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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 2018

The board of directors (the “**Board**”) of China Xinhua Education Group Limited (the “**Company**”) is pleased to announce the unaudited interim consolidated financial results of the Company, its subsidiaries and consolidated affiliated entities (collectively, the “**Group**”) for the six months ended 30 June 2018 (the “**Reporting Period**”), together with the comparative figures for the corresponding period in 2017. The unaudited interim consolidated financial results for the Reporting Period have been reviewed by the audit committee of the Board (the “**Audit Committee**”).

FINANCIAL HIGHLIGHTS

	Six months ended 30 June		Percentage
	2018	2017	Change
	RMB'000	RMB'000	
Revenue	200,432	174,950	+14.6%
Gross profit	130,597	104,240	+25.3%
Profit for taxation	138,112	103,024	+34.1%
Profit for the period	137,462	102,412	+34.2%

As at 30 June 2018, the Group recorded cash, cash equivalents and financial assets at fair value through profit or loss of approximately RMB1.6 billion.

As at 30 June 2018, the Group did not have any bank loans.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the six months ended 30 June 2018 – unaudited

		Six months ended 30 June	
	Note	2018	2017
		RMB'000	(Note) RMB'000
Revenue	3	200,432	174,950
Cost of sales		<u>(69,835)</u>	<u>(70,710)</u>
Gross profit		130,597	104,240
Other income	4	37,072	24,035
Selling and distribution costs		(1,778)	(2,497)
Administrative expenses		(27,694)	(22,754)
Profit from operations		138,197	103,024
Finance costs	5(a)	<u>(85)</u>	–
Profit before taxation	5	138,112	103,024
Income tax	6	<u>(650)</u>	<u>(612)</u>
Profit for the period		137,462	102,412
Other comprehensive income for the period (after tax and reclassification adjustments)			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Available-for-sale financial assets:			
Changes in fair value recognised during the period		–	4,072
Reclassification to profit or loss on disposal		–	(4,076)
<i>Items that will not be reclassified subsequently to profit or loss:</i>			
Exchange difference on translation of financial statements of the Company		48,338	–
Other comprehensive income for the period		48,338	(4)
Total comprehensive income for the period		185,800	102,408
Earnings per share	7		
Basic and diluted (RMB cents)		9.7	8.5

Note: The Group has initially applied IFRS 9 and IFRS 15 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 2.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION*at 30 June 2018 – unaudited*

	<i>Note</i>	At 30 June 2018	At 31 December 2017
		RMB'000	<i>(Note)</i> RMB'000
Non-current assets			
Property, plant and equipment		482,998	491,883
Lease prepayments		89,158	90,437
Intangible assets	8	201,335	5,301
Other non-current assets		3,169	197,939
		776,660	785,560
Current assets			
Trade receivables	9	188	201
Prepayments, deposits and other receivables		9,084	12,293
Available-for-sale financial assets		–	235,521
Financial assets measured at fair value through profit or loss		444,150	–
Cash and cash equivalents		1,120,377	293,023
		1,573,799	541,038
Current liabilities			
Deferred revenue		–	191,773
Contract liabilities		14,455	–
Other payables	10	109,183	130,932
Amounts due to related parties		–	511
Deferred income		692	881
Current taxation		2,179	2,073
		126,509	326,170
Net current assets		1,447,290	214,868
Total assets less current liabilities		2,223,950	1,000,428

	<i>Note</i>	At 30 June 2018	At 31 December 2017 <i>(Note)</i>
		RMB'000	RMB'000
Non-current liabilities			
Deferred income		<u>252</u>	<u>503</u>
		<u>252</u>	<u>503</u>
NET ASSETS		<u>2,223,698</u>	<u>999,925</u>
Equity			
Share capital	<i>11</i>	12,952	—*
Reserves		<u>2,210,746</u>	<u>999,925</u>
TOTAL EQUITY		<u>2,223,698</u>	<u>999,925</u>

* The balance represents an amount less than RMB1,000.

Note: The Group has initially applied IFRS 9 and IFRS 15 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 2.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

1 BASIS OF PREPARATION

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

The interim financial report have been prepared in accordance with the same accounting policies adopted in the 2017 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2018 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 report contains 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 2017 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 report is unaudited, but have been reviewed by KPMG in accordance with Hong Kong Standard on *Review Engagements 2410, Review of interim financial information performed by the independent auditor of the entity*, issued by the HKICPA.

The financial information relating to the financial year ended 31 December 2017 that is included in the interim financial report 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 statutory financial statements for the year ended 31 December 2017 are available from the Company's registered office. The auditors have expressed an unqualified opinion on these financial statements in their report dated 30 April 2018.

2 CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

(a) Overview

The International Accounting Standards Board ("IASB") has issued a number of new IFRSs and amendments to IFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

- IFRS 9, Financial instruments
- IFRS 15, Revenue from contracts with customers
- IFRIC 22, Foreign currency transactions and advance consideration

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period, except for the amendments to IFRS 9, Prepayment features with negative compensation which have been adopted at the same time as IFRS 9.

The Group has been impacted by IFRS 9 in relation to classification of financial assets, and impacted by IFRS 15 in relation to presentation of contract liabilities. Details of the changes in accounting policies are discussed in note 2(b) for IFRS 9 and note 2(c) for IFRS 15.

(b) IFRS 9, Financial instruments, including the amendments to IFRS 9, Prepayment features with negative compensation

IFRS 9 replaces IAS 39, *Financial instruments: recognition and measurement*. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Group has applied IFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. The Group has recognised the cumulative effect of initial application as an adjustment to the opening equity at 1 January 2018. Therefore, comparative information continues to be reported under IAS 39.

The following tables summarise the impact, net of tax, of transition to IFRS 9 on retained earnings and reserves at 1 January 2018.

	Impact of adopting IFRS 9 at 1 January 2018 RMB'000
Retained earnings	
Transferred from fair value reserves relating to financial assets now measured at FVPL	<u>521</u>
Net increase in retained earnings at 1 January 2018	<u><u>521</u></u>

	Impact of adopting IFRS 9 at 1 January 2018 RMB'000
Fair value reserves	
Transferred to retained earnings relating to financial assets now measured at FVPL	<u>521</u>
Net decrease in fair value reserves at 1 January 2018	<u><u>521</u></u>

Further details of the nature and effect of the changes to previous accounting policies and the transition approach are set out below:

(i) Classification of financial assets and financial liabilities

IFRS 9 categories financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income (FVOCI) and at fair value through profit or loss (FVPL). These supersede IAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under IFRS 9 is based on the business model under which the financial asset is managed and its contractual cashflow characteristics.

Non-equity investments held by the Group are classified into one of the following measurement categories:

- amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method;
- FVOCI – recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss; or
- FVPL, if the investment does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated from the host. Instead, the hybrid instrument as a whole is assessed for classification.

The following table shows the original measurement categories for each class of the Group's financial assets under IAS 39 and reconciles the carrying amounts of those financial assets determined in accordance with IAS 39 to those determined in accordance with IFRS 9.

	IAS 39 carrying amount at 31 December 2017 <i>RMB'000</i>	Reclassification <i>RMB'000</i>	Remeasurement <i>RMB'000</i>	IFRS 9 carrying amount at 1 January 2018 <i>RMB'000</i>
Financial assets classified as available-for-sale under IAS 39				
Bank's wealth management products	<u>235,521</u>	<u>(235,521)</u>	<u>–</u>	<u>–</u>
	IAS 39 carrying amount at 31 December 2017 <i>RMB'000</i>	Reclassification <i>RMB'000</i>	Remeasurement <i>RMB'000</i>	IFRS 9 carrying amount at 1 January 2018 <i>RMB'000</i>
Financial assets carried at FVPL				
Bank's wealth management products	<u>–</u>	<u>235,521</u>	<u>–</u>	<u>235,521</u>

The measurement categories for all financial liabilities remain the same. The carrying amounts for all financial liabilities at 1 January 2018 have not been impacted by the initial adoption of IFRS 9.

(ii) *Credit losses*

IFRS 9 replaces the “incurred loss” model in IAS 39 with the ECL model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the “incurred loss” accounting model in IAS 39.

The Group applies the new ECL model to the following items:

- financial assets measured at amortised cost (including cash and cash equivalents and trade and other receivables);

Financial assets measured at fair value, including units in bond funds, equity securities measured at FVPL, equity securities designated at FVOCI (non-recycling) and derivative financial assets, are not subject to the ECL assessment.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

For undrawn loan commitments, expected cash shortfalls are measured as the difference between (i) the contractual cash flows that would be due to the Group if the holder of the loan commitment draws down on the loan and (ii) the cash flows that the Group expects to receive if the loan is drawn down.

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

- fixed-rate financial assets, trade and other receivables and contract assets: effective interest rate determined at initial recognition or an approximation thereof;

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

- 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables, lease receivables and contract assets are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group’s historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments (including loan commitments issued), the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument (including a loan commitment) has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (ii) the financial asset is 90 days past due. The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- failure to make payments of principal or interest on their contractually due dates;
- an actual or expected significant deterioration in a financial instrument’s external or internal credit rating (if available);
- an actual or expected significant deterioration in the operating results of the debtor; and
- existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor’s ability to meet its obligation to the Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument’s credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt securities that are measured at FVOCI (recycling), for which the loss allowance is recognised in other comprehensive income and accumulated in the fair value reserve (recycling).

Basis of calculation of interest income on credit-impaired financial assets

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

- significant financial difficulties of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the borrower will enter into bankruptcy or other financial reorganization;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or
- the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy

The gross carrying amount of a financial asset, lease receivable or contract asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

(iii) Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below:

- Information relating to comparative periods has not been restated. Differences in the carrying amounts of financial assets resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 continues to be reported under IAS 39 and thus may not be comparable with the current period.
- The following assessments have been made on the basis of the facts and circumstances that existed at 1 January 2018 (the date of initial application of IFRS 9 by the Group): the determination of the business model within which a financial asset is held.
- If, at the date of initial application, the assessment of whether there has been a significant increase in credit risk since initial recognition would have involved undue cost or effort, a lifetime ECL has been recognised for that financial instrument.

(c) IFRS 15, Revenue from contracts with customers

IFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. IFRS 15 replaces IAS 18, Revenue, which covered revenue arising from sale of goods and rendering of services, and IAS 11, Construction contracts, which specified the accounting for construction contracts.

The Group has elected to use the cumulative effect transition method. Comparative information has not been restated and continues to be reported under IAS 18. As allowed by IFRS 15, the Group has applied the new requirements only to contracts that were not completed before 1 January 2018.

Further details of the nature and effect of the changes on previous accounting policies are set out below:

(i) **Presentation of contract liabilities**

Under IFRS 15, a receivable is recognised only if the Group has an unconditional right to consideration. If the Group recognises the related revenue before being unconditionally entitled to the consideration for the promised goods and services in the contract, then the entitlement to consideration is classified as a contract asset. Similarly, a contract liability, rather than a payable, is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognises the related revenue. For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

Previously, tuition and boarding fee prepayment received by the Group were presented in the consolidated statement of financial position under “deferred revenue” until the services were delivered to the customers and the revenue was recognised.

To reflect these changes in presentation, the Group has made the following adjustments at 1 January 2018, as a result of the adoption of IFRS 15:

- Deferred revenue amounting to RMB191,773,000 as at 1 January 2018, which represents the tuition and boarding fee prepayments received from students but not earned is now measured under contract liabilities.

3 REVENUE AND SEGMENT REPORTING

(a) **Revenue**

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Revenue		
Tuition fees	178,966	157,905
Boarding fees	21,466	17,045
Total	<u>200,432</u>	<u>174,950</u>

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.

(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	
	2018 RMB'000	2017 RMB'000
Rental and property management income	13,225	8,590
Service income	6,795	4,891
Government grants (<i>Note (i)</i>)	5,914	5,633
Available-for-sale financial assets:		
reclassification from equity on disposal	–	4,076
Investment income of financial assets measured at fair value through profit or loss	6,970	–
Other interest income	2,785	267
Others	1,383	578
	<u>37,072</u>	<u>24,035</u>

Note (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.

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	Six months ended 30 June	
	2018 RMB'000	2017 RMB'000
(a) Finance costs		
Interest expense on bank loans	<u>85</u>	<u>–</u>
(b) Staff costs		
Salaries, wages and other benefits	51,125	44,496
Contributions to defined contribution retirement plan (<i>i</i>)	<u>4,009</u>	<u>3,155</u>
	<u>55,134</u>	<u>47,651</u>

- (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	
	2018	2017
	RMB'000	RMB'000
(c) Other items		
Depreciation	25,735	24,145
Amortisation of intangible assets	851	576
Amortisation of lease prepayments	1,279	1,279
Auditors' remuneration	1,433	796
	<u>29,298</u>	<u>26,796</u>

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

- (a) Income tax in the consolidated statement of profit or loss and other comprehensive income represents:

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Current tax		
Provision for PRC income tax for the year	<u>650</u>	<u>612</u>

- (i) The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Island and accordingly is not subject to income tax.
- (ii) No provision for Hong Kong profits tax has been made as the Group had no assessable profits derived from or earned in Hong Kong during the period.
- (iii) Pursuant to the PRC Income Tax Law and the respective regulations, the companies of the Group which operate in Mainland China are subject to Corporate Income Tax ("CIT") at a rate of 25% on its taxable income.

- (iv) According to the Implementation Rules for the Law for Promoting Private Education (the “Implementation Rules”), private schools, whether requiring reasonable returns or not, may enjoy preferential tax treatment. Private schools for which the school sponsors do not require reasonable returns are eligible to enjoy the same preferential tax treatment as public schools. The Implementation Rules provide that the relevant authorities under the State Council may introduce preferential tax treatments and related policies applicable to private schools requiring reasonable returns. During the 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 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 2018.

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	Six months ended 30 June	
	2018	2017
	RMB’000	RMB’000
Profit before taxation	138,112	103,024
Tax at the statutory rate	34,528	25,756
Tax effect of non-taxable income	(32,650)	(25,108)
Utilization of temporary difference and tax losses not recognized	(1,250)	(57)
Tax effect of non-deductible expenses	22	21
Actual income tax expense	650	612

7 EARNINGS PER SHARE

The calculation of basic earnings per share for the six months ended 30 June 2018 is based on the profit attributable to shareholders of the Company for the six months ended 30 June 2018 of RMB137,462,000 (30 June 2017: RMB102,412,000) and the weighted average number of ordinary shares of 1,416,480,433 in issue (30 June 2017: 1,200,000,000) after taking into account the Capitalization Issue (see note 11(ii)).

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

8 INTANGIBLE ASSETS

At 30 June 2018, intangible assets mainly represent a school operation right for the School of Clinical Medicine acquired from Anhui Medical University (the “Operation Right in Clinical Medicine School”) in the amount of RMB195,961,300. Such amount was recorded as prepayment in other non-current assets at 31 December 2017. The Operation Right in Clinical Medicine School is stated at cost and not amortised while its useful lives is assessed to be indefinite.

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 2018 RMB'000	At 31 December 2017 RMB'000
Within 1 year	188	201
More than 1 year but less than 2 years	—	—
	188	201

No allowance for doubtful debts was made as of the end of the Reporting Period.

10 OTHER PAYABLES

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Miscellaneous expenses received from students (<i>Note (i)</i>)	27,935	31,300
Accrued expenses	4,070	5,943
Payables to suppliers	22,498	29,173
Accrued staff costs	10,249	13,032
Others	31,014	25,682
Listing expenses	13,417	25,802
	109,183	130,932

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

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

11 SHARE CAPITAL

The share capital of the Group represents the issued capital of the Company at the respective balance sheet dates.

Movements in the authorised share capital of the Company during the period are as follows:

	2018		2017	
	Number of shares (thousand)	Amount HK\$'000	Number of shares (thousand)	Amount HK\$'000
<i>Ordinary shares, authorised (note (i)):</i>				
Ordinary shares of HK\$0.01 each	2,000,000	20,000	38,000	380
<i>Ordinary shares, issued and fully paid (note (ii)):</i>				
At 1 January 2018/30 August 2017 (date of incorporation)	5	—*	5	—*
Capitalisation issue	1,199,995	12,000	—	—
Issues of ordinary shares by initial public offering	408,583	4,086	—	—
At 30 June/31 December	<u>1,608,583</u>	<u>16,086</u>	<u>5</u>	<u>—*</u>
RMB equivalent ('000)		<u>12,952</u>		<u>—*</u>

* The balance represents an amount less than 1,000.

(i) Authorised share capital

The Company was incorporated in the Cayman Islands on 30 August 2017 with an authorised share capital of HK\$380,000 divided into 38,000,000 shares of par value of HK\$0.01 each.

Pursuant to the written resolutions of the shareholders passed on 8 March 2018, the authorised number of ordinary shares was increased from 38,000,000 to 2,000,000,000 of par value of HK\$0.01 each.

(ii) Issued share capital

The following sets out the changes in the Company's issued share capital since the date of its incorporation:

- The Company was incorporated on 30 August 2017 with issued capital of 5,172 ordinary shares at HK\$0.01 each. The issued capital was subsequently credited as fully paid.
- Pursuant to the written resolutions of the shareholders passed on 8 March 2018, the Company capitalized, out of the share premium as at 26 March 2018, HK\$11,999,948.28 (equivalent to RMB9,662,000) in paying up in full at par 1,199,994,828 shares for allotment and issue to the shareholders whose names appear on the register of members of the Company on the date of the written resolutions (or as they may direct) on a pro rata basis (the "Capitalisation Issue").
- On 26 March 2018, the Company issued 400,000,000 new ordinary shares of HK\$0.01 each by way of the offering to Hong Kong and overseas investors (the "Offering"). Consequently, HK\$4,000,000 was recorded in share capital. On 18 April 2018, the Company issued 8,583,000 new ordinary shares to cover over-allocations in the Offering. Consequently, HK\$85,830 was recorded in share capital.

12 DIVIDENDS

There were no dividend approved and paid by the Company for the six months ended 30 June 2018 (six months ended 30 June 2017: nil).

13 COMPARATIVE FIGURES

The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. Further details of the changes in accounting policies are disclosed in note 2.

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

We are the largest private higher education provider in the Yangtze River Delta, as measured by the full time student enrollment of our higher education programs. Currently, we operate two schools, Anhui Xinhua University, which is a private formal university, and Anhui Xinhua School, which is a private secondary vocational school. The number of the full time students enrolled in the two schools has reached approximately 34,889 as at 30 June 2018. Presently, we also jointly operate the School of Clinical Medicine of Anhui Medical University (“**School of Clinical Medicine**”) based on an agreement entered into by and between Anhui Medical University and us on 20 November 2017.

We are committed to providing high-quality education to our students, including both formal university education and vocational education in a wide selection of fields in applied sciences. We have designed comprehensive and diversified curriculums. We adjust our major offerings from time to time with reference to employer preferences and labor market demands determined based on our extensive and ongoing market research. We set up workplace simulation training studios, and collaborate with enterprise partners closely to help students acquire useful skills and find desirable employment. The relatively high initial graduate employment rate we have achieved will continue to enhance our reputation, raise our profile and attract talented students.

BUSINESS REVIEW

Our Schools

Xinhua University

Founded in 2000, Xinhua University is a formal university-level higher education institution, which provides undergraduate program education, junior college program education and continuing education focusing on applied sciences. In 2005, Xinhua University became the first private education institution in Anhui Province entitled to provide undergraduate education in addition to junior college education. Currently, Xinhua University provides 82 majors to its full-time students through 11 colleges, including 58 undergraduate majors and 24 junior college majors. In addition, Xinhua University also provides the continuing education program to its students. As at 30 June 2018, approximately 22,679 full-time students enrolled in the undergraduate program and junior college program at Xinhua University, and approximately 6,860 students enrolled in the continuing education program. Xinhua University ranks the first among the private formal higher education institutions in the Yangtze River Delta, as measured by the student enrollment.

Xinhua School

As a secondary vocational school, Xinhua School provides general secondary vocational program, undergraduate oriented secondary vocational education program, and five-year junior college oriented secondary vocational education program. All students of Xinhua School are enrolled as full-time students. Xinhua School currently has 16 majors for approximately 5,350 full-time students.

School of Clinical Medicine

Pursuant to the agreement with Anhui Medical University, we are entitled to the tuition fees relating to those students admitted in School of Clinical Medicine in 2018-2019 school year and thereafter and are responsible for the operations of the new campus. We are currently applying for the land use right to the new campus for the School of Clinical Medicine, and the official approval is expected to be obtained at the end of 2018. We will build the new campus in phases, which is expected to finally accommodate approximately 10,000 students.

	As at 30 June 2018	As at 30 June 2017
Student enrollment		
Xinhua University		
<i>Full time students</i>		
Four-year undergraduate program	17,921	17,096
Three-year junior college program	4,758	4,490
<i>Continuing education program</i>	6,860	6,912
Subtotal	29,539	28,498
Xinhua School		
<i>Full time students</i>		
General secondary vocational program	2,597	3,239
Undergraduate oriented secondary vocational program	1,303	1,416
Five-year junior college oriented secondary vocational program	1,450	1,523
Subtotal	5,350	6,178
Total:	34,889	34,676

Tuition fees and boarding fees

	Tuition fees		Boarding fees	
	2017-2018 school year	2016-2017 school year	2017-2018 school year	2016-2017 school year
Xinhua University				
Four-year undergraduate program	15,100-25,000	12,100-20,000	1,300-2,000	1,000-1,500
Three-year junior college program	10,700-21,000	7,700-18,000	1,300-2,000	1,000-1,500
Continuing education program	1,200-8,900	1,200-8,900	1,300-2,000	1,000-1,500
Xinhua School				
General secondary vocational program	5,200-7,600	5,200-7,600	1,200	1,200
Undergraduate oriented secondary vocational program	8,000	8,000	1,200	1,200
Five-year junior college oriented secondary vocational program	8,000	8,000	1,200	1,200

BUSINESS AND OPERATION UPDATES

1. Xinhua University has become one of the only six private higher education institutions in Anhui Province that are not subject to prior approval for tuition fee increases since September 2017. Since March 2018, the tuition fee increases in Xinhua School are no longer subject to prior approval of the Price Bureau of Hefei City.
2. Compared with the same period last year, the number of teachers at our schools increased by approximately 156 as at 30 June 2018, wherein those holding the postgraduate degree or above increased by approximately 130, and those holding the sub-senior professional titles or above increased by approximately 107.
3. We adjust our major offerings from time to time based on our extensive and ongoing market research. Two undergraduate majors and one junior college program major of Xinhua University have been successfully approved by competent authorities, in which data science and big data technology and health service and management are two undergraduate majors recently introduced in China. Xinhua School has introduced two new majors, which are the three-year major of urban rail transit operation and management and the five-year major of logistics service and management.
4. Our students have been delivering outstanding performance in a variety of competitions. As at 30 June 2018, our students have obtained 105 national-level and provincial-level awards in total.

FUTURE PROSPECTS

1. **External growth: actively seek after appropriate acquisition and investment opportunity**
 - Acquisition or investment targets:

Going forward, we will primarily focus on acquiring or investing in the undergraduate colleges and universities (including private universities and independent college in various provinces) capable of awarding bachelor's degree and having tremendous development potential, as well as excellent private junior colleges and higher vocational schools.
 - Upon completion of acquisition or investment, the Group will optimize operations of the school acquired/invested by virtue of its successful school running experience and education expertise.
2. **Endogenous growth: optimize tuition fee pricing, increase revenue, and expand sources of income**
 - The Group has established a good reputation of being able to provide high-quality education. As such, the Group's optimizing of tuition fee pricing will not affect the school's capacity in maintaining and expanding the student enrolment.
 - Both Xinhua University and Xinhua School are no longer required to apply to the competent government authorities for approval of its tuition fee increases, as long as tuition fee increases are filed with the relevant government authorities. As such, we have more flexibility in adjusting our tuition fee, which may lead to an increase in our revenue in the future.

- The Group intends to increase the revenue by increasing the total student enrollment.
- The Group intends to expand other sources of income by, among others, improving the services for students and logistics services.

FINANCIAL REVIEW

Revenue

The Group's revenue increased by 14.5% from RMB175.0 million for the six months ended 30 June 2017 to RMB200.4 million for the Reporting Period. This increase was primarily due to an increase in tuition fees from RMB157.9 million for the six months ended 30 June 2017 to RMB179.0 million for the Reporting Period, representing a year-on-year increase of 13.4%. This is primarily attributed to the impact of Xinhua University's corresponding adjustment of its tuition fee rates on new students in the 2017-2018 school year.

Cost of Sales

Our cost of sales slightly decreased by 1.3% from RMB70.7 million for the six months ended 30 June 2017 to RMB69.8 million for the Reporting Period, primarily due to the decrease in cost of repair and student-related costs.

Gross Profit and Gross Profit Margin

Our gross profit increased by 25.3% from RMB104.2 million for the six months ended 30 June 2017 to RMB130.6 million for the Reporting Period, which was in line with the growth of our business. Our gross profit margin increased from 59.6% for the six months ended 30 June 2017 to 65.2% for the Reporting Period, primarily due to the combined effect of the continuous improvement in our management level and the increase in tuition fee.

Other Income

Other income increased by 54.6% from RMB24.0 million for the six months ended 30 June 2017 to RMB37.1 million for the Reporting Period, primarily due to an increase in rental and property management income, investment income on bank's wealth management products and interest income.

Selling and Distribution Costs

Selling and distribution costs decreased by 28.0% from RMB2.5 million for the six months ended 30 June 2017 to RMB1.8 million for the Reporting Period, primarily due to a decrease in student admission expenses.

Administrative Expenses

Administrative expenses increased by 21.5% from RMB22.8 million for the six months ended 30 June 2017 to RMB27.7 million for the Reporting Period, primarily due to an increase in (i) salaries and benefits we paid to our employees and (ii) listing expenses.

Profit before Taxation

The Group recognized a profit of RMB138.1 million before income tax for the Reporting Period, compared to a profit of RMB103.0 million before income tax for the six months ended 30 June 2017, representing a year-on-year increase of 34.1%, which is generally in line with the increase in gross profit.

Income Tax

The Group's income tax increased from RMB612,000 for the six months ended 30 June 2017 to RMB650,000 for the Reporting Period, representing a year-on-year increase of 6.2%, primarily due to the increase in taxable profit.

Profit for the Period

As a result of the combined effects of the above income, costs and expenses, the Group recorded a profit for the period of RMB137.5 million during the Reporting Period, representing an increase of 34.3% as compared with the RMB102.4 million for the six months ended 30 June 2017.

Working Capital and Source of Capital

The Group's cash is mainly used to satisfy the needs of working capital, purchase of property, plant and equipment, and purchase of wealth management products. 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 in operating activities, bank loans and other borrowings, and other funds raised at the capital market from time to time. As at 30 June 2018, the Group's recorded cash and cash equivalents of RMB1,120.4 million (31 December 2017: RMB293.0 million).

Net Current Assets

As at 30 June 2018, the Group's net current assets recorded RMB1,447.3 million, representing an increase of 573.5% as compared with the RMB214.9 million as at 31 December 2017, which was primarily attributable to the tremendous funds obtained due to the Group's listing.

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 RMB24.8 million (30 June 2017: RMB21.3 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.

Capital Commitments

The Group's capital commitments primarily relate to the acquisition of property, plant and equipment. The following table sets forth a summary of our capital commitments as at the dates indicated:

	As at 30 June 2018 RMB'000	As at 31 December 2017 RMB'000
Contracted for	–	15,261
Authorized but not contracted for	<u>107,140</u>	<u>107,500</u>
	<u><u>107,140</u></u>	<u><u>122,761</u></u>

Bank Loans and Other Borrowings

The Group did not have any bank loans as at 30 June 2018.

Contingent Liabilities and Guarantees

As at 30 June 2018, the Group did not have any unrecorded significant contingent liabilities, guarantees or any litigation against it.

Gearing Ratio

Our gearing ratio decreased from 32.7% as at 31 December 2017 to 5.7% as at 30 June 2018, primarily because the Group's deferred revenue generated from tuition fees and boarding fees of last year was basically amortized during this period, and the Company's share capital was increased due to listing.

Future Plan for Material Investments and Capital Assets

Save as disclosed in the prospectus date 14 March 2018 and this announcement, the Group did not have other plans for material investments and capital assets.

Material Acquisitions and Disposals of Subsidiaries and Associated Companies

Save as disclosed herein, there was no material acquisition and disposal of subsidiaries and associated companies by the Company during the six months ended 30 June 2018.

Significant Investments Held by the Group

During the six months ended 30 June 2018, 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 2018, balances of several banks were denominated in USD or HKD. So far, the Group has not yet entered into any financial instruments used for hedging purpose, and the management will continue paying attention to foreign exchange risk, and will consider hedging against significant foreign currency risks by using financial instruments when necessary.

Assets Pledge

As at 30 June 2018, the Group did not pledge any assets.

Employee

As at 30 June 2018, the Group has approximately 1,650 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 2018 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 2018.

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 2018 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 2018) 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 2018. 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 Board of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange as its own code of conduct regarding directors’ securities transactions since its listing on 26 March 2018. Having made specific enquiries of the Board, each director of the Board has confirmed that he/she has complied with the Model Code during the six months ended 30 June 2018.

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.chinaxh.edu.com). The interim report of the Company for the six months ended 30 June 2018 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, 31 August 2018

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