusted net profit of the Group for the periods presented below:

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Profit for the year	126,812	333,981
Add:		
Unrealised exchange loss	5,135	1,776
Share option expenses	9,380	12,447
Interest of the Put Option liability arose from the acquisition of Leed International	39,774	37,932
One-off compensation fees in relation to the conversion of Dianchi College of Yunnan University	232,406	–
Deferred tuition income of Dianchi College of Yunnan University	5,280	–
Amortization of intangible assets due to consolidation	13,654	–
Adjusted net profit	<u>432,441</u>	<u>386,136</u>

Adjusted net profit for the year ended 31 December 2020 increased by approximately RMB46.3 million or approximately 12.0% as compared with the corresponding period in 2019. Adjusted net profit margin increased from approximately 38.4% for the year ended 31 December 2019 to approximately 39.1% for the year ended 31 December 2020.

Financial and Liquidity Position

Net current assets

As at 31 December 2020, the Group had net current assets of approximately RMB701.8 million, which primarily consisted of cash and bank balances. The current assets as at 31 December 2020 increase to approximately RMB2,726.4 million from approximately RMB1,494.8 million as at 31 December 2019. The increase in current assets was primarily attributable to the increase in cash and cash equivalents, which increased from approximately RMB1,405.4 million as at 31 December 2019 to approximately RMB2,624.7 million as at 31 December 2020, mainly due to (i) the net cash inflow from financing activities of RMB1,384.0 million due to the fund-raising activities in 2020 including bank loans and share placement; and (ii) the net operating cash inflow of RMB458.0 million due to the receipt of tuition fee for the 2020-2021 academic year.

The current liabilities increased from approximately RMB1,482.4 million as at 31 December 2019 to approximately RMB2,024.6 million as at 31 December 2020, mainly due to (i) the increase in other payables and accruals from approximately RMB536.0 million as at 31 December 2019 to approximately RMB694.7 million as at 31 December 2020; and (ii) the loans from the ultimate holding company of the Company of approximately RMB137.2 million. These loans are on normal commercial terms and not secured by the assets of the Group, and were exempt from shareholders' approval, annual review and all disclosure requirements.

Capital commitments

The Group had the following capital commitments at the end of the Reporting Period:

	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Contracted, but not provided for:		
Equipment	48,786	40,207
Buildings	363,261	208,085
Loan commitment	–	50,000
Acquisition of a private school and companies	172,440	172,440
	<u>584,487</u>	<u>470,732</u>

At the end of the Reporting Period, the Group did not have significant capital commitments that are authorised but not contracted for (2019: Nil).

Indebtedness

The Group's interest-bearing bank and other borrowings primarily consisted of short-term working capital loans to supplement our working capital and finance our expenditure and long-term project loans for the continuous development of our school buildings and facilities.

The bank loans and other borrowings and loans from the ultimate holding company amounted to approximately RMB1,901.2 million as at 31 December 2020, dominated in Renminbi, USD and Hong Kong dollar ("HK\$"). As at 31 December 2020, our bank loans and other borrowings bore effective interest rates ranging from 2.2% to 7.7% per annum. The loan of Chongqing Zhenzhi Zhiye Co., Ltd.*(重慶臻智置業有限責任公司) (a wholly-owned subsidiary of Chongqing Electronic Information College) amounted to RMB6.14 million, the interest rates ranging from 15%-24%.

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

Contingent liabilities

As at 31 December 2020, the Group did not have material contingent liabilities, guarantees or litigations or claims of material importance, pending or threatened against any member of the Group (2019: nil).

Pledge of assets

As at 31 December 2020, certain of the Group's buildings and land with a net carrying amount of approximately RMB93.7 million (31 December 2019: RMB96.8 million) were pledged to secure bank loans and other borrowings.

Foreign exchange exposure

The majority of the Group's revenue and expenditures are denominated in RMB. As at 31 December 2020, certain bank balances were denominated in United States dollar and HK\$. The Group currently does not have any foreign currency hedging policies. The management will continue to monitor the Group's foreign exchange risk exposure and consider adopting prudent measures as appropriate.

Gearing ratio

The gearing ratio, which is calculated by dividing total bank and other borrowings with interest from the financial institutions by total equity, increased to approximately 42.3% as at 31 December 2020 from approximately 16.8% as at 31 December 2019, which was due to the increase in newly-borrowed bank loans during the Reporting Period.

Salary increment for employees, training and development

As at 31 December 2020, the Group had 5,584 employees (2019: 5,445 employees). In 2020, in order to motivate our faculty staff for better work performance, the Group has reviewed and increased the salaries of employees. The increment in salaries is based on their performance, experience and prevailing industry practices, with all compensation policies and packages reviewed on a regular basis. As required by the PRC laws and regulations, we participate in various employee social security plans for our employees that are administered by local governments, including pension, medical, maternity, work-related injury, unemployment insurance and housing provident fund.

In addition, the Group provides comprehensive training programs to its existing and newly recruited employees and/or sponsors its employees to attend various job-related training courses.

OTHER INFORMATION

Events after the Reporting Period

On 13 January 2021, the industrial and commerce registration filings of Open University Online and Open Distance Education have been completed, and the completion of the Acquisition has completely taken place. The Company has indirectly held 100% of the equity interests of Open University Online and Open Distance Education, Open University Online and Open Distance Education have become indirect wholly-owned subsidiaries of the Company, and their financial results are consolidated into the Company from 13 January 2021. For details, please refer to the Company's announcement dated 13 January 2021.

Final Dividend

A final dividend in respect of the year ended 31 December 2020 of HK\$1.07 cents per ordinary share (equivalent to RMB0.90 cents, according to the central parity rate of Renminbi to Hong Kong dollars as announced by the People's Bank of China on 23 March 2021, i.e. RMB0.8375 equivalent to HKD1.00) (2019: HK\$2.84 cents) was proposed pursuant to a resolution passed by the Board on 23 March 2021 and subject to the approval of the shareholders of the Company at the annual general meeting of the Company. The expected date of payment of final dividend will be on or no later than 31 August 2021. Information regarding the date of the annual general meeting, date of closure of register of members in relation to the annual general meeting and the final dividend and payment date of the final dividend will be further announced separately by the Company in due course.

Purchase, sale or redemption of listed securities of the Company

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities for the year ended 31 December 2020.

Corporate Governance Code

For the year ended 31 December 2020, the Company has complied with all code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 to the Listing Rules as the code of conduct governing Directors' securities transactions. The Company confirms that, having made specific enquiries of all the Directors, each of them has complied with the required standard as set out in the Model Code for the year ended 31 December 2020.

Audit committee and review of annual financial information

The audit committee of the Board has reviewed together with the management the accounting principles and policies adopted by the Group and the annual consolidated financial statements, this announcement and the annual report of the Group for the year ended 31 December 2020.

Publication of annual results announcement and annual report

This annual results announcement is published on the website of the Stock Exchange at www.hkexnews.hk and on the website of the Company at www.minshengedu.com, respectively. The annual report of the Company for the year ended 31 December 2020 containing all the information required by the Listing Rules will be dispatched to the shareholders of the Company and published on the above websites in due course.

Acknowledgement

On behalf of the Board, I would like to express my sincere gratitude to the Group's management and staff members for their dedication and hard work and our shareholders for their trust and support.

By order of the Board
Minsheng Education Group Company Limited
Li Xuechun
Chairman

Hong Kong, 23 March 2021

In this announcement, the English translation of company or entity names in Chinese which are marked with "" is for identification purpose only.*

As at the date of this announcement, the executive Directors are Mr. Li Xuechun, Ms. Zhang Weiping, Mr. Zuo Yichen and Mr. Lam Ngai Lung, the non-executive Directors are Mr. Lin Kaihua and Ms. Li Yanping, and the independent non-executive Directors are Mr. Chan Ngai Sang, Kenny, Mr. Yu Huangcheng and Mr. Wang Wei Hung, Andrew.