

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

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 2020

The board (the “**Board**”) of directors (the “**Directors**”) 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 2020 (the “**Reporting Period**”), together with the comparative figures for the corresponding period in 2019. The unaudited interim consolidated financial results of the Group for the Reporting Period have been reviewed by the audit committee of the Board (the “**Audit Committee**”).

HIGHLIGHTS

	Six months ended 30 June		Percentage
	2020	2019	change
	RMB'000	RMB'000	
Total income ⁽¹⁾	292,989	269,265	+8.8%
Revenue	244,819	227,596	+7.6%
Gross profit	173,939	146,258	+18.9%
Profit for the period	152,727	152,358	+0.2%
Adjusted net profit ⁽²⁾	180,285	154,246	+16.9%
Adjusted EBITDA ⁽³⁾	216,111	183,581	+17.7%
	As of 30	As of 30	Percentage
	June 2020	June 2019	change
Full-time student enrollment	39,879	37,496	+6.4%

As at 30 June 2020, the Group recorded cash and cash equivalents of approximately RMB1.1 billion.

Notes:

- (1) Total income of the Group consists of revenue and other income.
- (2) The Group defines the adjusted net profit as the profit for the Reporting 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.
- (3) For the calculation method of adjusted EBITDA, 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 2020 – unaudited

	Note	Six months ended 30 June	
		2020 RMB'000	2019 RMB'000
Revenue	3	244,819	227,596
Cost of sales		<u>(70,880)</u>	<u>(81,338)</u>
Gross profit		<u>173,939</u>	<u>146,258</u>
Other income	4	48,170	41,669
Selling and distribution costs		(2,449)	(3,663)
Administrative expenses		<u>(62,511)</u>	<u>(31,547)</u>
Profit from operations		157,149	152,717
Finance costs	5(a)	<u>(4,392)</u>	–
Profit before taxation	5	152,757	152,717
Income tax	6	<u>(30)</u>	<u>(359)</u>
Profit for the period		<u>152,727</u>	<u>152,358</u>
Other comprehensive income for the period (after tax and reclassification adjustments)			
<i>Items that will not be reclassified subsequently to profit or loss:</i>			
Exchange differences on translation of financial statements of the Company		21,497	4,479
Other comprehensive income for the period		<u>21,497</u>	<u>4,479</u>
Total comprehensive income for the period		<u>174,224</u>	<u>156,837</u>
Earnings per share	7		
Basic and diluted (RMB cents)		<u>9.5</u>	<u>9.5</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION*at 30 June 2020 – unaudited*

	<i>Note</i>	At 30 June 2020 <i>RMB'000</i>	At 31 December 2019 <i>RMB'000</i>
Non-current assets			
Property, plant and equipment		464,062	467,747
Right-of-use assets		84,043	85,323
Intangible assets		204,798	206,658
Other non-current assets	8	<u>660,000</u>	<u>660,000</u>
		1,412,903	1,419,728
Current assets			
Trade receivables	9	2,736	2,768
Prepayments, deposits and other receivables	10	613,919	488,198
Financial assets measured at fair value through profit or loss		154,286	–
Cash and cash equivalents		<u>1,101,038</u>	<u>1,382,996</u>
		<u>1,871,979</u>	<u>1,873,962</u>
Current liabilities			
Loans and borrowings	11	50,020	330,000
Contract liabilities	12	8,452	239,480
Other payables	13	185,547	102,058
Current taxation		<u>2,383</u>	<u>3,872</u>
		<u>246,402</u>	<u>675,410</u>
Net current assets		<u>1,625,577</u>	<u>1,198,552</u>
Total assets less current liabilities		<u>3,038,480</u>	<u>2,618,280</u>
Non-current liabilities			
Loans and borrowings	11	<u>310,980</u>	–

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)
at 30 June 2020 – unaudited

	<i>Note</i>	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
NET ASSETS		<u>2,727,500</u>	<u>2,618,280</u>
Equity			
Share capital		12,952	12,952
Reserves		<u>2,714,548</u>	<u>2,605,328</u>
TOTAL EQUITY		<u>2,727,500</u>	<u>2,618,280</u>

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. It was authorised for issue on 27 August 2020.

The interim financial statements have been prepared in accordance with the same accounting policies adopted in the 2019 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2020 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.

The 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 2019 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 Hong Kong Institute of Certified Public Accountants.

The financial information relating to the financial year ended 31 December 2019 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 2019 are available from the Company's registered office. The auditors have expressed an unqualified opinion on these financial statements in their report dated 25 March 2020.

2 CHANGES IN ACCOUNTING POLICIES

The International Accounting Standards Board (“IASB”) has issued the following amendments to IFRSs that are first effective for the current accounting period of the Group:

- Amendments to IFRS 3, *Definition of a Business*
- Amendments to IFRS 9, IAS 39 and IFRS 7, *Interest Rate Benchmark Reform*
- Amendments to IAS 1 and IAS 8, *Definition of Material*

None of these developments has 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.

3 REVENUE AND SEGMENT REPORTING

(a) Revenue

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Revenue from contracts with customers within the scope of IFRS 15		
Tuition fees	234,818	203,623
Boarding fees	10,001	23,973
Total	244,819	227,596

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	
	2020	2019
	RMB'000	RMB'000
Rental and property management income	8,212	14,266
Service income	2,205	6,360
Government grants (i)	173	8,082
Net realised and unrealised gains on financial assets measured at fair value through profit or loss	–	385
Interest income on financial assets measured at amortised cost	12,970	18,506
Gain/(loss) on operation of the School of Clinical Medicine and Hongshan College (ii)	24,602	(6,622)
Others	8	692
	48,170	41,669

Notes:

- (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. 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 is responsible for the operation costs of the campus before the conversion.

On 29 April 2019, the Group entered into agreements with Nanjing University of Finance and Economics and Nanjing University of Finance and Economics Education Development Foundation, pursuant to which the Group would jointly operate Hongshan College of Nanjing University of Finance and Economics ("Hongshan College") with Nanjing University of Finance and Economics with the eventual goal of converting Hongshan College into a school owned and operated solely by the Group. According to the agreement, the Group is entitled to the tuition fees of Hongshan College from the 2019-2020 school year and thereafter 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 and Hongshan College during the reporting period. After the conversion, the operation results of the School of Clinical Medicine and Hongshan College will be consolidated into the Group.

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
(a) Finance costs		
Interest expense on bank loans	<u>4,392</u>	<u>–</u>
(b) Staff costs		
Salaries, wages and other benefits	56,223	57,058
Contributions to defined contribution retirement plan (i)	1,407	4,314
Equity settled share-based payment expenses	<u>16,332</u>	<u>1,026</u>
	<u>73,962</u>	<u>62,398</u>

Note:

- (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	
	2020	2019
	RMB'000	RMB'000
(c) Other items		
Depreciation of owned property, plant and equipment	28,070	26,462
Amortisation of intangible assets	2,055	1,235
Depreciation of right-of-use assets	1,279	1,279
Auditors' remuneration	1,550	1,275
	<u>32,954</u>	<u>30,251</u>

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

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Current tax		
Provision for PRC income tax for the period	<u>30</u>	<u>359</u>

- (i) The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands and accordingly is 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 the 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 2020.

7 EARNINGS PER SHARE

The calculation of basic earnings per share for the six months ended 30 June 2020 is based on the profit attributable to shareholders of the Company for the six months ended 30 June 2020 of RMB152,727,000 (30 June 2019: RMB152,358,000) and the weighted average number of ordinary shares of 1,608,583,000 in issue (30 June 2019: 1,608,583,000).

The share options granted on 30 April 2019 and 15 July 2019 do 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 2020 and 30 June 2019, and therefore, the basic and diluted earnings per share are the same.

8 OTHER NON-CURRENT ASSETS

	At 30 June 2020 <i>RMB'000</i>	At 31 December 2019 <i>RMB'000</i>
Prepayment for investments	<u>660,000</u>	<u>660,000</u>

As at 30 June 2020 and 31 December 2019, the prepayment for investments represents the down-payment for the acquisition of Hongshan College.

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 2020 <i>RMB'000</i>	At 31 December 2019 <i>RMB'000</i>
Within 1 year	<u>2,736</u>	<u>2,768</u>

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

10 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	At 30 June 2020 <i>RMB'000</i>	At 31 December 2019 <i>RMB'000</i>
Prepayments and deposits	208,767	207,723
Other receivables	<u>405,152</u>	<u>280,475</u>
	<u>613,919</u>	<u>488,198</u>

As at 30 June 2020, prepayment and deposits mainly comprise the balance due from Hongshan College with the amount of RMB200,000,000, and other receivables mainly comprise the balance due from the School of Clinical Medicine with the amount of RMB313,806,000.

11 LOANS AND BORROWINGS

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Unsecured bank loan:		
Within 1 year or on demand	50,020	330,000
After 1 year but within 2 years	50,020	–
After 2 years but within 5 years	150,060	–
After 5 years	110,900	–
	<u>310,980</u>	<u>–</u>
	<u><u>361,000</u></u>	<u><u>330,000</u></u>

As at 30 June 2020, the unsecured bank loans carried interest at annual rates of 4.75% and 4.90%.

12 CONTRACT LIABILITIES

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Tuition fees	4,286	211,289
Boarding fees	4,166	28,191
	<u>8,452</u>	<u>239,480</u>

13 OTHER PAYABLES

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Dividends payable	81,255	–
Payables to suppliers	15,467	19,716
Miscellaneous expenses received from students (<i>Note (i)</i>)	21,904	27,318
Accrued staff costs	15,971	21,949
Accrued expenses	6,139	8,279
Interest payable	–	196
Others	44,811	24,600
	<u>185,547</u>	<u>102,058</u>

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 1 year.

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 2020, the student enrollment of the Group was approximately 43,923, of which the number of full-time students was approximately 39,879, representing an increase of 6.4% compared to the same period last year. The approved enrolment plan of the Group's schools for the 2020/2021 school year was 11,164 (excluding continuing education program and secondary vocational education), representing a year-on-year increase of approximately 7%. Among them, the undergraduate enrolment plan was 10,764, representing a year-on-year increase of 19%. The Group's schools further expanded the construction of new campuses to increase the school capacity. The construction of new campuses have commenced at present, and it is expected that the capacity will increase by at least 40,000 students after the completion of all the new campuses.

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. With professional and high-quality education, the Group has continuously made outstanding contributions for students and their families, employers and economic and social development.

BUSINESS REVIEW AND OPERATION UPDATE

Our Schools

As of 30 June 2020, 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); 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).

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. Xinhua University is one of the first Fifty National Higher Education Institutions with Typical Experience in Graduate Employment* (全國畢業生就業典型經驗50所高校), the Application-Oriented High-level University Construction Unit in Anhui Province* (安徽省應用型高水準大學建設單位) and Project Construction Unit with the Right to Grant Master's Degree* (碩士學位授予權立項建設單位).

As of 30 June 2020, 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 students in the society. The approved undergraduate enrolment plan of the Xinhua School for the 2020/2021 school year was 6,400, representing a year-on-year increase of 19%. Xinhua University is expected to open four new student dormitory buildings and one laboratory building in September 2020, increasing the campus capacity by more than 4,000 students to meet the needs of increasing student numbers in the future. Xinhua University ranks the first among the private formal higher education institutions in the Yangtze River Delta, as measured by the student enrollment.

School of Clinical Medicine

School of Clinical Medicine is an independent college approved by the Ministry of Education to train full-time undergraduate students. It offers seven undergraduate majors, while its major offerings focus on majors such as clinical medicine, pharmacy and nursing. During the 2020/2021 school year, new majors such as “medical laboratory technology”, “optometry” and “health and service management” were added. Since students have had a strong will to apply for admission to the school over two years of our running, its lowest admission mark for science was the highest among schools of the same type in Anhui Province, and its yield hit a new high for two consecutive years and was the highest among schools of the same type in Anhui Province.

In order to meet the increasing demand of students and speed up the conversion, the School of Clinical Medicine has purchased land for the new campus, which is located in the core area of Hefei Binhu Science City, with obvious regional advantages. This allows the effective utilization of rich and excellent scientific, educational and medical resources in Hefei, and creates an outstanding synergy with Hefei and colleges and universities of the Group in Hefei. The new campus construction project of the School of Clinical Medicine was evaluated as a key project in Anhui Province and Hefei City. Construction of the new campus has begun, and the main building of phase I project has been topped out. The new campus is expected to be put into operation before 1 September 2021. After the completion of the new campus, the capacity of the School of Clinical Medicine will be significantly improved.

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.

During the 2020/2021 school year, Hongshan College has a new enrollment plan of 830 students for top-up degree programs. At the same time, the construction of the new campus of Hongshan College commenced in May 2020. The new campus is located in Nanjing, the capital city of Jiangsu Province, with an excellent geographical location and convenient transportation, and the new campus construction project was evaluated as a major project of Jiangsu Province and Nanjing City. The new campus is expected to accommodate at least 25,000 students. The phase I project of the new campus is scheduled to be operational by 1 September 2021 and is expected to accommodate at least 10,000 students.

Xinhua School

As a secondary vocational school, Xinhua School, which was awarded as National Key Secondary Vocational School* (國家級重點中等職業學校), Model School for School-Enterprise Cooperation in Hefei* (合肥市校企合作示範校), and Experimental School for Moral Education Innovation in Hefei* (合肥市德育創新實驗學校), provides career-oriented general secondary vocational program with deep integration of school and enterprise, 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 2020, Xinhua School offered 16 majors. Xinhua School actively promotes the integration of industry and education, comprehensively promotes management innovation and connotation development, reforms the talent training model and curriculum system, and strengthens practical teaching and skills training. Xinhua School has successively launched a new model of cooperation with well-known enterprises inside and outside the province that includes the co-construction of training rooms, sharing of teachers, and shared management.

Student Enrollment

	As at 30 June 2020	As at 30 June 2019
Xinhua University		
Full-time student enrollment	23,442	22,870
Continuing education	4,044	7,205
Subtotal	27,486	30,075
School of Clinical Medicine		
Full-time student enrollment	1,751	575
Hongshan College		
Full-time student enrollment	9,054	8,796
Xinhua School		
Full-time student enrollment	5,632	5,255
Total number of full-time students	39,879	37,496
Total number of students enrolled	43,923	44,701

Tuition fees and boarding fees

	Tuition fees (RMB)		Boarding fees (RMB)	
	2020/2021 school year	2019/2020 school year	2020/2021 school year	2019/2020 school year
Xinhua University				
Four-year undergraduate program	19,800-23,800	19,800-23,800	1,500-2,000	1,500-2,000
Three-year junior college program	10,700-12,000	10,700-12,000	1,500-2,000	1,500-2,000
Continuing education program	2,400-6,000	2,400-11,900	1,500-2,000	1,500-2,000
School of Clinical Medicine				
Four-year undergraduate program	13,200-15,900	13,200-15,900	1,000	1,000
Five-year undergraduate program	15,900	15,900	1,000	1,000
Hongshan College				
Four-year undergraduate program	14,000	14,000	800-1,500	800-1,500
Xinhua School				
General secondary vocational program	9,000-16,000	9,000-11,400	1,500-2,000	1,500
Undergraduate oriented secondary vocational program	11,400	11,400	1,500-2,000	1,500
Five-year secondary vocational program	11,400	11,400	1,500-2,000	1,500

FUTURE PROSPECTS

1 New Development Opportunities for Private Colleges and Universities arising out of the Gradual Implementation of Favourable Policy

The Group has always been aiming to cultivate high-quality application-oriented talents with solid academic ability, innovative spirit, international vision and development potential. We noted that there have been positive changes in the management philosophy of the competent education authorities at all levels in respect of private colleges and universities since the implementation of the revised Law for Promoting Private Education published in 2018, such as the implementation of a filing system for tuition fee adjustment and the encouragement for the conversion of independent colleges. We believe that the implementation of the above policies and other related measures will help advantageous higher education groups expand their school size and improve their school quality through independent teaching and scientific research innovation as well as software and hardware construction, and effectively give full play to the advantages and features of private higher education.

In 2019, there were favorable policies and information, including the strategic plan of China Education Modernization 2035 issued by the State Council, the National Vocational Education Reform Implementation Plan, “Enrollment of One Million Students for Vocational Education” and all-around revitalization of undergraduate education. Subsequently, the competent departments at all levels published a number of policies to support colleges and universities in further increasing the enrollment, and encourage the healthy development of vocational education. In terms of implementation, measures including social enrollment of colleges and universities, the construction of “high-level higher vocational” schools and the “1+X” teaching service of colleges and universities have been actively planned and advanced, and have achieved good results. In the first half of 2020, the State Council and the Ministry of Education issued documents to further increase the enrollment for top-up degree programs and master degree programs, thus bringing new opportunities for universities to expand their size.

Benefiting from aforementioned policy, the enrollment plan of the Group’s top-up degree programs increased by more than 1,500 during the 2020/2021 school year, representing an increase of more than 290% over the 2019/2020 school year, which is higher than the average level of private higher colleges and universities nationwide. The Group will, based on its high-quality resources and rich experience in the education industry and its position to cultivate high-end application-oriented talents, seize the policy opportunities, strengthen the integration of industry and education and school-enterprise cooperation, and further expand its school network and student enrollment by acquiring high-quality schools.

2 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 2019 show that, at present, there are 757 private higher colleges and universities across China, including 257 independent colleges, and thus there is huge room for integration. At the same time, the Ministry of Education released a policy in May 2020, setting out more detailed requirements on the basic requirements, workflow and completion time for the conversion of independent colleges. The state has promoted the conversion of independent colleges. Based on the principle of “conversion as many as possible and as soon as possible”, high-quality private higher education institutions have many advantages in merger and acquisition of independent colleges and promotion of conversion, and may take the opportunity to expand their school size. In addition, since higher education in China is being popularized and the development of private colleges and universities varies, advantageous higher education institutions have more market opportunities to invest in, merge and acquire relevant colleges and universities. We believe that the policy changes will continue to bring more opportunities of merger and acquisition for the market, enabling high-quality private colleges and universities to expand their school network through investment, merger and acquisition, thus realizing cross-regional arrangements.

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 highly attractive for talents or with a low gross enrollment rate in higher education. We believe that with our rich experience in running schools, abundant capital reserves and excellent brand reputation, we 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.

3 To meet the various service needs of students and continue to diversify the revenue of the Group

In addition to building high-quality specialty majors, the Group also actively supports the “1+X” training model advocated by the State by providing value-added services for students in professional qualification examinations, practical training and other areas with the orientation of employment. After years of exploration, the Group has formed a education and service system with a variety of classes, flexible hours and competitive prices in the areas of various professional qualification assessment and professional practice examinations, enabling students to enjoy additional high-quality education services conveniently without going to school. In 2020, the Group established a professional department to further integrate various resources, expand its service categories and promote additional education services in Anhui Province, which has made positive progress. At the same time, the Group has also actively communicated and collaborated with government and enterprises to tailor various professional courses and continuing education related services for its staff. We believe that by satisfying the various learning and living needs of students, we can also enhance the income level of the Group and realize the diversification, differentiation and personalization of our business.

FINANCIAL REVIEW

Revenue

The Group's revenue increased by 7.6% from RMB227.6 million for the six months ended 30 June 2019 to RMB244.8 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 full-time students.

Other Income

Other income increased by 15.6% from RMB41.7 million for the six months ended 30 June 2019 to RMB48.2 million for the Reporting Period, primarily due to the operating gain on the School of Clinical Medicine and Hongshan College during the Reporting Period.

Cost of Sales

Our cost of sales decreased by 12.8% from RMB81.3 million for the six months ended 30 June 2019 to RMB70.9 million for the Reporting Period, mainly due to the decrease in various operation costs as a result of the impact of the epidemic.

Gross Profit

Our gross profit increased by 18.9% from RMB146.3 million for the six months ended 30 June 2019 to RMB173.9 million for the Reporting Period, primarily due to the combined effect of the continuous improvement in our management level and the decrease in cost of sales as a result of the epidemic, which was in line with the growth of our business.

Selling and Distribution Costs

Selling and distribution costs decreased by 35.1% from RMB3.7 million for the six months ended 30 June 2019 to RMB2.4 million for the Reporting Period, primarily due to the restricted related promotion and enrollment activities in the first half of the year as a result of the impact of the epidemic and the decrease in enrollment promotion fees as we adopted a new enrollment model combining online and offline.

Administrative Expenses

Administrative expenses increased by 98.4% from RMB31.5 million for the six months ended 30 June 2019 to RMB62.5 million for the Reporting Period, primarily due to the increase in share-based payment expenses and foreign exchange loss and the increase in costs for recruiting more management talents to adapt to the expansion of the school scale, and the increase in depreciation and amortization expenses.

Finance Costs

Finance costs increased from nil for the six months ended 30 June 2019 to RMB4.4 million for the Reporting Period, mainly due to the interest generated from the withdrawal of a loan of RMB366.0 million from the end of 2019 to the mid of 2020.

Profit before Taxation

The Group recognized a profit of RMB152.8 million before income tax for the Reporting Period, representing an increase of 0.1% as compared with a profit of RMB152.7 million before income tax for the six months ended 30 June 2019, due to the combined effect of gross profit growth and administrative expenses increase.

Income Tax

The Group's income tax decreased from RMB359,000 for the six months ended 30 June 2019 to RMB30,000 for the Reporting Period, representing a year-on-year decrease of 91.6%, primarily due to the decrease in taxable profit.

Profit for the Reporting Period

As a result of the combined effects of the above income, costs and expenses, the Group recorded a profit of RMB152.7 million during the Reporting Period, representing an increase of 0.2% as compared with the RMB152.4 million for the six months ended 30 June 2019.

Adjusted net profit

Adjusted net profit was derived from the profit for the Reporting 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 is 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)	
	2020 RMB'000	2019 RMB'000
Profit for the period	152,727	152,358
Add:		
Foreign exchange loss	11,226	862
Share-based payment expenses	16,332	1,026
Adjusted net profit	<u>180,285</u>	<u>154,246</u>

Adjusted earnings before interest, taxes, depreciation and amortization (“adjusted EBITDA”)

EBITDA is calculated by adding back financing costs to profit before taxation, depreciation of owned property, plant and equipment and right-of-use assets and amortization of intangible assets. EBITDA increased from RMB181.7 million for the six months ended 30 June 2019 to RMB188.6 million for the six months ended 30 June 2020. After adjusting for foreign exchange loss and share-based payment expenses, adjusted EBITDA increased by 17.7% from RMB183.6 million for the six months ended 30 June 2019 to RMB216.1 million for the six months ended 30 June 2020.

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 2020, the Group recorded cash and cash equivalents of RMB1,101.0 million (31 December 2019: RMB1,383.0 million).

Net Current Assets

As at 30 June 2020, the Group recorded net current assets of RMB1,625.6 million, representing an increase of 35.6% as compared with the RMB1,198.6 million as at 31 December 2019, which was primarily attributable to a decrease in the short term bank loan balance.

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 RMB25.6 million (30 June 2019: RMB21.5 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 bank loans of the Group amounted to RMB361.0 million as at 30 June 2020.

Contingent Liabilities, Guarantees and Litigation

As at 30 June 2020, the Group did not have any unrecorded significant contingent liabilities, guarantees or any litigation against it.

Gearing Ratio

The gearing ratio of the Group, which was calculated as total liabilities divided by total equity, decreased from 25.8% as at 31 December 2019 to 20.4% as at 30 June 2020, primarily because the Group's contract liabilities generated from tuition fees and boarding fees of last year was basically amortized during the Reporting 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.

Material Acquisition and Disposal of Subsidiaries and Associated Companies

There was no material acquisition and disposal of subsidiaries and associated companies by the Company during the Reporting Period.

Significant Investment Held by the Group

During the Reporting Period, there was no significant investment held by the Group.

Foreign Exchange Risk Management

The Group's functional currency is RMB, as most revenues and expenditures are denominated in RMB. As at 30 June 2020, balances of several banks were denominated in USD or HKD. So far, the Group has not 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.

Pledge of Assets

As at 30 June 2020, no assets of the Group were pledged.

Human Resources

As at 30 June 2020, the Group has approximately 1,694 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.

Events After the Reporting Period

There was no event which has occurred after the six months ended 30 June 2020 that would cause material impact on the Group.

TENANCY AGREEMENTS

On 30 July 2020, School of Clinical Medicine entered into (i) a tenancy agreement (“**Tenancy Agreement I**”) with Anhui New East Culinary Institute* (安徽新東方烹飪專修學院) (“**New East Culinary Institute**”) to renew the existing agreement dated 25 December 2018, pursuant to which New East Culinary Institute (as landlord) has agreed to lease a premise located at Guanjing Road, Xiangshan Road, Professional Education Town, Yaohai District, Hefei, Anhui Province, the PRC, to School of Clinical Medicine (as tenant) as campus for a one-year term from 1 August 2020 to 31 July 2021 at a monthly rental of RMB500,000; and (ii) a tenancy agreement (“**Tenancy Agreement II**”) with Anhui Wontone Automobile Maintenance Institute* (安徽萬通汽車專修學院) (“**Anhui Wontone**”), pursuant to which Anhui Wontone (as landlord) has agreed to lease a premise located at 699 Xuelin Road, Xinzhan District, Hefei, Anhui Province, the PRC, to School of Clinical Medicine (as tenant) as dormitory for a one-year term from 1 August 2020 to 31 July 2021 at a monthly rental of no more than RMB174,000, subject to the number of rooms actually used by the tenant. The rental amount under each of the Tenancy Agreement I and Tenancy Agreement II was determined based on arm’s length negotiations between parties with reference to the prevailing market price of comparable properties in the vicinity.

Each of New East Culinary Institute and Anhui Wontone, being a 30%-controlled company of Mr. Wu Junbao who is a non-executive Director and a controlling shareholder of the Company, is an associate of Mr. Wu Junbao and a connected person of the Company. As such, the transaction contemplated under each of the Tenancy Agreement I and Tenancy Agreement II constitutes continuing connected transactions of the Company under Chapter 14A of the Listing Rules. For details of each of the Tenancy Agreement I and Tenancy Agreement II and the transactions contemplated thereunder, please refer to announcement of the Company dated 30 July 2020.

IMPACT OF COVID-19 EPIDEMIC ON THE GROUP

At the beginning of 2020, the global outbreak of the COVID-19 epidemic was emerging. The Group has set up a joint prevention and control working group as soon as possible, established a four-level prevention and control system of “Group-University-School-Class”, and comprehensively studied and deployed the epidemic prevention and control. The education and teaching was in effective operation and the schools were organized to carry out online courses to ensure the orderly progress of teaching. Most of the students of the Group successively returned to schools from April to June 2020.

In order to combat the COVID-19 epidemic, the Group has actively fulfilled its social responsibilities. The faculty members of the Group and its affiliated schools made donations of several millions of Renminbi in total. In accordance with the relevant guidelines issued by the local education authorities on the refund of student boarding fees under the influence of the COVID-19 epidemic, the schools under the Group refunded a total of approximately RMB20.0 million in boarding fees.

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 2020.

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 2020 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 2020) 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 2020. 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 of the Directors has confirmed that he has complied with the Model Code during the six months ended 30 June 2020.

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 2020 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 2020

As at the date of this announcement, the Board comprises one non-executive Director, namely Mr. Wu Junbao (Chairman); three executive Directors, namely Mr. Zhang Ming, Mr. Lu Zhen and Mr. Wang Yongkai; and three independent non-executive Directors, namely Mr. Jiang Min, Mr. Yang Zhanjun and Mr. Chau Kwok Keung.

* *The English translation of company names in Chinese is for identification purposes only. If there is any inconsistency between the Chinese names of entities or enterprises established in China and their English translations, the Chinese names shall prevail.*