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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 2021

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 2021 (the “**Reporting Period**”), together with the comparative figures for the corresponding period in 2020. 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 change
	2021	2020	
	RMB'000	RMB'000	
Adjusted revenue ⁽¹⁾	398,312	331,254	+20.2%
Revenue	290,014	244,819	+18.5%
Gross profit	206,105	173,939	+18.5%
Profit for the period	207,692	152,727	+36.0%
Adjusted net profit ⁽²⁾	205,151	180,285	+13.8%
	As at 30	As at 30	Percentage change
	June 2021	June 2020	
Student enrollment	48,554	43,923	+10.54%

Notes:

- (1) The adjusted revenue consists of the revenue of the Group plus the revenue of the School of Clinical Medicine and Hongshan College. 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.
- (2) 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 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 2021 – unaudited

	Note	Six months ended 30 June	
		2021 RMB'000	2020 RMB'000
Revenue	3	290,014	244,819
Cost of sales		<u>(83,909)</u>	<u>(70,880)</u>
Gross profit		206,105	173,939
Other income	4	48,514	48,170
Selling and distribution costs		(4,362)	(2,449)
Administrative expenses		(34,406)	(62,511)
Profit from operations		215,851	157,149
Finance costs	5(a)	<u>(7,699)</u>	<u>(4,392)</u>
Profit before taxation	5	208,152	152,757
Income tax	6	<u>(460)</u>	<u>(30)</u>
Profit for the period		<u>207,692</u>	<u>152,727</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		(10,723)	21,497
Other comprehensive income for the period		<u>(10,723)</u>	<u>21,497</u>
Total comprehensive income for the period		<u>196,969</u>	<u>174,224</u>
Earnings per share			
Basic and diluted (RMB cents)	7	<u>12.9</u>	<u>9.5</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION*at 30 June 2021 – unaudited*

	<i>Note</i>	At 30 June 2021 RMB'000	At 31 December 2020 RMB'000
Non-current assets			
Property, plant and equipment		520,198	533,591
Right-of-use assets		81,485	82,764
Intangible assets		204,853	205,715
Other non-current assets	<i>8</i>	660,000	660,000
Long-term bank time deposits		39,000	268,000
		1,505,536	1,750,070
Current assets			
Trade receivables	<i>9</i>	2,578	2,752
Prepayments, deposits and other receivables	<i>10</i>	1,773,652	906,992
Financial assets measured at fair value through profit or loss		–	154,557
Cash and cash equivalents		487,891	736,278
		2,264,121	1,800,579
Current liabilities			
Loans and borrowings	<i>11</i>	97,020	50,020
Contract liabilities	<i>12</i>	21,743	267,987
Other payables	<i>13</i>	261,497	141,941
Current taxation		3,296	3,972
		383,556	463,920
Net current assets		1,880,565	1,336,659
Total assets less current liabilities		3,386,101	3,086,729
Non-current liabilities			
Loans and borrowings	<i>11</i>	458,168	265,960

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)*at 30 June 2021 – unaudited*

	<i>Note</i>	At 30 June 2021 RMB'000	At 31 December 2020 RMB'000
NET ASSETS		<u>2,927,933</u>	<u>2,820,769</u>
Equity			
Share capital		12,952	12,952
Reserves		<u>2,914,981</u>	<u>2,807,817</u>
TOTAL EQUITY		<u>2,927,933</u>	<u>2,820,769</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 30 August 2021.

The interim financial statements have been prepared in accordance with the same accounting policies adopted in the 2020 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2021 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 2020 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 (“HKICPA”).

The financial information relating to the financial year ended 31 December 2020 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 2020 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 2021.

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:

- Amendment to IFRS 16, *Covid-19-related rent concessions beyond 30 June 2021*
- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, Interest rate benchmark reform – phase 2

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	
	2021	2020
	RMB'000	RMB'000
Revenue from contracts with customers within the scope of IFRS 15		
Tuition fees	264,507	234,818
Boarding fees	25,507	10,001
Total	290,014	244,819

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	
	2021	2020
	RMB'000	RMB'000
Rental and property management income	11,059	8,212
Service income	7,069	2,205
Government grants (i)	178	173
Interest income on financial assets measured at amortised cost	5,920	12,970
Gain on operation of the School of Clinical Medicine and Hongshan College (ii)	23,815	24,602
Others	473	8
	48,514	48,170

- (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	
	2021	2020
	RMB'000	RMB'000
(a) Finance costs		
Interest expense on loans and borrowings	<u>7,699</u>	<u>4,392</u>
(b) Staff costs		
Salaries, wages and other benefits	68,619	56,223
Contributions to defined contribution retirement plan (i)	3,954	1,407
Equity settled share-based payment expenses	<u>7,364</u>	<u>16,331</u>
	<u>79,937</u>	<u>73,961</u>

- (i) Employees of the Group’s People’s Republic of China (“**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	
	2021	2020
	RMB'000	RMB'000
(c) Other items		
Depreciation of owned property, plant and equipment	27,243	28,070
Amortisation of intangible assets	2,733	2,055
Depreciation of right-of-use assets	1,279	1,279
Auditors’ remuneration	<u>1,252</u>	<u>1,550</u>

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

	Six months ended 30 June	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Current tax		
Provision for PRC income tax for the period	<u>460</u>	<u>30</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, when not requiring reasonable returns, 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 report, 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. 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 2021.

7 EARNINGS PER SHARE

The calculation of basic earnings per share for the six months ended 30 June 2021 is based on the profit attributable to shareholders of the Company for the six months ended 30 June 2021 of RMB207,692,000 (30 June 2020: RMB152,727,000) and the weighted average number of ordinary shares of 1,608,583,000 in issue (30 June 2020: 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 2021 and 30 June 2020, and therefore, the basic and diluted earnings per share are the same.

8 OTHER NON-CURRENT ASSETS

	At 30	At 31
	June	December
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Prepayment for investments	<u>660,000</u>	<u>660,000</u>

As at 30 June 2021 and 31 December 2020, 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 2021 RMB'000	At 31 December 2020 RMB'000
Within 1 year	<u>2,578</u>	<u>2,752</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 2021 RMB'000	At 31 December 2020 RMB'000
Prepayments and deposits	203,460	205,638
Other receivables	<u>1,570,192</u>	<u>701,354</u>
	<u>1,773,652</u>	<u>906,992</u>

As at 30 June 2021, 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 RMB726,604,000 and the balance due from Hongshan College with the amount of RMB682,491,000.

11 LOANS AND BORROWINGS

	At 30 June 2021 <i>RMB'000</i>	At 31 December 2020 <i>RMB'000</i>
Unsecured bank loans:		
Within 1 year or on demand	97,020	50,020
After 1 year but within 2 years	50,020	50,020
After 2 years but within 5 years	151,650	150,060
After 5 years	59,290	65,880
	260,960	265,960
Loan from related party:		
After 2 years but within 5 years	197,208	–
	555,188	315,980

As at 30 June 2021, the unsecured bank loans carried interest at annual rates of 4.35% and 4.70%.

In June 2021, the Group entered into a loan agreement with its related party WJB Company with an annual interest rate of 2.00%.

12 CONTRACT LIABILITIES

	At 30 June 2021 <i>RMB'000</i>	At 31 December 2020 <i>RMB'000</i>
Tuition fees	13,577	240,306
Boarding fees	8,166	27,681
	21,743	267,987

13 OTHER PAYABLES

	At 30 June 2021 <i>RMB'000</i>	At 31 December 2020 <i>RMB'000</i>
Payable to suppliers	16,192	53,936
Miscellaneous expenses received from students (i)	23,868	27,638
Accrued staff costs	15,892	23,057
Accrued expenses	4,322	6,656
Dividends Payable	96,774	–
Interest payable	390	458
Others	104,059	30,196
	<u>261,497</u>	<u>141,941</u>

- (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.

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 at 30 June 2021, the student enrollment of the Group was approximately 48,554, representing an increase of approximately 10.5% compared to the same period last year.

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 rate 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 at 30 June 2021, 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, and 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 at 30 June 2021, 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, the university also provides the continuing education program to students in the society. The approved undergraduate enrollment plan of the university for the 2021/2022 school year was 7,070, representing a year-on-year increase of 10.5%. 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 eleven undergraduate majors, while its major offerings focus on majors such as clinical medicine, pharmacy and nursing. During the 2021/2022 school year, midwifery major was added. The approved undergraduate (including the top-up degree) enrollment plan in the 2021/2022 school year representing a year-on-year increase of 44.8%.

Meanwhile, School of Clinical Medicine additionally enrolled students in two provinces, namely Chongqing and Jiangxi. The number of student enrollment reached 2,831 for the 2020/2021 school year, representing a year-on-year increase of 61.7%. As students have had a strong will to apply for admission to School of Clinical Medicine since our operation, its lowest admission mark for science was the highest among schools of the same type in Anhui Province for consecutive years, and its admission rate was also the highest among schools of the same type in Anhui Province.

The conversion and the construction of the new campus were processed smoothly. The main building of the new campus project (Phase I) was almost completed and the new campus will be officially put into use in the 2021/2022 school year and satisfy the relevant requirements on the conversion to independent colleges. For the purposes of constructing the second phase of the new campus, on 7 May 2021, the School of Clinical Medicine and the Hefei Natural Resources and Planning Bureau entered into an agreement to acquire the land use rights of the lands with a total area of approximately 287.32 mu for the second phase of the new campus. For details, please refer to the announcement of the Company dated 7 May 2021 and the supplemental announcement of the Company dated 17 May 2021, respectively.

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.

The conversion and the construction of the new campus are progressing efficiently. As a two-level key project in Jiangsu and Nanjing, the new campus is constructed smoothly, the main building of the new campus project (Phase I) has been completed and has entered into the final stage of interior decoration and equipment installation, the new campus will be officially put into use after the approval of the competent authority, and satisfy the relevant requirements on the conversion to independent colleges.

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 at 30 June 2021, Xinhua School offered 16 majors, with 6,093 full-time students, representing a year-on-year increase of approximately 8.19%. 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 2021	As at 30 June 2020
Xinhua University		
Full-time student enrollment	23,681	23,442
Continuing education	6,004	4,044
Subtotal	29,685	27,486
School of Clinical Medicine		
Full-time student enrollment	2,831	1,751
Hongshan College		
Full-time student enrollment	9,945	9,054
Xinhua School		
Full-time student enrollment	6,093	5,632
Total number of full-time students	42,550	39,879
Total number of students enrolled	48,554	43,923

Tuition fees and boarding fees

	Tuition fees (RMB)		Boarding fees (RMB)	
	2021/2022 school year	2020/2021 school year	2021/2022 school year	2020/2021 school year
Xinhua University				
Four-year undergraduate program	21,800-26,800	19,800-23,800	1,800-2,500	1,500-2,000
Three-year junior college program	10,700-13,000	10,700-12,000	1,800-2,500	1,500-2,000
Continuing education program	2,400-16,000	2,400-6,000	1,800-2,500	1,500-2,000
School of Clinical Medicine				
Four-year undergraduate program	14,520-17,280	13,200-15,900	1,200-1,500	1,000
Five-year undergraduate program	17,280	15,900	1,200-1,500	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	9,000-16,000	1,500-2,000	1,500-2,000
Undergraduate oriented secondary vocational program	11,400	11,400	1,500-2,000	1,500-2,000
Five-year secondary vocational program	11,400	11,400	1,500-2,000	1,500-2,000

OPERATION UPDATE AND HIGHLIGHTS

- 1. The quota has continued to increase, and the enrolled student structure has been further optimized.** In the 2021/2022 school year, the undergraduate plans reached 11,330, representing a year-on-year increase of approximately 5.2%. The student structure has been further optimized, and the number of undergraduates accounts for approximately 77.7% of the total number of full-time students enrollment.
- 2. The new campuses were constructed smoothly, and the independent colleges conversion were scheduled.** According to the spirit of The Opinions on the Establishment of Colleges and Universities During the “14th Five-Year” Plan Period* (《關於「十四五」時期高等學校設置工作的意見》) published by the Ministry of Education and the Implementation Plan for Accelerating the Promotion of Conversion of Independent Colleges* (關於加快推進獨立學院轉設工作的實施方案), the two independent colleges of the Group were accelerating the construction of new campuses and continued to promote various conversion: (i) with an area of approximately 185 thousand sq.m., the new campus (Phase I) of the School of Clinical Medicine will increase the capacity of the school by 5,000 students after completion; and (ii) with an area of approximately 235 thousand sq.m., the new campus (Phase I) of Hongshan College will increase the capacity of the school by 9,000 students after completion. The successive completion of the new campuses will bring about a considerable capacity for the arrangements and development of the Group in the Yangtze River Delta in the future. The Group believes that the successful conversion of independent colleges will contribute to increasing the number of enrolled students of the Group and the revenue level of its schools and further expanding the school influence.
- 3. Connotation construction was strengthened continuously, and the high level operating schools brought about concrete results.** According to the positioning of high level university in applied sciences, the Group deepened the connotation construction, innovated talent cultivation methods and improved the quality of talent cultivation, thus making landmark achievements: (i) 7 bachelor degree programmes of Xinhua University of the Group were selected as first-class undergraduate major construction sites, with 2 bachelor degree programmes, namely communication engineering and financial management, included in the list of national-level first-class bachelor degree programmes (national “financial majors”), and 5 bachelor degree programmes, namely software engineering, civil engineering, pharmacy, logistics management and animation included in the list of provincial-level first-class bachelor degree programmes, 6 courses were recognized as the provincial-level first-class undergraduate courses, and were recommended as national first-class courses; (ii) Xinhua University actively cooperated with JD.com, Gathering Stars* (聚星超媒) and Yonyou Seentao* (用友新道) and other well-known enterprises, in consideration of local economic and social development, and its advantages of disciplines and majors, so as to build a modern industrial college which integrates talent cultivation, scientific research, technological innovation, enterprise service, student entrepreneurship, etc. Accordingly, the Group will explore an effective mechanism to connect the industry chain, the innovation chain and the education chain, establish a new mechanism for sharing information, talents, technologies and material resources, improve the collaborative education mechanism for the integration of production and education, innovate the mechanism for evaluation and employment of part-time teachers from enterprises, build a mechanism for linking the development of higher education and industrial clusters, and continuously optimize the structure of majors and enhance the school vitality, 2 new programs under school-enterprise cooperation, namely journalism and e-commerce, were offered to create a new education platform that integrates talent training, scientific research, technological innovation, enterprise service and student entrepreneurship; and (iii) the School of Clinical Medicine cooperates with Nanjing Tongren Hospital (南京同仁醫院) and many other hospitals to provide students with high-quality medical education resources while continuing to serve the development of local health care.

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 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 April 2021, the Implementation Rules for the Law for Promoting Private Education (“**the New Implementation Rules**”) was officially revised and promulgated, and the New Implementation Rules encouraged the development of private schools with vocational education. The Opinions on the Establishment of Colleges and Universities During the “14th Five-Year” Plan Period* (《關於「十四五」時期高等學校設置工作的意見》) published by the Ministry of Education emphasized that the conversion of independent colleges should be regarded as an important task in the establishment of colleges and universities, and the conversion should be promoted properly and rapidly under the principle of “one policy for one school”, in a stable and orderly manner. Meanwhile, the easier requirements on the average land area per student, the school building area and the ratio of students to teachers, and the 2-year period for improving the school conditions, significantly support the conversion of independent colleges. The above policies bring new opportunities for the Group’s development. We believe that the implementation of relevant policies will help further give full play to the advantages and characteristics of private higher education, form a new development model meeting market demand, and further contribute to the kinetic energy for the development of high-quality private colleges and universities.

Benefiting from aforementioned policy, 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 Actively promote the external development strategy to comprehensively expand the school network and the size of schools of the Group

The national “14th Five-Year” Plan indicates that during the “14th Five-Year” Plan period from 2021 to 2025, the gross enrollment rate of higher education will increase to 60%. With the support under important national strategies, the spread of higher education in China is accelerating, and there is large room for the large-scale development of higher education. We believe that the further spread of higher education in China will continue to stimulate the creation of new sources of growth, which will facilitate the expansion of school networks and arrangement optimization by high-quality private higher education institutions through investment, mergers and acquisitions.

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 Continue to enhance endogenous development momentum and continue to improve endogenous growth space

With the continuous expansion of the school size, the Group will pay more attention to improving the quality of connotation construction. On the one hand, in line with the development of emerging industries and the transformation and upgrade of traditional industries, the Group will continuously optimize its arrangements for professional programs, and serve the national and local economic and social development; and will strengthen school-enterprise cooperation to build modern industrial colleges, and train more outstanding talents for industrial enterprises. On the other hand, the Group will continuously improve the school standards and conditions, and meet diversified and high-quality needs of students, with higher-level education and teaching facilities, stronger faculty and better living conditions, thus providing greater room for the expansion of educational service projects.

We will persist in high-quality development, continuously meet the needs of the people for more types and higher-quality selective education, and continuously establish the competitiveness and influence of the Group in the higher education sector, thus creating room for continuous growth in tuition and boarding fees, and continuously expanding the school size.

FINANCIAL REVIEW

Revenue

The Group's revenue increased by 18.5% from RMB244.8 million for the six months ended 30 June 2020 to RMB290.0 million for the Reporting Period. This increase was mainly due to the increase in the number of students.

Adjusted revenue

The adjusted revenue consists of the revenue of the Group plus the revenue of the School of Clinical Medicine and Hongshan College. 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 adjusted revenue of the Group for the periods presented below:

	30 June 2021	30 June 2020
	<i>RMB' 000</i>	<i>RMB' 000</i>
Revenue	290,014	244,819
Add:		
Revenue of the School of Clinical Medicine and Hongshan College	108,298	86,435
Adjusted revenue	398,312	331,254

Other Income

Other income primarily consists of rental and property management income, service income, interest income and gain on operation of the School of Clinical Medicine and Hongshan College. Other income slightly increased by 0.6% from RMB48.2 million for the six months ended 30 June 2020 to RMB48.5 million for the Reporting Period, primarily due to the combined effect of increase in rental and property management income and service income as well as the decrease in interest income.

Cost of Sales

Cost of sales primarily consists of salaries and benefits paid to our teaching staff, depreciation and amortization, cost of education-related activities, cost of repairs and student-related costs. Our cost of sales increased by 18.4% from RMB70.9 million for the six months ended 30 June 2020 to RMB83.9 million for the Reporting Period, primarily due to the expansion of the school scale and the continuous increase in teaching investment.

Gross Profit

Our gross profit increased by 18.5% from RMB173.9 million for the six months ended 30 June 2020 to RMB206.1 million for the Reporting Period, primarily due to the combined effect of the continuous improvement in our management level and the scale effect brought by the resource integration, which was in line with the growth of our business.

Selling and Distribution Costs

Selling and distribution costs primarily consist of student admission expenses, salaries and benefits paid to our sales staff, amortization and depreciation, and advertising expenses. Selling and distribution costs increased by 78.1% from RMB2.4 million for the six months ended 30 June 2020 to RMB4.4 million for the Reporting Period, compared with the previous period, mainly due to the restoration of the Group's normal teaching order, related promotion and enrollment activities were carried out in an orderly manner.

Administrative Expenses

Administrative expenses primarily consist of salaries and benefits paid to administrative staff, depreciation and amortization, and consultancy expenses. Administrative expenses decrease by 45.0% from RMB62.5 million for the six months ended 30 June 2020 to RMB34.4 million for the Reporting Period, primarily due to the decrease in share-based payment expenses and foreign exchange loss.

Finance Costs

Finance costs primarily consist of interest expenses on loans and borrowings and increased from RMB4.4 million for the six months ended 30 June 2020 to RMB7.7 million for the Reporting Period, mainly due to the increase in the interest period during the Reporting Period compared with the same period last year.

Profit before Taxation

The Group recognized a profit of RMB208.2 million before income tax for the Reporting Period, representing an increase of 36.3% as compared with a profit of RMB152.8 million before income tax for the six months ended 30 June 2020, due to the combined effect of gross profit growth and administrative expenses decrease.

Income Tax

The Group's income tax increased from RMB30,000 for the six months ended 30 June 2020 to RMB460,000 for the Reporting Period, primarily due to the increase in taxable income.

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 RMB207.7 million during the Reporting Period, representing an increase of 36.0% as compared with the RMB152.7 million for the six months ended 30 June 2020.

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 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	
	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Profit for the period	207,692	152,727
Add:		
Foreign exchange (gain)/loss	(9,905)	11,226
Share-based payment expenses	7,364	16,332
Adjusted net profit	<u>205,151</u>	<u>180,285</u>

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 and loans and borrowings. 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 2021, the Group recorded cash and cash equivalents of RMB487.9 million (31 December 2020: RMB736.3 million).

Net Current Assets

As at 30 June 2021, the Group recorded net current assets of RMB1,880.6 million, representing an increase of 40.7% as compared with the RMB1,336.7 million as at 31 December 2020, which was primarily attributable to the decrease in the contract liabilities balance and the increase of other receivable balance.

Capital Expenditures

Capital expenditures consist of purchase or construction cost of property and equipment, prepayment of land lease outlay and other intangible assets. Since the School of Clinical Medicine and Hongshan College have not yet been consolidated, capital expenditures do not consist the scope of the two schools mentioned above. During the Reporting Period, the Group's capital expenditures were RMB14.7 million (30 June 2020: RMB25.6 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 and loan from related party of the Group amounted to RMB555.2 million as at 30 June 2021.

Contingent Liabilities, Guarantees and Litigation

As at 30 June 2021, the Group did not have any unrecorded significant contingent liabilities, guarantees and any litigation against it.

Gearing Ratio

The gearing ratio of the Group, which was calculated as total liabilities divided by total assets, increased from 21% as at 31 December 2020 to 22% as at 30 June 2021, primarily because the combined effect of the increase in dividends payable and borrowings as well as the decrease in contractual liabilities of the Group's tuition and boarding fees during the Reporting Period.

Future Plan for Material Investments and Capital Assets

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 2021, 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 2021, no assets of the Group were pledged.

Human Resources

As at 30 June 2021, the Group has approximately 1,942 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 have 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 2021 and up to the date of this announcement 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 2021.

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 2021 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 2021) 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 (“**Shareholders**”) and to enhance corporate value and accountability. The Company has adopted the Corporate Governance Code (“**CG Code**”) contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) 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 2021. The Board will continue to review and monitor its corporate governance practices to ensure compliance with the CG Code (and that the Group is led by an effective Board in order to optimize return for the Shareholders).

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 Listing Rules, 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 2021.

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 2021 will be dispatched to the Shareholders 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, 30 August 2021

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.*