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)
(於開曼群島註冊成立之有限公司)

Stock Code 股份代號 : 02779

INTERIM
REPORT
2018
中期報告

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CORPORATION INFORMATION

BOARD OF DIRECTORS

Non-executive Director
Mr. Wu Junbao (吳俊保) *(Chairman)*

Executive Directors
Mr. Lu Zhen (陸真)
Mr. Wang Yongkai (王永凱)
Ms. Wang Li (王麗)

Independent Non-executive Directors
Ms. Zhang Kejun (張可君)
Mr. Yang Zhanjun
Mr. Chau Kwok Keung (鄒國強)

AUDIT COMMITTEE

Mr. Chau Kwok Keung (鄒國強) *(Chairman)*
Mr. Wu Junbao (吳俊保)
Ms. Zhang Kejun (張可君)

REMUNERATION COMMITTEE

Ms. Zhang Kejun (張可君) *(Chairman)*
Mr. Wu Junbao (吳俊保)
Mr. Yang Zhanjun

NOMINATION COMMITTEE

Mr. Wu Junbao (吳俊保) *(Chairman)*
Ms. Zhang Kejun (張可君)
Mr. Yang Zhanjun

COMPANY SECRETARY

Mr. Wong Yu Kit (黃儒傑) (effective from 26 July 2018)

AUTHORISED REPRESENTATIVES

Mr. Wang Yongkai (王永凱)
Mr. Wong Yu Kit (黃儒傑) (effective from 26 July 2018)

COMPLIANCE ADVISOR

Guotai Junan Capital Limited

REGISTERED OFFICE

Cricket Square
Hutchins Drive, P. O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

HEADQUARTER AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

No. 555 Wangjiangxi Road
Heifei City, Anhui Province, PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

40th Floor, Sunlight Tower
No. 248 Queen's Road East
Wanchai, Hong Kong

LEGAL ADVISORS AS TO HONG KONG LAW

Luk & Partners
In Association with
Morgan, Lewis & Bockius

AUDITORS

KPMG
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Trust Company (Cayman) Limited
Cricket Square, Hutchins Drive, P. O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited

Shops 1712-1716, 17th Floor, Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

PRINCIPAL BANKERS

Agricultural Bank of China
Hefei Science and Technology Rural Commercial Bank
Huishang Bank
Hangzhou Bank

COMPANY WEBSITE

http://www.chinaxhedu.com

STOCK CODE

02779

FINANCIAL HIGHLIGHTS

FINANCIAL HIGHLIGHTS

	For the six months ended June 30,		
	2018	2017	Percentage 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.

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.

MANAGEMENT DISCUSSION AND ANALYSIS

Student enrollment

	As at 30 June 2018	As at 30 June 2017
Xinhua University		
Full time students		
Four-year undergraduate program	17,921	17,096
Three-year junior college program	4,758	4,490
Continuing education program	6,860	6,912
Subtotal	29,539	28,498
Xinhua School		
Full time students		
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

MANAGEMENT DISCUSSION AND ANALYSIS

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. Out 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.

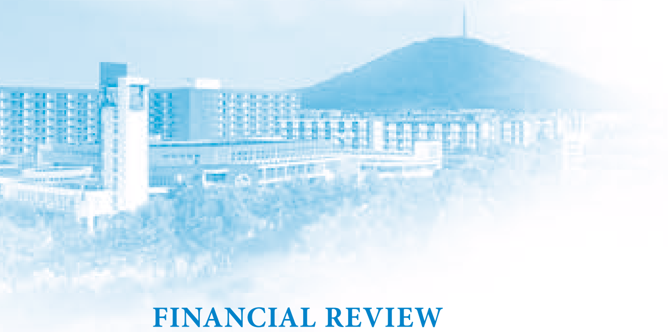
2. Endogenous growth: optimize tuition fee pricing, increase revenue, and expand sources of income

- 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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	**107,140**	107,500
	107,140	122,761

Bank Loans and Other Borrowings

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

Contingent Liabilities and Guarantees

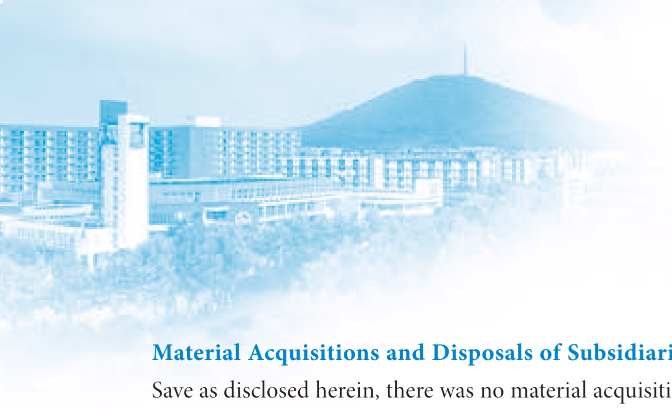
As at 30 June 2018, the Group did not have any unrecorded significant contingent liabilities, guarantees or any litigation against it.

Gearing Ratio

Our gearing ratio, which was calculated as total liabilities divided by total equity, 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 interim report, the Group did not have other plans for material investments and capital assets.



MANAGEMENT DISCUSSION AND ANALYSIS

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.

OTHER INFORMATION

INTERIM DIVIDENDS

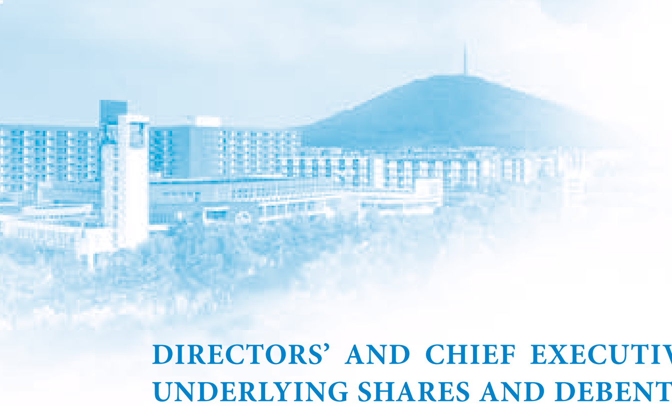
The Board did not recommend the payment of an interim dividend for the Reporting Period.

USE OF NET PROCEEDS FROM LISTING

Net proceeds from the listing (after deducting underwriting fees and related expenses) and the over-allotment option exercised on 18 April 2018 amounted to approximately RMB1,038.0 million which was intended to be applied in the manner as set out in the section headed "Future Plans and Use of Proceeds" of the Prospectus dated 14 March 2018.

As at 30 June 2018, none of the proceeds had been utilized. The following table shows the intended use of the proceeds and the respective expected timeline:

Intended use of the net proceeds	**Expected utilisation as at 31 December 2018** (RMB million)	**Expected remaining balance as at 31 December 2018** (RMB million)
• approximately 53.0%, or RMB550.1 million, is expected to be used primarily to acquire other schools to expand our school network. In particular, we plan to focus on suitable opportunities to acquire undergraduate colleges that can grant bachelor's degrees, including private higher education institutions, independent colleges and secondary vocational schools in provincial capitals. In addition, we will also consider acquiring entities that own educational assets or institutions in provincial capitals, municipalities under the direct administration of the central government and major cities with independent budgets;	300.0	250.1
• approximately 35.0%, or RMB363.3 million, is expected to be used primarily to improve our school facilities and educational equipment;	315.0	48.3
• approximately 2.0%, or RMB20.8 million, is expected to be used primarily to strengthen our market position and enhance our brand recognition; and	5.0	15.8
• approximately 10.0%, or RMB103.8 million, is expected to be used to fund our working capital and general corporate purposes.	20.0	83.8
Total	640.0	398.0



DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITION IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2018, the interests and short positions of the Directors and the chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have taken under such provisions of the SFO), or which were recorded in the register required to be kept pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules were as follows:

Name	Capacity/nature of Interest	Number of shares	Long/short position	Approximate Percentage of Shareholding in the Company (%)
Mr. Wu Junbao	Interest in a controlled corporation	1,148,491,879	Long position	71.40

Note:

(1) Mr. Wu Junbao is the sole shareholder of WJB Company and he is therefore deemed to be interested in the Shares held by WJB Company upon the Listing.

Save as disclosed above, as at 30 June 2018, none of the Directors or the chief executive of the Company had or was deemed to have any interest or short position in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) that was required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have taken under such provisions of the SFO), or required to be recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2018, to the best knowledge of the Directors, the following persons (other than being a Director or chief executive of the Company) had interests or short positions in the Shares or underlying Shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Name	Capacity/Nature of interest	Number of shares	Long/short position	Approximate percentage of shareholding in the Company (%)
WJB Company	Beneficial owner	1,148,491,879	Long position	71.40
Mr. Wu Junbao	Interest in a controlled corporation	1,148,491,879	Long position	71.40

Note:

(1) Mr. Wu Junbao is the sole shareholder of WJB Company and he is therefore deemed to be interested in the Shares held by WJB Company upon the Listing.

Save as disclosed above, as at 30 June 2018, the Directors and the chief executive of the Company were not aware of any persons (who were not Directors or chief executive of the Company) who had an interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein.

SHARE OPTION SCHEME

The Company has adopted the Share Option Scheme on 8 March 2018 ("Adoption Date") for the purpose of giving the eligible persons an opportunity to have a personal stake in the Company and help motivate them to optimize their future contributions to the Group and/or to reward them for their past contributions, to attract and retain or otherwise maintain on-going relationships with such eligible persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group, and additionally in the case of executives (as defined below), to enable the Group to attract and retain individuals with experience and ability and/or to reward them for their past contributions.

Eligible persons include (a) any executive director of, manager of, or other employee holding an executive, managerial, supervisory or similar position in any member of our Group ("Executive"), any proposed employee, any full-time or part-time employee, or a person for the time being seconded to work full-time or part-time for any member of our Group ("Employee"); (b) a director or proposed director (including an independent non-executive director) of any member of our Group; (c) a direct or indirect shareholder of any member of our Group; (d) a supplier of goods or services to any member of our Group; (e) a customer, consultant, business or joint venture partner, franchisee, contractor, agent or representative of any member of our Group; (f) a person or entity that provides design, research, development or other support or any advisory, consultancy, professional or other services to any member of our Group; and (g) an associate of any of the persons referred to in paragraphs (a) to (f) above.

OTHER INFORMATION

The maximum number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of the Group shall not in aggregate exceed 10% of the Shares in issue as at the Listing Date, which is 40,000,000 Shares excluding Shares which may fall to be issued upon the exercise of the over-allotment option granted by the Company, representing approximately 10% of the issued shares as at the Listing Date.

No option may be granted to any one person such that the total number of Shares issued and to be issued upon exercise of options granted and to be granted to that person in any 12-month period exceeds 1% of the Company's issued share capital from time to time. Where any further grant of options to such an Eligible Person would result in the Shares issued and to be issued upon exercise of all options granted and to be granted to such eligible person (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the Shares in issue, such further grant shall be separately approved by the Shareholders in general meeting with such eligible person and his close associates (or his associates if such eligible person is a connected person) abstaining from voting.

The Board shall be entitled at any time within 10 years from the Adoption Date to offer the grant of an option to any eligible person as the Board may in its absolute discretion select to subscribe at the subscription price for such number of Shares as the Board may (subject to the terms of the Share Option Scheme) determine (provided the same shall be a board lot for dealing in the Shares on the Stock Exchange or an integral multiple thereof). Subject to such terms and conditions as the Board may determine (including such terms and conditions in relation to their vesting, exercise or otherwise), there is no minimum period for which an option must be held before it can be exercised and no performance target which need to be achieved by the grantee before the Option can be exercised.

An offer of the grant of an option shall remain open for acceptance by the eligible person concerned for a period of 28 days from the offer date provided that no such grant of an option may be accepted after the expiry of the effective period of the Share Option Scheme. An option shall be deemed to have been granted and accepted by the eligible person and to have taken effect when the duplicate offer letter comprising acceptance of the offer of the option duly signed by the grantee together with a remittance in favor of the Company of HK$1.00 by way of consideration for the grant thereof is received by the Company on or before the date upon which an offer of an option must be accepted by the relevant eligible person, being a date no later than 28 days after the offer date.

The subscription price in respect of any particular option shall be such price as the Board may in its absolute discretion determine at the time of grant of the relevant option (and shall be stated in the letter containing the offer of the grant of the option) but the subscription price shall not be less than whichever is the highest of: (a) the nominal value of a Share; (b) the closing price of a Share as stated in the Stock Exchange's daily quotations sheet on the offer date; and (c) the average closing price of a Share as stated in the Stock Exchange's daily quotations sheets for the 5 business days (as defined in the Listing Rules) immediately preceding the offer date.

The Share Option Scheme shall be valid and effective for a period of 10 years from the date on which it becomes unconditional, after which no further options will be granted or offered but the provisions of the Share Option Scheme shall remain in force and effect in all other respects. All options granted prior to such expiry and not then exercised shall continue to be valid and exercisable subject to and in accordance with the Share Option Scheme. The remaining life of the Share Option Scheme is around 9 years and 7 months.

During the period from the Listing Date to the date of this interim report, no options under the Share Option Scheme have been granted, exercised, lapsed or cancelled.

OTHER INFORMATION

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the period from the Listing Date to the date of this interim report, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

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 of the Company (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 PRACTICES

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 CG Code as its own code of corporate governance. The Company has complied with all applicable code provisions under the CG Code during the period from the Listing Date to the date of this interim report. The Company will continue to review and monitor its corporate governance practices to ensure compliance with the CG Code.

MODEL CODE

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as its own code of conduct regarding directors' securities transactions from the Listing Date. Having made specific enquiries of all the Directors, each of the Directors has confirmed that he/she has complied with the Model Code during the period from the Listing Date to the date of this interim report.

AUDITOR'S INDEPENDENT REVIEW REPORT TO THE BOARD OF DIRECTORS OF CHINA XINHUA EDUCATION GROUP LIMITED

(Incorporated in Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial report set out on pages 16 to 42 which comprises the consolidated statement of financial position of China Xinhua Education Group Limited (the "Company") and its subsidiaries (the "Group") as of 30 June 2018 and the related consolidated statement of profit or loss and other comprehensive income and statement of changes in equity and condensed consolidated cash flow statement for the six month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and International Accounting Standard 34, *Interim financial reporting*, issued by the International Accounting Standards Board. The directors are responsible for the preparation and presentation of the interim financial report in accordance with International Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review 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. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2018 is not prepared, in all material respects, in accordance with International Accounting Standard 34, Interim financial reporting.

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

Date: 31 August 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the six months ended 30 June 2018 – unaudited

	Note	Six months ended 30 June 2018 RMB'000	2017 (Note) RMB'000
Revenue	3	**200,432**	174,950
Cost of sales		**(69,835)**	(70,710)
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)	**(85)**	–
Profit before taxation	5	**138,112**	103,024
Income tax	6	**(650)**	(612)
Profit for the period		**137,462**	102,412
Other comprehensive income for the period (after tax and reclassification adjustments)			
Items that may be reclassified subsequently to profit or loss:			
Available-for-sale financial assets:			
Changes in fair value recognised during the period		**–**	4,072
Reclassification to profit or loss on disposal		**–**	(4,076)
Items that will not be reclassified subsequently to profit or loss:			
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.

The notes on pages 22 to 42 form part of this interim financial report. Details of dividends payable to equity shareholders of the Company are set out in note 17(c).

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2018 – unaudited

	Note	At 30 June 2018 RMB'000	At 31 December 2017 (Note) RMB'000
Non-current assets			
Property, plant and equipment	8	**482,998**	491,883
Lease prepayments		**89,158**	90,437
Intangible assets	9	**201,335**	5,301
Other non-current assets		**3,169**	197,939
		776,660	785,560
Current assets			
Trade receivables	10	**188**	201
Prepayments, deposits and other receivables	11	**9,084**	12,293
Available-for-sale financial assets		**–**	235,521
Financial assets measured at fair value through profit or loss	12	**444,150**	–
Cash and cash equivalents	13	**1,120,377**	293,023
		1,573,799	541,038
Current liabilities			
Deferred revenue		**–**	191,773
Contract liabilities	14	**14,455**	–
Other payables	15	**109,183**	130,932
Amounts due to related parties	20(b)	**–**	511
Deferred income	16	**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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2018 – unaudited

	Note	At 30 June 2018 RMB'000	At 31 December 2017 (Note) RMB'000
Non-current liabilities			
Deferred income	16	**252**	503
		252	503
NET ASSETS		**2,223,698**	999,925
Equity			
Share capital	17	**12,952**	–*
Reserves		**2,210,746**	999,925
TOTAL EQUITY		**2,223,698**	999,925

* 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.

The notes on pages 22 to 42 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2018 – unaudited

	Attributable to equity shareholders of the Company							
	Share capital RMB'000	Share premium RMB'000	Capital reserves RMB'000	Statutory reserves RMB'000	Exchange reserves RMB'000	Fair value reserves RMB'000	Retained earnings RMB'000	Total equity RMB'000
Balance at 1 January 2017	50,000	–	–	174,938	–	68	541,608	766,614
Changes in equity for the six months ended 30 June 2017:								
Profit for the period	–	–	–	–	–	–	102,412	102,412
Other comprehensive income	–	–	–	–	–	(4)	–	(4)
Total comprehensive income	–	–	–	–	–	(4)	102,412	102,408
Appropriation to reserves	–	–	–	–	–	–	–	–
Balance at 30 June 2017 and 1 July 2017	50,000	–	–	174,938	–	64	644,020	869,022
Changes in equity for the six months ended 31 December 2017:								
Profit for the period	–	–	–	–	–	–	69,546	69,546
Other comprehensive income	–	–	–	–	–	457	–	457
Total comprehensive income	–	–	–	–	–	457	69,546	70,003
Capital injection by shareholders	1,720	–	59,180	–	–	–	–	60,900
Elimination on the completion of the Reorganisation	(51,720)	–	51,720	–	–	–	–	–
Appropriation to reserves	–	–	–	47,631	–	–	(47,631)	–
Balance at 31 December 2017 (Note)	–*	–	110,900	222,569	–	521	665,935	999,925

* 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.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2018 – unaudited

		Attributable to equity shareholders of the Company							
	Note	Share capital RMB'000	Share premium RMB'000	Capital reserves RMB'000	Statutory reserves RMB'000	Exchange reserves RMB'000	Fair value reserves RMB'000	Retained earnings RMB'000	Total equity RMB'000
Balance at 31 December 2017		–*	–	110,900	222,569	–	521	665,935	999,925
Adjustment on initial application of IFRS 9	2	–	–	–	–	–	(521)	521	–
Balance at 1 January 2018		**–***	**–**	**110,900**	**222,569**	**–**	**–**	**666,456**	**999,925**
Changes in equity for the six months ended 30 June 2018:									
Profit for the period		–	–	–	–	–	–	**137,462**	**137,462**
Other comprehensive income		–	–	–	–	**48,338**	–	–	**48,338**
Total comprehensive income		–	–	–	–	**48,338**	–	**137,462**	**185,800**
Issuance of ordinary shares through initial public offering, net of issuance costs	17(b)(i)	**3,290**	**1,034,683**	–	–	–	–	–	**1,037,973**
Capitalization issue	17(a)(ii)	**9,662**	**(9,662)**	–	–	–	–	–	–
Balance at 30 June 2018		**12,952**	**1,025,021**	**110,900**	**222,569**	**48,338**	**–**	**803,918**	**2,223,698**

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

The notes on pages 22 to 42 form part of this interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

for the six months ended 30 June 2018 – unaudited

	Note	Six months ended 30 June	
		2018	2017 (Note)
		RMB'000	RMB'000
Operating activities			
Cash used in operations		**(30,231)**	(23,327)
Income tax paid		**(868)**	–
Net cash used in operating activities		**(31,099)**	(23,327)
Investing activities			
Payment for the purchase of property, plant and equipment		**(24,849)**	(21,294)
Other cash flows (used in)/arising from investing activities		**(202,974)**	23,265
Net cash (used in)/generated from investing activities		**(227,823)**	1,971
Financing activities			
Issue of ordinary shares through initial public offering, net of issuance costs		**1,037,973**	–
Other cash flows used in financing activities		**(85)**	–
Net cash generated from financing activities		**1,037,888**	–
Net increase/(decrease) in cash and cash equivalents		**778,966**	(21,356)
Cash and cash equivalents at 1 January		**293,023**	105,874
Effect of foreign exchanges rates changes		**48,388**	–
Cash and cash equivalents at 30 June	13	**1,120,377**	84,518

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.

The notes on pages 22 to 42 form part of this interim financial report.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

1 BASIS OF PREPARATION

The interim financial report has 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 31 August 2018.

The interim financial report has 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 report 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. KPMG's independent review report to the Board of Directors is included on page 15.

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 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 IFRS9 at 1 January 2018 RMB'000
Retained earnings	
Transferred from fair value reserves relating to financial assets now measured at FVPL	**521**
Net increase in retained earnings at 1 January 2018	**521**

2 CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (continued)

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

	Impact of adopting IFRS9 at 1 January 2018 RMB'000
Fair value reserves	
Transferred to retained earnings relating to financial assets now measured at FVPL	**521**
Net decrease in fair value reserves at 1 January 2018	**521**

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 cash flow 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.

2 CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (continued)

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

(i) Classification of financial assets and financial liabilities (Continued)

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 RMB'000	Reclassification RMB'000	Remeasurement RMB'000	**IFRS 9 carrying amount at 1 January 2018 RMB'000**
Financial assets classified as available-for-sale under IAS 39				
Bank's wealth management products	235,521	(235,521)	–	**–**

	IAS 39 carrying amount at 31 December 2017 RMB'000	Reclassification RMB'000	Remeasurement RMB'000	**IFRS 9 carrying amount at 1 January 2018 RMB'000**
Financial assets carried at FVPL				
Bank's wealth management products	–	235,521	–	**235,521**

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.

2 CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (continued)

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

(ii) Credit losses (continued)

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.

2 CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (continued)

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

(ii) Credit losses (continued)

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.

2 CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (continued)

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

(ii) Credit losses (continued)

Basis of calculation of interest income on credit-impaired financial assets (continued)

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.

2 CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

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	**200,432**	174,950

Revenue represents the value of service rendered during the report 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	2017
	RMB'000	RMB'000
Rental and property management income	**13,225**	8,590
Service income	**6,795**	4,891
Government grants *(Note (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
	37,072	24,035

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	2017
	RMB'000	RMB'000
(a) Finance costs		
Interest expense on bank loans	**85**	–
(b) Staff costs		
Salaries, wages and other benefits	**51,125**	44,496
Contributions to defined contribution retirement plan *(i)*	**4,009**	3,155
	55,134	47,651

(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
	29,298	26,796

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

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	**650**	612

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

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

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

(iv) According to the Implementation Rules for the Law for Promoting Private Education (the "Implementation Rules"), private schools, whether requiring reasonable returns or not, may enjoy preferential tax treatment. Private schools for which the school sponsors do not require reasonable returns are eligible to enjoy the same preferential tax treatment as public schools. The Implementation Rules provide that the relevant authorities under the State Council may introduce preferential tax treatments and related policies applicable to private schools requiring reasonable returns. During the reporting period and up to the date of this 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 17(a)).

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 PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2018, the Group acquired items of property, plant and equipment with original costs of RMB16,943,696 (30 June 2017: RMB21,537,845).

9 INTANGIBLE ASSETS

At 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.

10 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.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

11 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Prepayments and deposits	**1,231**	1,129
Other receivables	**7,853**	11,164
	9,084	12,293

12 FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Financial assets measured at FVPL	**444,150**	–

Financial assets measured at FVPL comprise the investments in wealth management products purchased from banks in the PRC.

13 CASH AND CASH EQUIVALENTS

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Cash at bank and on hand	**1,120,377**	293,023

14 CONTRACT LIABILITIES

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Tuition fees	**7,261**	–
Boarding fees	**7,194**	–
	14,455	–

15 OTHER PAYABLES

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Miscellaneous expenses received from students *(Note (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.

16 DEFERRED INCOME

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Government grants		
At beginning of period/year	**1,384**	1,011
Grants received in period/year	**5,474**	6,566
Charged to profit or loss in period/year	**(5,914)**	(6,193)
At end of period/year	**944**	1,384
Current	**692**	881
Non-current	**252**	503
	944	1,384

17 CAPITAL, RESERVES AND DIVIDENDS

(a) 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
Ordinary shares, authorised (note (i)):				
Ordinary shares of HK$0.01 each	**2,000,000**	**20,000**	38,000	380
Ordinary shares, issued and fully paid (note (ii)):				
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	**1,608,583**	**16,086**	5	–*
RMB equivalent ('000)		**12,952**		–*

* 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.

17 CAPITAL, RESERVES AND DIVIDENDS (continued)

(a) Share capital (continued)

(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.

(b) Nature and purpose of reserves

(i) Share premium

On 26 March 2018 and 18 April 2018, the Company issued 408,583,000 new ordinary shares of HK$0.01 each at a price of HK$3.26 per share by way of the Offering. Net proceeds from the Offering amounted to RMB1,037,973,000 (after offsetting issuance costs of RMB34,399,000), out of which RMB3,290,000 and RMB1,034,683,000 were recorded in share capital and share premium respectively.

(c) Dividends

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

17 CAPITAL, RESERVES AND DIVIDENDS (continued)

(d) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of a debt-to-asset ratio. This ratio is calculated as total liabilities divided by total assets.

The debt-to-asset ratios at 30 June 2018 and 31 December 2017 were as follows:

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Total liabilities	**126,761**	326,673
Total assets	**2,350,459**	1,326,598
Debt-to-asset ratios	**5%**	25%

Neither the company nor any of its subsidiaries are subject to externally imposed capital requirements.

18 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

(a) Financial assets and liabilities measured at fair value

Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in IFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

– Level 1 valuations: Fair value measured using only Level 1 input i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

– Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

– Level 3 valuations: Fair value measured using significant unobservable inputs.

18 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (continued)

(a) Financial assets and liabilities measured at fair value (continued)

Fair value hierarchy (continued)

The Group has a team headed by the finance manager performing valuation for wealth management products which are categorized into Level 3 of the fair value hierarchy. The team reports directly to the head of finance department. A valuation report with analysis of changes in fair value measurement is prepared by the team at each interim and annual reporting date, and is reviewed and approved by the head of finance department. Discussion of the valuation process and results with the head of finance department and the directors is held twice a year, to coincide with the reporting dates.

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Level 3 – bank's wealth management products	**444,150**	235,521

Note: Available-for-sale financial assets were reclassified to financial assets measured at FVPL upon the adoption of IFRS 9 at 1 January 2018 (see note 2).

The fair values of banks' wealth management products have been estimated using a discounted cash flow valuation model based on assumptions that are not supported by observable market prices or rates. The valuation requires the directors to make estimates about the expected future cash flows including expected future interest return on maturity of the wealth management products. The directors believe that the estimated fair values resulting from the valuation technique are reasonable, and that they were the most appropriate values at the end of reporting period.

Below is a summary of significant unobservable inputs to the valuation of these wealth management products together with a quantitative sensitivity analysis at the end of reporting period:

30 June 2018

	Valuation techniques	Significant unobservable inputs	Range	Sensitivity of fair value to the input
Bank's wealth management products, at fair value	**Discounted cash flow method**	**Interest return rate**	**3.00% to 4.30%**	**0.50% increase/(decrease) in Interest return rate would result in increase/(decrease) in fair value by RMB566,000.**

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

18 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (continued)

(a) Financial assets and liabilities measured at fair value (continued)

Fair value hierarchy (continued)

31 December 2017

	Valuation techniques	Significant unobservable inputs	Range	Sensitivity of fair value to the input
Bank's wealth management products, at fair value	Discounted cash flow method	Interest return rate	3.50% to 4.55%	0.50% increase/(decrease) in Interest return rate would result in increase/(decrease) in fair value by RMB53,000.

During the period, there was no transfer between instruments in Level 1 and Level 2. The movements during the period in the balance of these Level 3 fair value measurements was as follows:

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Bank's wealth management products		
At beginning of the period/year	**235,521**	120,068
Payment for purchases	**860,000**	1,579,000
Net unrealised gains or losses recognised in other comprehensive income during the period	**–**	521
Changes in fair value recognised in profit or loss during the period	**4,150**	–
Redemption of investment	**(655,521)**	(1,464,068)
At ending of the period/year	**444,150**	235,521

From 1 January 2018, any gains or losses arising from the remeasurement of the banks' wealth management products are presented in the "Other income" line item in the consolidated statement of profit or loss and other comprehensive income. Prior to 1 January 2018, the net unrealised gains arising from the remeasurement are recognised in fair value reserve in other comprehensive income, and the gains arising from the disposal of the banks' wealth management products are presented in the "Other income" line item in the consolidated statement of profit or loss and other comprehensive income.

(b) Fair value of financial assets and liabilities carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortized cost are not materially different from their fair values as at 30 June 2018 and 31 December 2017 due to short-term maturity of these instruments.

19 COMMITMENTS

Capital commitments of the Group in respect of plant, property and equipment outstanding at 30 June 2018 and 31 December 2017 not provided for in the consolidated financial statements were as follows:

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Contracted for	–	15,261
Authorised but not contracted for	**107,140**	107,500
	107,140	122,761

20 MATERIAL RELATED PARTY TRANSACTIONS

During the period ended 30 June 2018, the directors are of the view that the following companies and persons are related parties of the Group:

Name of party	Relationship
Wu Junbao	Controlling Shareholder
Anhui Xinhua Investment Co., Ltd ("Xinhua Investment") 安徽新華投資有限公司	Fellow subsidiary
Anhui New East Cuisine Education Institute ("New East Cuisine") 安徽新東方烹飪專修學院	Fellow subsidiary
Xinhua Computer College ("Xinhua Computer") 新華電腦專修學院	Fellow subsidiary
Hefei Wanzhi Trading Co., Ltd ("Hefei Wanzhi") 合肥皖智商貿有限公司	Fellow subsidiary

Note: The English translation of these entities is for reference only. The official names of the entities established in the PRC are in Chinese.

(a) Significant related party transactions

	Six months ended 30 June	
	2018 RMB'000	2017 RMB'000
Service fee charged by related parties	**620**	1,389
Repayment to related parties	**511**	89,811

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

20 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(b) Balances with related parties

As at the respective balance sheet dates, the Group had the following balances with related parties:

Amounts due to:

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Non-trade related:		
Wu Junbao	–	511

21 COMPARATIVE FIGURES

The Group has initially applied IFRS 9 and IFRS 15 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.

DEFINITION

In this report, unless the context otherwise requires, the following expressions shall have the following meanings:

"associate(s)"	has the meaning ascribed thereto in the Listing Rules
"Board"	the board of Directors
"business day"	a day on which banks in Hong Kong are generally open for business to the public and which is not a Saturday, Sunday or public holiday in Hong Kong
"CG Code"	the Corporate Governance Code as set out in Appendix 14 to the Listing Rules
"China" or "PRC"	the People's Republic of China excluding for the purpose of this report, Hong Kong, the Macau Special Administrative Region and Taiwan
"Company" or "China Xinhua Group"	China Xinhua Education Group Limited, a company incorporated in the Cayman Islands whose shares are listed on the Stock Exchange
"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"Director(s)"	the director(s) of the Company
"HK$", "Hong Kong dollar(s)", "HKD" or "cents"	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong Stock Exchange", "Stock Exchange" and "HKSE"	The Stock Exchange of Hong Kong Limited
"IFRSs"	the International Financial Reporting Standard(s)
"Listing"	the listing of the shares on the Main Board of the Stock Exchange on 26 March 2018
"Listing Date"	26 March 2018, the date on which the Company's Shares are listed and from which dealings therein are permitted to take place on the Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange, as amended from time to time
"Model Code"	Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
"Prospectus"	the prospectus of the Company dated 14 March 2018
"Reporting Period"	the six months ended 30 June 2018

DEFINITION

"RMB" or "Renminbi"	Renminbi, the lawful currency for the time being of the PRC
"SFO" or "Securities and Futures Ordinance"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended and supplemented from time to time
"Share Option Scheme"	the share option scheme conditionally adopted by our Company on 8 March 2018
"Shareholder(s)"	holder(s) of the Share(s)
"Share(s)"	ordinary share(s) of HK$0.01 each in the share capital of our Company
"WJB Company"	Wu Junbao Company Limited (吳俊保有限公司), a limited liability company incorporated under the laws of the BVI on 18 August 2017 and wholly owned by Mr. Wu and will be one of our controlling shareholders (as defined in the Listing Rules) upon the Listing
"%"	percent

CHINA XINHUA EDUCATION GROUP LIMITED
中國新華教育集團有限公司