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China Gingko Education Group Company Limited

中國銀杏教育集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1851)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2020

The board (the “**Board**”) of directors (the “**Directors**”) of China Gingko Education Group Company Limited (the “**Company**”, together with its subsidiaries and consolidated affiliated entities, the “**Group**”) announces the unaudited consolidated results of the Group for the six months ended 30 June 2020, together with the comparative figures for the six months ended 30 June 2019 as below.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2020

		Six months ended 30 June	
		2020	2019
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
		(Unaudited)	(Unaudited)
Revenue	5	81,439	84,224
Cost of sales		<u>(40,273)</u>	<u>(42,795)</u>
Gross profit		41,166	41,429
Selling expenses		(829)	(972)
Administrative expenses		(21,285)	(18,559)
Other income		1,326	680
Other gains — net		<u>1,328</u>	<u>1,002</u>
Operating profit		21,706	23,580
Finance income		93	133
Finance expenses		<u>(838)</u>	<u>(573)</u>
Finance expenses — net		<u>(745)</u>	<u>(440)</u>
Profit before income tax		20,961	23,140
Income tax expenses	6	<u>(178)</u>	<u>(163)</u>
Profit for the period		<u>20,783</u>	<u>22,977</u>
Other comprehensive income for the period		—	—
Total comprehensive income for the period		<u>20,783</u>	<u>22,977</u>
Profit and total comprehensive income attributable to owners of the Company		<u>20,783</u>	<u>22,977</u>
Earnings per share for profit attributable to owners of the Company			
Basic and diluted (RMB Yuan)	7	<u>0.04</u>	<u>0.05</u>

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2020

		30 June 2020	31 December 2019
	<i>Note</i>	RMB'000 (Unaudited)	RMB'000 (Audited)
ASSETS			
Non-current assets			
Right-of-use assets		71,173	70,177
Property, plant and equipment		863,285	818,582
Intangible assets		1,357	1,413
Prepayments		17,490	9,843
		953,305	900,015
Current assets			
Inventories		175	—
Trade and other receivables	9	4,247	4,840
Prepayments		2,849	6,541
Cash and cash equivalents		136,869	227,518
		144,140	238,899
Total assets		<u>1,097,445</u>	<u>1,138,914</u>
EQUITY			
Share capital		4,321	4,321
Share premium		134,042	134,042
Reserves		62,959	62,959
Retained earnings		315,512	294,729
Total equity		<u>516,834</u>	<u>496,051</u>
LIABILITIES			
Non-current liabilities			
Borrowings		385,618	335,434
Lease liabilities		787	—
Deferred government grants		25,000	—
		411,405	335,434

		30 June	31 December
		2020	2019
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
		(Unaudited)	(Audited)
Current liabilities			
Accruals and other payables	<i>10</i>	125,835	133,659
Amounts due to related parties		14	10
Borrowings		39,890	88,232
Lease liabilities		1,088	—
Contract liabilities	<i>5</i>	1,890	85,068
Current income tax liabilities		489	460
		<u>169,206</u>	<u>307,429</u>
Total liabilities		<u>580,611</u>	<u>642,863</u>
Total equity and liabilities		<u>1,097,445</u>	<u>1,138,914</u>

NOTES TO THE INTERIM RESULTS

1 General information

The Company was incorporated in the Cayman Islands on 23 March 2018 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of the Company's registered office is Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

The Company is an investment holding company and the Group is principally engaged in providing private higher education services in the People's Republic of China (the "PRC").

The ultimate controlling shareholder of the Company is Mr. Fang Gongyu (the "Controlling Shareholder" or "Mr. Fang"), who has been controlling the group companies since their incorporation or establishment.

The shares of the Company have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 18 January 2019 (the "Listing") by way of its initial public offering (the "IPO").

This condensed consolidated interim financial results is presented in Renminbi ("RMB") and rounded to the nearest thousand yuan, unless otherwise stated.

The Group's condensed consolidated interim financial information has not been audited.

2 Basis of preparation

This condensed consolidated interim financial results set out in this announcement does not constitute the Group's consolidated interim financial information for the six months ended 30 June 2020 but are extracted from those financial information. The condensed consolidated interim financial information has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim financial reporting". This condensed consolidated interim financial information does not include all the notes of the type normally included in the annual consolidated financial statements. Accordingly, it should be read in conjunction with the annual consolidated financial statements for the year ended 31 December 2019, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") except for the adoption of new and amended standards as disclosed in Note 3.

3 Significant accounting policies

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2019, as described in those annual financial statements.

(a) New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period and the Group had to change its accounting policies accordingly. None of the new or amended standards has significant financial impact to the Group.

		Effective for accounting periods beginning on or after
Revised Conceptual Framework for Financial Reporting		1 January 2020
Amendments to HKAS 1 and HKAS 8	Definition of material	1 January 2020
Amendments to HKFRS 3	Definition of a business	1 January 2020
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest rate benchmark reform	1 January 2020
Amendments to HKFRS 16	COVID-19-related rent concessions	1 June 2020

(b) New standards and interpretations not yet adopted

As at the date of this announcement, the Hong Kong Institute of Certified Public Accountants has issued the following new standards and amendments relevant to the Group which are not yet effective for accounting periods beginning after 1 January 2020 and have not been early adopted.

		Effective for accounting periods beginning on or after
Amendments to HKAS 1	Classification of liabilities as current or non-current	1 January 2022
Amendments to HKAS 16	Property, plant and equipment: proceeds before intended use	1 January 2022
Amendments to HKAS 37	Onerous contracts — cost of fulfilling a contract	1 January 2022
Amendments to HKAS 3	Reference to the conceptual framework	1 January 2022
Annual Improvements to HKFRS Standards 2018–2020		1 January 2022
HKFRS 17	Insurance contracts	1 January 2023
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

The Group has already commenced an assessment of the likely impact of adopting the above new standards but is not yet in a position to state whether they will have a significant impact on the reporting results of operations and financial position. The management of the Group plans to adopt these new standards and amendments to existing standards when they become effective.

4 Segment information

The Group is principally engaged in provision of private higher education services in the PRC. The Group's chief operating decision maker (the "CODM") has been identified as the chief executive officer who considers the business from the service perspective.

For the purpose of resource allocation and performance assessment, the CODM reviews the overall results and financial position of the Group as a whole prepared based on the same accounting policies set out in the Group's consolidated financial statements for the year ended 31 December 2019. Accordingly, the segment information is aggregated as a single reportable segment. Management of the Group assesses the performance of the reportable segment based on the revenue and gross profit for the period of the Group as presented in the interim condensed consolidated statement of comprehensive income. No analysis of the Group's assets and liabilities is regularly provided to the management of the Group for review.

5 Revenue

Revenue during the six months ended 30 June 2020 and 2019 are as follows:

	Six months ended 30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Tuition fees	76,517	71,120
Boarding fees	3,519	5,404
Meal catering service fees	412	5,763
Others (<i>note (a)</i>)	991	1,937
	<u>81,439</u>	<u>84,224</u>

(a) Others mainly represent revenue from research projects and training programmes.

Represented by:

	Six months ended 30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Recognised over time		
Tuition fees	76,517	71,120
Boarding fees	3,519	5,404
Others — research projects and training programmes	866	1,863
Recognised at a point in time		
Meal catering service fees	412	5,763
Revenue from other source		
Lease income	125	74
	<u>81,439</u>	<u>84,224</u>

No customers individually accounted for more than 10% of the Group's revenue for the six months ended 30 June 2020 and 2019.

Contract liabilities

The Group has recognised the following revenue-related contract liabilities:

	30 June	31 December
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
Contract liabilities related to tuition fees	436	77,024
Contract liabilities related to boarding fees	678	7,663
Others	776	381
	<u>1,890</u>	<u>85,068</u>

(1) *Revenue recognised in relation to contract liabilities*

The following table shows how much of the revenue recognised in the current period relates to carried-forward contract liabilities.

	Six months ended 30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Revenue recognised that was included in the balance of contract liabilities at the beginning of the year		
Tuition fees	76,468	70,438
Boarding fees	3,519	5,399
Others	147	—
	<u>80,134</u>	<u>75,837</u>

(2) *Unsatisfied contracts*

	30 June	31 December
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
Expected to be recognised within one year		
Tuition fees	436	77,024
Boarding fees	678	7,663
Others — research projects and training programmes	776	381
	<u>1,890</u>	<u>85,068</u>

6 Income tax expenses

	Six months ended 30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Current tax		
Current tax on profits for the period	<u>178</u>	<u>163</u>

(i) *Cayman Islands corporate income tax*

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

(ii) *British Virgin Islands profit tax*

The Company's direct subsidiary in the British Virgin Islands was incorporated under the BVI Companies Act, 2004 and accordingly, is exempted from British Virgin Islands income tax.

(iii) *Hong Kong profit tax*

No provision for Hong Kong profit tax was provided as the Company and the Group did not have assessable profits in Hong Kong during the six months ended 30 June 2020.

(iv) *PRC corporate income tax ("CIT")*

CIT is provided on assessable profits of entities incorporated in the PRC. Pursuant to the *Corporate Income Tax Law of the PRC* (the "**CIT Law**"), which was effective from 1 January 2008, the CIT was 25% during the six months ended 30 June 2020.

According to the Implementation Rules for the Law for Promoting Private Education, private schools for which the school sponsors do not require reasonable returns are eligible to enjoy the same preferential tax treatment as public schools. The preferential tax treatment policies applicable to private schools requiring reasonable returns are to be separately formulated by the relevant government authorities under the State Council of PRC. During the six months ended 30 June 2020 and up to the date of approval of this condensed consolidated interim financial information, no regulations have been promulgated by such authorities in this regard. In accordance with the historical tax returns filed to the relevant tax authorities and the tax compliance confirmations obtained before, Gingko College of Hospitality Management (formerly known as Yinxing Hospitality Management College of CUIT) (“**Yinxing College**”) has been granted corporate income tax exemption for income generated from the provision of formal academic education services. As a result, no income tax expense was recognised for the income from the provision of formal academic education services during the six months ended 30 June 2020 (for the six months ended 30 June 2019: nil).

7 Earnings per share

(a) *Basic and diluted earnings per share*

Basic and diluted earnings per share is calculated by dividing the profit attributable to owners of the Company, by the weighted average number of ordinary shares outstanding during the period.

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
Basic and diluted earnings per share attributable to the ordinary equity holders of the Company (RMB Yuan)	<u>0.04</u>	<u>0.05</u>

(b) Reconciliations of earnings used in calculating earnings per share

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Basic and diluted earnings per share		
Profit attributable to the ordinary equity holders of the Company used in calculating basic earnings per share	<u>20,783</u>	<u>22,977</u>

(c) Weighted average number of shares used as the denominator

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
Weighted average number of ordinary shares used as the denominator in calculating basic and diluted earnings per share (thousands)	<u>500,000</u>	<u>488,260</u>

8 Dividend

No dividend has been paid or declared by the Group for the six months ended 30 June 2020 and 2019, nor has any dividend been proposed subsequent to 30 June 2020.

9 Trade and other receivables

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Trade receivables		
— Due from students	26	1,414
— Due from others	18	31
	<u>44</u>	<u>1,445</u>
Other receivables		
— Staff advances	571	548
— Others	3,632	2,847
	<u>4,203</u>	<u>3,395</u>
	<u><u>4,247</u></u>	<u><u>4,840</u></u>

As at 30 June 2020 and 31 December 2019, the aging analysis of the trade receivables based on the recognition date is as follows:

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Less than 1 year	31	1,445
Over 1 year	13	—
	<u>44</u>	<u>1,445</u>

As at 30 June 2020 and 31 December 2019, trade receivables of RMB44,000 and RMB1,445,000 were past due but not impaired. Based on past experience and management's assessment, the overdue amounts can be recovered. The aging analysis of these trade receivables is as follows:

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Less than 1 year	31	1,445
Over 1 year	13	—
	44	1,445

10 Accruals and other payables

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Payables for purchases of property, plant and equipment	102,160	101,347
Miscellaneous fees received from students (a)	9,363	11,139
Refundable boarding fees	3,465	—
Government subsidies payable to students (b)	1,997	2,614
Salary and welfare payables	730	7,776
Interest payable	164	402
Other taxes payable	111	172
Auditors' remuneration	—	1,300
Others	7,845	8,909
	125,835	133,659

(a) The amounts represent the miscellaneous fees received from students which would be paid out by the Group on behalf of the students.

(b) The amounts represent the subsidies received from the government which would be paid out to students by the Group on behalf of the government authorities.

- (c) All accruals and other payables of the Group were denominated in RMB and HKD.
- (d) As at 30 June 2020 and 31 December 2019, the fair values of accruals and other payables approximate their carrying amounts due to their short-term maturities.

11 Commitments

(a) Capital commitments

The following sets out the details of the capital expenditure contracted but not provided for in the consolidated financial information.

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Commitments for acquisition of property, plant and equipment	<u>16,889</u>	<u>40,403</u>

(b) Non-cancellable operating leases

The Group leases certain offices under non-cancellable operating lease agreements. The Group has future aggregate minimum lease payments in respect of offices under non-cancellable low value operating leases as follows:

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
No later than 1 year	<u>5</u>	<u>10</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Business Overview

Overview

The Group is a higher education service provider in Sichuan Province. The enrollment of Yinxing College for 2019/2020 school year is approximately 11,100 students, as compared with the enrollment of approximately 10,200 students for 2018/2019 school year. The Group is dedicated to offering comprehensive and diversified programmes and curriculum and training talents with practical skills applicable to the modern service industry. The effectiveness of the practical curricula and training programmes is reflected in its high graduate employment rates. For the 2019/2020 school year, 2,683 students were graduated from Yinxing College in June 2020, represented an increase of 7.4% when compared with 2018/2019 school year.

Market demand for talent with practical experience and readily applicable skills will continue to grow. The Group believes there is significant market potential for the growth of hospitality market in China. In light of this industry background, as a higher education service provider focusing on the hospitality industry, the Group is well positioned to capture the growth opportunities in the hospitality industry in China.

The Schools

The one college and one vocational training school the Group operates are Yinxing College and Chengdu Yinxing Hotel Vocational Skills Training School (“**Yinxing Training School**”). Yinxing College has eight departments and offers in aggregate 25 bachelor’s degree programmes and 22 junior college diploma programmes. As at 30 June 2020, Yinxing Training School had not commenced any business operation.

The number of students enrolled in Yinxing College increased from approximately 10,200 students in 2018/2019 school year to approximately 11,100 students in 2019/2020 school year, representing an increase of 8.3% or approximately 900 students. The number of students enrolled in Yinxing College increased because the Group has increased its marketing efforts, enhanced its reputation, attracted more talents and increased its plan of enrollment.

The Group derives the revenue primarily from tuition fees and boarding fees. The tuition fees and boarding fees are recognised proportionately over the terms of the applicable programme or the beneficial period for the students, where applicable. The following table sets forth the breakdown of the revenue by income source for the years indicated:

	Total income for the six months ended 30 June			
	2020 <i>RMB'000</i> (Unaudited)	2019 <i>RMB'000</i> (Unaudited)	Change <i>RMB'000</i> Increase/ (decrease)	Change (%) Increase/ (decrease)
Tuition fees	76,517	71,120	5,397	7.6
Boarding fees	3,519	5,404	(1,885)	(34.9)
Meal catering services fees	412	5,763	(5,351)	(92.9)
Others ⁽¹⁾	991	1,937	(946)	(48.8)
Total	<u>81,439</u>	<u>84,224</u>	<u>(2,785)</u>	<u>(3.3)</u>

Note:

(1) Others mainly represent revenue from research projects and training programmes, which are recognised proportionately over the terms of the applicable projects or programmes.

Outlook

Given the Group's track record of delivering quality private higher education and industry reputation, the Group remains full of confidence about its future. The Group is committed to becoming the leader and a standard developer of talent cultivation in the hospitality management industry in the PRC, thus continues to pursue the following strategies:

- Further increase market penetration and enhance teaching quality to solidify its market position and gradually establish itself as a standard developer of talent cultivation in the PRC hospitality management industry;
- Actively establish overseas schools and strengthen international cooperation with overseas educational institutions and enterprises;
- Continue to attract, incentivise and retain quality teachers; and
- Capitalise on the existing brand name of Yinxing College to further develop training programmes to diversity its source of income.

Termination of the cooperation with Chengdu University of Information Technology (“CUIT”) and conversion of Yinxing College into a regular private higher education institution

During the six months ended 30 June 2020, the Group successfully completed the application for termination of the cooperation with CUIT and conversion of Yinxing College into a regular private higher education institution (the “**Conversion**”). Despite the Conversion incurred additional costs such as staff costs for newly recruited teachers and capital expenditure for newly acquired property, plant and equipment, it is expected that the joint tuition support fee payable to CUIT will gradually decreased. The Group believes that the Conversion will create opportunities for quality enhancement and enrollment expansion which will have a positive impact on the Group’s long term development.

Construction of new campus

Starting from 2019, the Group is in the process of construction of a new campus located in Yibin City, Sichuan Province, the PRC (the “**Nanxi New Campus**”). Phase I of the Nanxi New Campus is expected to be put into operation gradually in the second half of 2020. With the completion of the Nanxi New Campus, the Group is able to provide additional capacity and resources to both academic education programmes and vocational training programmes.

Financial Review

Revenue

Revenue represents the value of services rendered during the reporting period. The Group derives revenue primarily from tuition fees, boarding fees and meal catering services fees collects from students by Yinxing College.

The revenue of the Group decreased by approximately 3.3% from approximately RMB84.2 million for the six months ended 30 June 2019 to approximately RMB81.4 million for the six months ended 30 June 2020. This decrease was primarily due to the decrease in meal catering service fees and boarding fees. Due to the outbreak of Coronavirus Disease 2019 (“**COVID-19**”), the Group ceased the operation of canteen and student dormitories since February 2020, as a result, revenue from meal catering service fees and boarding fees for the six months ended 30 June 2020 decreased by 92.9% and 34.9% respectively when compared with the corresponding period in 2019. The decrease was partially offset by the increase in revenue from tuition fees which was primarily attributable to the increase in student enrollment during the 2019/2020 school year.

Cost of Sales

Cost of sales decreased by approximately 5.9% from RMB42.8 million for the six months ended 30 June 2019 to RMB40.3 million for the six months ended 30 June 2020. The decrease was primarily due to the decrease in student activities expenses and canteen purchases as a result of the outbreak of COVID-19.

Gross Profit and Gross Profit Margin

Gross profit of the Group decreased from approximately RMB41.4 million for the six months ended 30 June 2019 to approximately RMB41.2 million for the six months ended 30 June 2020, and the gross profit margin increased by approximately 1.3% from approximately 49.2% for the six months ended 30 June 2019 to approximately 50.5% for the six months ended 30 June 2020. The slight decrease in gross profit and increase in gross profit margin was primarily due to the decrease in revenue from meal catering services, which normally generate a lower profit margin.

Selling Expenses

The Group's selling expenses primarily consist of expenses related to its student recruitment activities. The selling expenses decreased from approximately RMB1.0 million for the six months ended 30 June 2019 to approximately RMB0.8 million for the six months ended 30 June 2020.

Administrative Expenses

The Group's administrative expenses primarily consist of employee benefit expenses, property management fee, office expenses, depreciation and amortisation, professional and business consultancy fees and certain other administrative expenses. The administrative expenses increased from approximately RMB18.6 million for the six months ended 30 June 2019 to approximately RMB21.3 million for the six months ended 30 June 2020. The increase was primarily attributable to (i) the increase in employee benefit expenses due to the increase in headcount during second half of 2019 and the six months ended 30 June 2020 and the increase in business consultancy fees to support the Group's business expansion and (ii) the increase in operating costs incurred for preparation of the initial operation of the Nanxi New Campus.

Other Income

Other income of the Group increased to approximately RMB1.3 million for the six months ended 30 June 2020 from approximately RMB0.7 million for the six months ended 30 June 2019 primarily due to the increase in other miscellaneous income generated from Yinxing College during the six months ended 30 June 2020.

Other Gains — net

The net gains of the Group increased to approximately RMB1.3 million for the six months ended 30 June 2020 from approximately RMB1.0 million for the six months ended 30 June 2019 which was primary attributable to the increase in exchange gain as a result of the favourable exchange rates between Hong Kong dollars and United States dollars against RMB.

Finance Income

For the six months ended 30 June 2020, the Group's finance income remained stable at RMB0.1 million when compared with the corresponding period in 2019.

Finance Expenses

For the six months ended 30 June 2020, the Group's finance expenses increased from RMB0.6 million for the six months ended 30 June 2019 to approximately RMB0.8 million. The increase for the six months ended 30 June 2020 was mainly attributable to the increase in the Group's borrowings, which was partially offset by the increase in interest expenses capitalised in qualifying-assets.

Profit Before Income Tax

As a result of the foregoing, the profit before income tax of the Group decreased by 9.4% from approximately RMB23.1 million for the six months ended 30 June 2019 to approximately RMB21.0 million for the six months ended 30 June 2020.

Income Tax Expenses

The Group's income tax expenses were remained stable at RMB0.2 million for the six months ended 30 June 2020 when compared with the corresponding period in 2019.

Profit for the Period

As a result of the foregoing, profit of the Group for the six months ended 30 June 2020 decreased by 9.5% from approximately RMB23.0 million for the six months ended 30 June 2019 to approximately RMB20.8 million.

Adjusted net profit

The adjusted net profit represents profit for the year excluding the effect of the expenses related to the Listing, which amounted to nil (for the six months ended 30 June 2019: RMB4.2 million) for the six months ended 30 June 2020. To supplement the Group's condensed consolidated interim financial information, which are presented in accordance with HKFRSs, the Group also use adjusted net profit as additional financial measurements. The Group present these financial measures because they are used by management to evaluate our financial performance by eliminating the impact of items that management do not consider indicative of the performance of the Group's business. Management also believes these non-GAAP measurements provide additional information to investors and others in understanding and evaluating the Group's results of operations.

The terms of adjusted net profit are not defined under HKFRSs. The use of these non-GAAP measurements has material limitations as an analytical tool, as they do not include all items that impact our net profit for the period.

The following tables reconciles the Group's adjusted net profit for the periods presented to the most directly comparable financial measure calculated and presented in accordance with HKFRSs, which is profit for the period.

	For the six months ended	
	30 June	
	2020	2019
	RMB'000	RMB'000
Profit for the period	20,783	22,977
Add: Expenses related to the Listing	—	4,207
Adjusted net profit	<u>20,783</u>	<u>27,184</u>

Adjusted net profit of the Group for the six months ended 30 June 2020 decreased by 23.5% from approximately RMB27.2 million for the six months ended 30 June 2019 to approximately RMB20.8 million.

In light of the foregoing limitations for other financial measurements, when assessing the Group's operating and financial performance, shareholders and investors should not consider adjusted net profit in isolation or as a substitute for the Group's profit for the years, operating profit or any other operating performance measure that is calculated in accordance with HKFRSs. In addition, because such measures may not be calculated in the same manner by all companies, it may not be comparable to other similar titled measurements by other companies.

Financial Resources Review

Liquidity, Financial Resources and Capital Structure

As at 30 June 2020, the Group's cash and cash equivalents amounted to RMB136.9 million, representing a decrease of approximately 39.8% from RMB227.5 million as at 31 December 2019.

Net cash used in operating activities were RMB47.2 million for the six months ended 30 June 2020, as compared with net cash used in operating activities of RMB43.3 million for the six months ended 30 June 2019. Net cash used in investing activities were RMB31.2 million for the six months ended 30 June 2020, as compared with net cash used in investing activities of RMB111.3 million for the six months ended 30 June 2019. Net cash used in financing activities were RMB12.2 million for the six months ended 30 June 2020, as compared with net cash generated from financing activities of RMB149.0 million for the six months ended 30 June 2019.

As at 30 June 2020, the Group's borrowings amounted to RMB425.5 million (31 December 2019: RMB423.7 million), representing secured bank borrowings of RMB320.0 million (31 December 2019: RMB390.0 million) and secured loans from third parties of RMB105.5 million (31 December 2019: RMB33.7 million). As at 30 June 2020, the Group's borrowings of RMB39.9 million (31 December 2019: RMB88.2 million) would mature within 1 year, RMB50.5 million (31 December 2019: RMB15.5 million) would mature between 1 and 2 years, RMB198.7 million (31 December 2019: RMB153.6 million) would mature between 2 and 5 years and RMB136.4 million (31 December 2019: RMB166.4 million) would mature over 5 years. The Group's borrowings were denominated in RMB and carried at floating interest rates as at 30 June 2020.

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total equity. Net debt is calculated as total debt less cash and cash equivalents. As at 30 June 2020, the Group's gearing ratio was 56.2% (31 December 2019: 39.5%).

As at 30 June 2020, the Group had net current liabilities of RMB25.1 million, as compared with net current liabilities of RMB68.5 million as at 31 December 2019 which was primarily attributable to the recognition of revenue during the six months ended 30 June 2020 in respect of the contract liabilities received from students in last year.

Significant investment, material acquisition and disposal of subsidiaries and associated companies

There was no significant investment, material acquisition and disposal of subsidiaries and associated companies during the six months ended 30 June 2020.

Future Plan for Material Investments and Capital Assets

Save as disclosed in the prospectus dated 21 December 2018, the announcements published on 14 March 2019 and 10 May 2019, the circulars dated on 30 June 2019 and this announcement, the Group did not have other plans for material investments and capital assets. The expected source of funding of the construction of Nanxi New Campus in the coming years will be funded by the Group's internal resources and/or borrowings.

Capital Commitments

As at 30 June 2020, the Group had contracted but not provided for capital commitments of approximately RMB16.9 million, which were primarily relating to the investment in the Nanxi New Campus, as compared with the total amount of capital expenditures contracted for but not yet incurred of RMB40.4 million as at 31 December 2019.

Currency Exposure and Management

The majority of the Group's revenue and expenditures are denominated in RMB. As at 30 June 2020, certain bank balances were denominated in RMB, United States dollars and Hong Kong dollars. The Group is exposed to foreign exchange risk with respect mainly to United States dollars and Hong Kong dollars which may affect the Group's performance. The Group currently does not have any foreign currency hedging policies. The management is aware of the possible exchange risk exposure due to the continuing exchange rate fluctuation of United States dollars and Hong Kong dollars against RMB and will continue to monitor its impact on the performance of the Group and consider adopting prudent measures as appropriate.

Contingent Liabilities

As at 30 June 2020, the Group had no material contingent liabilities.

Pledge of Assets

As at 30 June 2020, RMB16.0 million had been pledged as a refundable security deposit to secure the loans from independent third parties.

As at 30 June 2020, RMB125.0 million of construction in progress, RMB3.9 million of land use rights and right over the tuition fees and boarding fees had been pledged as security to secure the bank borrowings of RMB320.0 million.

Employees and Remuneration Policy

As at 30 June 2020, the Group had 823 employees, as compared with 752 employees as at 31 December 2019. The increase of the Group's number of employees was mainly attributable to the continuous recruitment of qualified teachers for Yinxing College to enhance its teaching quality. The Group also recruited additional staff for preparation of the initial operation of the Nanxi New Campus since second half of 2019. Remuneration of the Group's employees includes basic salaries, allowances, bonus and other employee benefits, and is determined with reference to their experience, qualifications and general market conditions. The emolument policy for the employees of the Group is set up by the Board on the basis of their merit, qualification and competence. As required by the PRC laws and regulations, the Group participates in various employee social security plans for the employees that are administered by local governments, including, among other things, housing provident fund, pension, medical insurance, social insurance and unemployment insurance. The Board believes that the Group is maintaining a favourable working relationship with its employees, and it has experienced no major labour disputes during the six months ended 30 June 2020.

OTHER INFORMATION

Interim Dividend

At the meeting of the Board held on 28 August 2020, the Board has resolved not to pay any interim dividend for the six months ended 30 June 2020.

Corporate Governance

The Company is committed to maintaining high standard of corporate governance to safeguard the interests of the shareholders of the Company and to enhance corporate value and responsibility. The Board comprises four executive Directors and three independent non-executive Directors. The Board has adopted the code provisions of the Corporate Governance Code (“**CG Code**”) set out in Appendix 14 to the Listing Rules. For the six months ended 30 June 2020, the Company has complied with the code provisions under the CG Code, save and except for the deviation to paragraph A.2.1 below.

Paragraph A.2.1 of the CG Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The chairman and chief executive officer of the Company are held by Mr. Fang Gongyu who has extensive experience in the industry. The Board believes that Mr. Fang can provide the Company with strong and consistent leadership and allows for effective and efficient

planning and implementation of business decisions and strategies. The Board also considers that the current structure of vesting the roles of chairman and chief executive officer in the same person will not impair the balance of power and authority between the Board and the management of the Company. The Board shall review this structure from time to time to ensure appropriate and timely action to meet changing circumstances.

Purchase, Sale and Redemption of Shares

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's securities listed on the Stock Exchange during the six months ended 30 June 2020.

Events after the Period

Save as disclosed in this announcement, there was no other significant subsequent event relevant to the business or financial performance of the Group that has come to the attention of the Directors since 30 June 2020.

Use of Net Proceeds from the Company's Initial Public Offering

The Company issued 125,000,000 new Shares (the "Global Offering") at the issue price of HK\$1.44 per Share in the connection with the Listing. The net proceeds after deducting the (i) underwriting commissions and incentive fees, and (ii) other expenses payable by the Group in connection with the Global Offering amounted to approximately HK\$157.8 million (equivalent to approximately RMB136.4 million). The following table sets forth the use of proceeds by the Group as at 30 June 2020:

	Budget	Amount that had been utilised as at 30 June 2020 (RMB million)	Remaining balance as at 30 June 2020	Expected timeline for unutilised balance
For construction of the Nanxi New Campus	116.0	116.0	—	Not applicable
For recruitment of high-caliber teachers and staff	13.6	9.5	4.1	31 December 2020
For general business operations and working capital	6.8	6.8	—	Not applicable
Total	136.4	132.3	4.1	

The unutilised net proceeds are generally placed in licensed financial institutions as short-term deposits. There has been no change to the intended use of net proceeds as previously disclosed in the prospectus of the Company dated 21 December 2018. The proceeds were used and are proposed to be used as and when appropriate based on the Group's business needs according to the intentions previously disclosed in the prospectus of the Company. The expected timeline for using the unutilised net proceeds is based on the best estimation of the business market situations made by the Board. It might be subject to change based on the market conditions.

Model Code for Securities Transactions by Directors

The Board 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 for the Directors' dealings in the Company's securities. The provisions under the Listing Rules in relation to compliance with the Model Code by the Directors regarding securities transactions have been applicable to the Company since 18 January 2019.

Having made specific enquiry of all the Directors of the Company, all the Directors confirmed that they had strictly complied with the required standards set out in the Model Code for the six months ended 30 June 2020.

Public Float

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the Company had maintained sufficient public float as required under the Listing Rules for the six months ended 30 June 2020.

Audit Committee

As at the date of this announcement, the audit committee of the Company (the “**Audit Committee**”) consists of Mr. Wong Chi Keung, Mr. Jiang Qian and Mr. Yuan Jun, who are independent non-executive Directors of the Company. The chairman of the Audit Committee is Mr. Wong Chi Keung. The unaudited interim condensed consolidated financial information for the six months ended 30 June 2020 of the Company have been reviewed by the Audit Committee.

Appreciation

The chairman of the Group would like to take this opportunity to thank his fellow Directors for their invaluable advice and guidance, and to each and every one of the staff of the Group for their hard work and loyalty to the Group.

Publication of Interim Financial Results and Interim Report

This interim results announcement is published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.chinagingkoedu.com>). The interim report of the Company for the six months ended 30 June 2020 containing all the information required by the Listing Rules will be despatched to shareholders of the Company and made available for review on the same websites in due course.

By order of the Board
China Gingko Education Group Company Limited
Fang Gongyu
Chairman

Hong Kong, 28 August 2020

As at the date of this announcement, the executive Directors are Mr. Fang Gongyu, Mr. Tian Tao, Ms. Yu Yuan and Mr. Ma Xiaoman; and the independent non-executive Directors are Mr. Jiang Qian, Mr. Yuan Jun and Mr. Wong Chi Keung.