Huali University Group Limited
华立大学集团有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1756)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED FEBRUARY 29, 2020

The Board is pleased to announce the unaudited consolidated interim results of the Group for the six months ended February 29, 2020, together with comparative figures for the corresponding period in 2019.

HIGHLIGHTS

	As at February 29, 2020	As at February 28, 2019	Change	Change
Schools	**3**	3	—	—
Student enrollment	**45,617**	44,659	958	2.1%

	Six months ended February 29, 2020 ***(RMB'000)***	Six months ended February 28, 2019 *(RMB'000)*	Change *(RMB'000)*	Change
Revenue	**393,705**	339,830	53,875	15.9%
Gross profit	**225,969**	189,705	36,264	19.1%
Profit for the period	**138,118**	112,671	25,447	22.6%
Adjusted net profit[(1)]	**160,887**	128,929	31,958	24.8%
Earnings per share (RMB per Share)	**0.130**	0.125	0.005	4.2%
Gross profit ratio	**57.4%**	55.8%		
Operating profit ratio	**41.3%**	39.9%		
Net profit ratio	**35.1%**	33.2%		
Adjusted net profit ratio[(1)]	**40.9%**	37.9%		

Note:

1. Adjusted net profit is a non-Hong Kong Financial Reporting Standards ("**HKFRSs**") measure, which is derived from the profit for the period after adjusting the listing expenses, interest expenses on discount of amounts due to a related party and fair value gains on investment properties.

On April 16, 2020, the Board has resolved to declare an interim dividend of RMB0.051 (equivalent to approximately HK$0.056) per Share (six months ended February 28, 2019: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

Revenue represents the value of services rendered during the six months ended February 29, 2020. The Group derives revenue from the tuition fees and boarding fees its schools collect from students. Revenue increased by RMB53.9 million, or 15.9%, from RMB339.8 million for the six months ended February 28, 2019 to RMB393.7 million for the six months ended February 29, 2020. This increase was primarily the result of: (i) the increase in revenue from tuition fees by RMB49.4 million, or 15.6%, from RMB317.2 million for the six months ended February 28, 2019 to RMB366.6 million for the six months ended February 29, 2020; and (ii) the increase in revenue from boarding fees by RMB4.5 million, or 19.9%, from RMB22.6 million for the six months ended February 28, 2019 to RMB27.1 million for the six months ended February 29, 2020. Revenue from tuition fees increased mainly because: (i) the number of students of Huali College increased from 15,149 in the 2018/2019 school year to 17,780 in the 2019/2020 school year; and (ii) the Group raised tuition fees for certain programs of both Huali College and Huali Vocational College for the 2019/2020 school year. Revenue from boarding fees increased as a result of the increase in student enrollment.

Cost of Sales

Cost of sales consists primarily of staff costs, depreciation and amortization, joint tuition support fee, school consumables, property management and maintenance, utilities expenses and others. Cost of sales increased by RMB17.6 million, or 11.7%, from RMB150.1 million for the six months ended February 28, 2019 to RMB167.7 million for the six months ended February 29, 2020. Such increase was primarily the result of an increase in staff costs, depreciation and amortization as well as joint tuition support fee. Staff costs increased by RMB6.9 million, or 13.8%, from RMB50.0 million for the six months ended February 28, 2019 to RMB56.9 million for the six months ended February 29, 2020, primarily as a result of increased salaries and benefits payable to teachers. Depreciation and amortization increased by RMB6.2 million, or 13.8%, from RMB44.8 million for the six months ended February 28, 2019 to RMB51.0 million for the six months ended February 29, 2020, mainly as a result of the addition of school buildings and equipment in Zengcheng campus of Huali Vocational College in September 2019. Joint tuition support fee, which represents 17% of the total tuition fees Huali College receives from students in each school year, increased by RMB8.0 million, or 29.1%, from 27.5 million for the six months ended February 28, 2019 to RMB35.5 million for the six months ended February 29, 2020, mainly as a result of an increase in revenue generated from the tuition fees of Huali College in the 2019/2020 school year.

Gross Profit and Gross Profit Margin

Gross profit increased by RMB36.3 million, or 19.1%, from RMB189.7 million for the six months ended February 28, 2019 to RMB226.0 million for the six months ended February 29, 2020, which was in line with the growth of the Group's business. Gross profit margin increased from 55.8% for the six months ended February 28, 2019 to 57.4% for the six months ended February 29, 2020, which was mainly due to the increase in the Group's student enrollment and average tuition fees surpassing the rate of increase in cost of sales.

Selling Expenses

Selling expenses, primarily consisting of marketing staff costs, promotion expenses and other expenses, increased by RMB3.8 million, or 48.1%, from RMB7.9 million for the six months ended February 28, 2019 to RMB11.7 million for the six months ended February 29, 2020, which was due to an increase in promotion expenses incurred to attract higher student enrollment.

Administrative Expenses

Administrative expenses primarily consist of administrative staff costs, traveling and entertainment expenses, depreciation of property, plant and equipment relating to office buildings, office expenses, utilities expenses, listing expenses and auditor's remuneration and other miscellaneous expenses. Administrative expenses increased by RMB7.5 million, or 14.8%, from RMB50.8 million for the six months ended February 28, 2019 to RMB58.3 million for the six months ended February 29, 2020. Such increase was primarily due to: (i) the increase in listing expenses by RMB5.6 million, or 81.2%, from RMB6.9 million for the six months ended February 28, 2019 to RMB12.5 million for the six months ended February 29, 2020; and (ii) the increase in travel and entertainment expenses by RMB1.7 million, or 30.9%, from RMB5.5 million for the six months ended February 28, 2019 to RMB7.2 million for the six months ended February 29, 2020, primarily as a result of an increase in business related travel expenses and entertainment expenses for business development purposes.

Other Income

Other income consists of rental income and government subsidies. Rental income mainly represents the rental in respect of (i) the provision of certain space to telecommunication stations; and (ii) the leasing certain of the Group's investment properties to a related party. Other income increased by RMB0.7 million, or 17.9%, from RMB3.9 million for the six months ended February 28, 2019 to RMB4.6 million for the six months ended February 29, 2020 which was mainly due to an increase in government subsidies for the six months ended February 29, 2020.

Other Gains — Net

Other gains primarily consist of gains arising from the change in fair value of investment properties offset by the disposal losses of property, plant and equipment. Other gains increased by RMB1.2 million, or 171.4%, from RMB0.7 million for the six months ended February 28, 2019 to RMB1.9 million for the six months ended February 29, 2020, which was due to the decrease in disposal losses of property, plant and equipment.

Finance Income and Expenses

Finance expenses primarily consist of imputed interest expenses on the amount due to a related party and interest expenses on bank borrowings. Finance income primarily consists of bank interest income. Due to the increase in average bank loans during the six months ended February 29, 2020, the Group's total interest expenses on bank borrowing increased by RMB7.9 million, or 33.9% from RMB23.3 million for the six months ended February 28, 2019 to RMB31.2 million for the six months ended February 29, 2020. While certain bank loans were borrowed for the development of school premises, the corresponding interest was capitalized and resulted in a decrease in finance expenses.

Adjusted Net Profit

Adjusted net profit was derived from the profit for the period after adjusting the listing expenses, interest expenses on discount of amounts due to a related party and changes in fair value gains on investment properties, which are not indicative of the Group's operational performance. This is not a HKRFSs measure. The Group presents this item because the Group considers it an important supplemental measure of the Group's operational performance used by its management, analysts and investors. The following table shows the reconciliation of profit to adjusted net profit for the periods indicated:

	Six months ended February 29, 2020	Six months ended February 28, 2019	Change	Change
	RMB'000	*RMB'000*	*RMB'000*	
Profit for the period	**138,118**	112,671	25,447	22.6%
Add: Listing expenses	**12,453**	6,944	5,509	79.3%
Add: Interest expenses on discount of amounts due to a related party	**11,816**	10,914	902	8.3%
Less: Fair value gains on investment properties	**(1,500)**	(1,600)	100	-6.3%
Adjusted net profit for the period	**160,887**	128,929	31,958	24.8%

Adjusted net profit increased by RMB32.0 million, or 24.8%, from RMB128.9 million for the six months ended February 28, 2019 to RMB160.9 million for the six months ended February 29, 2020.

Capital Expenditures

Capital expenditures during the six months ended February 29, 2020 primarily related to the construction of new school premises, maintaining and upgrading existing school premises and purchasing additional educational facilities and equipment. For the six months ended February 29, 2020, the Group's capital expenditures were RMB139.0 million.

Liquidity, Financial Resources and Gearing Ratio

The Group's primary uses of cash are to fund its working capital requirements, purchase of property, plant and equipment, loan repayment and related interest expenses. As at the date of this announcement, the Group funded its operations principally with the cash generated from its operations, bank borrowings, shareholder contributions and net proceeds from the Listing. In the future, the Group believes that its liquidity requirements will be satisfied with a combination of cash flows generated from its operating activities, bank loans, other borrowings and other funds raised from the capital markets from time to time. As at February 29, 2020, the Group had cash and cash equivalents of RMB938.8 million.

The balance of bank loans as at February 29, 2020 was RMB1,059.3 million (as at August 31, 2019: RMB1,079.3 million). Bank loans of RMB913.5 million are repayable within five years. The Directors believe that the Group has adequate liquidity to meet its daily operations and capital expenditure requirements, and is able to manage its internal operating cash flows.

As at February 29, 2020, the gearing ratio, which is calculated on the basis of total borrowings divided by total equity of the Group, was 41.2% (as at August 31, 2019: 68.3%). The decrease in the gearing ratio was mainly due to the increase in share premium from nil as at August 31, 2019 to RMB850.4 million as at February 29, 2020.

Contingent Liabilities

As at February 29, 2020 and August 31, 2019, the Group did not have any significant contingent liability.

BUSINESS OVERVIEW

We are a leading large-scale private higher education and vocational education group in South China, offering applied science-focused and practice-oriented programs. As at February 29, 2020, we had an aggregate of 45,617 students enrolled at our three schools, namely Huali College, Huali Vocational College and Huali Technician College.

Our schools offer private higher education and private vocational education in a wide range of fields in applied sciences with an aim to prepare our students with the necessary knowledge base, skill sets and accreditations to secure jobs and pursue careers in particular professions, trades and industries.

Business Highlights

Our schools are located in strategic geographic locations in Guangdong Province with strong reputation for offering applied science-focused and practice-oriented formal higher education programs and vocational programs

All our three schools are located in Guangdong Province, one of China's most developed provinces. In light of the national strategy "Made in China 2025" adopted by the State Council in 2015 to promote the development of China's manufacturing industry in the next 10 years and the national strategy issued in 2019 on the development of the "Guangdong-Hong Kong-Macau Greater Bay Area" (《粵港澳大灣區》) to deepen cooperation between Guangdong Province, Hong Kong and the Macau Special Administrative Region and drive coordinated regional economic development, Guangdong Province has significant growth opportunities. In addition, it is expected the supply of talent in technology and science in Guangdong Province will be insufficient to satisfy the demand. Through over 20 years of operation, we have established a strong reputation for providing applied science-focused and practice-oriented formal higher education programs and vocational programs. During the past few years, the admission score of Huali College and Huali Vocational College also ranked among the highest of comparable private higher education institutions in Guangdong Province, which demonstrated market recognition of the quality of our education services as well as confidence of students and parents in our schools. We believe we are well positioned to capture the growth opportunities in the private higher education industry and private vocational education industry in China, in particular in Guangdong Province.

Unified educational philosophy and centralized management structure

We operate each of our schools with a unified educational philosophy, which is to provide the best practice-oriented education based on each student's education level and individual needs and help them succeed. For all of the schools we operate, we utilize market demand to guide our selection of major offerings and design of curricula. In addition, in order to maintain the quality of our education services, our teachers undergo frequent training and we conduct teacher performance reviews and evaluations to ensure that consistent teaching standards and educational philosophy are implemented in different schools. We have established a centralized management system which enables us to consistently manage various aspects of our schools including, among others, finance and budgeting, marketing and student recruitment and talent reserve. In addition, under our centralized management structure, we make overall plans and development strategies for all of our schools, which we believe have enabled us to fully integrate our resources to promote balanced growth of our schools and optimize synergistic effects among our schools.

We believe that through our unified educational philosophy and centralized management structure, we are able to integrate our resources, achieve economies of scale, lower our operating costs and serve a large and growing student population while maintaining consistent education quality and standards, all of which can be employed to enable us to implement consistent strategies with a view to replicating our success when we acquire or establish new schools in the future.

An experienced and proven senior management team

Each of our schools is managed on a day-to-day basis by a principal, who is assisted by several vice-principals and a team of seasoned mid-level managers. The principals are dedicated and experienced educators and many of our mid-level managers also have extensive experience in the education industry. Some of our vice-principals served as teachers or administrative staff at our schools before being internally promoted to management level and have in-depth understanding of our corporate culture and management philosophy. In addition, we provide professional management training to our management team and conduct performance reviews and evaluations periodically. We believe that our management team possesses the vision and in-depth industry knowledge required to anticipate and take advantage of market opportunities and to effectively prioritize and execute sound business strategies to maximize shareholder value.

Growth Strategy

We intend to maintain and strengthen our leading positions in the private higher education industry and private vocational education industry in South China.

We continue to make demand-driven investments in our existing schools to upgrade the school facilities to accommodate more students and enhance their educational experience. According to the Thirteenth Five-Year Plan of Development of Education in Guangdong Province (《廣東省教育發展「十三五」規劃》) (the "**Thirteenth Five-Year Plan**"), only approximately 33.02% of the college-aged population in Guangdong Province was enrolled in higher education institutions in 2015. The Thirteenth Five-Year Plan aims to further popularize higher education and increase the gross enrollment rate of higher education to 50% by 2020. In response to the Thirteenth Five-Year Plan, we have expanded the scale of our school operations and gradually increase the student enrollment in our schools. Specifically, we (i) expanded Huali College by constructing additional buildings in Zengcheng City, Guangdong Province, (ii) expanded Huali Vocational College by constructing additional buildings in Zengcheng City and Yunfu City, Guangdong Province, (iii) applied for the establishment of a new junior college to provide higher education and vocational education as well as grant junior college diplomas accredited by the MOE by establishing a new campus in Jiangmen City, Guangdong Province. By expanding the scale of our schools, we will be able to recruit more students.

We continue to improve our profitability by optimizing our pricing strategies. During the six months ended February 29, 2020, we raised tuition fees of Huali College and Huali Vocational College for certain programs. Historically, we kept our tuition fees at levels we believe are competitive compared to our peers in order to attract more students, thereby increasing our student enrollment and market share. As we have established a strong reputation for providing quality education to our students, we believe we are in a good position to optimize our pricing without compromising our reputation and our ability to attract and retain students.

Our Schools

We operate three schools in Guangdong Province, all of which grant government-accredited degrees or certifications, including:

- Huali College: a private independent college, offering four- to five-year undergraduate programs[(1)] granting bachelor degrees accredited by the MOE;

- Huali Vocational College (including Zengcheng campus and Yunfu campus): a formal higher education institution, offering three-year vocational programs granting junior college diplomas accredited by the MOE; and

- Huali Technician College (including Zengcheng campus and Yunfu campus): a private technician school primarily offering three-year, full-time vocational programs[(2)] granting technician diplomas of Huali Technician College accredited by the Department of Human Resources and Social Security of Guangdong Province and short-term intensive vocational programs.

Notes:

(1) Generally, Huali College offers four-year undergraduate programs and a five-year undergraduate program in architecture.

(2) Generally, Huali Technician College offers three-year vocational programs as well as two-, four- and five-year programs to students of different education levels pursuing different types of technician diplomas.

Student Enrollment

As at February 29, 2020, we had an aggregate of 45,617 students[1] enrolled in our three schools, comprising 17,780 students at Huali College, 19,779 students at Huali Vocational College and 8,058 students at Huali Technician College.

School	**As at February 29, 2020**	As at February 28, 2019	Change	Change
Huali College	**17,780**	15,149	2,631	17.4%
Huali Vocational College	**19,779**	20,372	-593	-2.9%
— Zengcheng campus	**18,728**[(2)]	19,731[(3)]	-1,003	-5.1%
— Yunfu campus	**1,051**	641	410	64.0%
Huali Technician College	**8,058**	9,138	-1,080	-11.8%
— Zengcheng campus	**6,921**	8,378	-1,457	-17.4%
— Yunfu campus	**1,137**	760	377	49.6%
Total	**45,617**	44,659	958	2.1%

Notes:

(1) Including 5,583 students of Huali Technician College who also take junior college courses at Huali Vocational College (the "**Continuing Education Program**") and obtain a junior college diploma awarded by Huali Vocational College, subject to, among other things, passing the National Higher Education Entrance Exam for Adults. Each student participating in the Continuing Education Program is required to pay additional tuition fee of RMB3,000 to Huali Vocational College. In order to reflect such business practice, the number of students of Huali Technician College who also participate in the Continuing Education Program was included in the number of students of Huali Vocational College, and the revenue from the additional tuition fees paid for the Continuing Education Program was fully included in the revenue from tuition fees of Huali Vocational College and Huali Technician college.

(2) Including 5,583 students of Huali Technician College who also participate in the Continuing Education Program.

(3) Including 7,295 students of Huali Technician College who also participate in the Continuing Education Program.

Tuition Fees and Boarding Fees

For the six months ended February 29, 2020, the Group's schools recorded revenue growth, which was in line with the expansion of its business and student enrollment. Revenue increased from RMB339.8 million for the six months ended February 28, 2019 to RMB393.7 million for the six months ended February 29, 2020. The Group typically charged students fees comprising tuition fees and boarding fees, and tuition fees remained as its major revenue, accounting for approximately 93.1% of the total revenue of the Group for the six months ended February 29, 2020.

The table below summarizes the amount of revenue generated from the tuition fees and boarding fees charged by the Group for the periods indicated:

	Six months ended February 29, 2020	Six months ended February 28, 2019	Change	Change
	RMB'000	*RMB'000*	*RMB'000*	
Tuition fees				
Huali College	**208,501**	161,771	46,730	28.9%
Huali Vocational College	**111,346**	102,206	9,140	8.9%
Huali Technician College	**46,725**	53,218	-6,493	-12.2%
	366,572	317,195	49,377	15.6%
Boarding fees				
Huali College	**13,351**	10,636	2,715	25.5%
Huali Vocational College	**9,386**	7,801	1,585	20.3%
Huali Technician College	**4,396**	4,198	198	4.7%
	27,133	22,635	4,498	19.9%
Total Revenue	**393,705**	339,830	53,875	15.9%

The increase in the total revenue of the Group for the six months ended February 29, 2020 was mainly due to the increase in student enrollment and average tuition fees.

The following table sets out the tuition fees of our schools for the 2018/2019 and 2019/2020 school years:

	Tuition fee rates[1] in school year	
	2019/2020	2018/2019
	RMB	*RMB*
Huali College		
Four- to five-year undergraduate program[2]	**25,500–29,500**	23,000–29,000
International program	**33,500**	32,000
Bilingual program	**27,500**	26,000–27,000
Huali Vocational College		
Three-year junior college program	**14,800–17,800**	12,800–16,800
— Zengcheng campus	**14,800–17,800**	14,800–16,800
— Yunfu campus	**14,800–17,800**	12,800–14,800
International program	**23,000–28,000**	28,000
Bilingual program	**15,800–16,800**	15,800–16,800
Huali Technician College		
Three-year vocational program[3]	**6,000–12,800**	6,000–12,800
— Zengcheng campus	**8,800–12,800**	8,800–12,800
— Yunfu campus	**6,000–7,500**	6,000–7,500

Notes:

(1) Tuition fee rates shown for all of our schools are applicable to students admitted in the relevant school year only.

(2) Generally, Huali College offers four-year undergraduate programs and a five-year undergraduate program in architecture.

(3) Generally, Huali Technician College offers three-year vocational programs as well as two-, four- and five-year programs to students of different education levels pursuing different types of technician diplomas. In addition, we offer students a dual-diploma program at Huali Technician College, in which students are permitted to take junior college courses at Huali Vocational College and obtain a junior college diploma awarded by Huali Vocational College, subject to, among other things, passing the National Higher Education Entrance Exam for Adults.

During the six months ended February 29, 2020, our boarding fee rates ranged from RMB600 to RMB2,800 per school year depending on the location, room size and number of students housed in each room.

School Utilization Rate

School utilization rate is calculated by dividing the number of boarding student enrollment in a particular school year by the school capacity in the same school year. The school capacity of our schools is calculated by the number of beds available in student dormitories.

	School Year	
	2019/2020	2018/2019
Zengcheng Campus		
Capacity	**29,203**	28,082
Utilization Rate	**93.1%**	91.7%
Yunfu Campus		
Capacity	**8,000**	8,000
Utilization Rate	**25.0%**	15.0%

OUTLOOK

Expand the Group's school network through strategic mergers and acquisitions

The Group will seek mergers and acquisitions of: (1) private regular undergraduate institutions; (2) independent colleges; and (3) high-quality regular junior colleges which focus on applied science, target to cultivate applied science talents and have the potential of upgrading to undergraduate institutions. In the coming years, we will focus on identifying the opportunities for mergers and acquisitions to expand our business portfolio in China and abroad.

The Group has established a professional merger and acquisition team consisting of experienced financial and legal personnel and professionals who are familiar with the education business. For geographical coverage, the Group will continue to focus on expanding its school network in Guangdong Province and consolidating its leading position in the Pearl River Delta, while seeking high-quality targets in provinces with a relatively developed economy and a larger population. In view of the national strategy of "Made in China 2025" issued by the State Council in 2015 to promote the development of manufacturing industries in the next 10 years, as well as the national development strategy of "Guangdong-Hong Kong-Macau Greater Bay Area" (《粵港澳大灣區》) issued in 2019 aiming to deepen the cooperation among Guangdong Province, Hong Kong and the Macau Special Administrative Region and promote the coordinated economic growth in these areas, Guangdong Province is experiencing enormous growth opportunities. The Group will seize its significant geographical advantage of Guangdong Province as a manufacturing center and meet the strong local demand for professional talents. We will also explore opportunities for expansion in South China and Southwest China where there is a relative scarcity of higher education resources and other regions in China with strong market potential. The Group's management team will leverage its extensive experience to further increase the competitiveness in student admission and graduate employment for the newly acquired schools, thus allowing the Group to achieve business growth. The Group aims to enhance education quality by applying its applied science-focused and practice-oriented teaching methodologies as well as offering market-focused major offerings and practical job-oriented curricula in the newly acquired schools. With respect to graduate employment, the Group plans to share its employment information and resources as well as extensive school-enterprise relationships with the newly acquired schools. The Group will also implement centralised management over its entire school network, optimise pricing strategy and lower the operating costs of the newly acquired schools.

Increase the capacity of the Group's schools

The Group will increase student enrollment through expanding the business operations in its existing schools and further expanding its school networks in both China and abroad. The Group will continue to make demand-driven investments in its existing schools, including upgrading the school facilities to accommodate more students and enhancing their educational experience. The expansion of Huali College is expected to be completed in the second half of 2020 and the capacity of Huali College will increase by over 2,200 students. With regard to the expansion of Huali Vocational College, we commenced the construction of additional buildings in Zengcheng in May 2017, which are expected to be fully put into use in the second half of 2020 and increase the capacity of Huali Vocational College by over 3,900 students. With regard to the construction work of the new campus of Huali Technician College in Jiangmen City, Guangdong Province, the construction is expected to be completed in the first half of 2021 and accommodate 8,100 students.

The Group plans to use the proceeds from the Listing to fund such expansion and upgrade.

Further optimise the pricing of tuition fees and boarding fees and diversify revenue sources

(1) Optimise the pricing of tuition fees and boarding fees

The Group will modestly raise its tuition fees and boarding fees for the 2020/2021 school year to reflect the changes in market demand, its increasing operating costs and the adjustment of its curriculum offerings. The Group believes that its leading position and established reputation will enable it to further increase its tuition fees while maintaining competitiveness in student admission.

(2) Diversify revenue sources

The Group's revenue is currently mainly derived from tuition fees and boarding fees from its education business. In order to diversify its revenue sources, the Group will cooperate with professional institutions to expand its vocational qualification and skill training business, thereby gradually improving the contribution of such business to the Group's revenue. By adapting to the educational needs in the market, the Group will provide diversified education services and products to benefit more students and strive to build a well-known brand recognition and reputation. The Group's various plans are currently in steady progress and the Group will disclose the relevant details in due course.

SIGNIFICANT EVENTS AFTER REPORTING PERIOD

The outbreak of novel coronavirus ("**COVID-19**") has certain impact on the education business of the Group, including closure of schools and delay in school reopening during the COVID-19 outbreak period, mainly due to domestic travel restrictions and various precautionary measurements imposed by the local authorities. The Group has put in place certain alternative action plans for students since the initially planned school commencement date in March 2020, which include the implementation of online teaching modules and distance learning activities.

In view of the implementation of the abovementioned action plans, the management has assessed and preliminarily concluded that at this stage, there was no significant impact on the financial position of the Group subsequent to the six months ended February 29, 2020 and up to the date of this announcement.

The Directors will continue to assess the impact of the pandemic on the Group's business operations and financial performance and closely monitor the Group's exposure to the risks and uncertainties in connection with the pandemic.

USE OF NET PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

The Company issued 300,000,000 new Shares with a par value of US$0.0001 at an issue price of HK$3.26 per Share in connection with the Listing. The net proceeds from the Listing, after deducting underwriting commission and other expenses, were approximately HK$946.0 million (equivalent to approximately RMB850.9 million).

The following table sets forth a summary of the utilization of the net proceeds from the Listing:

Purpose		**Net proceeds** *RMB' Million*	**Utilized amount As at February 29, 2020** *RMB' Million*	**Unutilized amount As at February 29, 2020** *RMB' Million*	**Expected timeline**
Expansion of existing schools by constructing additional buildings for Huali College and Huali Vocational College	**53.0%**	**451.0**	**(100.0)**	**351.0**	**2020–2021**
Establishment of a new junior college in Jiangmen City, Guangdong Province	**37.0%**	**314.8**	**—**	**314.8**	**2021–2022**
Working capital and general corporate purposes	**10.0%**	**85.1**	**—**	**85.1**	**2020–2021**
Total	**100.0%**	**850.9**	**(100.0)**	**750.9**	

EMPLOYEES AND REMUNERATION POLICIES

Recruitment

We strictly comply with the PRC Labor Law, the PRC Labor Contract Law, the PRC Employment Promotion Law, the PRC Labor Dispute Mediation and Arbitration Law as well as other applicable provincial and local labor laws and regulations in our recruitment process. We prohibit discrimination of staff by age, sex, race, nationality, religion or disability to ensure that everyone has equal employment opportunities and prospects.

We recruit teachers based on the size of our current student enrollment and the number of newly admitted students at the beginning of each school year. We primarily seek to recruit (i) high quality and experienced teachers who are knowledgeable in both theory and practice and hold the necessary academic credentials and professional qualifications (i.e. diplomas and professional certificates); and (ii) teachers who have work experience in the relevant industries. We also invite industry experts from entities with which we have cooperative relationships to give lectures or teach classes as adjunct faculty members of our schools.

Our schools carry out their recruitment works based on our employee manual and our teachers' recruitment policy, and continuously improve and refine their recruitment processes. We actively approach talents through participating in talent recruitment fairs and industry conferences, and encourage our staff to take advantage of social media to refer and recommend talented candidates to join us. In addition, we provide continuing trainings to our teachers so that they can stay abreast of the changes in market demand, new teaching theories and/or methodologies, changing teaching and testing standards.

Remuneration

As at February 29, 2020, the Group had 1,784 employees. The remuneration packages of the employees of the Group are determined with reference to individual qualification, experience, performance, contribution to the Group, prevailing market rate and our remuneration policy.

The remuneration policy of our schools is formulated under the guidance of PRC laws and is based on industry characteristics as well as various market factors. The staff congress, president's office and board of directors of our schools collectively approve the compensation range of their employees. Our schools determine their respective compensation standards based on employment by function (teachers and administrative personnel) and position. Our schools pay a fixed annual salary to senior management and top talents such as directors, deans/department heads, administrative heads and professors. Our schools participate in social insurance plans (pension, medical, unemployment, work injury and maternity insurance) under the guidance of the relevant national, provincial and municipalities policies, and provide a variety of benefits for their employees.

INTERIM DIVIDEND

On April 16, 2020, the Board has resolved to declare the payment of an interim dividend of RMB0.051 (equivalent to approximately HK$0.056) per Share (six months ended February 28, 2019: nil), totaling approximately RMB61.6 million (equivalent to approximately HK$67.5 million) (six months ended February 28, 2019: nil). The translation is made at the exchange rate of HK$1.00 to RMB0.9123 according to the central parity rate of RMB to HK$ as announced by the People's Bank of China on April 16, 2020. Such interim dividend will be paid in cash on July 8, 2020 to Shareholders whose names appear on the register of members of the Company on June 24, 2020. This condensed consolidated interim financial information does not reflect this interim dividend payable.

CLOSURE OF REGISTER OF MEMBERS

In order to ascertain Shareholders' entitlement to interim dividend, the register of members of the Company will be closed from June 22, 2020 to June 24, 2020, both days inclusive, during which period no transfer of Shares will be registered. In order to qualify for the interim dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on June 19, 2020.

PURCHASE, SALES OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the period from the Listing Date to February 29, 2020.

CORPORATE GOVERNANCE PRACTICES

The Company has applied the principles of the code provisions set out in the CG Code. During the period from the Listing Date to February 29, 2020, the Company had complied with all the code provisions set out in the CG Code.

The Board believes that good corporate governance is essential in enhancing the confidence of the Shareholders, potential investors and business partners and is consistent with the Board's pursuit of value creation for the Shareholders. The Company is committed to enhancing its corporate governance practices appropriate to the conduct and growth of its business and to reviewing such practices from time to time to ensure that the Company complies with the statutory and professional standards and is aligned with the latest development.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as the Group's code of conduct to regulate the securities transactions of the Directors and the relevant employees. Having made specific enquiries, all Directors confirmed that they had complied with the required standards set out in the Model Code throughout the period from the Listing Date to February 29, 2020.

AUDIT COMMITTEE AND REVIEW OF UNAUDITED CONSOLIDATED FINANCIAL INFORMATION

The Audit Committee consists of three independent non-executive Directors, namely Mr. Chow Kwong Fai Edward, J.P., Mr. Yang Ying and Mr. Ding Yi. The main duties of the Audit Committee are to assist the Board in providing an independent review of the completeness, accuracy and fairness of the financial information of the Group, as well as the efficiency and effectiveness of the Group's operations and internal controls. The Audit Committee has reviewed the unaudited consolidated financial statements of the Group for the six months ended February 29, 2020, including the accounting principles and practices adopted by the Group.

AUDITOR AND REVIEW OF UNAUDITED CONSOLIDATED FINANCIAL INFORMATION

The unaudited condensed consolidated financial information of the Group for the six months ended February 29, 2020 has been reviewed by PricewaterhouseCoopers in accordance with Hong Kong Standard on Review Engagement 2410 "Review of Interim Financial Information Performed by the Independent Auditor of Entity" issued by the Hong Kong Institute of Certified Public Accountants.

PUBLICATION OF THE INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.hualiuniversity.com). The interim report of the Company for the six months ended February 29, 2020 will be despatched to the Shareholders and made available on the same websites in due course.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED February 29, 2020

(All amounts expressed in RMB unless otherwise stated)

		Six months ended	
	Note	**February 29, 2020**	February 28, 2019
		RMB'000	*RMB'000*
		(Unaudited)	(Unaudited)
Revenue	6	**393,705**	339,830
Cost of sales	9	**(167,736)**	(150,125)
Gross profit		**225,969**	189,705
Selling expenses	9	**(11,695)**	(7,923)
Administrative expenses	9	**(58,340)**	(50,814)
Other income	7	**4,547**	3,850
Other gains — net	8	**1,940**	722
Operating profit		**162,421**	135,540
Finance income		**3,983**	664
Finance expenses		**(26,629)**	(21,759)
Finance expenses — net	10	**(22,646)**	(21,095)
Profit before income tax		**139,775**	114,445
Income tax expenses	11	**(1,657)**	(1,774)
Profit for the period		**138,118**	112,671
Other comprehensive income for the period		**—**	—
Total comprehensive income		**138,118**	112,671
Profit and total comprehensive income attributable to:			
— Owner of the Company		**138,118**	112,671
Earnings per share for profit attributable to owner of the Company (expressed in RMB per share)			
Basic and diluted	12	**0.130**	0.125

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET
AS AT FEBRUARY 29, 2020
(All amounts expressed in RMB unless otherwise stated)

	Note	**As at February 29, 2020** *RMB'000* **(Unaudited)**	As at August 31, 2019 *RMB'000* (Audited)
ASSETS			
Non-current assets			
Right-of-use assets	3	**1,078,258**	—
Land use rights	3	**—**	1,096,010
Property, plant and equipment		**2,768,989**	2,598,503
Investment properties		**133,700**	132,200
Intangible assets		**7,240**	6,475
Prepayments		**13,372**	14,087
		4,001,559	3,847,275
Current assets			
Prepayments		**526**	6,728
Trade and other receivables	14	**28,913**	12,472
Amounts due from related parties		**7,961**	6,779
Cash and cash equivalents		**938,779**	453,576
		976,179	479,555
Total assets		**4,977,738**	4,326,830
EQUITY			
Share capital and share premium		**851,196**	327
Statutory surplus reserves		**123,186**	123,186
Other reserves		**336,118**	336,118
Retained earnings		**1,259,387**	1,121,269
Total equity		**2,569,887**	1,580,900

	Note	As at February 29, 2020 *RMB'000* (Unaudited)	As at August 31, 2019 *RMB'000* (Audited)
LIABILITIES			
Non-current liabilities			
Borrowings		**984,308**	1,078,908
Accruals and other payables	15	**74,360**	152,166
Deferred income tax liabilities		**35,603**	34,689
Amounts due to related parties	15	**32,297**	44,477
		1,126,568	1,310,240
Current liabilities			
Accruals and other payables	15	**298,376**	164,069
Amounts due to related parties	15	**518,554**	600,788
Contract liabilities		**383,924**	666,033
Current income tax liabilities		**5,147**	4,404
Deferred revenue		**286**	—
Borrowings		**74,996**	396
		1,281,283	1,435,690
Total liabilities		**2,407,851**	2,745,930
Total equity and liabilities		**4,977,738**	4,326,830

NOTES
FOR THE SIX MONTHS ENDED FEBRUARY 29, 2020
(All amounts expressed in RMB unless otherwise stated)

1 General information

Huali University Group Limited (the "**Company**") was incorporated in the Cayman Islands on May 24, 2016 as an exempted company with limited liability under the Companies Law (as revised) of the Cayman Islands. The address of the Company's registered office is P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, the Cayman Islands. The Company is an investment holding company. The Company and its subsidiaries (collectively referred to as the "**Group**") are principally engaged in providing private tertiary education services, including tuition services and student accommodation services in the People's Republic of China (the "**PRC**").

The ultimate holding company of the Company is HL-Diamond Limited. The directors of the Company ("**Directors**") consider the ultimate controlling party to be Mr. Zhang Zhifeng, who is also an executive Director and the chairman of the Company (the "**Owner**").

The Company's shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

This interim condensed consolidated financial information (the "**Interim Financial Information**") is presented in Renminbi ("**RMB**"), unless otherwise stated. The Interim Financial Information was approved for issue by the Board of Directors on April 16, 2020 and has not been audited.

2 Basis of preparation

This Interim Financial Information for the six months ended February 29, 2020 has been prepared in accordance with Hong Kong Accounting Standard 34, "Interim financial reporting" issued by Hong Kong Institute of Certified Public Accountants ("**HKICPA**"). This Interim Financial Information should be read in conjunction with the Company's consolidated financial statements for the year ended August 31, 2019 ("**2019 Financial Statements**"), which have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the HKICPA, as set out in the prospectus of the Company dated November 14, 2019 (the "**Prospectus**"), except for the adoption of new and amended standards as disclosed in Note 3, and estimation of income tax as disclosed in Note 11.

As at February 29, 2020, the Group had net current liabilities of RMB305,104,000, and capital commitment in relation to construction and acquisition of property, plant and equipment within twelve months amounted to RMB287,265,000. The Group's total bank borrowings as at February 29, 2020 amounting to RMB1,059,304,000 of which RMB74,996,000 are repayable within the coming twelve months, while its cash and cash equivalents amounted to RMB938,779,000 as at the same date.

Management closely monitors the Group's financial performance and liquidity position. A number of measures have been put in place by management to improve the financial position and alleviate the liquidity pressure. As at February 29, 2020, the Group had unused bank facilities totaling RMB953,696,000, of which RMB547,000,000 is specifically available for settling the payable balance due to Guangdong Hualiyuan Technology Company Limited ("**Hualiyuan Technology**") which was repayable no later than April 30, 2020, and the remaining bank facilities amounting to RMB406,696,000 are for the capital expenditure and working capital purpose of the Group covering a period for more than 12 months from February 29, 2020.

Also, management has prepared cash flow projections of the Group covering a period of not less than twelve months from February 29, 2020 on the basis that (i) the Group will continue to generate operating cash inflows; and (ii) there is continuous availability of the bank facilities.

The Directors have reviewed the Group's cash flow projection and have made due enquiries and considered the basis and assumptions of management's projections as described above. The Directors are of the opinion that, taking into account the Group's future operational performance and the expected future operating cash inflows; and the continuous availability of bank facilities, the Group will have sufficient financial resources to support its operations and to meet its financial obligations as and when they fall due in the coming twelve months from February 29, 2020. Accordingly, the Interim Financial information has been prepared on a going concern basis.

3 Accounting policies

The accounting policies applied are consistent with those followed in the preparation of the Group's consolidated financial statements for the year ended August 31, 2019, as described in those financial statements set out in the Prospectus, except for the adoption of new and amended standards as set out below, and estimation of income tax as disclosed in Note 11.

(a) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for the reporting period commencing September 1, 2019:

- HKFRS 16 — Leases
- Interpretation 23 — Uncertainty over income tax treatment
- Amendments to HKFRS 9 — Prepayment Features with Negative Compensation
- Amendments to HKAS 28 — Long-term Interests in Associates and Joint Ventures
- Annual improvements — HKFRS Standards 2015–2017 Cycle
- Amendments to HKAS 19 — Plan Amendment, Curtailment or Settlement

The Group had to change its accounting policies as a result of adopting HKFRS 16. The Group elected to adopt the new rules retrospectively but recognized the cumulative effect of initially applying the new standard on September 1, 2019. This is disclosed in Note 3(c). Most of the other amendments listed above did not have any impact on the amounts recognized in prior periods and are not expected to significantly affect the current or future periods.

(b) Certain new accounting standards and interpretations have been published that are not mandatory for February 29, 2020 reporting periods and have not been early adopted by the Group. These standards are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions:

		Effective for accounting periods beginning on or after
HKAS 1 and HKAS 8 (Amendment)	Definition of material	January 1, 2020
HKFRS 3 (Amendment)	Definition of a Business	January 1, 2020
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting	January 1, 2020
HKFRS 17	Insurance Contracts	January 1, 2021
HKFRS 10 and HKAS 28 (Amendment)	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

(c) Changes in accounting policies

This note explains the impact of the adoption of HKFRS 16 Leases on the Group's financial information.

The Group has adopted HKFRS 16 Leases retrospectively from September 1, 2019, but has not restated comparative information, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognized in the opening balance sheet on September 1, 2019.

Under HKFRS 16, lessees are required to recognize a lease liability reflecting future lease payments and a right-of-use asset for all lease contracts in the balance sheet. Lessees will also have to present interest expense on the lease liability and depreciation on the right-of-use asset in the income statement. In comparison with operating leases under HKAS 17, this will change not only the allocation of expenses but also the total amount of expenses recognized for each period of the lease term. The combination of a straight-line depreciation of the right-of-use asset and the effective interest rate method applied to the lease liability will result in a higher total charge to profit or loss in the initial years of the lease, and decreasing expenses during the latter part of the lease term. The new standard has included an optional exemption for certain short-term leases and leases of low-value assets. This exemption can only be applied by lessees. The Group has adopted the optional exemption because all the Group's leases are relate to short-term leases and low value leases, which were recognised on a straight-line basis as expenses in profit or loss.

(i) Measurement of right-of-use assets

Under the simplified transition approach, the associated right-of-use assets were measured at the amount equal to the lease liabilities on adoption, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the balance sheet as at September 1, 2019. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

(ii) Adjustments recognized in the balance sheet on September 1, 2019

The change in accounting policy affected the following items in the balance sheet on September 1, 2019:

Consolidated balance sheet (extract)	Closing balance as at August 31, 2019	Effect of adoption of HKFRS 16	**Opening balance as at September 1, 2019**
	RMB'000	*RMB'000*	***RMB'000***
Right-of-use assets	—	1,096,010	**1,096,010**
Land use rights	1,096,010	(1,096,010)	**—**
	1,096,010	—	**1,096,010**

As at February 29, 2020, the Group has non-cancellable operating lease commitments of approximately RMB6,000, which is related to short-term leases and low value leases which will both be recognized on a straight-line basis as expense in profit or loss.

(iii) Lessor accounting

The Group did not need to make any adjustments to the accounting for assets held as lessor under operating leases as a result of the adoption of HKFRS 16.

4 Estimates

The preparation of the Interim Financial Information requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this Interim Financial Information, the significant judgments were made by management in applying the Group's accounting policies and the key sources of estimation. Estimates were the same as those that applied to the 2019 Financial Statements.

5 Financial Risk Management

5.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, cash flow interest rate risk and fair value interest rate risk), credit risk and liquidity risk.

This Interim Financial Information does not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the 2019 Financial Statements.

There have been no changes in any risk management policies during the six months ended February 29, 2020.

5.2 Liquidity risk

To manage the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The Group expects continue to fund its future cash flow needs through internally generated cash flows from operations and borrowings from financial institutions.

The table below analyzes the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year *RMB'000*	Between 1 and 2 years *RMB'000*	Between 2 and 5 years *RMB'000*	Over 5 years *RMB'000*	Total *RMB'000*
As at February 29, 2020 (unaudited)					
Bank borrowings (principal plus interests)	**131,436**	**193,437**	**787,719**	**19,124**	**1,131,716**
Accruals and other payables (excluding non-financial liabilities)	**285,995**	**71,650**	**8,020**	**—**	**365,665**
Amounts due to related parties	**522,634**	**34,344**	**—**	**—**	**556,978**
Total	**940,065**	**299,431**	**795,739**	**19,124**	**2,054,359**
As at August 31, 2019 (audited)					
Bank borrowings (principal plus interests)	59,214	198,322	754,119	281,635	1,293,290
Accruals and other payables (excluding non-financial liabilities)	151,520	160,169	—	—	311,689
Amounts due to related parties	623,462	48,416	—	—	671,878
Total	834,196	406,907	754,119	281,635	2,276,857

5.3 *Fair value estimation*

Financial instruments carried at fair value or where fair value was disclosed can be categorized by levels of the inputs to valuation techniques used to measure fair value. The inputs are categorized into three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The carrying amounts of the Group's financial assets including cash and cash equivalents, trade and other receivables and amounts due from related parties and financial liabilities including accruals and other payables, amounts due to related parties, and current borrowings, approximate their fair values due to their short maturities. The carrying amount for non-current borrowings approximated their fair values as they were carried at floating interest rates. The carrying amount of the Group's non-current amounts due to related parties also approximate their fair values because they are recognized by taking into account the imputed interest rates.

6 Segment information

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

Information reported to the CODM, for the purpose of resource allocation and assessment of segment performance, is on a school by school basis. Each individual school constitutes an operating segment. The services provided and type of customers are similar in each operating segment, and each operating segment is subject to similar regulatory environment. Accordingly, their segment information is aggregated as a single reportable segment. CODM assesses the performance of the reportable segment based on the revenue and gross profit for the period of the Group as presented in the consolidated statements of comprehensive income. No analysis of the Group's assets and liabilities is regularly provided to the management of the Group for review.

As at February 29, 2020, the balance of certain proceeds from the initial public offering and certain oversea bank accounts amounting to HK$840,031,000, equivalent to RMB754,936,000 were temporarily deposited in the Group's bank accounts in Hong Kong and will be remitted to our PRC mainland companies for intended use. Except for this, approximately 85% of the carrying values of the Group's assets are situated in the PRC mainland. All of the Group's revenue are derived from activities in, and from customers located in the PRC mainland and no geographical segment analysis is prepared.

Revenues for the six months ended February 29, 2020 and February 28, 2019 are as follows:

	Six months ended	
	February 29, 2020	February 28, 2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Recognized over time		
— Tuition fees	**366,572**	317,195
— Boarding fees	**27,133**	22,635
	393,705	339,830

Tuition fees and boarding fees are recognized proportionately over each school year. No customers individually accounted for more than 10% of the Group's revenue during the six months ended February 29, 2020 and February 28, 2019

7 Other income

	Six months ended	
	February 29, 2020	February 28, 2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Rental income	**3,735**	3,731
Government subsidies	**812**	119
	4,547	3,850

8 Other gains — net

	Six months ended	
	February 29, 2020	February 28, 2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Fair value gains on investment properties	**1,500**	1,600
Losses on disposals of property, plant and equipment	**(224)**	(1,746)
Others	**664**	868
	1,940	722

9 Expenses by nature

	Six months ended	
	February 29, 2020	February 28, 2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Employee benefit expenses	**84,251**	76,486
Depreciation of property, plant and equipment	**37,832**	32,336
Joint tuition support fee *(Note (a))*	**35,538**	27,537
Depreciation of right of use assets	**15,162**	—
Amortization of land use rights	**—**	15,050
Listing expenses	**12,453**	6,944
Promotion expenses	**9,626**	6,048
Utilities expenses	**7,448**	7,519
Travel and entertainment expenses	**7,230**	5,457
School consumables	**6,270**	6,154
Office expenses	**5,915**	5,496
Property management fee	**5,069**	7,962
Equipment maintenance fee	**2,901**	2,673
Amortization of intangible assets	**803**	681
Other taxes	**721**	758
Training expenses	**514**	1,479
Auditors' remuneration	**475**	25
Other expenses	**5,563**	6,257
Total cost of sales, selling expenses and administrative expenses	**237,771**	208,862

(a) A group entity entered into an agreement of Cooperation with Guangdong University of Technology, a third party, under which the Group would pay joint tuition support fees to Guangdong University of Technology in each academic year based on 17% of the tuition income of Huali College.

10 Finance expenses — net

	Six months ended February 29, 2020 RMB'000 (Unaudited)	February 28, 2019 RMB'000 (Unaudited)
Finance expenses:		
— Interest expenses on discount of amounts due to a related party	**11,816**	10,914
— Interest expenses on bank borrowings	**31,154**	23,320
Less: borrowing costs capitalized in property, plant and equipment	**(16,341)**	(12,475)
	26,629	21,759
Finance income:		
— Bank interest income	**(3,983)**	(664)
Net finance expenses	**22,646**	21,095

11 Income tax expenses

(a) Cayman Islands profits tax

The Company and its direct subsidiary were incorporated in the Cayman Islands as exempted companies with limited liability under the Companies Law of the Cayman Islands and accordingly, are exempted from income tax.

(b) Hong Kong profits tax

No provision for Hong Kong profits tax was provided as the Group did not have assessable profits in Hong Kong during the period.

(c) PRC corporate income tax ("CIT")

The CIT rate applicable to the Group entities located in the Mainland China (the "**PRC entities**") is 25% according to the Corporate Income Tax Law of the People's Republic of China effective on January 1, 2008.

According to the Implementation Rules for the Law for Promoting Private Education ("**Implementing Rules**"), private schools, whether requiring reasonable returns or not, may enjoy preferential tax treatment. The Implementing Rules provide that the private schools for which the sponsors do not require reasonable returns are eligible to enjoy the same preferential tax treatment as public schools, and relevant authorities under the State Council may introduce preferential tax treatments and related policies applicable to private schools requiring reasonable returns. Despite the fact that no separate policies, regulations or rules have been introduced by the authorities during the period and up to date of this announcement, based on the historical tax returns filed to the relevant tax authorities, the colleges within the Group have historically enjoyed preferential tax treatment since their establishment.

Management considered that no corporate income tax would be imposed by the local tax bureau on the income from provision of formal educational services based on the PRC relevant tax regulation. As a result, no income tax expense was recognized for the income from the provision of educational services in respect of Huali College, Huali Vocational College and Huali Technician College during the period.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. The Group is liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated in the periods subsequent to January 1, 2008.

(d) United States of America ("USA") corporate income tax

No provision for USA corporate income tax was provided as the Group did not have assessable profits in USA during the period.

(e) Income tax expenses recognized based on management's estimate of the weighted average effective annual income tax rate expected for the full financial year. The estimated average annual tax rate used for the six months ended February 29, 2020 is 1.2% (six months ended February 28, 2019: 1.6%).

Analysis of the Group's income tax expenses:

	Six months ended	
	February 29, 2020	February 28, 2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Current tax on profits for the period *(Note i)*	**743**	686
Deferred income tax *(Note ii)*	**914**	1,088
	1,657	1,774

Notes:

(i) Current tax on profits for the period mainly represent tax imposed on joint tuition income from two universities and other taxable subsidies.

(ii) Deferred income tax represents tax on the revaluation gains of investment properties and timing differences on recognition of rental income.

(iii) As at February 29, 2020 and August 31, 2019, deferred income tax liabilities of RMB116,160,000 and RMB93,442,000 have not been recognized for the withholding tax that would be payable on the unremitted earnings amounted to RMB1,366,594,000 and RMB1,216,652,000 of the PRC Operating Entities, respectively. Such earnings are expected to be retained by the PRC Operating Entities for reinvestment purposes and would not be remitted to the school sponsor in the foreseeable future based on management's estimation of overseas funding requirements.

12 Earnings per share

(a) Basic

The basic earnings per share is calculated on the profit attributable to owner of the Company by the weighted average number of ordinary shares in issue during the period.

	Six months ended	
	February 29, 2020 (Unaudited)	February 28, 2019 (Unaudited)
Profit attributable to owner of the Company (RMB'000)	**138,118**	112,671
Weighted average number of ordinary shares in issue (thousands shares)	**1,059,000**	900,000
Basic earnings per share (expressed in RMB per share)	**0.130**	0.125

The weighted average number of ordinary shares in issue for the purpose of calculating basic and diluted earnings per share has been adjusted for the effect of capitalization issue of 400,000,000 shares pursuant to the resolution dated November 5, 2019, which subsequently became effective on November 25, 2019.

(b) Diluted

Diluted earnings per share presented is the same as the basic earnings per share as there were no potentially dilutive ordinary shares issued during the period.

13 Dividends

	Six months ended	
	February 29, 2020 ***RMB'000*** **(Unaudited)**	February 28, 2019 *RMB'000* (Unaudited)
Interim dividend of RMB0.051 (six months ended February 28, 2019: Nil) per ordinary share	**61,620**	—

On April 16, 2020, the Board has resolved to declare the payment of an interim dividend of RMB0.051 (six months ended February 28, 2019: nil) per Share, totalling approximately RMB61,620,000 (six months ended February 28, 2019: nil). This condensed consolidated interim financial information does not reflect this interim dividend payable.

14 Trade and other receivables

	As at February 29, 2020 *RMB'000* **(Unaudited)**	As at August 31, 2019 *RMB'000* (Audited)
Trade receivables		
— Tuition fees receivables from students	**19,084**	1,303
— Boarding fees receivables from students	**83**	18
	19,167	1,321
Other receivables		
— Deposits	**7,139**	7,139
— Staff advance	**11**	154
— Tuition fees receivables from financial institution	**3**	1,406
— Others	**2,593**	2,452
	9,746	11,151
	28,913	12,472

As at February 29, 2020 and August 31, 2019, the aging analysis of the trade receivables based on the recognition date is as followings:

	As at February 29, 2020 *RMB'000* **(Unaudited)**	As at August 31, 2019 *RMB'000* (Audited)
Less than 1 year	**18,449**	1,202
1 to 2 years	**718**	119
	19,167	1,321

The Group's trade and other receivables at respective balance sheet dates are denominated in RMB.

As at February 29, 2020 and August 31, 2019, the Group's maximum exposure to credit risk was the carrying value of each class of trade and other receivables mentioned above. The Group does not hold any other collateral as security.

As at February 29, 2020 and August 31, 2019, the fair values of trade and other receivables approximate their carrying amounts.

15 Accruals and other payables and amount due to related parties

	As at February 29, 2020 *RMB'000* **(Unaudited)**	As at August 31, 2019 *RMB'000* (Audited)
Payable for construction and purchase of property, plant and equipment	**255,946**	192,180
Payable for joint tuition support fees *(Note (a))*	**57,542**	55,010
Government scholarships payable to students	**23,435**	15,555
Employee benefits payable	**10,051**	9,943
Miscellaneous fee received from students	**9,807**	26,148
Listing expenses payable	**3,166**	1,739
Network and telecommunication fee payable	**2,429**	3,098
Interest payable	**1,507**	1,773
Payable for property management service	**1,228**	5,930
Other taxes payable	**823**	1,379
Others	**6,802**	3,480
	372,736	316,235
Less: non-current portion		
Payable for construction and purchase of property, plant and equipment	**(74,360)**	(152,166)
Current portion	**298,376**	164,069
Amounts due to related parties		
— Current	**518,554**	600,788
— Non-current	**32,297**	44,477
	550,851	645,265

Note:

(a) As at February 29, 2020 and August 31, 2019, the ageing analysis of the payable for joint tuition support fees was as follows:

	As at February 29, 2020	As at August 31, 2019
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Less than 1 year	**57,542**	55,010

16 Capital Commitments

As at February 29, 2020 and August 31, 2019, the Group had the following capital commitments on construction and purchase of property, plant and equipment:

	As at February 29, 2020	As at August 31, 2019
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Contracted but not provided for	**423,031**	500,587
Authorized but not contracted for	**452,000**	168,402
	875,031	668,989

DEFINITIONS

"Audit Committee"	the audit committee of the Board
"Board"	the board of directors of the Company
"CG Code"	the Corporate Governance Code contained in Appendix 14 to the Listing Rules
"China" or "PRC"	the People's Republic of China and for the purposes of this announcement only, except where the context requires otherwise, references to China or the PRC exclude Hong Kong, the Macau Special Administrative Region and Taiwan
"Company"	Huali University Group Limited (华立大学集团有限公司), a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board (stock code: 1756)
"consolidated affiliated entities"	the entities the Company controls through the structured contracts as further elaborated in the section headed "Structured Contracts" in the Prospectus, namely Huali Investment, Huali College, Huali Vocational College and Huali Technician College, and each a "consolidated affiliated entity"
"Director(s)"	the director(s) of the Company
"Group", "we", "us", or "our"	the Company, its subsidiaries and its consolidated affiliated entities
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong dollars" or "HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Huali College"	Huali College Guangdong University of Technology (廣東工業大學華立學院), a private independent college established under the laws of the PRC on January 1, 2006, and a consolidated affiliated entity of the Company
"Huali Investment"	Guangzhou Huali Investment Company Limited (廣州華立投資有限公司), being the school sponsor of each of the PRC Operating Entities, a company established in the PRC with limited liability on June 15, 1999 and a consolidated entity of the Company

"Huali Technician College"	Guangdong Province Huali Technician College (廣東省華立技師學院), a private tertiary vocational school established under the laws of the PRC on August 20, 2003, of which the school sponsor's interest is wholly owned by Huali Investment, and a consolidated affiliated entity of the Company
"Huali Vocational College"	Guangzhou Huali Science and Technology Vocational College (廣州華立科技職業學院), a formal higher education institution established under the laws of the PRC on July 19, 2005, of which the school sponsor's interest is wholly owned by Huali Investment, and a consolidated affiliated entity of the Company
"Listing"	the listing of the Shares on the Main Board on the Listing Date
"Listing Date"	November 25, 2019, the date on which the Shares were listed and on which dealings in the Shares were first permitted to take place on the Main Board
"Listing Rules"	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time
"Main Board"	the Main Board of the Stock Exchange
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules
"MOE"	the Ministry of Education of the PRC (中華人民共和國教育部)
"PRC Operating Entities"	the Company's consolidated affiliated entities, namely, Huali College, Huali Vocational College and Huali Technician College
"Prospectus"	the prospectus of the Company dated November 14, 2019
"RMB" or "Renminbi"	Renminbi, the lawful currency of China
"school year"	the school year for all our schools, which generally starts on September 1 of each calendar year and ends on August 31 of the next calendar year
"Shareholder(s)"	holder(s) of the Share(s)
"Shares"	ordinary shares in the Company of par value US$0.0001 each
"South China"	Guangdong Province, Guangxi Province and Hainan Province of the PRC
"Stock Exchange"	The Stock Exchange of Hong Kong Limited

"subsidiary(ies)"	has the meaning ascribed thereto in section 15 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong)
"US$"	United States dollars, the lawful currency of the United States
"%"	per cent

The English names of the PRC entities (including schools), the PRC laws or regulations, and the PRC governmental authorities referred to in this announcement are merely translations from their Chinese names and are for identification purposes. If there is any inconsistency, the Chinese names shall prevail.

By Order of the Board
Huali University Group Limited
Zhang Zhifeng
Chairman

Hong Kong, April 16, 2020

As at the date of this announcement, the executive directors of the Company are Mr. Zhang Zhifeng, Mr. Ye Yaming and Mr. Dong Xiaolin; the non-executive director of the Company is Mr. Zhang Yude; and the independent non-executive directors of the Company are Mr. Chow Kwong Fai Edward, J.P., Mr. Yang Ying and Mr. Ding Yi.