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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 2021

THE GROUP HAS SUCCESSFULLY TRANSFORMED INTO AN “INTERNET+” VOCATIONAL EDUCATION GROUP

As our nation has entered into a new stage of development, industrial upgrading and economic restructuring have been accelerated, and the demand for technical and skilled personnel in the full living-cycle have also been increased. Since the 19th National Congress of the Communist Party of China, the Central Committee of the Communist Party of China and the State Council have launched a series of major measures for the reform and development of vocational education. Our nation’s vocational education is ushering in a new stage of great reform and development, and has entered the fast lane of improving quality and cultivating excellence and empowering science and technology, vocational education should promote the upgrading of talent training through digital and intelligent transformation, cultivate more high-quality technical talents, skilled craftsmen, and craftsmen of great powers, assist the digital and intelligent transformation of industries, and provide more powerful talents and skill support for the comprehensive construction of a modern socialist nation.

Since 2019, the Group has focused on the “Internet +” vocational education pathway. In 2021, the Group has been continuing to improve its organizational structure, carry out vertical integration and horizontal diversification optimization and integration of business lines and product resources, and further enrich the product matrix, successfully implemented the strategic transformation of “Internet +” vocational education.

- ***Forming the comprehensive service capabilities of “Internet +” vocational education.*** Through the “original + aggregation” approach, the Group continues to optimize and integrate internal and external resources to form a full coverage of technology + education + industry, resources + platform + service, academic + non-academic, secondary vocational – higher vocational – applied undergraduate – professional degree graduate students, an integrated vocational education service system of “enrollment-assessment-teaching-practical training-examination-employment”.
- ***Built seven major business sectors and product matrix.*** Built seven major business sectors including online education services, on-campus education, vocational ability improvement, human resources and employment, education information services, examination and assessment and international education have been formed, and a product matrix that complements, supports and cooperates with each other has been established.
- ***Gathered the resources from the leaders of each subdivision segment.*** Gathered the platform resources such as Open University Online/Open Distance Education, MBACHina/Doxue Network, IMOOC, Xiaoi Technology, UMOOC, Silk Road HSK Online Test, Minsheng Online and Minsheng Intelligence Cloud, which are the leaders of each subdivision segment.
- ***Built a service network of online + offline blended learning.*** Formed a service network covering more than 1,900 online and offline learning centers in 31 provinces across the nation, cooperated with more than 20 national ministries and institutes, more than 30 industry-leading companies and more than 1,000 colleges and universities, and brought together more than 1,000 human resources companies, more than 10,000 employers, and served more than 50 million of students and users, laying a solid foundation for building an industry ecosystem.
- ***Continuing to improve the quality of education and talent cultivation efficiency.*** 10 majors of the Group’s school have been selected into the Ministry of Education’s “New Engineering”, “New Liberal Arts”, “Excellent Engineer” and “Double Ten Thousand Plan” professional construction; there are 2 provincial key disciplines and first-class disciplines of Class B plateau disciplines; a large number of outstanding graduates, including the advanced national March 8 red-banners and the national outstanding Communist Youth League members. A nearly 20 national-level and provincial-level high-quality online open courses have been built; IMOOC and OPEN2U platform have been selected into the national “Internet + Vocational Skills Training Program” and have been approved as a national-level high-quality online vocational skills training platform.

- ***Continuing to increase investment in technology research and development.*** More than RMB1 billion has been invested in the construction of technical infrastructure and capabilities, forming an industry-leading technical service foundation. The Group has seven national-level high-tech enterprises, and has undertaken more than 200 national, provincial and ministerial scientific research topics and projects, including major national science and technology projects; many of the Group’s core applications have passed the national information security level protection level 3, the main subsidiary companies have passed ISO20000, ISO27001, ISO9001 certification, and the Group has more than 110 patents and more than 400 software copyrights, building an end-to-end, fully closed-loop vocational education service cloud platform.
- ***Optimization of financial structure.*** As at 31 December 2021, the Group’s cash reserves ^(Note 1) were approximately RMB3,140.6 million, and the Group’s net gearing ratio was approximately 41.3%, a decrease of 4.4 percentage points as compared to 31 December 2020. The Group’s total assets were approximately RMB11,437.8 million, representing an increase of approximately 25.5% as compared to 31 December 2020.
- ***Improvement on business performance and operational level.*** As at 31 December 2021, the Group’s revenue was approximately RMB2,394.0 million, representing an increase of approximately 116.2% as compared to the year ended 31 December 2020; the adjusted net profit ^(Note 2) was approximately RMB803.2 million, representing an increase of approximately 85.7% as compared to the year ended 31 December 2020; the adjusted return on net assets ^(Note 3) increased from approximately 10.4% as at 31 December 2020 to approximately 16.8% as at 31 December 2021.

FINAL DIVIDEND

A final dividend in respect of the year ended 31 December 2021 of HK\$5.32 cents per ordinary share (equivalent to RMB4.32 cents, according to the central parity rate of Renminbi to Hong Kong dollars as announced by the People’s Bank of China on 30 March 2022, i.e. RMB0.81218 equivalent to HK\$1.00) (2020: HK\$1.07 cents) was proposed pursuant to a resolution passed by the Board on 30 March 2022, such distribution equals to 30% of the net profit of the Company for the Reporting Period and is subjected 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 2022.

Notes:

1. Cash reserves is defined as to the sum of cash and cash equivalents, restricted bank deposits and short-term investments measured at fair value through profit or loss of the Group for the Reporting Period.
2. 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.
3. Adjusted return on net assets is calculated by dividing adjusted net profit by total equity.

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 2021 (the “**Reporting Period**”) together with the comparative figures for the year ended 31 December 2020.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2021

	<i>Notes</i>	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
REVENUE	4	2,394,012	1,107,206
Cost of sales		<u>(1,037,051)</u>	<u>(540,126)</u>
Gross profit		1,356,961	567,080
Other income and gains	4	249,894	157,092
Selling and distribution expenses		(242,932)	(20,484)
Administrative expenses		(471,342)	(212,021)
Other expenses, net		(100,194)	(46,825)
Compensation fees in relation to the conversion of Dianchi College of Yunnan University		–	(232,406)
Finance costs		(130,564)	(87,002)
Share of profit and loss of:			
A joint venture		–	18,283
An associate		<u>(22)</u>	<u>(195)</u>
PROFIT BEFORE TAX	5	661,801	143,522
Income tax expense	6	<u>(54,222)</u>	<u>(16,710)</u>
PROFIT FOR THE YEAR		<u>607,579</u>	<u>126,812</u>
OTHER COMPREHENSIVE INCOME			
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of financial statements		<u>35,319</u>	<u>105,365</u>
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods		<u>35,319</u>	<u>105,365</u>

	<i>Notes</i>	2021 RMB'000	2020 RMB'000
Other comprehensive loss that will not be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of financial statements		<u>(23,231)</u>	<u>(78,065)</u>
Net other comprehensive loss that will not be reclassified to profit or loss in subsequent periods		<u>(23,231)</u>	<u>(78,065)</u>
OTHER COMPREHENSIVE INCOME FOR THE YEAR		<u>12,088</u>	<u>27,300</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>619,667</u>	<u>154,112</u>
Profit attributable to:			
Owners of the parent		576,886	131,467
Non-controlling interests		<u>30,693</u>	<u>(4,655)</u>
		<u>607,579</u>	<u>126,812</u>
Total comprehensive income attributable to:			
Owners of the parent		588,974	158,767
Non-controlling interests		<u>30,693</u>	<u>(4,655)</u>
		<u>619,667</u>	<u>154,112</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT:			
Basic and diluted	7	<u>RMB0.1368</u>	<u>RMB0.0318</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2021

	<i>Notes</i>	2021 RMB'000	2020 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		3,061,628	2,471,014
Right-of-use assets		859,308	840,434
Goodwill		2,335,902	1,782,894
Other intangible assets		519,433	33,006
Investment in a joint venture		–	412,224
Investment in an associate		1,545	1,603
Financial assets at fair value through profit or loss		96,539	110,818
Deferred tax assets		10,607	–
Other non-current assets		604,352	731,907
		<hr/>	<hr/>
Total non-current assets		7,489,314	6,383,900
CURRENT ASSETS			
Inventories		11,590	2,694
Trade receivables	8	606,031	20,004
Prepayments, other receivables and other assets		190,216	79,078
Short-term investments measured at fair value through profit or loss		204,400	–
Cash and cash equivalents		2,750,227	2,624,670
Restricted bank deposits		186,016	–
		<hr/>	<hr/>
Total current assets		3,948,480	2,726,446
CURRENT LIABILITIES			
Trade payables	9	807,138	2,552
Contract liabilities	10	986,560	637,730
Other payables and accruals	11	1,178,005	694,734
Dividend payables		23	62,179
Deferred income		22,891	21,698
Interest-bearing bank and other borrowings		295,719	446,324
Loans from the ultimate holding company		–	137,236
Tax payable		28,091	22,147
		<hr/>	<hr/>
Total current liabilities		3,318,427	2,024,600
		<hr/>	<hr/>
NET CURRENT ASSETS		630,053	701,846
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		8,119,367	7,085,746
		<hr/>	<hr/>

	<i>Notes</i>	2021 RMB'000	2020 RMB'000
NON-CURRENT LIABILITIES			
Financial liability at fair value through profit or loss		7,840	74,652
Deferred income		260,472	262,484
Interest-bearing bank and other borrowings		1,683,208	1,317,689
Other long term liability		274,777	285,324
Payables for compensation fees	<i>11</i>	55,116	107,732
Deferred tax liabilities		148,177	16,948
Put option liability		900,742	859,038
		<u>3,330,332</u>	<u>2,923,867</u>
Total non-current liabilities			
		<u>4,789,035</u>	<u>4,161,879</u>
Net assets			
EQUITY			
Equity attributable to owners of the parent			
Share capital		322	322
Reserves		4,591,483	4,035,320
		<u>4,591,805</u>	<u>4,035,642</u>
Non-controlling interests		197,230	126,237
		<u>4,789,035</u>	<u>4,161,879</u>
Total equity			

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 on-campus and online educational services in the People’s Republic of China (the “**PRC**” or “**China**”).

In the opinion of the directors, the holding company and the ultimate holding company of the Company is Minsheng Group Company Limited, which was incorporated in the British Virgin Islands.

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 and a wealth management product 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 when otherwise indicated.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised IFRSs for the first time for the current year’s consolidated financial statements.

Amendments to IFRS 9, IAS 39, IFRS 7,
IFRS 4 and IFRS 16
Amendment to IFRS 16

Interest Rate Benchmark Reform – Phase 2

*Covid-19-Related Rent Concessions beyond 30 June
2021 (early adopted)*

3. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their services and has two reportable operating segments as follows:

- (a) on-campus education
- (b) online education

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 a measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group's profit before tax except that interest income, non-lease-related finance costs as well as head office and corporate expenses are excluded from such measurement.

Segment assets exclude unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

For the year ended 31 December 2020, the Group had only one reportable operating segment, which was the on-campus education segment, and consequently, has not presented segment reporting data for that period.

Year ended 31 December 2021

	On-campus education RMB'000	Online education RMB'000	Total RMB'000
Segment revenue			
Sales to external customers	<u>1,251,502</u>	<u>1,142,510</u>	<u>2,394,012</u>
Segment results	620,792	138,940	759,732
Interest income			72,707
Unallocated income and gains			377
Corporate and other unallocated expenses			(42,080)
Finance costs (other than interest on lease liabilities)			<u>(128,935)</u>
Profit before tax			<u><u>661,801</u></u>

The following table presents the asset and liability information of the Group's operating segments as at 31 December 2021.

	On-campus Education <i>RMB'000</i>	Online education <i>RMB'000</i>	Total <i>RMB'000</i>
Segment assets	8,881,313	2,932,829	11,814,142
<i>Reconciliation:</i>			
Elimination of intersegment receivables			(678,669)
Corporate and other unallocated assets			<u>302,321</u>
Total assets			<u><u>11,437,794</u></u>
Segment liabilities	4,389,641	2,086,475	6,476,116
<i>Reconciliation:</i>			
Elimination of intersegment payables			(678,669)
Corporate and other unallocated liabilities			<u>851,312</u>
Total liabilities			<u><u>6,648,759</u></u>
Other segment information			
Share of loss of:			
An associate	22	–	22
Impairment losses recognised in profit or loss	11,828	(1,439)	10,389
Depreciation and amortisation	165,729	100,507	266,236
Investment in an associate	1,545	–	1,545
Capital expenditure	<u>685,111</u>	<u>64,285</u>	<u>749,396</u>

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:

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
<i>Revenue from contracts with customers</i>		
Tuition fees	1,155,390	1,032,417
Boarding fees	96,112	64,713
Distance education services – platform services	371,718	–
Distance education services – educational support services	426,338	–
Teacher training services	69,982	–
Commission income	46,865	–
Online courses services	58,164	–
Sales of books	29,359	2,068
Examinations and assessments	24,302	–
Other education business	115,782	8,008
	<u>2,394,012</u>	<u>1,107,206</u>
<i>Other income and gains</i>		
Investment income from short-term investments measured at fair value through profit or loss	20,951	767
Rental income:		
Fixed lease payments	24,988	8,723
Variable lease payments	–	1,344
	<u>24,988</u>	<u>10,067</u>
Bank interest income	54,927	18,141
Interest income from a company controlled by the former shareholders of a subsidiary	17,780	20,712
Government grants		
– Related to assets	22,809	21,062
– Related to income	73,117	70,331
Gain on disposal of a subsidiary	–	7,093
Gain on disposal of items of property, plant and equipment	1,002	–
Others	34,320	8,919
	<u>249,894</u>	<u>157,092</u>

5. PROFIT BEFORE TAX

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

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Depreciation of property, plant and equipment	154,049	127,600
Amortisation of other intangible assets	68,812	2,652
Lease payments not included in the measurement of lease liabilities	11,303	7,740
Depreciation of right-of-use assets	43,375	18,557
Auditor's remuneration	4,900	3,600
Employee benefit expense (including directors' remuneration):		
Wages and salaries	443,084	309,882
Equity-settled share option expense	5,141	9,380
Pension scheme contributions (defined contribution schemes)	89,793	58,738
	<u>538,018</u>	<u>378,000</u>
Foreign exchange differences, net	980	24,374
Impairment of financial assets:		
Impairment of trade receivables	5,518	917
Reversal of impairment of trade receivables	(1,439)	–
Impairment of financial assets included in prepayments, other receivables and other assets	6,310	4,307
	<u>10,389</u>	<u>5,224</u>
Investment income from short-term investments measured at fair value through profit or loss	(20,951)	(767)
Bank interest income	(54,927)	(18,141)
Interest income from a company controlled by the former shareholders of a subsidiary	(17,780)	(20,712)
Fair value loss from an equity investment at fair value through profit or loss	15,830	–
Fair value loss from a loan to an associate included in other non-current assets measured at fair value	10,133	10,505
Fair value loss from contingent consideration at fair value through profit or loss	53,054	–
(Gain)/loss on disposal of items of property, plant and equipment, net	(1,002)	1,398
Donation expenses	8,993	4,708
Compensation fees in relation to the conversion of Dianchi College of Yunnan University	–	232,406
	<u>–</u>	<u>232,406</u>

6. INCOME TAX

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Current – Mainland China		
Charge for the year	50,652	8,662
Overprovision in prior years	(724)	–
Deferred	<u>4,294</u>	<u>8,048</u>
	<u><u>54,222</u></u>	<u><u>16,710</u></u>

7. 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 ordinary equity holders of the parent, and the weighted average number of ordinary shares of 4,217,720,000 (2020: 4,132,474,098) in issue during the year.

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2021 and 2020.

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

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculation	<u>576,886</u>	<u>131,467</u>
	Number of shares	
	2021	2020
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	<u>4,217,720,000</u>	<u>4,132,474,098</u>

8. TRADE RECEIVABLES

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Trade receivables	621,069	20,493
Impairment	<u>(15,038)</u>	<u>(489)</u>
	<u>606,031</u>	<u>20,004</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:

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Within 1 year	600,169	16,249
1 to 2 years	5,206	3,553
2 to 3 years	572	202
Over 3 years	<u>84</u>	<u>–</u>
	<u>606,031</u>	<u>20,004</u>

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

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
At beginning of year	489	96
Acquisition of subsidiaries	10,470	–
Impairment losses	5,518	917
Reversal	(1,439)	–
Amount written off as uncollectible	<u>–</u>	<u>(524)</u>
At end of year	<u>15,038</u>	<u>489</u>

9. 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:

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Within 1 year	790,112	2,552
1 to 2 years	12,259	–
2 to 3 years	3,410	–
Over 3 years	1,357	–
	<u>807,138</u>	<u>2,552</u>

The trade payables are non-interest-bearing and are normally settled on 30-60-day terms.

10. CONTRACT LIABILITIES

Details of contract liabilities are as follows:

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
<i>Short-term advances received from customers</i>		
Tuition fees	620,510	580,303
Boarding fees	65,108	53,717
Distance education service fees	226,852	–
Teacher training services	43,582	–
Other education business	30,508	3,710
	<u>986,560</u>	<u>637,730</u>

11. OTHER PAYABLES AND ACCRUALS

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Current portion:		
Accrued bonuses and other employee benefits	120,257	53,594
Payables for catering services	6,954	8,661
Payables for purchase of property, plant and equipment	365,119	282,537
Payables for management fees	20,340	33,171
Payables for compensation fees	60,000	60,000
Miscellaneous expenses received from students (<i>note (i)</i>)	71,479	42,871
Tuition fees received from students (<i>note (ii)</i>)	280,945	–
Other tax payable	17,907	2,918
Payables for audit fee	3,125	2,345
Payables for interest	1,240	9,370
Refund liabilities	542	1,267
Consideration payable for business combination	156,215	100,800
Payables to the non-controlling shareholder of subsidiaries	20,000	20,000
Other payables	53,882	77,200
	<u>1,178,005</u>	<u>694,734</u>
Non-current portion:		
Payables for compensation fees	<u>55,116</u>	<u>107,732</u>

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

Notes:

- (i) The amounts represent the miscellaneous expenses received from students which will be paid out on behalf of the students.
- (ii) The amounts represent the payment of tuition fee from students received on behalf of cooperative universities. The balance would be remitted to cooperative universities within one year.

12. DIVIDENDS AND EVENT AFTER THE REPORTING PERIOD

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Proposed final – RMB4.32 cents (2020: RMB0.90 cents) per ordinary share	<u>182,274</u>	<u>38,044</u>

Subsequent to the end of the reporting period, the board of directors recommended the payment of a final dividend of RMB4.32 cents per share totalling RMB182.3 million for the year ended 31 December 2021. 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 of the Reporting Period

Vocational Education Policies Provide Huge Potential for Development of the Industry

2021 represented a landmark year in the development history of vocational education in the PRC. At the national vocational education conference held by the Central Committee of the Communist Party of China (the “CPC”) and the State Council, which marked the historical convergence of the Two Centenary Goals, the government highly recognized the strategic importance of vocational education, summed up the major achievements made, reviewed the successful experiences in the past, analyzed the historical opportunities ahead and comprehensively implemented a series of policies and measures. Xi Jinping, the general secretary of the CPC, gave important instructions at the meeting, emphasizing that vocational education will have a promising prospect and bright future in our new journey of building China into a modern socialist country in an all-rounded way.

After the 19th CPC National Congress, the Central Committee of the CPC and the State Council launched a series of important initiatives to promote the reform and development of vocational education, and also issued several important documents such as the National Vocational Education Reform Implementation Plan (《國家職業教育改革實施方案》), the Action Plan for Quality Enhancement and Excellence in Vocational Education (2020-2023) (《職業教育提質培優行動計劃(2020-2023年)》) and the Opinions on Promoting the High-quality Development of Modern Vocational Education (《關於推動現代職業教育高質量發展的意見》).

The National Vocational Education Reform Implementation Plan was issued by the State Council, which mainly sets out a series of policies and measures to address the long-term system and mechanism problems restricting the development of vocational education and clearly lays out the roadmap to push forward the reform of vocational education in the PRC.

The Action Plan for Quality Enhancement and Excellence in Vocational Education (2020-2023) was jointly issued by nine ministries at the vocational education inter-ministries joint meeting of the State Council, which aligns the reform and development of vocational education with the efficiency improvement in the management of vocational education by perfecting the accountability system of macro coordination by central government and implementation responsibility by local governments and establishing an independently-undertaking implementation mechanism and an open and regulated negotiation mechanism.

The Opinions on Promoting the High-quality Development of Modern Vocational Education was issued by the general offices of the CPC and the State Council, which is mainly designed to reinforce the positioning of vocational education and meet the purpose of construction of a powerful country in education and the general requirements under China's Education Modernization 2035 (《中國教育現代化2035》), and sets out general arrangement to establish a high-quality vocational education system. The documents encourage the involvement of private capital in the vocational education, provide clarity on the future development of vocational education to pursue for high-quality development that deeply integrates with the industry and is in line with the industry upgrading in China, and provide strong policy and mechanism support for the development of vocational education.

In addition, it is pointed out in 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》) that efforts shall be made to make vocational education more adaptive by highlighting distinguishing features, perfecting national standards, innovating schooling models, improving education quality and promoting integration of general education and vocational education. It is affirmed in the revised Vocational Education Law of the PRC that vocational education and general education are two different types of education which have equal importance. According to the 14th Five-Year Plan for Digital Economy Development (《「十四五」數字經濟發展規劃》) issued by the State Council, efforts shall be made to promote inclusive digital social services, accelerate the digital supply of public service resources and online services in culture, education and other areas, and promote sharing of quality resources.

The promulgation of a series of important documents provides policy support for the reform and development of vocational education, ushering in a new stage of major reform and development of vocational education in China and steers into a fast track for quality enhancement and excellence and technology empowerment.

Strong Demand for Skilled Talents Drives Steady Growth in the Market Size of Vocational Education

According to the Action Implementation Plan for Occupational Skill Improvement of Industries and Communication Industry (《工業通信業職業技能提升計劃行動實施方案》) jointly issued by the Ministry of Human Resources and Social Security and the Ministry of Industry and Information Technology in June 2020, 770 million people in China were in employment, and the number of technician workers was only 165 million, of which the number of skilled technician talents was only over 47 million. In recent years, the job posting to talent ratio (i.e. the ratio calculated by dividing the number of job vacancies by the number of job applicants) for technician workers in China maintained at above 1.5 times while such ratio for senior technician workers reached over 2 times, represented by a shortage of 10 million for senior technician workers across the country. Shortage of senior technician talents represents a major issue in promoting employment structure optimization and industry transformation and upgrading, and there is strong market demand for vocational education

China's vocational education market is growing strongly. According to China Education Development Report 2021 which was published by Deloitte China, it is predicted that the size of China's vocational education market will increase from approximately RMB304.2 billion in 2013 to approximately RMB902.9 billion in 2023, representing a compound annual growth rate of approximately 11.7% over the 10-year period, while the size of China's online vocational education market will increase from approximately RMB18.50 million in 2016 to approximately RMB649.7 million in 2025, representing a compound annual growth rate of approximately 15.0% over the 9-year period. The spending on the vocational education in China increased from approximately RMB240.9 billion in 2010 to approximately RMB563.0 billion in 2020.

The Group has successfully transformed into an “Internet+” Vocational Education Group

The Group is a leading “Internet+” vocational education group in China with vocational education as its unwavering development path. Its business closely meets the needs of the nation and the society. It integrates and serves the construction of the country's modern vocational education system, uses technology to empower the development of vocational education, and promotes the deep integration of the internet and vocational education. It takes the lead in deploying online vocational education, which shifts from on-campus education with heavy assets and stable growth to asset-light and high-growth business model of online education. It has established a high-quality and full-chain “Internet+” vocational education service platform, thereby opening up a new space for the development of vocational education which has laid the competitive advantage of the Group in the vocational education industry.

The Group continued to optimize and consolidate internal and external resources by adopting the approach of “originality and aggregation”, and created an integrated vocational education service capabilities offering “enrollment + assessment + teaching + training and practice + examination + employment” full-chain services that combines technology + education + industry, resources + platform + services, academic qualifications + non-academic qualifications, and secondary vocational - higher vocational – applied undergraduate - professional graduate education, successfully achieving the strategic transformation towards “Internet+” vocational education.

In 2021, the Group continued to improve its organization structure, and carried out optimization and integration of business lines and product resources through vertical integration and horizontal diversification, further expanding its product matrix and successfully establishing the “Internet+” vocational education system. The Group focused on developing its seven major business sectors including online education services, on-campus education, vocational ability improvement, human resources and employment, education information services, examination assessment and international education, built over 1,900 online and offline learning centers covering 31 provinces across the country, and cooperated with over 20 state ministries and academic societies, over 30 industry-leading enterprises and over 1,000 universities and colleges. The Group has gathered more than 1,000 human resources companies and more than 10,000 employers. The total number of students and users served has reached more than 50 million.

The following are main business operations of the seven major business sectors of the Group:

1. *Online Education Services*

The online education services of the Group mainly covers online education, open education, adult higher education, self-study exams and professional postgraduate (master/doctoral) education, which are mainly designed for adults who have the need to upgrade their academic qualifications. Online education services are provided by Beijing Open Distance Education Center Company Limited* (北京奧鵬遠程教育中心有限公司) (“**Open Distance Education**”), Doxue Network Technology (Beijing) Company Limited* (都學網絡科技(北京)有限公司) (“**Doxue Network**”) (both are schools of the Group) and Guangdong Minsheng Online Education Technology Company Limited* (廣東民生在線教育科技有限公司) (“**Minsheng Online**”).

Open Distance Education

Open Distance Education is a nationwide distance education service operating organization. As of 31 December 2021, Open Distance Education has established partnerships with more than 100 domestic key universities, open universities at the provincial level and junior colleges, and provided support services of online education, open education and adult higher education to approximately 1.07 million students (representing an increase of approximately 2.3% as compared to that for the year ended 31 December 2020) through more than 1,900 online and offline learning centers through establishing cooperation across the nation.

Doxue Network

Doxue Network is a leading enterprise in postgraduate education services in management major in the country. Its MBACHina platform is an active online platform in the industry. Its business school rankings are widely recognized by the industry, universities and learners, and it has a wide range of influence in the industry. As of 31 December 2021, Doxue Network has cooperated with more than 140 domestic and overseas business schools, and have accumulated new users and existing users of approximately 606,000 (representing an increase of approximately 41.6% as compared to that for the year ended 31 December 2020) and 2.68 million (representing an increase of approximately 29.0% as compared to that for the year ended 31 December 2020), respectively for the year.

Minsheng Online

Minsheng Online is a leading adult online education technology service platform. As of 31 December 2021, Minsheng Online provided more than 250 undergraduate and junior college professional courses, covering open education, adult higher education and self-study exam qualification education services. There were approximately 158,000 students (representing an increase of approximately 18.8% as compared to that for the year ended 31 December 2020) enrolled in junior college education or above level courses.

2. *On-campus Education*

The Group is committed to constructing a vocational education service system for the training of secondary vocational, higher vocational, applied undergraduate and professional postgraduate students. As of 31 December 2021, the Group's schools are located in Chongqing, Shandong, Yunnan, Inner Mongolia, Hong Kong, Singapore and Australia and other regions. The Group operated or managed 10 schools in Mainland China (including 7 higher education institutions, 2 secondary vocational schools and 1 high school); the total number of students was 101,103 (representing an increase of approximately 9.0% as compared to that for the year ended 31 December 2020), of which full-time undergraduate students accounted for approximately 57.4%. The Group's schools offer a total of 118 undergraduate majors, 127 higher vocational (junior college) majors, 56 secondary vocational majors and 4 postgraduate cultivation and construction majors under 11 university disciplines. The Group's undergraduate colleges now offer 2 key subjects at provincial and above level, 2 key cultivation disciplines, 14 first-class majors and 30 first-class programmes. The Group has established the only provincial-level key discipline among private universities in Yunnan Province.

The following is a breakdown of the total number of on-campus education students by different levels of courses as at 31 December 2021:

	Number of enrolled students at at 31 December		Percentage change (%)
	2021	2020	
Undergraduate	58,006	56,299	+3.0%
Higher vocational school (Junior college)	32,938	25,939	+27.0%
Secondary vocational program/high school	5,151	4,530	+13.7%
Adult education	5,008	6,004	-16.6%
Total	<u>101,103</u>	<u>92,772</u>	<u>+9.0%</u>

In the future, the Group will focus on operating existing colleges and universities, focusing on connotative development and high-quality development, and strive to improve the level of school operations. In principle, the Group will no longer invest in the integration of new schools, and will further focus on building a new “Internet +” vocational education ecosystem, leveraging the advantages of resources + platforms + services, and continue to cooperate with general institutions of higher learning, vocational colleges, open universities and industry enterprises to co-construct modern industrial colleges, professional co-construction and virtual laboratories and etc.), to provide various colleges and universities with integrated solutions of “enrollment-assessment-teaching-practical training-examination-employment” and on-campus information services.

3. *Vocational Ability Improvement*

The Group’s vocational ability improvement business mainly covers information technology (“IT”) vocational training, teacher continuing training and vocational qualification certificate training businesses.

IT vocational training

IT vocational training of the Group is provided by IMOOC under Open Distance Education. IMOOC focuses on IT online education, creates cutting-edge IT quality courses and cultivates practical technical talents for enterprises. It has more than 3,000 high-quality training courses, nearly 1,000 high-level industry lecturers, and more than 21 million users in aggregate. It has been selected as the top ten in the annual vocational education application rankings released by the “Internet Weekly” of the Chinese Academy of Sciences in the past three consecutive years.

Teacher continuing training

As the pioneer of mobile learning for teachers, the Group has launched platforms such as “Open Distance’s Teacher Education Network” (奧鵬教師教育網), “Teacher Training Bao” (師訓寶) and “Teacher’s Secretary” (教師秘書) and other mobile learning application tools, and built a “school-based” training platform, providing a full range of remote training support services for education departments, universities, teacher development centers and other education institutions in various regions. As of 31 December 2021, an accumulation of approximately 6.30 million of teacher counts were trained.

Cloud training platform

As an important part of the “recruitment and training” integrated service system, and based on the educational cloud platform, the Group’s cloud training platform focuses on industry applications, integrates resources and services of cloud training providers for co-provision of online training solutions to colleges and universities, provides all-rounded trainings for cultivation of application-oriented talents, and facilitates the cultivation of talents and enhancement of comprehensive vocational skills. Currently, the platform has incorporated over 50 training projects, covering 11 categories such as computer, big data, architecture, machinery, pharmaceuticals, finance and trade, radio, film and television, tourism, agriculture, logistics and general education. In particular, general education-oriented trainings apply to most majors, while other specialized trainings cover over 20 undergraduate majors and over 40 junior college majors.

Vocational qualification certificate training

As of 31 December 2021, the Group provided a total of over 50 vocational qualification certificate training programs such as teachers qualification certificate and human resources specialist, with a total of approximately 40,000 person counts trained in 2021.

4. Examination and Assessment

The examination services of the Group mainly cover the unified national examination for online education and various process examinations, Chinese Proficiency Test (“**HSK**”) and China Certification and Accreditation Association (“**CCAA**”) examinations.

Examination and assessment services are mainly provided by Open Distance Education and Silk Road (Beijing) International Educational Technology Center Company Limited* (絲綢之路 (北京) 國際教育科技中心有限公司) (“**Silk Road**”). Open Distance Education organizes the implementation of process examinations services for cooperative colleges and universities and undertakes socialized examinations. In 2021, its examination business has served approximately 9 million persons. Open Distance Education has established a standardized network of examination sites that spans across the country and extends to the grass-root level. Open Distance Education has also built a multi-system platform incorporating the question bank system, examination affair system, supervision system, test system as well as review and appraisal system, which enables the informatization of key links of examination to enhance security and efficiency. Open Distance Education strengthened risk prevention and control through application of technology, and established a tertiary-control and two-way interactive online monitoring system covering competent central to provincial level authorities and examination sites. By applying technologies such as certificate signing in and facial recognition at the entrance of each examination sites and during the examination, Open Distance Education provided the cooperative colleges and universities and institutions with customized and comprehensive solutions for examination service. Silk Road is the industry’s leading professional service organization for online HSK test. It is the world’s first HSK online test center with more than 130 domestic and overseas establishments, which have accumulated more than 180,000 internet-based examination users.

5. *International Education*

The Group continuously implemented the development concept of “Internet + Chinese + Vocational Education”, established bridges among governmental bodies, major universities and industry associations, and initiated and operated the MOOC China Alliance. Focusing on the fields with acute shortage of two-way talents in countries along the “Belt and Road” initiative, the Group consolidated, exhibited, promoted and exported high-quality education resources in China. By establishing an online multi-language MOOC platform offering “Internet + Chinese language + vocational education” education services, the Group adopted a mixed teaching approach to provide Chinese training, learning and grade examination services for many overseas students studying in famous higher education institutions in China and served the business goal of “Bringing in and Going global” of the application-oriented colleges and universities and vocational schools in China. In addition, the Group cultivated engineering and technology talents for top-notch industries such as big data and cloud technology under the “Belt and Road” initiative, and was awarded the provincial-level outstanding teaching achievement prize, in an effort to build up international talent pool to promote trade connectivity under the “Belt and Road” initiative.

In addition to the Group’s schools in the PRC, the Group invests in higher education institutions in Hong Kong Special Administrative Region, Australia and Singapore that offer college to postgraduate programs:

Hong Kong Nang Yan College

The Group has invested in Hong Kong Nang Yan College of Higher Education Limited (“**Hong Kong Nang Yan College**”) in Hong Kong Special Administrative Region, a company limited by guarantee established under the laws of Hong Kong. The Company is one of the two members of Hong Kong Nang Yan College. Hong Kong Nang Yan College is a full-time higher education institution located in Hong Kong Special Administrative Region, providing junior college and undergraduate courses.

Australia Institute of Management and Commerce

The Group has invested in Top Education Group Ltd. (“**Top Education**”) whose shares are listed on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) (Stock Code: 1752). As at 31 December 2021, the Company owned approximately 8.59% of equity interest in Top Education. Australia Institute of Management and Commerce, a school operated by Top Education, is a full-time higher education institution located in Australia, providing junior college, undergraduate and postgraduate courses.

Beacon International College

The Group has invested in Beacon International College PTE. LTD. (“**Beacon International College**”) in Singapore. As at 31 December 2021, the Company owned 22.9% of equity interest in Beacon International College. Beacon International College is a full-time higher education institution located in Singapore, providing junior college and undergraduate courses.

6. *Human Resources and Employment*

The Group actively deploys human resources and employment services to create a closed loop of “recruitment and training” integrated talent training. In July 2021, the Group entered into an agreement to acquire 51% equity interests in Beijing Xiaoai Intelligent Technology Company Limited* (北京小愛智能科技有限公司) (“**Xiaoai Technology**”).

Xiaoai Technology is an internet company that mainly provides SaaS services for the human resources industry. Supported by its technology, it has established an one-stop HRO (Human Resources Outsourcing) and social employment services, talent learning, internship and employment platform, providing a tripartite online human resource service platform for human resource service companies, employers and individuals, which forms whole-process human resource services to generate online SaaS+AI intelligent solutions. It also uses modern information technology to improve service efficiency and reduce service costs. Xiaoai Technology brings internship training and employment services into the system of the Group, which forms an important part of the closed loop of “recruitment and training” integrated service system of the Group and also one of the important businesses of the Group to satisfy demands for industry talents. As of 31 December 2021, Xiaoai Technology platform had over 1,000 human resources companies with over 10,000 employers settling in, linking C-end users and job demands targeted to approximately 3 million people.

For details of the Group’s acquisition of Xiaoai Technology, please refer to the relevant announcement issued by the Company on 18 July 2021. The Group completed the acquisition on 6 August 2021 and is currently holding 51% equity interests of Xiaoai Technology.

7. *Education Information Services*

Global informatization and digitalization technology are transforming and reshaping the way of education at an unprecedented speed and scale. The state has issued a special “Education informatization 2.0 Action Plan”, which is used in the teaching team, education supervision, education evaluation, and new education infrastructure. The series of policy documents emphasize the establishment of a new model of talent cultivation, education services and education governance through the support of information technology, and the construction of a high-quality education support system.

The Group attaches great importance to the construction of new education infrastructure. Guided by new development concepts and information technology and oriented to the needs of high-quality education development, and by focusing on information networks, platform systems, digital resources, innovative applications, credible security, etc., it constructed a new infrastructure system, created core productivity, and established a user-centric, end-to-end, fully closed-loop education service cloud platform (including IaaS infrastructure, developer platform, multi-cloud resource management platform, middle-level services, technical products, OPEN application center, terminal services, etc.).

The Group proactively promoted the transformation of digitalised education through education information support, providing comprehensive education information services for all types of colleges and universities at all levels that engaged in vocational education and continuous education. Open Distance Education, a subsidiary of the Group, provides platform and technology support services for general universities and open universities. MBACHina provides education information platform service for business schools. Meanwhile, the Group proactively establishes education and teaching informatization platforms for undergraduate colleges (including graduate schools) and vocational colleges. In October 2021, the Group entered into an agreement to acquire 100% equity interests of UMOOC Online Education Technology (Beijing) Limited Company (“**UMOOC**”).

UMOOC provides education and teaching informatization construction, online teaching support, mixed teaching applications and other services for undergraduate colleges (including graduate schools) and vocational colleges across the country. UMOOC is a national high-tech enterprise, which was restructured and organized by the Digital Learning Research and Application Center of the Institute of Educational Technology of Tsinghua University. It utilizes Tsinghua University’s advanced technology, disciplinary background and professional talent team, mainly in the fields of higher education and vocational education, online education research, design, development, application and evaluation, etc.

As of 31 December 2021, UMOOC cooperated with more than 370 undergraduate colleges (including graduate schools) and vocational colleges, providing services for over 13 million students.

For details of the Group’s acquisition of UMOOC, please refer to the relevant announcement issued by the Company on 17 October 2021. The Group completed the acquisition on 23 November 2021 and is currently holding 100% equity interests of UMOOC.

Technology Research and Development and Investment

The Group continued to increase investments in technology research and development and constantly strengthened its core competitiveness. A total amount of more than RMB1 billion has been invested in the construction of technological basic capacity, establishing industry-leading technology service infrastructure. The Group currently has 7 national high-tech enterprises, and accumulatively undertakes more than 200 national, provincial and ministerial scientific research topics and projects including major national science and technology projects from many national state ministries including the National Development and Reform Commission, Ministry of Science and Technology, Ministry of Education and Ministry of Industry and Information Technology. A number of its core applications have obtained level protection level 3 certification for national information security, and the major enterprises under the Group passed ISO20000 certification, ISO27001 certification and ISO9001 certification. The Group owns more than 110 patents and more than 400 software copyrights.

Through deep integration of information technology and vocational education, the Group developed and consolidated over 20 online vocational education service platforms and about 1,500 TB of digital learning resources, and established a total of nearly 20 national and provincial-level quality online open courses. IMOOC and OPEN2U platform were selected into the “Internet + Vocational Skills Training Program” of the Ministry of Human Resources and Social Security and the Ministry of Finance and were approved as a national high-quality online vocational skills training platform.

Building High Quality Education

The Group attaches great importance to building high quality education and education services, and has implemented the concept of “building morality and quality first” throughout the whole process of education services, continuously improving the quality, characteristics and effectiveness of education.

The Group's schools won high praises from the competent education authorities and wide recognition from the society, and were awarded several honours such as the "National Advanced Social Organization", "National Advanced Unit of Private Education", "Excellent Private Higher Education Institutions of China", "National Advanced Independent Colleges", "Outstanding Grassroots Party Organization", "National Graduate Employment Model Colleges", "National Innovation and Entrepreneurship Model Colleges" and "National Demonstration Universities for Deepening Innovation and Entrepreneurship Education Reform". In 2021, the Group's schools won over 80 provincial and ministerial and above level honours such as "China's Top 100 Private Education Schools" and "Top 100 Education Teams in China". The teachers and students of the Group's schools won over 400 municipal and above level honours such as "2021 Quality Class Competition of National Teacher Center – 1st Prize" (2021年全國教師中心優質課大賽一等獎), "Higher Education Press Cup Contemporary Undergraduate Mathematical Contest in Modeling – 1st Prize" (高教社杯全國大學生數學建模競賽一等獎) and "National College Student Advertisement Design Competition – 1st Prize" (全國大學生廣告設計大賽一等獎), with a total of over 3,000 participants.

The Group is committed to providing continuous supply of talents to promote economic construction and social development of China. In recent years, the average employment rate of graduates from our schools always kept at a level of above 90%, and the schools cultivated a large number of outstanding graduates including advanced models such as the "National Outstanding Communist Youth League Member" and "National March 8th Red Flag Bearer in the Fight against the Pandemic".

Actively Fulfilling Environmental and Social Responsibilities

The Group proactively participated in social welfare activities. During the COVID-19 pandemic, the Group immediately donated two to four infrared thermal imaging automatic thermometers per school to all of over 70 universities and colleges in Chongqing. The "classes suspension without stopped learning" campaign provides free access to resources, and serves more than 10 million learners. In August 2021, the Group established the "Funding Project for People's Reproductive Talents" in the Chongqing Education Development Foundation which amounted to RMB40 million in aggregate. During the "14th Five-Year Plan" period, the Group will provide tuition subsidies to undergraduate and junior college students with financial difficulties.

The Group also proactively incorporates the environmental, social and governance standards widely applied globally into the Group's practice, so as to achieve the sustainability goal of the Group and the industry and make contribution in achieving the goals of "Carbon Peak and Neutrality". The relevant standards include the general guidelines set out in the World Bank Group Environmental, Health, and Safety, the standards in the International Finance Corporation ("IFC")'s Environmental and Social Policies and the standards in the IFC Performance Standards.

Future Outlook

The Group has successfully implemented the strategic transformation from on-campus education to “Internet +” vocational education. In the future, it will focus on the national vocational education reform and development strategy, anchor the general direction of “technology + education + industry”, build a high-quality vocational education and service system through the implementation of platform strategy, internationalization strategy and talent strategy, and create a new “Internet +” vocational education ecosystem.

Digitalization strategy

The Group will promote the implementation of the education digital platform strategy, make full use of new-generation information technologies such as 5G, big data, artificial intelligence, blockchain, Internet of Things and virtual reality, and gather high-quality digital resources through the “original + aggregation” method to create an intelligent, diversified and open teaching, management and service platform system, providing high-quality services for the government, institutions, industries, enterprises and learners and forming an ecosystem of symbiosis and co-prosperity of education chain, talent chain, industrial chain and innovation chain to facilitate industrial transformation and upgrading.

International strategy

The Group continues to implement the development concept of “internet + Chinese language + vocational education”, focusing on the talent needs of countries along the “Belt and Road” initiative, serving the business goal of “Bringing in and Going global” of the application-oriented undergraduate colleges and vocational colleges, cultivating engineering and technological talents in big data, cloud computing engineering and other fields for the “Belt and Road” initiative, build international talent pool to promote trade connectivity under the “Belt and Road” initiative and cultivate high-skilled talents for Chinese enterprises to “Go-global”.

Talent strategy

The Group will introduce, select and train a group of management talents with entrepreneurial spirit, international vision, rich practical experience and strong digital capabilities, and build a high-quality talent team that can support the strategic development of enterprises; optimize the corporate governance structure and implement a corporate partnership promoting common commitment, synergetic development and mutual sharing system to stimulate the creativity and enthusiasm of the management personnels.

Financial Review of the Reporting Period

Revenue

Revenue represents the value of services rendered during the Reporting Period. The Group derives revenue primarily from providing online education and on-campus education services to students and users.

The total revenue increased by approximately 116.2% to approximately RMB2,394.0 million for the year ended 31 December 2021 from approximately RMB1,107.2 million for the year ended 31 December 2020, which was mainly due to the Group had actively implemented the strategic transformation of “Internet +” vocational education and the increase in the number of students in on-campus education during the Reporting Period.

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 92.0% from approximately RMB540.1 million for the year ended 31 December 2020 to approximately RMB1,037.1 million for the year ended 31 December 2021. This increase was primarily due to the increase in the overall operating costs due to completion of the consolidation of the online education entities during the Reporting Period and the increase in the number of teaching staff and their salaries and allowances.

Gross profit

The gross profit increased by approximately 139.3% from approximately RMB567.1 million for the year ended 31 December 2020 to approximately RMB1,357.0 million for the year ended 31 December 2021, and gross profit margin increased from approximately 51.2% to approximately 56.7%, which was mainly due to the Group had actively implemented the strategic transformation of “Internet +” vocational education and the continuing optimization of operating costs by the Group during the Reporting Period.

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 59.1% from approximately RMB157.1 million for the year ended 31 December 2020 to approximately RMB249.9 million for the year ended 31 December 2021. This increase was primarily due to the Group had actively implemented the strategic transformation of “Internet +” vocational education and the increase in the interest income from the bank deposits and investment income from short-term investments measured at fair value through profit or loss and etc.

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 promoting, promoting expenses and student recruitment expenses and marketing cost of the online education entities.

Selling and distribution expenses increased from approximately RMB20.5 million for the year ended 31 December 2020 to approximately RMB242.9 million for the year ended 31 December 2021, which was primarily due to the increase in salaries and other benefits of the staff and promoting and marketing cost of the online education entities due to completion of the consolidation of the online education entities 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 and amortization of office buildings and equipment, environment and health expenses and travel and transportation expenses.

Administrative expenses increased by approximately 122.3% from approximately RMB212.0 million for the year ended 31 December 2020 to approximately RMB471.3 million for the year ended 31 December 2021 due to the increase in depreciation and amortization expenses due to completion of the consolidation of the online education entities during the Reporting Period and a general increase in the administrative expenses of the Group’s schools during the Reporting Period.

Other expenses, net

Other expenses consist primarily of expenses relating to the change of amount in fair value arising from the profit commitment in relation to the acquisition of Doxue Network and the provision of bad debts.

Other expenses increased by approximately 114.1% from approximately RMB46.8 million for the year ended 31 December 2020 to approximately RMB100.2 million for the year ended 31 December 2021.

Finance costs

Finance costs mainly include interests on bank loans and other borrowings and the interests on the put option liability in connection with the put option (the “**Put Option**”) granted to the vendors of Leed International Education Group Inc. (“**Leed International**”).

Finance costs has increased by approximately 50.1% from approximately RMB87.0 million for the year ended 31 December 2020 to approximately RMB130.6 million for the year ended 31 December 2021, which was mainly due to increase in bank loans and other borrowings of the Group during the Reporting Period.

Income tax expense

Income tax expenses primarily consist of the tax expenses accrued from online education entities.

Income tax expense has increased by approximately 224.6% from approximately RMB16.7 million for the year ended 31 December 2020 to approximately RMB54.2 million for the year ended 31 December 2021, which was mainly due to the consolidation of the online education entities during the Reporting Period.

Profit for the year

As a result of (i) the above factors; (ii) the Group had actively implemented the strategic transformation of “internet +” vocational education during the Reporting Period; and (iii) the compensation fees in relation to the conversion of Dianchi College of Yunnan University of approximately RMB232.4 million for the year ended 31 December 2020 which did not recur during the year ended 31 December 2021, profit for the year of the Group substantially increased by approximately 379.1% from approximately RMB126.8 million for the year ended 31 December 2020 to approximately RMB607.6 million for the year ended 31 December 2021.

Adjusted net profit

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

	Year ended 31 December	
	2021	2020
	RMB’000	RMB’000
Profit for the year	607,579	126,812
Add:		
Unrealised exchange loss	5,403	5,135
Share option expenses	5,141	9,380
Interest of the Put Option liability arose from the acquisition of Leed International	41,704	39,774
Amortisation of intangible assets due to consolidation	45,733	13,654
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
Change in fair value gain/(losses)	79,010	–
Deferred income tax accrued on dividends	18,657	–
Adjusted net profit	<u>803,227</u>	<u>432,441</u>

Adjusted net profit for the year ended 31 December 2021 increased by approximately RMB370.8 million or approximately 85.7% as compared with the corresponding period in 2020, adjusted net profit margin was approximately 33.6%.

Financial And Liquidity Position

Net current assets

As at 31 December 2021, the Group had net current assets of approximately RMB630.1 million, which primarily consisted of cash and bank balances. The current assets as at 31 December 2021 increase to approximately RMB3,948.5 million from approximately RMB2,726.4 million as at 31 December 2020. The increase in current assets was primarily attributable to an increase of trade receivables from approximately RMB20.0 million as at 31 December 2020 to approximately RMB606.0 million as at 31 December 2021, mainly due to the increase in current assets as a result of completion of the consolidation of online education entities during the Reporting Period.

The current liabilities increased from approximately RMB2,024.6 million as at 31 December 2020 to approximately RMB3,318.4 million as at 31 December 2021, mainly reflecting an increase of approximately RMB804.6 million in trade payables and an increase of approximately RMB483.3 million in other payables and accruals due to completion of the consolidation of the online education entities during the Reporting Period.

Adjusted return on assets and adjusted return on equity

The adjusted return on assets of the Group increased from approximately 4.7% as at 31 December 2020 to approximately 7.0% as at 31 December 2021; the adjusted return on equity of the Group increased from approximately 10.4% as at 31 December 2020 to approximately 16.8% as at 31 December 2021.

Cash reserves

Cash reserves including cash and cash equivalents, restricted bank deposits and short-term investments measured at fair value through profit or loss, the cash reserve amounted to approximately RMB3,140.6 million as at 31 December 2021, representing an increase of approximately 19.7% as compared to approximately RMB2,624.7 million as at 30 December 2020.

Capital commitment

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

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Contracted, but not provided for:		
Equipment	43,503	48,786
Buildings	367,018	363,261
Acquisitions	<u>91,800</u>	<u>172,440</u>
	<u>502,321</u>	<u>584,487</u>

At the end of the Reporting Period, the Group did not have significant capital commitments that are authorised but not contracted for (2020: Nil).

Capital Expenditure

Capital expenditure for the year ended 31 December 2021 were approximately RMB749.4 million, which was primarily used for (i) the construction of the Group's school buildings, facilities, land and acquisitions; and (ii) upgrade of software, hardware and facilities of the Group's online education entities.

Indebtedness

The Group's interest-bearing bank and other borrowings primarily consisted supplement working capital and the other general purposes and continuous development of our school buildings and facilities and acquisitions.

The bank loans and other borrowings amounted to approximately RMB1,978.9 million as at 31 December 2021, denominated in Renminbi ("RMB"), United States dollar ("US\$") and Hong Kong dollar ("HK\$"). As at 31 December 2021, our bank loans and other borrowings bore effective interest rates ranging from 2.2% to 7.3% 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, with interest rates ranging from 15% to 24% per annum.

Contingent liabilities

As at 31 December 2021, the Group did not have material contingent liabilities (2020: nil).

Foreign exchange exposure

The majority of the Group's revenue and expenditures are denominated in RMB. As at 31 December 2021, certain bank balances were denominated in US\$ 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 borrowings by total equity, decreased to approximately 41.3% as at 31 December 2021 from approximately 45.7% as at 31 December 2020, which was due to the optimization of the capital structure of the Group during the Reporting Period.

Salary increment for employees, training and development

As at 31 December 2021, the Group had 7,470 employees (2020: 5,584 employees).

In 2021, 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 and also support some excellent teachers to study, receive training and academic exchange with famous universities abroad.

Corporate Governance Code

The Company is committed to the establishment of good corporate governance practices and procedures with a view to be a transparent and responsible organization which is open and accountable to the shareholders of the Company (the “**Shareholder(s)**”). The Board strives for adhering to the principles of corporate governance and has adopted sound corporate governance practices to meet the legal and commercial standards, focusing on areas such as internal control, fair disclosure and accountability to all Shareholders to ensure the transparency and accountability of all operations of the Company. The Company believes that effective corporate governance is the foundation to create more value for the Shareholders. The Board will continue to review and improve the corporate governance practices of the Group from time to time to ensure that the Group is led by an effective Board in order to optimize return for the Shareholders.

The Company has adopted the Corporate Governance Code (the “**CG Code**”) contained in Appendix 14 to The Rules (the “**Listing Rules**”) Governing the Listing of Securities on the Stock Exchange (as in effect from time to time) as its own code of corporate governance. Throughout the year ended 31 December 2021, the Company has complied with the CG Code.

Model Code For Securities Transactions By Directors Of Listed Issuers

The Company has also adopted the model code (the “**Model Code**”) set out in Appendix 10 of the Listing Rules as its code of conduct regarding securities transactions by the Directors for the year ended 31 December 2021.

Having made specific enquiry with all Directors, it is confirmed that all Directors have complied with the required standard set out in the Model Code regarding securities transactions by the Directors throughout the year ended 31 December 2021.

Final Dividend

A final dividend in respect of the year ended 31 December 2021 of HK\$5.32 cents per ordinary share (equivalent to RMB4.32 cents, according to the central parity rate of Renminbi to Hong Kong dollars as announced by the People's Bank of China on 30 March 2022, i.e. RMB0.81218 equivalent to HK\$1.00) (2020: HK\$1.07 cents) was proposed pursuant to a resolution passed by the Board on 30 March 2022 and subject to the approval of the Shareholders at the annual general meeting of the Company (the “**Annual General Meeting**”). The distribution equals to 30% of the net profit of the Company for the Reporting Period. The expected date of payment of final dividend will be on or no later than 31 August 2022. 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 the Company's Listed Securities

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2021.

Audit Committee

The audit committee of the Company (the “**Audit Committee**”) has reviewed and discussed with the management in relation to the accounting principles and practices adopted by the Company, the internal controls and financial report matters, and the Company's policies and practices on corporate governance. The annual results have been reviewed by the Audit Committee.

Review of Preliminary Announcement of Results by the Independent Auditors

The figures in respect of the Group's consolidated statement of financial position as at 31 December 2021, consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2021 and the related notes thereto as set out in the preliminary announcement have been agreed by the Company's auditor to the amounts set out in the Group's consolidated financial statements for the year. The work performed by the Company's auditor, Ernst & Young in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards in Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Ernst & Young on the preliminary announcement.

Publication of Annual Results and Annual Report

This annual results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (<http://www.minshengedu.com>). The annual report for the Reporting Period containing all the information required by Appendix 16 to the Listing Rules will be dispatched to the Shareholders and available 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, 30 March 2022

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.