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天立教育国际控股有限公司

Tianli Education International Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1773)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2019

FINANCIAL HIGHLIGHTS

	For the six months ended 30 June			Percentage Change
	2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)	Change RMB'000	
Revenue	438,093	308,504	129,589	42.01%
Gross Profit	190,302	155,363	34,939	22.49%
Profit for the period	146,375	107,349	39,026	36.35%
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY				
	RMB	RMB	RMB	
Basic and diluted	<u>7.01 cents</u>	<u>6.93 cents</u>	<u>0.08 cents</u>	<u>1.15%</u>

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2019

The board (the “**Board**”) of directors (the “**Directors**”) of Tianli Education International Holdings Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) is pleased to announce the unaudited condensed consolidated interim results of the Group for the six months ended 30 June 2019 (the “**Reporting Period**”). These interim results have been reviewed by the Company’s audit committee (the “**Audit Committee**”) and the Company’s external auditors, Ernst & Young.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2019

	Notes	2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
REVENUE	3	438,093	308,504
Cost of sales		(247,791)	(153,141)
Gross profit		190,302	155,363
Other income and gains	3	12,420	6,381
Selling and distribution expenses		(6,687)	(5,882)
Administrative expenses		(42,711)	(36,688)
Other expenses		(3,429)	(733)
Interest expenses	4	(3,500)	(10,917)
Share of profit of an associate		729	1,260
PROFIT BEFORE TAX	5	147,124	108,784
Income tax expense	6	(749)	(1,435)
PROFIT FOR THE PERIOD		146,375	107,349
OTHER COMPREHENSIVE INCOME FOR THE PERIOD			
Other comprehensive income that will be reclassified to profit or loss in subsequent periods:			
Exchange differences related to translation of foreign operation		126	—
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		146,501	107,349
Profit attributable to:			
Owners of the Company		143,738	103,904
Non-controlling interests		2,637	3,445
		146,375	107,349
Total comprehensive income attributable to:			
Owners of the Company		143,864	103,904
Non-controlling interests		2,637	3,445
		146,501	107,349
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
Basic and diluted	7	RMB7.01 cents	RMB6.93 cents

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
30 JUNE 2019

		30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000
	<i>Notes</i>		
NON-CURRENT ASSETS			
Property, plant and equipment	8	2,538,115	1,898,602
Right-of-use assets	8	679,385	—
Prepaid land lease payments		—	217,207
Goodwill	9	7,572	7,572
Intangible assets		1,116	460
Investment in an associate		5,836	5,107
Prepayments, deposits and other receivables	11	265,922	365,524
		<hr/>	<hr/>
Total non-current assets		3,497,946	2,494,472
		<hr/>	<hr/>
CURRENT ASSETS			
Inventories		4,222	3,982
Trade receivables	10	4,188	1,037
Prepayments, deposits and other receivables	11	58,390	42,943
Amounts due from related parties	23(b)	2,192	4,557
Financial assets at fair value through profit or loss	12	58,682	15,799
Cash and cash equivalents	13	1,011,645	1,232,997
		<hr/>	<hr/>
Total current assets		1,139,319	1,301,315
		<hr/>	<hr/>
CURRENT LIABILITIES			
Trade payables	14	12,995	13,212
Other payables and accruals	15	214,179	165,800
Contract liabilities	16	614,595	340,875
Interest-bearing bank loans	18	88,201	87,851
Amounts due to related parties	23(b)	376,376	300,577
Tax payable		2,593	2,490
Lease liabilities	19	5,626	—
Deferred income	17	125,559	109,112
		<hr/>	<hr/>
Total current liabilities		1,440,124	1,019,917
		<hr/>	<hr/>
NET CURRENT ASSETS/(LIABILITIES)	2.1	(300,805)	281,398
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		3,197,141	2,775,870
		<hr/>	<hr/>

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		30 June 2019	31 December 2018
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
		(Unaudited)	
NON-CURRENT LIABILITIES			
Contract liabilities	<i>16</i>	51,437	52,449
Lease liabilities	<i>19</i>	87,359	–
Deferred income	<i>17</i>	345,766	60,682
Interest-bearing bank loans	<i>18</i>	355,860	370,777
		<hr/>	<hr/>
Total non-current liabilities		840,422	483,908
		<hr/>	<hr/>
Net assets		2,356,719	2,291,962
		<hr/>	<hr/>
EQUITY			
Equity attributable to owners of the Company			
Issued capital	<i>20</i>	176,375	176,375
Reserves		2,140,735	2,082,163
		<hr/>	<hr/>
		2,317,110	2,258,538
Non-controlling interests		39,609	33,424
		<hr/>	<hr/>
Total equity		2,356,719	2,291,962
		<hr/>	<hr/>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2019

	Attributable to owners of the Company										
	Issued capital RMB'000 (unaudited) (note 20)	Share premium RMB'000 (unaudited)	Share repurchased for share award scheme [#] RMB'000 (unaudited)	Capital reserve RMB'000 (unaudited)	Difference arising from acquisition of non-controlling interests RMB'000 (unaudited)	Statutory surplus reserves RMB'000 (unaudited)	Exchange fluctuation reserve RMB'000 (unaudited)	Retained profits RMB'000 (unaudited)	Total RMB'000 (unaudited)	Non-controlling interests RMB'000 (unaudited)	Total equity RMB'000 (unaudited)
As at 1 January 2019	176,375	1,075,090*	-	563,558*	(824)*	74,171*	-	370,168*	2,258,538	33,424	2,291,962
Profit for the period	-	-	-	-	-	-	-	143,738	143,738	2,637	146,375
Other comprehensive income for the period:											
Exchange differences related to translation of foreign operation	-	-	-	-	-	-	126	-	126	-	126
Total comprehensive income for the period	-	-	-	-	-	-	126	143,738	143,864	2,637	146,501
Transfer from retained profits	-	-	-	-	-	13,051	-	(13,051)	-	-	-
Dividends paid to non-controlling shareholders of subsidiaries	-	-	-	-	-	-	-	-	-	(340)	(340)
Final 2018 dividend declared	-	-	-	-	-	-	-	(59,313)	(59,313)	-	(59,313)
Increase in capital reserve of a subsidiary	-	-	-	17,150	-	-	-	-	17,150	-	17,150
Shares repurchased for share award plan	-	-	(43,129)	-	-	-	-	-	(43,129)	-	(43,129)
Capital contribution from non-controlling shareholders of subsidiaries	-	-	-	-	-	-	-	-	-	3,888	3,888
As at 30 June 2019	<u>176,375</u>	<u>1,075,090*</u>	<u>(43,129)*</u>	<u>580,708*</u>	<u>(824)*</u>	<u>87,222*</u>	<u>126*</u>	<u>441,542*</u>	<u>2,317,110</u>	<u>39,609</u>	<u>2,356,719</u>
As at 1 January 2018	-	-	-	563,558	(824)	51,989	-	197,617	812,340	24,278	836,618
Profit and total comprehensive income for the period	-	-	-	-	-	-	-	103,904	103,904	3,445	107,349
Transfer from retained profits	-	-	-	-	-	14,635	-	(14,635)	-	-	-
Issue of shares	308	-	-	-	-	-	-	-	308	-	308
Capital contribution from non-controlling shareholders of a subsidiary	-	-	-	-	-	-	-	-	-	2,423	2,423
As at 30 June 2018	<u>308</u>	<u>-</u>	<u>-</u>	<u>563,558</u>	<u>(824)</u>	<u>66,624</u>	<u>-</u>	<u>286,886</u>	<u>916,552</u>	<u>30,146</u>	<u>946,698</u>

* These reserve accounts comprise the reserves of RMB2,140,735,000 (31 December 2018: RMB2,082,163,000) in the interim condensed consolidated statement of financial position.

The Company adopted a restricted share award scheme on 17 December 2018 for the purpose to recognise and motivate the contribution of its eligible employees who contribute to the success of the Group's operations. During the six months ended 30 June 2019, the Group has set up a trust specifically for the management of the share award plan and through the trust, a total of 29,958,000 shares of the Company have been purchased by the trustee. As at 30 June 2019, no share of the Company was granted to employees of the Group.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2019

	Notes	2019 RMB'000 (unaudited)	2018 RMB'000 (unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		147,124	108,784
Adjustments for:			
Depreciation of property, plant and equipment	5	31,390	22,001
Depreciation of right-of-use assets	5	8,585	–
Recognition of prepaid land lease payments	5	–	2,287
Amortisation of intangible assets	5	46	9
Share of profit of an associate		(729)	(1,260)
Gain on disposal of financial assets at fair value through profit or loss	5	(1,605)	(1,672)
Unrealised foreign exchange gains, net		(1,683)	–
Bank interest income	5	(7,081)	(2,017)
Deferred income released to profit or loss	17	(53,555)	(40,784)
Interest expenses	4	3,500	10,917
		125,992	98,265
Increase in inventories		(240)	(29)
Increase in trade receivables		(3,151)	(16)
Increase in prepayments, deposits and other receivables		(24,711)	(17,289)
Decrease/(increase) in amounts due from related parties		2,365	(8,479)
Increase/(decrease) in trade payables		(217)	3,148
Increase in contract liabilities		272,708	196,200
Receipt of government grants		236,925	465
Increase in other payables and accruals		57,880	14,543
		667,551	286,808
Cash generated from operations		(646)	(863)
Income tax paid			
Net cash flows from operating activities		666,905	285,945

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	2019 <i>RMB' 000</i> (unaudited)	2018 <i>RMB' 000</i> (unaudited)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of items of property, plant and equipment	(599,559)	(185,586)
Purchase of intangible assets	(2,513)	–
Prepaid land lease payments	(144,899)	(140,722)
Proceeds from disposal of items of property, plant and equipment	205	–
Purchase of financial assets at fair value through profit or loss	(347,533)	(517,580)
Proceeds from disposal of financial assets at fair value through profit or loss	304,650	518,770
Gains on disposal of financial assets at fair value through profit or loss	1,605	1,672
Increase in time deposits with original maturity of over three months	418,290	–
Bank Interest received	11,384	2,017
	<u>(358,370)</u>	<u>(321,429)</u>
Net cash flows used in investing activities		
CASH FLOWS FROM FINANCING ACTIVITIES		
Repurchase of shares held for share award plan	(43,129)	–
Capital contribution from the non-controlling shareholders	21,038	2,423
Proceeds from bank loans	–	91,566
Repayment of bank loans	(14,567)	(22,272)
Dividends paid to controlling shareholders	(59,313)	–
Dividends paid to non-controlling shareholders of subsidiaries	(340)	–
Principal portion of lease payments	(1,360)	–
Interest portion of the lease liability	(649)	–
Interest paid	(15,085)	(18,202)
	<u>(113,405)</u>	<u>53,515</u>
Net cash flows from/(used in) financing activities		
NET INCREASE IN CASH AND CASH EQUIVALENTS	195,130	18,031
Effect of foreign exchange rate changes, net	1,808	–
Cash and cash equivalents at beginning of period	707,277	313,539
	<u>904,215</u>	<u>331,570</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD		
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS:		
Cash and cash equivalents as stated in the consolidated statement of financial position	1,011,645	331,570
Time deposits with original maturity of over three months	(107,430)	–
	<u>904,215</u>	<u>331,570</u>
Cash and cash equivalents as stated in the consolidated statement of cash flows	904,215	331,570

NOTES TO INTERIM CONDENSED FINANCIAL INFORMATION

30 JUNE 2019

1. CORPORATE INFORMATION

The Company is a limited liability company incorporated in the Cayman Islands on 24 January 2017 as an exempted company under the laws of the Cayman Islands. The registered office address of the Company is P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. The principal place of business of the Company is located at 40th Floor, Sunlight Tower, No. 248 Queen's Road East, Wanchai, Hong Kong.

During the period ended 30 June 2019 (the “**Period**”), the Company and its subsidiaries (collectively referred to as the “**Group**”) were principally engaged in the provision of education and related management services in the People's Republic of China (the “**PRC**”). There were no significant changes in the nature of the Group's principal activities during the Period.

In the opinion of the directors of the Company (the “**Directors**”), the parent company and the ultimate holding company of the Company is Sky Elite Limited, a company incorporated in the British Virgin Islands. The ultimate controlling shareholder of the Company is Mr. Luo Shi (“**Mr. Luo**”).

2.1 BASIS OF PRESENTATION

The interim condensed financial information for the Period has been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting*. The interim condensed consolidated financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2018.

Going concern

The Group recorded net current liabilities of RMB300,805,000 as at 30 June 2019. Included therein, the Group recorded a current portion of contract liabilities and deferred income of RMB614,595,000 and RMB125,559,000 respectively, as of 30 June 2019.

In view of the net current liability position, the Directors have given careful consideration to the future liquidity and performance of the Group and its available sources of finance in assessing whether the Group will have sufficient financial resources to continue as a going concern. Having considered the cash flows from operations and the positive operating results, the Directors are of the opinion the Group is able to meet in full its financial obligations as they fall due for the foreseeable future and it is appropriate to prepare the interim condensed financial information of the Group for the six months ended 30 June 2019 on a going concern basis.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of this interim condensed consolidated financial information are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2018, except for the adoption of the following new standards, new interpretations and amendments to a number of International Financial Reporting Standards (“**IFRSs**”) issued by the International Accounting Standards Board effective as 1 January 2019.

Amendments to IFRS 9	<i>Prepayment Features with Negative Compensation</i>
IFRS 16	<i>Leases</i>
Amendments to IAS 19	<i>Plan Amendment, Curtailment or Settlement</i>
Amendments to IAS 28	<i>Long-term Interests in Associates and Joint Ventures</i>
IFRIC 23	<i>Uncertainty over Income Tax Treatments</i>
<i>Annual Improvements</i> <i>2015-2017 Cycle</i>	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23

The adoption of these new standards, new interpretations and amendments to IFRSs has had no significant financial effect on the financial position or performance of the Group except IFRS 16. The nature and impact of IFRS 16 are described below:

IFRS 16 replaces IAS 17 Leases, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC 15 *Operating Leases – Incentives* and SIC 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model. Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have any financial impact on leases where the Group is the lessor.

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initial adoption as an adjustment to the opening balance of retained profits at 1 January 2019, and the comparative information for 2018 was not restated and continues to be reported under IAS 17.

New definition of a lease

Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of IFRS 16

The Group has lease contracts for various items of buildings and office. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under IFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low-value assets (elected on a lease by lease basis) and short-term leases (elected by class of underlying asset). The Group has elected not to recognise right-of-use assets and lease liabilities for (i) leases of low-value assets; and (ii) leases that, at the commencement date, have a lease term of 12 months or less. Instead, the Group recognises the lease payments associated with those leases as an expense on a straight-line basis over the lease term.

Impacts on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019. The Group elected to present the lease liabilities separately in the consolidated statement of financial position.

The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid lease payments relating to the lease recognised in the consolidated statement of financial position immediately before 1 January 2019. All these assets were assessed for any impairment based on IAS 36 on that date. The Group elected to present the right-of-use assets separately in the consolidated statement of financial position.

The Group has used the following elective practical expedients when applying IFRS 16 at 1 January 2019:

- Applied the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application
- Applied a single discount rate to a portfolio of leases with reasonably similar characteristics

The impacts arising from the adoption of IFRS 16 as at 1 January 2019 are as follows:

	Increase/ (Decrease) RMB'000 (Unaudited)
Assets	
Increase in right-of-use assets	278,960
Decrease in prepaid land lease payments	(217,207)
Decrease in prepayments, deposits and other receivables	(4,961)
	<u>56,792</u>
Increase in total assets	<u><u>56,792</u></u>
Liabilities	
Increase in lease liabilities	<u><u>56,792</u></u>

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 are as follows:

	RMB'000 (Unaudited)
Operating lease commitments as at 31 December 2018	98,550
Weighted average incremental borrowing rate as at 1 January 2019	6.57%
Discounted operating lease commitments as at 1 January 2019	<u>56,792</u>
Lease liabilities as at 1 January 2019	<u><u>56,792</u></u>

Summary of new accounting policies

The accounting policy for leases as disclosed in the annual financial statements for the year ended 31 December 2018 is replaced with the following new accounting policies upon adoption of IFRS 16 from 1 January 2019:

Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term.

Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in-substance fixed lease payments or a change in assessment to purchase the underlying asset.

Amounts recognised in the interim consolidated statement of financial position and profit or loss

The carrying amounts of the Group's right-of-use assets and lease liabilities and the movement during the Period are as follows:

	Right-of-use assets			Lease
	Land	Buildings	Sub total	liabilities
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
As at 1 January 2019	222,168	56,792	278,960	56,792
Additions	255,665	35,184	290,849	35,184
Government grant transferred out	118,161	–	118,161	–
Depreciation charge	(5,169)	(3,416)	(8,585)	–
Interest expense	–	–	–	3,018
Payments	–	–	–	(2,009)
As at 30 June 2019	<u>590,825</u>	<u>88,560</u>	<u>679,385</u>	<u>92,985</u>

The Group recognised rental expenses from short-term leases of RMB539,000 (note 5) for the six months ended 30 June 2019.

3. REVENUE, OTHER INCOME AND GAINS

Revenue represents the values of services rendered after deducting scholarships and refunds during the Period and the six months ended 30 June 2018.

An analysis of revenue is as follows:

	For the six months ended 30 June	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
<i>Revenue from contracts with customers</i>		
Tuition fees	306,959	215,860
Boarding fees	38,930	29,757
School canteen operations	89,162	61,891
Management and franchise fees	<u>3,042</u>	<u>996</u>
Total revenue	<u>438,093</u>	<u>308,504</u>

Revenue from contracts with customers

(i) *Disaggregated revenue information*

For the period ended 30 June 2019

RMB'000
(unaudited)

Timing of revenue recognition

Goods transferred at a point in time

89,162

Services transferred over time

348,931

Total revenue from contracts with customers

438,093

(ii) *Performance obligations*

Information about the Group's performance obligations is summarised below:

Goods transferred at a point in time

The performance obligation of the school canteen operations is satisfied at a point in time when the control of goods is transferred, being the time when the goods are accepted by the customers.

Services transferred over time

Other than the canteen operations, the performance obligations for services are satisfied over time because a customer simultaneously receives and consumes the benefits provided by the Group.

The transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 30 June 2019 are as follows:

RMB'000
(unaudited)

Within one year

614,595

More than one year

51,437

666,032

The performance obligations expected to be recognised in more than one year relate to teaching services that are to be satisfied within 27.5 years from 30 June 2019. All the other remaining performance obligations are expected to be recognised within one year.

An analysis of other income and gains is as follows:

	For the six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Other income and gains		
Bank interest income	7,081	2,017
Other service income	3,044	2,003
Gain on disposal of financial assets at fair value through profit or loss	1,605	1,672
Rental income	507	420
Others	183	269
	<hr/>	<hr/>
Total other income and gains	12,420	6,381
	<hr/> <hr/>	<hr/> <hr/>

4. INTEREST EXPENSES

An analysis of the Group's interest expenses is as follows:

	For the six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Interest on bank loans	14,805	18,171
Less: Interest capitalised (<i>note 8(b)</i>)	(14,323)	(7,254)
	<hr/>	<hr/>
	482	10,917
Interest on lease liabilities	3,018	—
	<hr/>	<hr/>
	3,500	10,917
	<hr/> <hr/>	<hr/> <hr/>
Interest rate of borrowing costs capitalised (%)	6.18-7.13	6.18-7.13
	<hr/> <hr/>	<hr/> <hr/>

5. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	For the six months ended 30 June	
		2019 RMB'000 (unaudited)	2018 RMB'000 (unaudited)
Cost of inventories sold		46,906	33,631
Cost of services provided		200,885	119,510
		<u>247,791</u>	<u>153,141</u>
Employee benefit expense (excluding directors' and chief executive's remuneration):			
Wages and salaries		181,400	114,206
Pension scheme contributions (defined contribution scheme)		20,788	15,405
Welfare		21,617	9,858
Housing fund (defined contribution scheme)		7,078	5,728
Less: Government grants released	17	(53,555)	(40,784)
Subsidies received		(3,043)	(1,767)
		<u>174,285</u>	<u>102,646</u>
Depreciation of items of property, plant and equipment*	8	31,390	22,001
Depreciation of right-of-use assets*	8	8,585	–
Recognition of prepaid land lease payments*		–	2,287
Amortisation of intangible assets		46	9
Auditor's remuneration		1,000	–
Minimum lease payments under operating leases		539	708
Bank interest income		(7,081)	(2,017)
Listing expenses		–	8,992
Gain on disposal of financial assets at fair value through profit or loss		(1,605)	(1,672)
Foreign exchange losses		1,884	–
Rental income		(507)	(420)

* The depreciation of items of property, plant and equipment and depreciation of right-of-use assets of RMB29,259,000 and RMB7,918,000 respectively (Six months ended 30 June 2018: the depreciation of items of property, plant and equipment and recognition of prepaid land lease payments of RMB20,455,000 and RMB2,287,000 respectively) are recorded in "Cost of sales" in profit or loss.

6. INCOME TAX

Corporate income tax of the Group has been provided at the applicable tax rates on the estimated taxable profits arising in Mainland China during the Period:

	For the six months ended 30 June	
	2019 RMB'000 (unaudited)	2018 RMB'000 (unaudited)
Current – Mainland China		
Charge for the period	<u>749</u>	<u>1,435</u>

Notes:

- (a) Pursuant to the rules and regulations of the Cayman Islands and British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands and British Virgin Islands.
- (b) 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 and the six months ended 30 June 2018.
- (c) Pursuant to the PRC Income Tax Law and the respective regulations, all of the Group's non-school subsidiaries that provide non-academic educational services established in the PRC were subject to the PRC Corporate Income Tax rate of 25% during the Period and the six months ended 30 June 2018.

Based on the confirmations from the in-charge local tax bureau and the local office of the State Administration of Taxation of the PRC that the operating entities obtained in the prior year, there was no corporate income tax imposed on the income from the provision of formal educational services. As a result, no income tax expense was recognised for the income from the provision of formal educational services during the Period and the six months ended 30 June 2018.

7. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of the basic earnings per share amounts is based on the profit attributable to ordinary equity holders of the Company for the six months ended 30 June 2019, and the weighted average number of ordinary shares in issue during the Period, as adjusted to reflect the shares repurchased under the share award scheme during the Period (six months ended 30 June 2018: As adjusted to reflect the ordinary shares to be issued by way of capitalisation issue).

The calculation of the basic earnings per share is based on:

	For the six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Earnings		
Profit attributable to the ordinary equity holders	<u>143,738</u>	<u>103,904</u>
	Number of shares	
	For the six months ended 30 June	
	2019	2018
	(unaudited)	(unaudited)
Shares		
Weighted average number of ordinary shares in issue	2,075,000,000	3,272,222
Effect of weighted average number of ordinary shares repurchased under the share award scheme	(25,010,000)	—
Effect of ordinary shares to be issued credited as fully paid by way of capitalisation issue	<u>—</u>	<u>1,496,200,000</u>
Adjusted weighted average number of ordinary shares used in the basic earnings per share calculation	<u>2,049,990,000</u>	<u>1,499,472,222</u>

No adjustment has been made to the basic earnings per share amounts presented for the Period and the six months ended 30 June 2018 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during the Period and the six months ended 30 June 2018.

8. PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS

Movements in property, plant and equipment and right-of-use assets during the Period are as follows:

	Property, plant and equipment RMB'000 (Unaudited) (note a)	Right-of-use assets RMB'000 (Unaudited)
Carrying amounts at 1 January 2019	1,898,602	278,960
Additions	671,108	290,849
Government grants transferred out (note 17)	–	118,161
Disposals	(205)	–
Depreciation/amortisation charged for the Period (note 5)	(31,390)	(8,585)
Carrying amounts at 30 June 2019	2,538,115	679,385

Notes:

- (a) As at 30 June 2019, the Group was in the customary process of obtaining the relevant property ownership certificates for certain buildings with a net carrying amount of approximately RMB1,111,991,000 (31 December 2018: RMB1,121,984,000). The Group's buildings can only be sold, transferred or mortgaged when the relevant certificates have been obtained.
- (b) Interest expenses capitalised as part of property, plant and equipment by the Group during the Period amounted to RMB14,323,000 (six months ended 30 June 2018: RMB7,254,000) (note 4).

9. GOODWILL

IAS 36 requires an entity to perform impairment tests on goodwill on an annual basis. However, management did not identify any significant adverse changes in the operating results and macro environment in the six months' period ended 30 June 2019, and the Company's management has concluded there was no impairment indicator of goodwill as at 30 June 2019. Accordingly, the Company's management did not perform impairment testing on goodwill as at 30 June 2019.

10. TRADE RECEIVABLES

	30 June 2019 RMB'000 (unaudited)	31 December 2018 RMB'000
Within 3 months	4,188	1,037

Trade receivables mainly represented amounts of management fees due from certain entrusted schools. There is no fixed credit term for payments. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

Trade receivables as at the end of the Reporting Period which are based on the transaction date were aged within 3 months and are not individually nor collectively considered to be impaired. None of the above trade receivables is either past due or impaired. The receivables have no recent history of default.

No expected credit losses were provided as it is assessed that the overall expected credit loss rate for the above financial assets measured at amortised cost is minimal.

11. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	30 June 2019 RMB'000 (unaudited)	31 December 2018 RMB'000
<i>Current portion:</i>		
Security deposits related to the construction of schools	19,513	17,991
Other deposits	2,225	1,498
Prepayments	12,153	7,947
Prepaid land lease payments to be amortised within one year	–	4,961
Interest receivable	–	4,303
Advances to staff	7,906	2,706
Advance to third parties	1,833	1,833
Deductible input value added tax	12,363	–
Other receivables	2,397	1,704
	<u>58,390</u>	<u>42,943</u>
<i>Non-current portion:</i>		
Prepayments for property, plant and equipment*	76,320	66,967
Security deposit (note 18(a))	9,567	9,567
Prepayment for intangible assets	1,811	–
Prepayment for the acquisition of land use rights	178,224	288,990
	<u>265,922</u>	<u>365,524</u>
Total	<u><u>324,312</u></u>	<u><u>408,467</u></u>

* Included in the prepayments for property, plant and equipment is a prepayment paid to a related party, Luzhou Nanyuan Construction Engineering Co., Ltd. (“**Nanyuan Construction**”) amounting to RMB42,444,000 (31 December 2018: RMB59,634,000) (note 23(b)).

Included in the balance above, security deposits related to the construction of schools, other deposits, interest receivable, advance to third parties, advances to staff and others are financial assets. The Group applies the general approach to provide for expected credit losses of the financial assets measured at amortised cost including other deposits, interest receivable, advance to third parties, advances to staff and others prescribed by IFRS 9. The Group assessed that the credit standing of the bank is very strong, and the payment term of such receivables is short. For the advances to staff and rental deposits, in case of a default, the Group might reduce the loss by negotiating settlement based on obtaining services or a right of use over lease assets. No expected credit losses were provided as it is assessed that the overall expected credit loss rate for the above financial assets measured at amortised cost is minimal.

As at 30 June 2019, financial assets included in prepayments, deposits and other receivables were classified as Stage 1, and the provisions for impairment were assessed to be immaterial.

The above amounts are interest-free and are not secured with collateral.

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

12. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 June 2019 RMB'000 (unaudited)	31 December 2018 RMB'000
Wealth management products issued by licensed banks, at fair value	58,682	15,799

The above wealth management products have maturity within 47 days and coupon rates ranging from 1.6% to 7.0% per annum.

13. CASH AND CASH EQUIVALENTS

	30 June 2019 RMB'000 (unaudited)	31 December 2018 RMB'000
Cash and bank balances	816,249	438,583
Time deposits with original maturity of:		
– less than three months	87,966	268,694
– over three months	107,430	525,720
Cash and cash equivalents	1,011,645	1,232,997

The Group's cash and bank balances and time deposits are denominated in the following currencies:

	30 June 2019 RMB'000 (unaudited)	31 December 2018 RMB'000
RMB	625,563	269,357
HK\$	209,235	823,987
US\$	176,847	139,653
	1,011,645	1,232,997

The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Time deposits are made for varying periods of between one day and six months depending on the immediate cash requirements of the Group and earn interest at the respective time deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

14. TRADE PAYABLES

An aging analysis of the trade payables as at the end of the Period, based on the invoice date, is as follows:

	30 June 2019 RMB'000 (unaudited)	31 December 2018 RMB'000
Within 3 months	11,964	13,131
Over 3 months and within 6 months	952	81
Over 6 months	79	—
	12,995	13,212

The trade payables are non-interest-bearing and are normally settled on 30-day terms.

15. OTHER PAYABLES AND ACCRUALS

	30 June 2019 RMB'000 (unaudited)	31 December 2018 RMB'000
Accrued bonuses and other employee benefits	91,479	70,688
Miscellaneous advances from students*	79,847	45,879
Payables for purchase of property, plant and equipment	23,652	32,873
Deposits	12,523	7,663
Interest payable	—	280
Other payables and accrued expenses	6,678	8,417
	214,179	165,800

* The balances mainly represented miscellaneous advances received from students for the purchase of uniforms and textbooks on their behalf.

The above balances are unsecured and non-interest-bearing.

16. CONTRACT LIABILITIES

	30 June 2019 <i>RMB'000</i> (unaudited)	31 December 2018 <i>RMB'000</i>
Tuition fees	605,298	367,781
Boarding fees	25,704	9,360
Canteen operation fees	30,034	14,559
Others	4,996	1,624
	<u>666,032</u>	<u>393,324</u>
Current portion	614,595	340,875
Non-current portion (<i>note</i>)	<u>51,437</u>	<u>52,449</u>
	<u>666,032</u>	<u>393,324</u>

Note: The amounts represent tuition fees received in advance from the Xichang City Government as consideration to enrol a certain number of students designated by the Xichang City Government for 30 years since the start of operation of Xichang Tianli International School (“**Xichang Tianli School**”).

Changes in contract liabilities during the Period are as follows:

	<i>RMB'000</i> (unaudited)
At the beginning of the Period	393,324
Revenue recognised that was included in the contract liabilities at the beginning of the Period	(339,863)
Increase due to cash received, excluding amounts recognised as revenue during the Period	<u>612,571</u>
At the end of the Period	<u>666,032</u>

There were no contract assets at 30 June 2019 recognised in the consolidated statement of financial position.

17. DEFERRED INCOME

	30 June 2019 RMB'000 (unaudited)	31 December 2018 RMB'000
<i>Government grants related to expense items</i>		
At the beginning of period/year	169,794	93,144
Government grants received	236,925	150,091
Government grant transferred in from prepaid land lease payments (note 8)*	118,161	–
Released to profit or loss (note 5)	(53,555)	(73,441)
	<u>471,325</u>	<u>169,794</u>
At the end of period/year	<u>471,325</u>	<u>169,794</u>
Current	125,559	109,112
Non-current	345,766	60,682
	<u>471,325</u>	<u>169,794</u>
Total	<u>471,325</u>	<u>169,794</u>

* The amount represents the government grant received from the Ministry of Finance of Economic Zone in Deyang City in December 2018. The grant was redesignated by the said Ministry of Finance specifically for the purpose of compensation of salaries and wages arising from the teaching activities of Deyang Tianli School over a period of six years since the commencement day of the spring school semester in 2019.

Various government grants have been received for the purpose of compensation of salaries and wages arising from the teaching activities at certain schools of the Group. Upon completion of the operating activities, the government grants related to the expense items would be released to profit or loss and deducted from the operating expenses to which they relate. Government grants received for which expenditure has not yet been undertaken are included in deferred income.

18. INTEREST-BEARING BANK LOANS

	30 June 2019 (unaudited)			31 December 2018		
	Effective interest rate	Maturity	RMB'000	Effective interest rate	Maturity	RMB'000
Current						
Current portion of long-term bank loans – secured	4.75-7.125	2019	<u>88,201</u>	4.75-7.125	2019	<u>87,851</u>
Non-current						
Bank loans – secured	4.75-7.125	2020-2023	<u>355,860</u>	4.75-7.125	2020-2023	<u>370,777</u>
			<u>444,061</u>			<u>458,628</u>

	30 June 2019 RMB'000 (unaudited)	31 December 2018 RMB'000
Bank loans repayable:		
Within one year	88,201	87,851
In the second year	91,860	91,623
In the third to fifth years, inclusive	264,000	279,154
	444,061	458,628

All of the Group's bank loans are denominated in RMB.

Notes:

The Group's bank loans are secured by:

- (a) Mortgages over the following assets:

The Group's assets:

The Group's bank loan of approximately RMB15,061,000 and RMB21,628,000 as at 30 June 2019 and 31 December 2018, respectively was secured by a refundable security deposit of Yibin Tianli School amounting to RMB9,567,000 (note 11);

- (b) Pledges of equity interests in the following subsidiaries of the Group:

- (i) 100% equity interest in Yibin Shenzhou Tianli Education Development Limited has been pledged for a bank loan of RMB99,000,000 and RMB100,000,000 as at 30 June 2019 and 31 December 2018, respectively;
- (ii) 100% equity interest in Xichang Shenzhou Tianli Education Development Limited has been pledged for bank loans of RMB114,000,000 and RMB120,000,000 as at 30 June 2019 and 31 December 2018, respectively; and
- (iii) 100% equity interest in Guangyuan Shenzhou Tianli Education Development Limited has been pledged for a bank loan of RMB99,000,000 and RMB100,000,000 as at 30 June 2019 and 31 December 2018, respectively;

- (c) Rights over tuition or boarding fees of the following schools:

- (i) Rights over tuition fees of Luzhou Tianli School and Luzhou Longmatan Tianli Elementary School have been pledged for aggregate bank loans of RMB117,000,000 as at 30 June 2019 and 31 December 2018, respectively;
- (ii) Rights over boarding fees of Yibin Tianli School have been pledged for a bank loan of RMB99,000,000 and RMB100,000,000 as at 30 June 2019 and 31 December 2018, respectively;
- (iii) Rights over boarding fees of Guangyuan Tianli School have been pledged for a bank loan of RMB99,000,000 and RMB100,000,000 as at 30 June 2019 and 31 December 2018, respectively; and
- (iv) Rights over tuition, boarding and other fees of Xichang Tianli School have been pledged for a bank loan of RMB114,000,000 and RMB120,000,000 as at 30 June 2019 and 31 December 2018, respectively.

- (d) In addition, Mr. Luo has guaranteed the Group's bank loans of RMB114,000,000 and RMB120,000,000 as at 30 June 2019 and 31 December 2018, respectively.

19. LEASE LIABILITIES

	30 June 2019 <i>RMB'000</i> (Unaudited)	31 December 2018 <i>RMB'000</i>
Current	5,626	—
Non-current	87,359	—
	<u>92,985</u>	<u>—</u>

20. SHARE CAPITAL

Shares

	30 June 2019 <i>HK\$'000</i> (unaudited)	31 December 2018 <i>HK\$'000</i>
Authorised:		
10,000,000,000 ordinary shares of HK\$0.1 each	<u>1,000,000</u>	<u>1,000,000</u>
Issued and fully paid:		
2,075,000,000 ordinary shares of HK\$0.1 each	<u>207,500</u>	<u>207,500</u>
Equivalent to approximately (<i>in RMB'000</i>)	<u>176,375</u>	<u>176,375</u>

21. DIVIDEND

At the meeting of the Directors held on 29 August 2019, the Directors resolved not to pay an interim dividend for the Period (six months ended 30 June 2018: nil).

22. COMMITMENTS

The Group had the following capital commitments as at 30 June 2019 and 31 December 2018:

	30 June 2019 <i>RMB'000</i> (unaudited)	31 December 2018 <i>RMB'000</i>
Contracted but not provided for:		
Property, plant and equipment	<u>592,401</u>	<u>1,527,336</u>

23. RELATED PARTY TRANSACTIONS AND BALANCES

The Directors are of the view that the following individuals/companies are related parties that had material transactions or balances with the Group during the Period.

(a) Name and relationships of related parties

Name	Relationships
Mr. Luo	Ultimate controlling shareholder of the Company
Gulin Tianli Shengzhong Industry Co., Ltd ("Gulin Shengzhong")	A company controlled by Mr. Luo
Nanyuan Construction	A company controlled by Mr. Luo
Sichuan Tianli Real Estate Development Co., Ltd. ("Tianli Real Estate")	A company controlled by Mr. Luo
Luzhou Tianli Property Management Co., Ltd. ("Luzhou Tianli Property")	A company controlled by Mr. Luo
Affiliated Kindergarten of Luzhou Tianli School ("Luzhou Tianli Kindergarten")	An associate of the Company

In addition to the transactions detailed elsewhere in this financial information, the Group had the following transactions with related parties:

(b) Outstanding balances with related parties

		30 June 2019 RMB'000 (unaudited)	31 December 2018 RMB'000
	Notes		
Amounts due from related parties			
<i>Trade in nature</i>			
Luzhou Tianli Kindergarten	(i)	15	15
<i>Non-trade in nature</i>			
Luzhou Tianli Property		–	20
Luzhou Tianli Kindergarten	(ii)	2,177	4,522
		2,177	4,542
Total		2,192	4,557
Prepayments, deposits and other receivables			
<i>Non-trade in nature</i>			
Nanyuan Construction		42,444	59,634
Amount due to a related party			
<i>Non-trade in nature</i>			
Nanyuan Construction		376,376	300,577

Notes:

- (i) Included in the amount due from Luzhou Tianli Kindergarten were management fees receivable for the provision of kindergarten management service provided by the Group amounting to RMB15,000 as at 30 June 2019 (31 December 2018: RMB15,000).
 - (ii) The non-trade balances were interest-free advances granted to Luzhou Tianli Kindergarten. These balances were unsecured, interest-free and had no fixed terms of repayment.
 - (iii) Except for the amounts due from related parties as disclosed in note (i) above and the prepayments made to Nanyuan Construction in relation to the construction services to be provided by Nanyuan Construction, the amounts due from related parties were unsecured, interest-free and had no fixed terms of repayment.
- (c) **Transactions with related parties**

(1) Construction of property, plant and equipment

	For the six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Nanyuan Construction	613,528	148,919

The considerations for the construction of property, plant and equipment were determined at prices mutually agreed between the Group and its related parties with reference to the benchmarking studies for similar transactions.

(2) Rental of properties

	For the six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Gulin Shengzhong	152	96
Tianli Real Estate	68	128
	220	224

The Group rented certain properties from Gulin Shengzhong and Tianli Real Estate. Rental was charged based on prices mutually agreed between the Group and the related parties.

(3) Provision of management services and sale of goods

	For the six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Luzhou Tianli Kindergarten	124	560

The amount represented fees charged for the provision of management service to Luzhou Tianli Kindergarten, at prices mutually agreed between the Group and Luzhou Tianli Kindergarten.

(d) Compensation of key management personnel of the Group

	For the six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Salaries, allowances and benefits in kind	806	541
Pension scheme contributions	53	40
	859	581

24. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments with carrying amounts that require recurring fair value measurement are as follows:

	Carrying amounts	
	30 June	31 December
	2019	2018
	RMB'000	RMB'000
	(unaudited)	
Financial assets		
Financial assets at fair value through profit or loss	58,682	15,799

	Fair values	
	30 June	31 December
	2019	2018
	RMB'000	RMB'000
	(unaudited)	
Financial assets		
Financial assets at fair value through profit or loss	58,682	15,799

Management has assessed that the fair values of cash and cash equivalents, trade receivables, trade payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals, and amounts due from/to related parties approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of the non-current interest-bearing bank loans and lease liabilities have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for interest-bearing bank loans as at 30 June 2019 was assessed to be insignificant.

The fair values of financial assets at fair value through profit or loss included in other current financial assets are measured using the expectation return published by licensed banks.

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

	Fair value measurement using			
	Quoted prices in active markets Level 1 RMB'000	Significant observable inputs Level 2 RMB'000	Significant unobservable inputs Level 3 RMB'000	Total RMB'000
30 June 2019				
<i>Financial assets at fair value through profit or loss</i>	<u>–</u>	<u>58,682</u>	<u>–</u>	<u>58,682</u>
31 December 2018				
<i>Financial assets at fair value through profit or loss</i>	<u>–</u>	<u>15,799</u>	<u>–</u>	<u>15,799</u>

Liabilities for which fair values are disclosed:

	Fair value measurement using			
	Quoted prices in active markets Level 1 <i>RMB'000</i>	Significant observable inputs Level 2 <i>RMB'000</i>	Significant unobservable inputs Level 3 <i>RMB'000</i>	Total <i>RMB'000</i>
30 June 2019				
Lease liabilities, non-current portion	–	–	87,359	87,359
Interest-bearing bank loans, non-current portion	–	–	355,860	355,860
	<u>–</u>	<u>–</u>	<u>443,219</u>	<u>443,219</u>
31 December 2018				
Interest-bearing bank loans, non-current portion	–	–	370,777	370,777
	<u>–</u>	<u>–</u>	<u>370,777</u>	<u>370,777</u>

During the Period, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

Except as disclosed above, the Group did not have any financial assets and liabilities measured at fair value as at 30 June 2019.

25. APPROVAL OF THE INTERIM CONDENSED FINANCIAL INFORMATION

The interim condensed financial information was approved and authorised for issue by the board of directors on 29 August 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Overview

Established in 2002, the Group is a leading private education service provider in Western China. We primarily offer K-12 educational services, supplemented by tutoring services for K-12 students and pre-kindergarten children. We are one of the largest private K-12 school operators in Western China. As at 30 June 2019, we have approximately 30,145 students enrolled in the K-12 schools in our school network, representing an increase of 37.4% comparing with approximately 21,944 students enrolled as at 30 June 2018.

Our Education Philosophy

Our fundamental educational philosophy is premised on the development of each child's strengths and potential and promotion of life-long learning and growth. The core of our educational philosophy is "Six Establishments and One Accomplishment (六立一達)", which represents the seven crucial objectives we encourage our students to achieve, namely, sound health, morality, wisdom, behavior, mind and creativity and a positive influence on society in addition to self-realization ("立身, 立德, 立學, 立行, 立心, 立異, 達人"). We design and develop our educational programs to reflect this concept, emphasizing the importance of solid academic performance in core subject areas such as Mathematics, Science, Language and History, at the same time encouraging our students to explore individual interests and enhance physical fitness, and nurturing students' creativity, communication skills, independent thinking and social responsibility.

Student Placement and Education Quality

Since our inception, our students have consistently achieved outstanding results in various academic examinations and contests, as well as in extra-curricular activities. For the six months ended 30 June 2019 (the "**Reporting Period**"), approximately 93.6% of the graduating high school students of our schools with high school programs which have graduating classes who participated in the National Higher Education Entrance Examination (known as "Gaokao") in the relevant cities where the schools are located were admitted to universities in the PRC, and approximately 68.6% were admitted to first-tier universities in the PRC.

Our Schools and Education Curriculum

We have established a school network consisting of (i) self-owned schools and self-owned early childhood education centers which are owned and operated by us, (ii) entrusted schools to which we provide management services, and (iii) franchised early childhood education centers to which we have licensed the right to use our brand. As of 30 June 2019, our school network consisted of 17 K-12 schools in operation, which administered 7 high school programs, 11 middle school programs, 12 elementary school programs and 6 kindergarten programs, 11 tutorial centers and 4 early childhood education centers across 10 cities in PRC.

During the Reporting Period, the management agreement with an entrusted tutorial center namely Luzhou Tianli Culture and Arts Tutoring School Yinglun Campus has ended.

PRC-certified teachers are crucial to our business, allowing us to maintain the quality of our educational services while undergoing expansion. The table below sets forth a breakdown of the number of full-time teachers employed by us as of the dates indicated:

	Six months ended 30 June	
	2019	2018
Self-owned K-12 schools	2,127	1,735
Self-owned tutorial centers	80	92
Total	<u>2,207</u>	<u>1,827</u>

We recruit teachers through different channels and methods, including campus recruitment, general public recruitment, assessment of candidates who apply through our recruitment procedures and the use of online recruiting websites. We offer internships to undergraduate students who major in education or related subjects and show promising potential during our recruiting process. We also actively recruit teachers with extensive experiences from public schools and other private schools to expand our talent pool.

As at 30 June 2019, we have approximately 30,145 students enrolled in the self-owned and entrusted K-12 schools in our school network, representing a year-on-year increase of 37.4%. This increase is driven by the increase in the number of students enrolled in existing K-12 schools, which utilization rates will continue to increase and the increase in the number of students enrolled in the newly opened self-owned K-12 schools.

Financially, our revenue increased by 42.0% from RMB308.5 million for the six months ended 30 June 2018 to RMB438.1 million for the Reporting Period, primarily driven by the increase of revenue from our self-owned K-12 schools. Revenue from management and franchise fees from entrusted and franchised schools increased by 205.4%, primarily driven by the agreement with Hejiang Tianli School – an entrusted school opened in September 2018 which resulted in RMB0.97 million. The following table sets forth the revenue generated from each school type in our school network for the six months ended 30 June 2018 and 30 June 2019:

	Six months ended 30 June	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue		
Self-owned K-12 schools	420,090	293,783
Self-owned tutorial centers	14,391	12,472
Self-owned early childhood education center	570	1,253
Management and franchise fees received from entrusted and franchised schools	3,042	996
Total	<u>438,093</u>	<u>308,504</u>

Self-owned K-12 School

As at 30 June 2019, we owned and operated a total of 13 self-owned K-12 schools in Chengdu, Luzhou, Guangyuan, Neijiang, Liangshan, Ya'an, Yibin, Deyang, and Ziyang in Sichuan and Ulanqab in Inner Mongolia.

All of our K-12 schools except kindergartens are boarding schools. We charge students enrolled in our self-owned K-12 schools tuition fees, and for boarding students, boarding fees. For all of our self-owned grade 1-12 schools, tuition fees and boarding fees are generally paid in advance prior to the beginning of each school year. For our self-owned kindergartens, tuition fees are generally paid in advance at the beginning of every semester. During the Reporting Period, the Group recorded RMB420.1 million of revenue from our self-owned K-12 schools which represented 43.0% year-on-year increase and 95.9% of the Group's revenue for the Reporting Period, primarily driven by the increase in student enrollment and an increase in tuition fee rates for some of our self-owned K-12 schools.

The following table sets forth information about the revenue of our self-owned K-12 schools during the six months ended 30 June 2018 and 2019.

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
Revenue from self-owned K-12 schools		
Tuition fees	291,998	202,135
Boarding fees	38,930	29,757
School canteen operations	89,162	61,891
	420,090	293,783

Tuition fee rates and boarding fee rates are adjusted according to different market factors including estimation of numbers of student applications and are subject to governments' approval. In the 2018/2019 school year, we also raised the tuition fee rates for the Luzhou Longmatan Tianli Elementary School, the middle school of Yibin Tianli school, the high school of Guangyuan Tianli school.

The following table illustrates the information on average tuition fees and boarding fees per student by school programs during the Reporting Period:

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
Average tuition and boarding fees per student of our self-owned K-12 school¹		
High schools	11.31	9.71
Middle schools	12.13	11.64
Elementary schools	11.90	11.36
Kindergartens	13.79	14.44

1. The average revenue per student of our self-owned K-12 schools is equal to the total revenue of our self-owned K-12 schools during January to June of that year, divided by the number of students of the spring term of that year.

Information about our tutorial centers and early childhood education centers

Our self-owned and entrusted tutorial centers offer tutoring services to K-12 students and our self-owned and franchised early childhood education centers offer tutoring services to pre-kindergarten children. The following table sets forth information about our tutorial centers and early childhood education centers in operation as of 30 June 2019:

Location	Tutorial Centers	Early Childhood Education Centers	Types of tutoring services offered	Commencement of operation/ (no. of centers)	Nature/(no. of centers)
Chongqing	–	1	Pre-school tutoring services	2017 (1)	Franchised (1)
Guangyuan	1	–	After-school tutoring services; music, art and sports tutoring services	2017 (1)	Self-owned (1)
Luzhou	4	3	After-school tutoring services; music, art and sports tutoring services; Pre-school education; English tutoring services	2011 (1) 2013 (1) 2014 (1) 2017 (4)	Self-owned (4) Entrusted (1) Franchised (2)
Neijiang	2	–	After-school tutoring services; music, art and sports tutoring services	2017(1) 2018 (1)	Self-owned (2)
Xichang	1	–	After-school tutoring services; music, art and sports tutoring services	2017 (1)	Self-owned (1)
Yibin	3	–	After-school tutoring services; music, art and sports tutoring services	2014 (1) 2015 (1) 2017 (1)	Self-owned (3)

We evaluate the market demand and offer a variety of courses with different class sizes in our tutorial centers and early childhood education centers from time to time to satisfy various needs of students, and the tuition fees we charge vary according to (i) different categories of courses, (ii) class size (we generally charge a higher tuition fee rate for a course with a specific term if the class size is smaller), and (iii) the length of courses (the tuition fee rate of a course with a certain class size is usually higher if the course consists of more sessions). As a result, a change in the mix of courses of different tuition fee rates and the proportion of student enrollment in courses of different tuition fee rates will lead to a change in the average tuition per enrollment.

Self-owned tutorial centers and early childhood education center

During the Reporting Period, the Group recorded a revenue of RMB14.4 million (six months ended 30 June 2018: 12.5 million) from our self-owned tutorial centers which represented 15.4% year-on-year increase is driven by increased enrollment and a revenue of RMB570 thousands from our self-owned early childhood education centers which represented 54.5% year-on-year decrease primarily due to the preparation to cease the operation of the early childhood education center in Luzhou.

Management and franchise fees received from entrusted and franchised schools

Apart from operating our self-owned K-12 schools as well as self-owned tutorial centers and an early childhood education center, we also provide school management services for entrusted K-12 schools and tutorial centers. In 2018/2019 school year, we opened 1 entrusted K-12 school namely Hejiang Tianli School. On the other hand, the management agreement with an entrusted tutorial center namely Luzhou Tianli Culture and Arts Tutoring School Yinglun Campus was ended during the Reporting Period.

In addition, we license the right to use our brand to franchised early childhood education centers. As at 30 June 2019, there were 1 and 2 franchised early childhood education centers respectively in Chongqing and Luzhou.

As driven by the newly opened entrusted K-12 schools, revenue from management and franchise fees increased by 205.4% from approximately RMB996 thousand for the six months ended 30 June 2018 to approximately RMB3,042 thousand during the Reporting Period.

PROSPECTS

Outlook for Private Education in PRC

Since the 1980s, the PRC government, both at the central and the local levels, has launched a series of policies to encourage the development of private education institutions as part of its strategies to bridge the shortage of private education. In some regions, local governments have implemented favorable policies, such as providing free land or financial support for campus building, to attract renowned private school operators. In PRC, children's education has always been highly valued by parents. Private education markets which include fundamental education and tutoring have been taking off along the continuous growth of disposable income of households. The Two Child Policy is likely to affect PRC's population starting from the end of 2016, and school-age population from 2019. Tianli is a reputable private school network, and the Board is optimistic that we will achieve sustainable development in the growing private education market.

School Network Development Plan

We have established a centralized and standardized management system which we believe is essential to the success of our business as it enables us to integrate our resources, to enhance our operating efficiency and to ensure the quality of our educational services. With our management system, we have been able to quickly expand our school network to new geographic locations and at the same time implement our quality standards across our school network.

We believe our deep understanding of the K-12 education market, support for private K-12 education from the local governments, our position as a market leader and the potential of our target markets are highly favorable to our continued successful expansion nationwide. Looking forward, we will further deepen our penetration in second and third-tier cities in Sichuan Province with our thorough understanding of the private education market in Sichuan Province, our reputation among parents and students, and the local government's support for K-12 schools. We also seek to establish new K-12 schools in different provinces by duplicating our centralized and standardized K-12 school operation model. We believe expanding our presence nationwide is crucial to enhance our brand influence and strengthen our position to become one of the leading K-12 school network operators in PRC.

We had entered into agreements to open 3 K-12 schools during the Reporting Period. Together with the agreements entered prior to the Reporting Period, we set out below details of the schools to be opened in the forthcoming years.

School Name	Location	Estimated maximum capacity (Student enrollment)	Nature of operation
Chengdu Longquanyi Tianli Elementary School (成都市龍泉驛區天立小學校)	Chengdu, Sichuan Province	1,728	Self-owned
Chengdu Longquanyi Tianli Kindergarten Co., Ltd. (成都市龍泉驛區天立幼兒園有限公司)	Chengdu, Sichuan Province	375	Self-owned
Dazhou Tianli School (達州市天立學校)	Dazhou, Sichuan Province	4,200	Self-owned
Weifang Tianli School (濰坊天立學校)	Weifang, Shandong Province	4,170	Self-owned
Zunyi Xipu Tianli School (遵義市新浦新區天立學校)	Zunyi, Guizhou Province	3,330	Self-owned
Zunyi Shenzhou Tianli High School Education Co., Ltd. (遵義神州天立高中教育有限責任公司)	Zunyi, Guizhou Province	1,620	Self-owned
Yiliang Tianli School (彝良縣天立學校)	Yiliang, Yunnan Province	2,360	Self-owned
Zhaotong Shenzhou Tianli High School Co., Ltd. (昭通市神州天立高級中學有限公司)	Yiliang, Yunnan Province	1,080	Self-owned
Zhoukou Tianli School (周口天立學校)	Zhoukou, Henan Province	4,000	Self-owned
Baoshan Tianli School (保山市天立學校)	Baoshan, Yunnan Province	2,970	Self-owned
Baoshan Shenzhou Tianli High School Co., Ltd. (保山市神州天立高級中學有限責任公司)	Baoshan, Yunnan Province	1,080	Self-owned
Chengdu Pixian Tianli School (成都郫縣天立學校)	Chengdu, Sichuan Province	2,340	Self-owned
Dongying Tianli School (東營天立學校)	Dongying, Shandong Province	3,000	Self-owned
Rizhao Tianli School (日照天立學校)	Rizhao, Shandong Province	3,500	Self-owned

School Name	Location	Estimated maximum capacity (Student enrollment)	Nature of operation
Luzhou Tianli Flagship School (瀘州天立旗艦學校)	Luzhou, Sichuan Province	5,000	Self-owned
Yichun Tianli School (宜春天立學校)	Yichuan, Jiangxi Province	4,000	Self-owned
Jiange Tianli School (劍閣天立學校)	Guangyuan, Sichuan Province	4,000	Self-owned
Luxian Tianli School (瀘縣天立小學)	Luzhou, Sichuan Province	1,845	Entrusted
Lanzhou Tianli School (蘭州天立學校)	Lanzhou, Gansu Province	5,000	Self-owned

In addition, the Group ceased operation of 1 tutoring center in Gong County, Yibin and 1 early childhood education center in Luzhou subsequent to the Reporting Period. Given the immaterial revenue contribution to the Group, the ceased operations is not expected to constitute impact to the Group's income.

Regulatory Update

Draft Amendments on the Implementation Rules for the Law for Promoting Private Education

Following the publication of the Private Education Amendment Law by the Ministry of Justice of the PRC on 10 August 2018, the State Council promulgated Several Opinions on Deepening the Reform and Standardization of Preschool Education (《國務院關於學前教育深化改革規範發展的若干意見》) on 15 November 2018. Our expansion of school network is principally driven by joint development with local governments with a focus on Grade 1-12 educational programs, which applicable regulations are relative robust as compared to preschool education. As at the date of this announcement, the Company's operation remained unaffected by the draft Private Education Amendment Law. The Company will closely monitor the development of the Private Education Amendment Law. Please refer to the Company's announcements dated 13 August and 16 November 2018 for further details.

Foreign Investment Law of the PRC

On 15 March 2019, the National People's Congress passed and promulgated the Foreign Investment Law which will come into effect on 1 January 2020. The Foreign Investment Law defines foreign investment as direct or indirect investment in the PRC by foreign investors, and sets out examples which would fall under the definition of foreign investment. Furthermore, the law prescribes that the PRC applies the pre-establishment national treatment and negative list management system against foreign investment. The negative list of prohibited investment sectors prescribes areas which foreign investors are not allowed to invest upon; the negative list of restricted investment sectors prescribes areas which foreign investors are required to abide to the conditions as imposed under the regulations of the negative list; and all other areas excluded from the negative list would be handled according to the general principles applicable for both domestic and foreign enterprises. The Foreign Investment Law does not explicitly include clauses involving "actual control" or "contractual arrangements". Nevertheless, it is not excluded that there will be further laws and regulations governing the same. Therefore, it remains uncertain as to whether the structure under contractual arrangements will be included in the supervisory regime for foreign investment, and if so, the ways under which it is governed. As at the date of this announcement, the Company's operation remained unaffected by the Foreign Investment Law. The Company will closely monitor the development of the Foreign Investment Law and related legislations.

FINANCIAL REVIEW

Revenue

Our revenue includes tuition fees, boarding fees, canteen operation fees and management and franchise fees.

Our revenue increased by 42.0% from RMB308.5 million for the six months ended 30 June 2018 to RMB438.1 million for the Reporting Period, primarily driven by an increase in student enrollment and an increase in tuition fee rates for some of our self-owned K-12 school.

Revenue from tuition fees increased by 42.2% from RMB215.9 million for the six months ended 30 June 2018 to RMB307.0 million for the Reporting Period, primarily as a result of the increase of student enrollment. We opened 2 K-12 schools in 2018 and 1 K-12 school in 2019 respectively, meanwhile, there was an increase in the number of students enrolled in our existing self-owned K-12 schools. The increase in revenue from tuition fees is also attributable to an increase in tuition fee rates for some of our self-owned K-12 schools. In the 2018/2019 school year, we raised the tuition fee rates for the Luzhou Longmatan Tianli Elementary School, the middle school of Yibin Tianli school, the high school of Guangyuan Tianli school.

Revenue from boarding fees increased by 30.8% from RMB29.8 million for the six months ended 30 June 2018 to RMB38.9 million for the Reporting Period, primarily driven by an increase in student enrollment.

Revenue from school canteen and convenience store operations increased by 44.1% from RMB61.9 million for the six months ended 30 June 2018 to RMB89.2 million for the Reporting Period, primarily as a result of increased student enrollment.

Revenue from management fees increased by 205.4% from approximately RMB996 thousand for the six months ended 30 June 2018 to approximately RMB3,042 thousand for the Reporting Period primarily driven by the entrusted K-12 schools newly opened in 2018/2019 school year.

Costs of Principal Activities

Our cost of sales consists of labor costs, teaching related costs, depreciation and amortization, material consumption, utilities and others. The following table sets forth the components of our cost of sales for the periods indicated.

	Six months ended 30 June	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Labor costs	143,740	79,614
Teaching related costs	9,359	7,964
Depreciation and amortization	37,223	22,778
Material consumption	46,906	33,631
Utilities	9,263	6,029
Others	1,300	3,125
Total	247,791	153,141

Labor costs increased by 80.5% from RMB79.6 million for the six months ended 30 June 2018 to RMB143.7 million for the Reporting Period, primarily because we hired new teachers as a result of the increased student enrollment and the expansion of our school network while raising the salaries and wages of our teachers to attract and retain well-qualified teaching staff.

Teaching related costs increased by 17.5% from RMB8.0 million for the six months ended 30 June 2018 to RMB9.4 million for the Reporting Period, primarily because of an increase in our teachers' teaching activities resulting from the increased student enrollment.

Depreciation and amortization costs increased by 63.4% from RMB22.8 million for the six months ended 30 June 2018 to RMB37.2 million for the Reporting Period, primarily because we opened 3 self-owned K-12 schools in 2018 and 2019.

Material consumption costs increased by 39.5% from RMB33.6 million for the six months ended 30 June 2018 to RMB46.9 million for the Reporting Period primarily because of the increased student enrollment.

Utilities increased by 53.6% from RMB6.0 million for the six months ended 30 June 2018 to RMB9.3 million for the Reporting Period, primarily because we incurred additional utility for the 3 self-owned K-12 schools in 2018 and 2019.

Other Income and Gains

Other income and gains primarily consist of interest income from bank deposits, other service income, exchange gain or loss, gain on disposal of financial assets at fair value through profit or loss and rental income.

Other income and gains sharply increased from RMB6.4 million for the six months ended 30 June 2018 to RMB12.4 million for the Reporting Period, primarily because of increase in interest income from bank deposits.

Gross Profit and Gross Profit Margin

The Group's gross profit for the Reporting Period were approximately RMB190.3 million, representing an increase of 22.5% from approximately RMB155.4 million for the six months ended 30 June 2018. The Group's gross profit margin for the Reporting Period was approximately 43.4%, representing a slight decrease of approximately 6.9 percentage points as compared to approximately 50.4% for the six months ended 30 June 2018 due to the increased labor cost.

Administrative Expenses

Administrative expenses primarily consist of (i) administrative staff costs, and (ii) office administration expenses, which primarily consist of office supply and utilities and travelling, meal and training expenses incurred in connection with administrative activities.

Administrative expenses increased by 16.4% from RMB36.7 million for the six months ended 30 June 2018 to RMB42.7 million for the Reporting Period, as a result of an increase in administrative staff costs.

Interest Expenses

Interest expenses decreased from RMB10.9 million for the six months ended 30 June 2018 to RMB3.5 million for the Reporting Period, primarily because majority of our outstanding loan during the Reporting Period were project related, which were in turn capitalized.

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

The shares of the Company were successfully listed on Main Board of the Stock Exchange on 12 July 2018. There has been no change in the capital structure of the Group since then. The capital of the Company only comprises of ordinary shares.

The Group finances its liquidity and capital requirements primarily through cash generated from operations, bank borrowings and equity contribution from shareholders.

As at 30 June 2019, the Group had cash and cash equivalents of approximately RMB1,011.6 million (31 December 2018: approximately RMB1,233.0 million).

The following table sets forth a summary of our cash flows for the periods indicated:

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
Net cash flow from operating activities	666,905	285,945
Net cash flow used in investing activities	(358,370)	(321,429)
Net cash flow from/(used in) financing activities	(113,405)	53,515
Net increase in cash and cash equivalents	195,130	18,031
Effect of foreign exchange rate changes, net	1,808	—
Cash and cash equivalents at beginning of period	707,277	313,539
Cash and cash equivalents at end of the period	904,215	331,570

Operating Activities

Our cash inflow from operating activities primarily comprises tuition fees, boarding fees and canteen operation fees. Our cash outflow from operating activities primarily comprises payments for labor costs, material consumption and administrative expenses.

For the Reporting Period, our net cash inflow from operating activities was RMB666.9 million, consisting of RMB126.0 million of cash generated from operating activities before working capital adjustments and RMB540.9 million of positive net working capital adjustments. Our positive net working capital adjustments for the Reporting Period were primarily attributable to (i) a RMB272.7 million increase in contract liabilities, primarily attributable to increased student enrollment, (ii) which was partly offset by RMB24.7 million increase in prepayments, deposits and other receivables paid, and (iii) receipt of RMB236.9 million of government grants.

Investing Activities

Our cash flows from and used in investing activities were primarily related to purchases of property, plant and equipment, purchase of land use rights, and purchase and sale of financial assets at fair value through profit or loss.

For the six months ended 30 June 2019, our net cash used in investing activities was RMB358.4 million, primarily attributable to (i) payments of RMB347.5 million for the purchase of financial assets at fair value through profit or loss, (ii) payments of RMB599.6 million for the purchase of property, plant and equipment, primarily in connection with the construction of our new self-owned K-12 schools, and (iii) payments of RMB145.0 million for the purchase of land use right, partially offset by proceeds of RMB304.7 million from the disposal of financial assets at fair value through profit or loss as well as increase of RMB418.3 million from the time deposits with original maturity over three months.

Financing Activities

We had net cash outflow from financing activities of RMB113.4 million for the Reporting Period compared with net cash inflows from financing activities of RMB53.5 million for the six months ended 30 June 2018, primarily attributable to (i) share repurchase of RMB43.1 million, (ii) dividend payments of RMB59.3 million for controlling shareholders, (iii) offset interest payment of RMB15.1 million, (iv) bank loans decrease in repayment of RMB14.6 million, and (v) RMB21.0 million in capital contribution from non-controlling shareholders.

As at 30 June 2019, the Group's total equity amounted to approximately RMB2,356.7 million (31 December 2018: approximately RMB2,292.0 million). As of the same date, the Group's total debt, includes all interest-bearing bank loans, amounted to approximately RMB444.1 million (31 December 2018: approximately RMB458.6 million).

BORROWINGS AND GEARING RATIO

As at 30 June 2019, the Group had borrowings of approximately RMB444.1 million which was denominated in Renminbi (31 December 2018: approximately RMB458.6 million). The Group's bank borrowings were primarily used in financing the school constructions.

As at 30 June 2019, the gearing ratio of the Group, calculated as the total interest-bearing borrowings divided by the total equity, was approximately 18.8% (31 December 2018: approximately 20.0%).

CHARGE OVER ASSETS AND RIGHTS

Save as disclosed in note 18 under the section of "Notes to interim condensed financial information", the Group did not have additional assets or rights pledged as at 30 June 2019 and 31 December 2018.

FOREIGN CURRENCY RISK

The Group has currency exposures from its bank balances. The Group has not used any foreign currency swap contracts to reduce the exposure to US\$ and HK\$ arising from bank balances.

The following table demonstrates the sensitivity as at 30 June 2019 to a reasonably possible change in the US\$ and HK\$ exchange rate, with all other variables held constant, of the Group's profit after tax due to changes in the fair values of bank balances.

	Increase/ (decrease) in US\$/HK\$ rate %	Increase/ (decrease) in profit after tax <i>RMB'000</i>
If the RMB weakens against the US\$	(0.5)	796
If the RMB strengthens against the US\$	0.5	(796)
If the RMB weakens against the HK\$	(0.5)	909
If the RMB strengthens against the HK\$	0.5	(909)

TREASURY POLICIES

The Directors will continue to follow a prudent policy in managing the Group's cash and cash equivalents and maintain a strong and healthy liquidity position to ensure that the Group is well placed to take advantage of future growth opportunities.

SIGNIFICANT INVESTMENTS HELD, MATERIAL ACQUISITIONS OR DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES, AND FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save as disclosed in the Interim Condensed Financial Information, there was no significant investment held, material acquisition and disposal of subsidiaries and associates by the Company during the Reporting Period. The Group will make every endeavor to keep abreast of the changing market conditions, proactively identify investment opportunities in order to broaden the revenue base of the Group, enhance its future financial performance and profitability. Moreover, the Group is seeking for further operating efficiency across the business. We are confident in the future and committed to continuous growth of the Company.

CAPITAL EXPENDITURES

Our capital expenditures primarily related to the construction of new self-owned schools, the maintenance and upgrade of our existing self-owned schools, and the purchase of additional educational facilities and equipment for our self-owned schools. The Group's capital expenditures consisted of purchase or construction costs relating to property, equipment, prepaid land lease payments and other intangible assets. For the Reporting Period, our capital expenditures were RMB962.0 million, which we funded primarily through cash generated from operations, bank facilities, and net proceeds to be received from the global offering in July 2018.

CONTINGENT LIABILITIES

As at 30 June 2019, the Group did not have any material contingent liabilities (31 December 2018: Nil).

CAPITAL COMMITMENTS

As at 30 June 2019, the Group had capital commitments contracted but not provided for property, plant and equipment amounting to RMB592.4 million (31 December 2018: RMB1,527.3 million).

SEGMENT INFORMATION

The Group has determined that it only has one operating segment which is engaged in the provision of education and related management services.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2019, the Group employed approximately 4,150 employees (30 June 2018: 3,427). The staff costs, including Directors' emoluments, net of government grant released and subsidies received, of the Group were approximately RMB174.3 million for the Reporting Period (30 June 2018: approximately RMB102.6 million).

The Group promotes individuals based on their performance and development potential in the positions held. In order to attract and retain high-calibre staff, competitive remuneration package is offered to employees (with reference to market norms and individual employees' performance, qualification and experience). On top of basic salaries, bonuses may be paid with reference to the Group's performance as well as individual's performance. Besides, share incentive schemes are also adopted to retain high-calibre staff of the Group.

USE OF PROCEEDS FROM LISTING

The net proceeds from the listing (after deducting the underwriting fees and other listing expenses borne by the Company) amounted to approximately HK\$1,478.63 million which was used for the intended purposes as set out in the section headed “Future Plans and Use of Proceeds” of the Prospectus. Unutilized net proceeds are deposited in bank accounts.

Items	Net proceeds (HK\$ million)				Expected Time for the Use of Unutilised proceeds (Note)
	Percentage	Available	Utilised	Unutilised	
Expansion of our school network	60%	887.18	491.66	395.52	On or before December 2020
Repayment of bank loans	30%	443.59	333.56	110.03	On or before June 2020
Working capital and general corporate purposes	10%	147.86	116.68	31.18	On or before December 2019

Note: The expected timeline for utilising the remaining proceeds is based on the best estimation made by the Group. It will be subject to change based on the current and future development of the market condition.

The following table illustrates the net proceeds utilized for expansion of our school network as at 30 June 2019:

	As at 30 June 2019 (HK\$ million)
Net proceeds utilized for expansion of our school network	
Ya'an Tianli School (雅安天立學校)	27.71
Deyang Tianli School (德陽天立學校)	94.80
Dazhou Tianli School (達州市天立學校)	114.41
Zunyi Xipu Tianli School (遵義市新浦新區天立學校)	94.28
Yiliang Tianli School (彝良縣天立學校)	113.79
Chengdu Longquanyi Tianli Elementary School (成都市龍泉驛區天立小學校)	46.67
Total	491.66

INTERIM DIVIDEND

The Board resolved not to declare any interim dividend for the six months ended 30 June 2019. (for the six months ended 30 June 2018: Nil).

EVENTS AFTER THE REPORTING PERIOD

The Group has the following event taken place subsequent to 30 June 2019:

- Reference is made to the section headed “Connected Transactions” disclosed in the prospectus of the Company in relation to the School Construction Framework Agreement entered into between the Company and Luzhou Nanyuan Construction Engineering Co., Ltd. (“**Nanyuan Construction**”) on 19 June 2018, and the annual caps under such agreement for each of the three years ending 31 December 2020. On 10 July 2019, the resolution in connection with the New School Construction Framework Agreement entered into between the Company and Nanyuan Construction, and the adjusted annual caps for the three years ending 31 December 2021 was passed at the extraordinary general meeting of the Company. Please refer to the circular of the Company dated 21 June 2019, and the announcement of the Company dated 10 July 2019 for further details.

COMPETITION AND CONFLICT OF INTEREST

None of the Directors or the controlling shareholders (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”)) of the Company (the “**Controlling Shareholders**”) or their respective close associates has engaged in any business that competes or may compete, either directly or indirectly, with the businesses of the Group or has or may have any other conflict of interests with the Group during the six months ended 30 June 2019.

CORPORATE GOVERNANCE

The Directors are committed to the maintenance of good corporate governance practices and procedures. The Company believes that good corporate governance provides a framework that is essential for effective management, a healthy corporate culture, successful business growth and enhancing shareholders’ value. The corporate governance principles of the Company emphasize a quality Board, sound internal controls, and transparency and accountability to all shareholders. The Company has adopted the code provisions set out in the Corporate Governance Code (the “**CG Code**”) contained in Appendix 14 of the Listing Rules on the Stock Exchange. In the opinion of the Board, the Company has complied with the CG Code during the six months ended 30 June 2019, except for the deviation from provision A.2.1 of the CG Code which is explained below:

According to provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Luo is the chairman of the Board and chief executive officer of the Company, responsible for strategic development, overall operational management and major decision making of the Group.

Mr. Luo is the founder of the Group and has been managing the Group's business and overall strategic planning since its establishment, the Directors thereby consider that the vesting of the roles of chairman and chief executive officer in Mr. Luo is beneficial to the business prospects and management of the Group by ensuring consistent leadership within the Group, aligning the directions and approaches on the board level and execution level and enabling more effective and efficient overall strategic planning for the Group. The Board considers that the balance of power and authority for the present arrangement will not be impaired and this structure will enable the Company to make and implement decisions promptly and effectively. Accordingly, the Company had not segregated the roles of its chairman and chief executive officer. The Board will continue to review and consider splitting the roles of chairman of the Board and the chief executive officer of the Company at an appropriate time if necessary, taking into account the circumstances of the Group as a whole.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) set out in Appendix 10 of the Listing Rules as the guidelines for the Directors' dealings in the securities of the Company. Upon specific enquiries being made with all Directors, each of them confirmed that they have complied with the required standards set out in the Model Code during the six months ended 30 June 2019.

PURCHASE, SALE OR REDEMPTION OF THE LISTED SECURITIES OF THE COMPANY

For the six months ended 30 June 2019, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

REVIEW OF INTERIM RESULTS

The independent auditors of the Company, namely, Ernst & Young, have carried out a review of the interim condensed financial information in accordance with the Hong Kong Standard on Review Engagement 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants.

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

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This interim results announcement is published on the website of the Stock Exchange at (www.hkexnews.hk) and the Company's website at (<http://www.sztlyjt.com>). The interim report of the Company for the six months ended 30 June 2019 will be dispatched to the shareholders of the Company and will be available on the above websites in due course.

APPRECIATION

The Board would like to express its sincere gratitude to the shareholders, management team, employees, business partners and customers of the Group for their support and contribution to the Group.

By order of the Board
Tianli Education International Holdings Limited
Luo Shi
Chairman, Executive Director and Chief Executive Officer

The PRC, 29 August 2019

As at the date of this announcement, the Board comprises Mr. Luo Shi as chairman and executive Director, Ms. Yang Zhaotao and Mr. Wang Rui as executive Directors, Mr. Tian Mu and Mr. Shen Jinzhou as non-executive Directors, and Mr. Liu Kai Yu Kenneth, Mr. Yang Dong and Mr. Cheng Yiqun as independent non-executive Directors.