China Xinhua Education Group Limited
中國新華教育集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2779)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2019

The board of directors (the "**Board**") of China Xinhua Education Group Limited (the "**Company**") is pleased to announce the unaudited interim consolidated financial results of the Company, its subsidiaries and consolidated affiliated entities (collectively, the "**Group**") for the six months ended 30 June 2019 (the "**Reporting Period**"), together with the comparative figures for the corresponding period in 2018. The unaudited interim consolidated financial results for the Reporting Period have been reviewed by the audit committee of the Board (the "**Audit Committee**").

HIGHLIGHTS

	Six months ended 30 June		**Percentage**
	2019	2018	**change**
	RMB'000	*RMB'000*	
Revenue	**227,596**	200,432	+13.6%
Gross profit	**146,258**	130,597	+12.0%
Profit before taxation	**152,717**	138,112	+10.6%
Profit for the period	**152,358**	137,462	+10.8%
Adjusted net profit *(1)*	**154,246**	137,462	+12.2%

	As of 30 June 2019	As of 30 June 2018	**Percentage change**
Student enrollment	**44,701**	34,889	+28.1%

As at 30 June 2019, the Group recorded cash and cash equivalents of approximately RMB1.17 billion.

As at 30 June 2019, the Group did not have any bank loans.

Note

1. The Group defines the adjusted net profit as the profit for the period after adjusting for those items which are not indicative of the Group's operating performances. This is not an International Financial Reporting Standards ("**IFRSs**") measure. For details, please refer to the section headed "Management Discussion and Analysis – Financial Review" in this announcement.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the six months ended 30 June 2019 – unaudited

	Note	Six months ended 30 June 2019	2018 *(Note)*
		RMB'000	*RMB'000*
Revenue	*3*	**227,596**	200,432
Cost of sales		**(81,338)**	(69,835)
Gross profit		**146,258**	130,597
Other income	*4*	**41,669**	37,072
Selling and distribution costs		**(3,663)**	(1,778)
Administrative expenses		**(31,547)**	(27,694)
Profit from operations		**152,717**	138,197
Finance costs	*5(a)*	**–**	(85)
Profit before taxation	*5*	**152,717**	138,112
Income tax	*6*	**(359)**	(650)
Profit for the period		**152,358**	137,462
Other comprehensive income for the period (after tax and reclassification adjustments)			
Items that will not be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of the Company		**4,479**	48,338
Other comprehensive income for the period		**4,479**	48,338
Total comprehensive income for the period		**156,837**	185,800
Earnings per share	*7*		
Basic and diluted (RMB cents)		**9.5**	9.7

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 2.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2019 – unaudited

	Note	**At 30 June 2019** *RMB'000*	At 31 December 2018 *(Note)* *RMB'000*
Non-current assets			
Property, plant and equipment		**466,335**	475,994
Lease prepayments		**–**	87,880
Right-of-use assets		**86,601**	–
Intangible assets		**204,160**	204,211
Other non-current assets	*8*	**690,000**	–
		1,447,096	768,085
Current assets			
Trade receivables	*9*	**77**	261
Prepayments, deposits and other receivables		**32,159**	13,042
Financial assets measured at fair value through profit or loss		**–**	60,242
Cash and cash equivalents		**1,168,310**	1,861,671
		1,200,546	1,935,216
Current liabilities			
Contract liabilities		**13,364**	212,810
Other payables	*10*	**168,491**	101,018
Deferred income		**755**	1,510
Current taxation		**1,746**	3,429
		184,356	318,767
Net current assets		**1,016,190**	1,616,449
Total assets less current liabilities		**2,463,286**	2,384,534
NET ASSETS		**2,463,286**	2,384,534
Equity			
Share capital		**12,952**	12,952
Reserves		**2,450,334**	2,371,582
TOTAL EQUITY		**2,463,286**	2,384,534

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 2.

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

1 BASIS OF PREPARATION

The interim financial statements have been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard (IAS) 34, *Interim financial reporting*, issued by the International Accounting Standards Board.

The interim financial statements have been prepared in accordance with the same accounting policies adopted in the 2018 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2019 annual financial statements. Details of any changes in accounting policies are set out in note 2.

The preparation of the interim financial statements in conformity with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial statements contain condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2018 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with IFRSs.

The interim financial statements are unaudited, but have been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the HKICPA.

The financial information relating to the financial year ended 31 December 2018 that is included in the interim financial statements as comparative information does not constitute the Company's annual consolidated financial statements for that financial year but is derived from those financial statements. Further information relating to these financial statements for the year ended 31 December 2018 are available from the Company's registered office. The auditors have expressed an unqualified opinion on these financial statements in their report dated 26 March 2019.

2 CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

The International Accounting Standards Board ("IASB") has issued a new IFRS, IFRS 16, *Leases*, and a number of amendments to IFRSs that are first effective for the current accounting period of the Group.

None of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in the interim financial statements. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

IFRS 16, *Leases*

IFRS 16 replaces IAS 17, *Leases*, and the related interpretations, IFRIC 4, *Determining whether an arrangement contains a lease*, SIC 15, *Operating leases – incentives*, and SIC 27, *Evaluating the substance of transactions involving the legal form of a lease*. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("short-term leases") and leases of low value assets. The lessor accounting requirements are brought forward from IAS 17 substantially unchanged.

The Group has initially applied IFRS 16 as from 1 January 2019. The Group has elected to use the modified retrospective approach and recognised the cumulative effect of initial application if any as an adjustment to the opening balance of equity at 1 January 2019. Comparative information has not been restated and continues to be reported under IAS 17.

The Group has performed an assessment on the impact of the adoption of IFRS 16 and concluded that no adjustment to the opening balance of equity at 1 January 2019 was recognised. Further details of the nature and effect of the changes to previous accounting policies and the transition options applied are set out below:

(a) Changes in the accounting policies

(i) New definition of a lease

The change in the definition of a lease mainly relates to the concept of control. IFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in IFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases.

Accordingly, contracts that were previously assessed as leases under IAS 17 continue to be accounted for as leases under IFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

(ii) Lessee accounting

IFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by IAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under IAS 17, other than those short-term leases and leases of low-value assets.

Where the contract contains lease component(s) and non-lease component(s), the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received.

The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses, except for the following types of right-of-use asset:

– right-of-use assets that meet the definition of investment property are carried at fair value;

– right-of-use assets related to leasehold land and buildings where the Group is the registered owner of the leasehold interest are carried at fair value; and

– right-of-use assets related to interests in leasehold land where the interest in the land is held as inventory are carried at the lower of cost and net realisable value.

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

(iii) Lessor accounting

The accounting policies applicable to the Group as a lessor remain substantially unchanged from those under IAS 17.

Under IFRS 16, when the Group acts as an intermediate lessor in a sublease arrangement, the Group is required to classify the sublease as a finance lease or an operating lease by reference to the right-of-use asset arising from the head lease, instead of by reference to the underlying asset. The adoption of IFRS 16 does not have a significant impact on the Group's financial statements in this regard.

(b) Transitional impact

At the date of transition to IFRS 16 (i.e. 1 January 2019), the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 January 2019.

To ease the transition to IFRS 16, the Group applied the following recognition exemption and practical expedients at the date of initial application of IFRS 16:

(i) the Group elected not to apply the requirements of IFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of IFRS 16, i.e. where the lease term ends on or before 31 December 2019.

The Group presents right-of-use assets and lease liabilities separately in the statement of financial position. To reflect the changes in presentation, the Group had made the following adjustment at 1 January 2019, as a result of the adoption of IFRS 16:

– Lease prepayments amounting to RMB87,880,000 as at 1 January 2019, which represents land use rights in respect of land located in the People's Republic of China ("PRC") with lease term of 50 years is now measured under right-of-use assets.

3 REVENUE AND SEGMENT REPORTING

(a) Revenue

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Revenue from contracts with customers within the scope of IFRS 15		
Tuition fees	**203,623**	178,966
Boarding fees	**23,973**	21,466
Total	**227,596**	200,432

Revenue represents the value of service rendered during the reporting period. No service provided to a single customer exceeds 10% or more of the total revenue of the Group during the reporting period.

The Group has applied the practical expedient in paragraph 121 of IFRS 15 to its tuition and boarding fees received by university and school such that the Group does not include information about revenue that the Group will be entitled to when it satisfied the remaining performance obligations for tuition and boarding fees received by university and school that had an original expected duration of one year or less.

(b) Segment Reporting

IFRS 8, Operating Segments, requires identification and disclosure of operating segment information based on internal financial reports that are regularly reviewed by the Group's chief operating decision maker for the purpose of resources allocation and performance assessment. On this basis, the Group has determined that it only has one operating segment which is the provision of education services.

4 OTHER INCOME

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Rental and property management income	**14,266**	13,225
Service income	**6,360**	6,795
Government grants *(i)*	**8,082**	5,914
Net realised and unrealised gains on financial assets measured at fair value through profit or loss	**385**	6,970
Interest income on financial assets measured at amortised cost	**18,506**	2,785
Loss on operation of the School of Clinical Medicine *(ii)*	**(6,622)**	–
Others	**692**	1,383
	41,669	37,072

(i) Government grants mainly represent the grants from the local government for the purpose of compensating the operating expenses arising from the schools' teaching activities, scientific researches and expenditures on facilities.

(ii) On 20 November 2017, the Group entered into a formal agreement with Anhui Medical University for a term of three years to jointly operate the School of Clinical Medicine with the eventual goal of converting the School of Clinical Medicine into a school owned and operated solely by the Group (the "Conversion"). According to the agreement, the Group is entitled to the tuition fees relating to those students admitted in the 2018-2019 school year and thereafter and is responsible for the operation costs of the campus before the Conversion. The amount represents the recognized revenue less the operation costs of the School of Clinical Medicine during the reporting period. After the Conversion, the operation results of the School of Clinical Medicine will be consolidated into the Group.

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
(a) Finance costs		
Interest expense on bank loans	**–**	85

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
(b) Staff costs		
Salaries, wages and other benefits	**57,058**	51,125
Contributions to defined contribution retirement plan *(i)*	**4,314**	4,009
Equity settled share-based payment expenses	**1,026**	–
	62,398	55,134

(i) Employees of the Group's PRC subsidiaries are required to participate in a defined contribution retirement scheme administered and operated by the local municipal government. The Group's PRC subsidiaries contribute funds which are calculated on certain percentages of the average employee salary as agreed by the local municipal government to the scheme to fund the retirement benefits of the employees.

The Group has no other material obligation for the payment of retirement benefits associated with the scheme beyond the annual contributions described above.

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
(c) Other items		
Depreciation of owned property, plant and equipment	**26,462**	25,735
Amortisation of intangible assets	**1,235**	851
Depreciation of right-of-use assets	**1,279**	–
Amortisation of lease prepayments	**–**	1,279
Auditors' remuneration	**1,275**	1,433
	30,251	29,298

6 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Current tax		
Provision for PRC income tax for the period	**359**	650

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

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

(iii) Pursuant to the PRC Income Tax Law and the respective regulations, the companies of the Group which operate in Mainland China are subject to Corporate Income Tax ("CIT") at a rate of 25% on its taxable income.

(iv) According to the Implementation Rules for the Law for Promoting Private Education (the "Implementation Rules"), private schools, whether requiring reasonable returns or not, may enjoy preferential tax treatment. 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 Implementation Rules provide that the relevant authorities under the State Council may introduce preferential tax treatments and related policies applicable to private schools requiring reasonable returns. During the reporting period and up to the date of this announcement, no separate policies, regulations or rules have been introduced by the tax authorities in this regard. In accordance with the historical tax returns filed to the relevant tax authorities and the confirmation obtained therefrom, the Group's schools which do not require reasonable returns did not pay corporate income tax for the income from provision of formal educational services and had enjoyed the preferential corporate income tax exemption treatment since their establishment. As a result, no income tax expense for the income from provision of formal educational services was recognised for the Group's schools for the six months ended 30 June 2019.

7 EARNINGS PER SHARE

The calculation of basic earnings per share for the six months ended 30 June 2019 is based on the profit attributable to shareholders of the Company for the six months ended 30 June 2019 of RMB152,358,000 (30 June 2018: RMB137,462,000) and the weighted average number of ordinary shares of 1,608,583,000 in issue (30 June 2018: 1,416,480,433).

The share options granted on 30 April 2019 does not give rise to any dilution effect on the Company's earnings per share and there were no dilutive potential ordinary shares throughout the six months ended 30 June 2019, and therefore, the basic and diluted earnings per share are the same.

There were no dilutive potential ordinary shares for the six months ended 30 June 2018 and, therefore, diluted earnings per share are equivalent to basic earnings per share.

8 OTHER NON-CURRENT ASSETS

	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000
Prepayment for investments	**690,000**	–

At 30 June 2019, the prepayment for investments represent the down-payment for acquisition of Hongshan College of Nanjing University of Finance & Economics ("Hongshan College") and the earnest payment for acquisition of Kunming Fuda Development Industrial (Group) Company Limited (see Note 11) with the amount of RMB660,000,000 and RMB30,000,000, respectively.

9 TRADE RECEIVABLES

As of the end of the reporting period, an ageing analysis of the Group's trade receivables, based on the transaction date, is as follows:

	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000
Within 1 year	**77**	261

No allowance for doubtful debts was made as of the end of the reporting period.

10 OTHER PAYABLES

	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000
Dividends payable	**79,099**	–
Payables to suppliers	**20,191**	28,599
Miscellaneous expenses received from students *(Note (i))*	**17,454**	27,467
Accrued staff costs	**8,074**	16,542
Accrued expenses	**4,018**	7,203
Others	**39,655**	21,207
	168,491	101,018

Note (i): The amount represents miscellaneous expenses received from students which will be paid out on behalf of students.

All other payables are expected to be settled within one year.

11 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

The acquisition of Haiyuan College and Kunming Health School

On 12 July 2019 and 14 July 2019, the Group entered into agreements in relation to the acquisition of 60% of school sponsor' interest in Kunming Medical University Haiyuan College ("Haiyuan College") and Kunming Health School through the acquisition of 60% of the equity interest of Kunming Fuda Development Industrial (Group) Company Limited ("Fuda Company"). The Acquisition excluded all non-education assets currently held under the name of Fuda Company and certain assets currently held under the name of Haiyuan College. The total consideration payable by the Group for the transaction is RMB918 million, including a cash consideration of RMB612 million and a share consideration of RMB306 million, and as of the date of this announcement, the Group had made an initial cash payment of RMB336 million.

Equity settled share-based transactions

On 15 July 2019, the Group granted 52,900,000 share options to subscribe for the ordinary shares of HKD0.01 each in the share capital of the Company to certain eligible persons including the executive directors Mr. Lu Zhen and Mr. Wang Yongkai. As of the date of this announcement, the Group is in the process of making an assessment of the fair value of these share options granted on 15 July 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW

The Group is a leading private higher education group in China. We are the largest private higher education provider in the Yangtze River Delta, as measured by the total student enrollment. As of 30 June 2019, the student enrollment of the Group was approximately 44,701, representing an increase of 28.1% as compared with 30 June 2018.

We are committed to providing high-quality application-oriented formal education services to our students, including formal university education and secondary vocational education covering various mainstream subjects and areas of employment. Through continuous and efficient market research, we strive to design comprehensive and diversified courses to meet employers' preferences and labor market demands. Meanwhile, we actively adjust our major offerings, continuously optimize our teaching conditions by improving our tangible and intangible infrastructure, optimize the educational environment, and strengthen strategic cooperation with various private enterprises and public institutions, in order to help our students acquire useful skills and seek good employment opportunities. As a whole, our graduate employment rate is higher than the average graduate employment rate in the province and city where we operate. The high employment quality will further consolidate our reputation, improve our image in the industry, and enable our schools to attract more talented students.

BUSINESS REVIEW

Our Schools

As of 30 June 2019, the Group invested and operated four education institutions, namely (i) Anhui Xinhua University (安徽新華學院) ("**Xinhua University**"), a private university for formal education; (ii) Anhui Xinhua School (安徽新華學校) ("**Xinhua School**"), a private secondary vocational school; (iii) School of Clinical Medicine of Anhui Medical University (安徽醫科大學臨床醫學院) ("**School of Clinical Medicine**"), a college jointly operated by the Group and Anhui Medical University) (安徽醫科大學) ("**Anhui Medical University**"); and (iv) Hongshan College of Nanjing University of Finance and Economics (南京財經大學紅山學院) ("**Hongshan College**"), a college jointly operated by the Group and Nanjing University of Finance and Economics (南京財經大學) ("**Nanjing University of Finance and Economics**").

Xinhua University

Founded in 2000, Xinhua University is a formal university-level education institution, which provides undergraduate education, junior college education and continuing education focusing on applied sciences. As of 30 June 2019, Xinhua University had 11 subordinate colleges, offering a total of 82 majors for full-time higher education, including 60 undergraduate majors and 22 junior college majors. In addition, Xinhua University also provides the continuing education program to its students. As at 30 June 2019, approximately 30,075 students enrolled in Xinhua University. Xinhua University ranks the first among the private formal higher education institutions in the Yangtze River Delta, as measured by the student enrollment.

Xinhua School

As a secondary vocational school, Xinhua School provides general secondary vocational program, undergraduate oriented secondary vocational education program, and five-year junior college oriented secondary vocational education program. All students of Xinhua School take full-time courses. As of 30 June 2019, Xinhua School offered 16 majors, with 5,255 full-time students.

School of Clinical Medicine

Pursuant to the agreement with Anhui Medical University, we are entitled to the tuition fees relating to those students admitted in School of Clinical Medicine in 2018-2019 school year and thereafter and are responsible for the operations of the new campus. We are currently negotiating with the relevant authorities on the land arrangement for the new campus of the School of Clinical Medicine, and carrying out initial planning for the construction of the new campus. Meanwhile, we are actively making a long-term development plan for the School of Clinical Medicine, and will complete the conversion of the School of Clinical Medicine as early as possible, with the support of Anhui Medical University and relevant competent authorities.

Acquisition during the Reporting Period – Hongshan College

On 29 April 2019, Anhui Xinhua Group Investment Co., Ltd (安徽新華集團投資有限公司) ("**Xinhua Group**") entered into an agreement with Nanjing University of Finance and Economics and the Nanjing University of Finance and Economics Education Development Foundation (南京財經大學教育發展基金會) ("**Nanjing University of Finance and Economics Education Development Foundation**"), pursuant to which Xinhua Group has officially become the new school sponsor of Hongshan College and cooperates with Nanjing University of Finance and Economics to jointly operate Hongshan College. Hongshan College is an independent college approved by the Ministry of Education to train full-time undergraduate students. It offers 15 undergraduate majors, while its major offerings focus on economic management, with literature and law characteristics. After the Reporting Period, Hongshan College entered into an agreement with the People's Government of Gaochun District, Nanjing City to acquire approximately 950 mu of land for the construction and development of the new campus of Hongshan College, so as to support Hongshan College in completing the conversion as soon as possible in the future.

Student Enrollment

	As at 30 June 2019	As at 30 June 2018
Xinhua University	**30,075**	29,539
Xinhua School	**5,255**[(1)]	5,350
School of Clinical Medicine	**575**	–
Hongshan College	**8,796**	–
Total	**44,701**	34,889

Note:

1. The decrease in the number of students enrolled as at 30 June 2019 was because the number of the graduating students of Xinhua School in 2018 were more than the number of the students enrolled in the 2018-2019 school year.

Tuition fees and boarding fees

	Tuition fees		Boarding fees	
	2018-2019 school year	2017-2018 school year	**2018-2019 school year**	2017-2018 school year
Xinhua University				
Four-year undergraduate program	**16,500-25,000**	15,100-25,000	**1,500-2,000**	1,300-1,500
Three-year junior college program	**10,700-21,000**	10,700-21,000	**1,500-2,000**	1,300-1,500
Continuing education program	**2,400-9,900**	1,200-8,900	**1,500-2,000**	1,300-1,500
Xinhua School				
General secondary vocational program	**5,200-10,400**	5,200-7,600	**1,500**	1,200
Undergraduate oriented secondary vocational program	**10,400**	8,000	**1,500**	1,200
Five-year junior college oriented secondary vocational program	**10,400**	8,000	**1,500**	1,200
School of Clinical Medicine				
Four-year undergraduate program	**13,200-15,900**	–	**1,000**	–
Five-year undergraduate program	**15,900**	–	**1,000**	–
Hongshan College				
Four-year undergraduate program	**14,000**	–	**800-1,500**	–

BUSINESS AND OPERATION UPDATES

1. **Breakthrough in outward mergers and acquisitions.** The Group adheres to the merger and acquisition strategy of sustainable development, and has completed mergers and acquisitions, in a high quality manner and at a high standard. During the Reporting Period, the Group acquired Hongshan College, becoming the new school sponsor of Hongshan College. The Group and Nanjing University of Finance & Economics jointly operated Hongshan College. After the Reporting Period, the Group entered into an agreement to acquire 60% of school sponsor's interest in Kunming Medical University Haiyuan College (昆明醫科大學海源學院) ("**Haiyuan College**") and Kunming Health School (昆明市衛生學校) ("**Kunming Health School**") through the acquisition of 60% of the equity interest of Kunming Fuda Development Industrial (Group) Co., Ltd. (昆明富達發展實業(集團)有限公司) ("**Fuda Company**").

2. **Closer combination of major construction and market demands.** In consideration of market demands and enterprise needs, the Group actively develops majors which are urgently needed in industrial development, and continuously optimizes the major structure and subject setting. As of 30 June 2019, the Group offered a total of 14 additional undergraduate and junior college majors. Xinhua University was approved to offer three undergraduate majors, namely preschool education, big data management and application, and robot engineering; and six junior college majors, including electronic competitive sports and management, and flight attendant. Xinhua School was approved to offer the major in unmanned aerial vehicle application, and offered Sino-ROK e-commerce course and the international class on computer application for the first time. The School of Clinical Medicine offered two additional undergraduate majors, namely medical imaging technology and rehabilitation.

3. **Further progress in school-local government cooperation and school-enterprise cooperation.** The Group actively promotes school-local government cooperation and school-enterprise cooperation projects. As at 30 June 2019, Xinhua University actively developed a long-term government-school-enterprise cooperation mechanism. It signed a strategic school-local government cooperation agreement with the Management Committee of Hefei National High-tech Industrial Development Zone (合肥市國家級高新區管委會), and cooperated with YONYOU SEENTAO (用友新道科技公司) in establishing the "YONYOU SEENTAO Cloud Finance Industry College (用友新道雲財務產業學院)", which offered "Financial Management (YONYOU SEENTAO Excellence Curriculum) (財務管理(用友新道卓越班))", a major under school-enterprise cooperation, for the first time; the School of Clinical Medicine successfully signed contracts with two affiliated hospitals.

4. **Steady improvement in the employment quality of graduates.** With the Group's high education and teaching standard, the Group's school-running connotation was further improved, with excellent performance in employment of graduates and results of postgraduate admission test in 2019. The initial employment rate of recent graduates of Xinhua University was 94.32%, representing an increase of 0.84% as compared with last year, and the number of students whose scores exceeded cutoff scores for postgraduate admission tests increased by 18.8% compared with last year.

5. **Excellent results in subject competitions.** Promoting the teaching reform through competition is an effective measure to improve the comprehensive competitiveness of students. As of 30 June 2019, teachers and students of the Group won a total of over 500 awards in various competitions, thus continuously improving the brand influence of the Group.

FUTURE PROSPECTS

(i) Seizing opportunities arising from policies to comprehensively expand the school network and the size of schools of the Group

The data in the Statistical Bulletin on National Education Development 2018 show that, at present, there are 750 private higher colleges and universities across China, including 265 independent colleges, and thus there is huge room for integration. The higher education policies published in the past two years encourage high-quality private universities to expand their sizes through investment, mergers and acquisitions, and promote relevant reforms based on the principle of "conversion as many as possible and as soon as possible" with regard to the conversion of independent colleges. Our mergers and acquisitions will focus on the following two aspects: (1) long-term investment opportunities arising from the conversion of high-quality independent colleges; and (2) high-quality private colleges and universities located in regions with high attraction for talents or with a low gross enrollment rate in higher education. We believe that with its rich experience in running schools, abundant capital reserves and excellent brand reputation, Xinhua Group will be able to acquire higher quality targets in future investments, mergers and acquisitions, and carry out the implementation through the best acquisition scheme, so that there will be a continuous and rapid growth in the sizes of schools of the Group and its profitability.

(ii) Strengthening the connotation construction, and striving to enhance the brand effect and profitability of the Group

The Group will continue to make efforts to build a leading applied and highly educated personnel training system and major offerings in China, and continuously optimize the major structure and subject setting to encourage students to actively participate in various professional training and practical activities during their study. Under national policies advocating the integration of production and education, promoting the enrollment expansion for higher education and the construction of application-oriented undergraduate colleges and otherwise, we will continuously strengthen major setting, campus construction and school-enterprise cooperation, so as to provide students with the best learning environment and high-quality professional courses, thus enabling students to obtain better job opportunities after graduation. Meanwhile, the improvement in the teaching and employment quality will help our colleges and universities attract more excellent candidates, and continuously improve the enrollment number and the average tuition fee level of our colleges and universities.

(iii) Extending medical majors and comprehensively integrating resources of high-quality colleges and universities

Data of the National Bureau of Statistics show that in 2018, the number of registered physicians per one thousand population in China was only 2.59 persons, which was much less than that in developed countries in Europe and America. With the changes in China's population structure and the trend of population aging and people's increasing attention to health and quality of life, we believe that the social demand for medical treatment and health services will continuously increase in the future. The Group has invested in the School of Clinical Medicine, and successfully signed agreements to acquire Haiyuan College and Kunming Health School in July 2019, preliminarily achieving the cross-regional and multi-level medical college arrangement. Haiyuan College and the School of Clinical Medicine rank among top independent medical colleges in China. They have high-quality teaching equipment, high-level teaching teams and rich practice and training resources. They complement each other and coordinate with each other in terms of school-running characteristics. The Group will enhance the arrangement and focus on the development, in terms of medical education.

FINANCIAL REVIEW

Revenue

The Group's revenue increased by 13.6% from RMB200.4 million for the six months ended 30 June 2018 to RMB227.6 million for the Reporting Period. This increase was mainly due to the increase in the tuition fee rate, the boarding fee rate and the number of students.

Cost of Sales

Our cost of sales increased by 16.5% from RMB69.8 million for the six months ended 30 June 2018 to RMB81.3 million for the Reporting Period, mainly because we employed more high-level talents and enhanced the salary system construction and the comprehensive training of teaching staff, to improve the education and teaching quality; meanwhile we actively increased the investment of funds in teaching research and activities, and improvement in school facilities and students' living environment.

Gross Profit

Our gross profit increased by 12.0% from RMB130.6 million for the six months ended 30 June 2018 to RMB146.3 million for the Reporting Period, primarily due to the combined effect of the continuous improvement in our management level and the increase in tuition fee, which was in line with the growth of our business.

Other Income

Other income increased by 12.4% from RMB37.1 million for the six months ended 30 June 2018 to RMB41.7 million for the Reporting Period, mainly due to the combined effect of the increase in our rentals and property management fees as a result of our optimization of the management of buildings and facilities of our schools; more grants from the government for the purpose of compensating the operating expenses arising from our schools' teaching activities, scientific research and expenditure on facility improvement; and results arising out of the improvement in the fund utilization and loss on operation of the School of Clinical Medicine. Because the students enrolled by the School of Clinical Medicine in September 2018 were the first batch of students under joint operation of the Group and Anhui Medical University. Considering that the number of students of the School of Clinical Medicine will increase year by year in the future, making it necessary to prepare sources including teachers, experimental and training facilities and sites in advance, the Group expects that the profitability of the School of Clinical Medicine will be improved after the number of students reaches a certain level.

Selling and Distribution Costs

Selling and distribution costs increased by 105.6% from RMB1.8 million for the six months ended 30 June 2018 to RMB3.7 million for the Reporting Period, mainly due to active expansion of the geographical scope of enrollment by the Xinhua School in response to the national call for vocational education; and relevant costs arising out of the promotion of international exchanges by Xinhua University for the acceleration of internationalization development.

Administrative Expenses

Administrative expenses increased by 13.7% from RMB27.7 million for the six months ended 30 June 2018 to RMB31.5 million for the Reporting Period, mainly due to the increase in management expenses arising out of business growth, and higher advisory, legal and compliance costs associated to the requirement of listed company.

Profit before Taxation

The Group recognized a profit of RMB152.7 million before income tax for the Reporting Period, representing an increase of 10.6% as compared with a profit of RMB138.1 million before income tax for the six months ended 30 June 2018, which is generally in line with the increase in gross profit.

Income Tax

The Group's income tax decreased from RMB650,000 for the six months ended 30 June 2018 to RMB359,000 for the Reporting Period, representing a year-on-year decrease of 44.8%, primarily due to the decrease in taxable profit.

Profit for the Period

As a result of the combined effects of the above income, costs and expenses, the Group recorded a profit for the period of RMB152.4 million during the Reporting Period, representing an increase of 10.8% as compared with the RMB137.5 million for the six months ended 30 June 2018.

Adjusted net profit

Adjusted net profit was derived from the profit for the period after adjusting the foreign exchange gain or loss and the share based payment expense, which are not indicative of the Group's operating performances (as presented in the table below). This is not an IFRSs measure. The Group has presented this item because the Group considers it an important supplemental measure of the Group's operational performance used by the Group's management as well as analysts or investors. The following table shows profit and adjusted net profit of the Group for the periods presented below:

	Six months ended 30 June (Unaudited)	
	2019	2018
	RMB'000	*RMB'000*
Profit for the period	**152,358**	137,462
Add:		
Foreign exchange loss	**862**	–
Equity settled share-based payment expenses	**1,026**	–
Adjusted net profit	**154,246**	137,462

Working Capital and Source of Capital

The Group's cash is mainly used to satisfy the needs of working capital, and purchase of property, plant and equipment. During the Reporting Period, the Group has funded for operations primarily with cash generated from operations. The Board believes that the need for working capital can be met by the cash flow generated from operating activities, bank loans and other borrowings, and other funds raised at the capital market from time to time in the future. As at 30 June 2019, the Group recorded cash and cash equivalents of RMB1,168.3 million (31 December 2018: RMB1,861.7 million).

Net Current Assets

As at 30 June 2019, the Group recorded net current assets of RMB1,016.2 million, representing a decrease of 37.1% as compared with the RMB1,616.4 million as at 31 December 2018, which was primarily attributable to an increase in the payment of the merger and acquisition.

Capital Expenditures

Capital expenditures consist of purchase or construction cost of property and equipment, prepayment of land lease outlay or other intangible assets. During the Reporting Period, the Group's capital expenditures were RMB21.5 million (30 June 2018: RMB24.8 million). The Group's capital expenditures for the Reporting Period are primarily related to the construction of buildings and school facilities and the purchase of equipment and software. The Group has funded these capital expenditures primarily with cash generated from operations.

Bank Loans and Other Borrowings

The Group did not have any outstanding bank loans as at 30 June 2019.

Contingent Liabilities and Guarantees

As at 30 June 2019, the Group did not have any unrecorded significant contingent liabilities, guarantees or any litigation against it.

Gearing Ratio

Our gearing ratio, which was calculated as total liabilities divided by total equity, decreased from 13.4% as at 31 December 2018 to 7.5% as at 30 June 2019, primarily because the Group's contract liabilities generated from tuition fees and boarding fees of last year was basically amortized during this period.

Future Plan for Material Investments and Capital Assets

Save as disclosed herein, the Group did not have any other plans for material investments and capital assets as at the date of this announcement.

Significant Investments Held by the Group

During the Reporting Period, there was no significant investment held by the Group, except for the material acquisitions incurred during the Reporting Period. For further details, please refer to page 21 of this announcement.

Foreign Exchange Risk Management

The Group's functional currency is RMB, as most revenues and expenditures are denominated in RMB. As at 30 June 2019, balances of several banks were denominated in USD or HKD. So far, the Group has not yet entered into any financial instruments used for hedging purpose, and the management will continue paying attention to foreign exchange risk, and will consider hedging against significant foreign currency risks by using financial instruments when necessary.

Assets Pledge

As at 30 June 2019, the Group did not pledge any assets.

Human Resources

As at 30 June 2019, the Group has approximately 1,613 employees. In accordance with the applicable laws and regulations, the Group has attended the employee social security programs managed by local governments, including housing, retirement pension, medical insurance, maternity insurance and unemployment insurance. The Board believes that the Group is maintaining a favorable working relationship with our employees, and we've experienced no major labor disputes during the Reporting Period.

Off-Balance Sheet Commitments and Arrangements

During the Reporting Period, the Group has not conducted any off-balance sheet transaction.

Material Acquisitions during the Reporting Period

On 29 April 2019, Xinhua Group entered into agreements with Nanjing University of Finance and Economics and the Nanjing University of Finance and Economics Education Development Foundation, pursuant to which Xinhua Group has agreed to be a new school sponsor of Hongshan College and to cooperate with Nanjing University of Finance and Economics to jointly operate Hongshan College for a total consideration of RMB610 million. Upon Xinhua Group becoming a new school sponsor of Hongshan College, it shall have the right and obligation to convert Hongshan College into a standalone private ordinary college owned and operated solely by Xinhua Group.

Save as disclosed above, there was no material acquisition and disposal of subsidiaries and associated companies by the Group during the Reporting Period.

Material Acquisitions after the Reporting Period

On 12 July 2019 and 14 July 2019, Xinhua Group entered into agreements with Mr. Su Pingsen (蘇平森) ("**Mr. Su**") (as a vendor), Ms. Yue Guimei (岳貴梅) ("**Ms. Yue**") (as a vendor), Fuda Company (as a target company), Kunming Fuda Development Industrial Group (昆明富達發展實業集團), Haiyuan College (as a target school), Kunming Health School (as a target school), Mr. Su (as a guarantor) and Ms. Chen Yongzhi (陳永芝) (as a guarantor), pursuant to which Xinhua Group agreed to acquire 60% of school sponsor's interest in two schools (namely, Haiyuan College and Kunming Health School) through the acquisition of 60% of the equity interest of Fuda Company, and the Group shall pay the total consideration of RMB918 million to Fuda Company, Mr. Su (or his designee) and Ms. Yue with regard to the aforesaid transaction (the "**Transaction**"). Upon completion of the Transaction, Fuda Company will be owned as to 60% and 40% by Xinhua Group and Mr. Su respectively. For details, please see the announcement of the Company dated 15 July 2019.

Haiyuan College, located in Kunming City, Yunnan Province, China, is a private institution of higher learning that provides undergraduate programs, as well as an independent college approved by the Ministry of Education. Haiyuan College, as the sole medical private undergraduate college in Yunnan Province, enjoys a high reputation in the southwest. During the 2018-2019 school year, Haiyuan College had a student enrollment of approximately 12,026. The tuition fee charged by Haiyuan College for the 2018-2019 school year ranged from approximately RMB17,000 to RMB25,000 (depending on majors). Kunming Health School is a private secondary vocational school located in Kunming City, Yunnan Province, China. During the 2018-2019 school year, Kunming Health School had a student enrollment of approximately 6,247. The tuition fee for the 2018-2019 school year was approximately RMB6,000 per year.

Save as the acquisition of 60% of the equity interest of Fuda Company as mentioned above, there was no event which has occurred after the six months ended 30 June 2019 that would cause material impact on the Group.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the Reporting Period.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries, purchased, sold or redeemed any listed securities of the Company during the six months ended 30 June 2019.

REVIEW OF INTERIM RESULTS

The independent auditors of the Company, namely, KPMG, have carried out a review of the unaudited consolidated interim financial statements for the six months ended 30 June 2019 in accordance with the Hong Kong Standard on Review Engagement 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

The Audit Committee has jointly reviewed with the management and the independent auditors of the Company, the accounting principles and policies adopted by the Company and discussed internal control and financial reporting matters (including the review of the unaudited interim results for the six months ended 30 June 2019) of the Group. The Audit Committee considered that the interim results are in compliance with the applicable accounting standards, laws and regulations, and the Company has made appropriate disclosures thereof.

CORPORATE GOVERNANCE CODE

The Group is committed to maintaining high standards of corporate governance to safeguard the interests of the shareholders of the Company and to enhance corporate value and accountability. The Company has adopted the Corporate Governance Code ("**CG Code**") as its own code of corporate governance. The Company has complied with all applicable code provisions under the CG Code during the six months ended 30 June 2019. The Company will continue to review and monitor its corporate governance practices to ensure compliance with the CG Code.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by the Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited as its own code of conduct regarding directors' securities transactions since its listing on 26 March 2018. Having made specific enquiries of the Board, each director of the Board has confirmed that he/she has complied with the Model Code during the six months ended 30 June 2019.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This announcement is published on the websites of the Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk) and the Company (www.chinaxhedu.com). The interim report of the Company for the six months ended 30 June 2019 will be dispatched to the shareholders of the Company and made available on the above websites in due course.

By order of the Board
China Xinhua Education Group Limited
Wu Junbao
Chairman

Hong Kong, 27 August 2019

As at the date of this announcement, the Board comprises one non-executive director, namely Mr. Wu Junbao; three executive directors, namely Mr. Zhang Ming, Mr. Lu Zhen and Mr. Wang Yongkai; and three independent non-executive directors, namely Ms. Zhang Kejun, Mr. Yang Zhanjun and Mr. Chau Kwok Keung.